

Self-Determination for Toronto

What are the Economic Conditions, and Do They Exist?

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Meric S. Gertler
Director
Programme in Planning
University of Toronto

City-regions have been the crucible of economic development for centuries. Their role has always had many dimensions: they provided a market place for the exchange of agricultural produce; they served as sites for the manufacturing and distribution of goods; they offered a rich variety of services to the consumer and producer alike; they constituted the main repositories for our cultural heritage as well as the principal spaces for the production and dissemination of new cultural products and symbols; they have been centres of learning and innovation; they have acted as sites for financial exchange and control; they have also provided the main platform for social action, the exercise of political power and the conduct of international relations. Cities are uniquely qualified — indeed, *defined by* their ability — to perform all of these functions, simultaneously.

It is commonplace these days to concede that, because we live in a global economy and an information age, place and geography will soon be irrelevant: that increasingly powerful and pervasive

information technologies have become so integrated into our daily lives as producers and consumers that we are now footloose and free to disperse. Moreover, as multinational economic actors and financial markets extend their global reach across national boundaries, so the argument goes, the traditional nation state has become 'hollowed out', while localities have been reduced to prostrating themselves to global capital.

It turns out that this commonplace view is inaccurate. A large body of international evidence argues the contrary position: that the importance of city-regions in the global economy has if anything increased, not diminished. The reasons for this are straightforward. The true hallmark of the current phase of capitalist development is not its global nature (indeed, the case has been made quite convincingly in recent work that the economy was in many important ways more 'globalized' one hundred years ago than it is today). Nor is 'information economy' the proper rubric. We hear much talk of the 'knowledge-based economy' these days, and I believe

that this concept brings us closer to the mark, for it implies that the foundation of wealth creation lies in our ability to produce new knowledge (invention) and to apply it in commercially viable ways (innovation).

However, the concept I like best is the 'learning economy', since it conveys not only the central importance of knowledge creation and use, but also captures the essence of what many now argue is the basis of successful innovation and economic dynamism: socially organized learning processes. It also turns out that these social learning dynamics are most prevalent (and effective) when the participants in these learning processes are spatially concentrated. Moreover, virtual interaction (e-mail, voice-mail, etc.) is a *complement*, not a substitute, for the face-to-face interaction that is necessary to support effective learning between economic actors.

If these arguments are correct, they imply that a city-region such as Toronto might be well positioned to flourish in the era of the learning economy. After all, it appears to have a large, diverse collection of dynamic economic activities. Moreover, its local firms (whether they be manufacturers or service providers) now have easy access to a national and continental market. And as a large and (at least in some parts) relatively dense and well-connected urban region, it offers up a rich, fertile substrate on which social learning processes can unfold.

My objective in this brief paper is to outline the conditions for economic self-determination — by which I mean the ability of a region to shape its own economic destiny, to the extent possible within a globalizing economy. Then I wish to consider whether or not such condi-

tions are matched by reality in the case of the Toronto region. A closely related question — and perhaps, ultimately, the more important one — is this: do the present conditions constrain or prevent the economy of the Toronto region from maximizing its full potential? I take it as axiomatic that when we speak of 'Toronto' we are talking about an economic entity at least as big as the Greater Toronto Area (GTA), if not bigger. In doing so, I wish to acknowledge the earlier work of others — including, but not limited to, the study conducted a few years ago for the Golden Task Force on the GTA by the Boston Consulting Group¹ — which has conclusively shown that city and suburb in the region remain locked in a symbiotic economic embrace. Even though the nature and type of economic relations between them may have changed in recent years, the degree of functional integration remains strong.

In the following discussion, I will focus on four questions. Is the region's economy sufficiently dynamic and productive? What are the foundations for regional economic prosperity in the contemporary economy? Does the region control the levers necessary to implement an effective economic strategy? And finally, are its social and political institutions up to the task?

ECONOMIC DYNAMISM: What are our 'engines', and how well are they working?

It seems to me that the starting point for any discussion about future self-determination of the region has to begin by addressing a fundamental question: does the regional economy generate sufficient income to sustain itself, and if so, can it be expected to continue to do so for the foreseeable future?² This apparently simple question needs to be broken down

into several constituent parts. First, what *are* the foundations of the regional economy — its ‘pillars’? Second, do these pillars possess the capacity for innovation and learning that is so crucial to the creation of successful, self-sustaining wealth generation in today’s economy?

When considering our economic strengths, it is helpful to have at least a rough-and-ready definition of what constitutes a ‘pillar’. My own definition, which takes a sectoral approach, is based on two tests. First, does the activity in question generate products or services which are ‘traded’ — i.e. sold in markets outside the region? Second, do locally-based firms in this sector possess some unique and distinctive *capability* which is recognized on an international scale? The first test is significant because it tells us whether or not the sector brings income into the region from beyond its boundaries. The second test indicates the presence or absence of successful learning dynamics within the sector locally, giving some vital clues to its resilience and competitiveness — in the dynamic rather than static sense of the term. Using this pair of tests, one avoids having to fall back on tired (and inevitably problematic) dualisms such as “high-tech” vs. “low-tech” or “old” vs. “new” economy.

Toronto’s Economic Pillars

In general, the region’s economy enjoys a favourable composition of dynamic industries. As the BCG report perceptively noted in 1995, amongst North American city-regions Toronto stood out as having an unusually well-balanced economy. It is strong in both manufacturing and in services (especially higher-order, knowledge-intensive and producer-oriented services). Since 1995, both ends of the economy have continued to grow.

Chief among those strengths are the following:

Automotive

The GTA is home to major assembly plants owned by General Motors, Ford and Daimler-Chrysler. A fourth assembly cluster — Honda’s plants in Alliston — lies just north of its official borders, though strongly integrated into the region’s dense network of suppliers of goods and services. Already strongly integrated on a continental basis before the Canada-US Free Trade Agreement took effect in 1989 (thanks to the 1965 Auto Pact), this sector assembles hundreds of thousands of cars for export to the rest of North America and, to some extent, beyond. Moreover, it appears that the assembly sector has developed a unique capability (supported crucially by the capabilities of the auto parts industry) in the production of minivans — pioneered by Chrysler’s Windsor plants, but effectively imitated in Ford’s Oakville operations, where the highly successful Windstar was first produced, and in Alliston, where Honda’s Odyssey was first assembled.³ In addition to minivans, the region also produces a number of highly successful passenger sedan models, and its plants score very well on industry-wide quality ratings.

Supporting this superstructure of large assembly operations is a substructure of rapidly growing and increasingly sophisticated producers of automotive parts. At the upper end of a strongly differentiated hierarchy of firms, ‘tier 1’ firms such as Magna International supply complete systems for direct assembly into vehicles, co-ordinating a flotilla of smaller, lower-tier suppliers of subsystems and components. And increasingly, as part of a larger strategy to increase efficiency and reduce unit costs, assemblers have asked their

top-tier suppliers to orchestrate more and more of the product innovation process.⁴ As a 'mature' product (the car) continues to become more and more knowledge-intensive in its composition and production, the region's firms seem well-placed to contribute to its dynamic competitiveness. They have also led the way in introducing new process technologies such as hydroforming which are likely to become industry standards in the next few years.

Information and Communications Technology

Ottawa-Carleton likes to fashion itself as 'Silicon Valley North', while the Kitchener-Waterloo-Cambridge community promotes itself as 'Canada's Technology Triangle'. Despite these marketing successes — at least as measured in column-inches of favourable reportage — neither of these two hotbeds of development in IT-related industries can match the Toronto region for sheer scale and diversity. Anchored by industry giants such as Nortel Networks (whose world corporate headquarters are in Brampton), IBM Canada and Celestica, the region's producers of IT equipment run the gamut from manufacturers of a variety of telecommunications systems and computers through to designers and builders of specialty chips (such as ATI), to producers of software for applications in telecom and computing.

The major clusters of activity in this sector are found in relatively suburban settings such as Markham and Mississauga, a geographical distribution which bears some similarity to the phenomenon known as 'nerdistans' in technology-intensive regions of innovation and production in the U.S.⁵ Despite this industry's apparent preference for locations in the suburban reaches of the GTA, it is crucial to underscore that it maintains strong and vital ties to the central part of

the region. According to Markham's director of economic development, who recently discussed his community's strategy for promoting itself as Canada's 'high-tech capital', "When the economic development office goes courting, it is selling the whole GTA. Toronto's downtown amenities, the universities in the area and the variety of housing are all part of the package."⁶

Advanced Engineering and Aerospace

Attracting less attention than the automotive and IT industries, but still highly significant, are a group of precision-engineering manufacturers in sectors where quality and performance standards are extremely high. Bombardier's large plant in Downsview is heavily involved in the company's Dash 8 and Regional Jet programs, making a major contribution to the firm's impressive growth during the 1990s. It is also closely linked to literally thousands of suppliers of precision parts and systems, spread both throughout the region and across the continent.

This group also includes a key set of firms producing advanced machinery and production systems for use in the manufacture of a wide variety of other products. The best known of these, Husky Injection Moulding Systems in Bolton, has built a large international network of plants and customers in the highly competitive market for machinery to produce plastic products. It is joined by smaller firms — known as automation houses or systems integrators — which design, build and install specialized manufacturing systems for manufacturers in industries as diverse as automotive, aerospace, electronics/telecom equipment, plastics, fabricated metal products, food and beverage, and others. By offering a local supply of sophisticated capital goods

tailored to the needs of the user, the firms in this sector constitute an absolutely essential component of local and regional production networks, making a major contribution to the quality and timeliness of delivery of their customers' final products. Moreover, by combining two technological paradigms — the mechanical and the electronic — this sector produces important innovations in robotics and related automation technologies.

Financial Services

Toronto is well known as Canada's banking capital, with each of the big five banks headquartered here. It is also the dominant centre for investment banking activity and home to the country's largest (and the continent's third largest) stock exchange. While this latter group of activities is certainly not big enough to place Toronto in the top tier of world financial centres, it is firmly ensconced in the second tier along with cities such as Chicago, Boston and San Francisco. It is highly unlikely that it will ever challenge the New Yorks, Londons and Tokyos for financial primacy, and it would be foolhardy to try. Nevertheless, its future depends on its success as a niche and regional player (where, in this case, 'regional' may refer to an entire country).

The TSE and the local investment banking industry, for example, had already carved out a relatively successful niche for itself in resource (especially mining) stocks and Canadian-dollar products, and these strengths are likely to be further enhanced with the proposed reorganization of trading responsibilities between the TSE and its sister exchanges in Montreal, Vancouver and Calgary. Retail banking has also fared successfully in North America on the basis of two distinctive capabilities — its expertise in developing and managing extensive national

branch banking networks, and its pioneering development of on-line systems for banking and discount stock transactions.

Cultural Industries

This diverse group of interrelated activities has rapidly become one of the most vibrant economic clusters within the Toronto region. Like financial services, it is strongly focussed on the central part of the region, where it has blossomed in sectors that include TV, film, video and animation production, music performance and recording, book and magazine publishing, new and multi-media, live theatre, museums and the arts. Indeed, the boundary around this eclectic grouping is difficult to draw definitively. One could plausibly include further activities such as specialty foods production, fashion, and the specialty furniture industry. Linkages to the hospitality/tourism industry are also strong. Equally important, particularly for sectors such as new media and animation, are local linkages to specialized software production and, somewhat surprisingly, to sectors such as advertising, banking, telecommunications and corporate headquarter functions, all of which constitute crucial markets for Toronto's multimedia firms.

What links all of these activities together is a common dependence on the production of images, symbols and other creative, design-intensive products. In many cases, the source of distinctive capability in these sectors lies in the 'cultural capital' that flows from the city's astounding degree of ethnic and linguistic diversity. The corporate heroes includes the likes of Nelvana, Digital Renaissance, Alias Research, Livent (in better times), the Royal Ontario Museum, Nienkämper, Alliance Atlantis and Sullivan Entertainment. But these firms are also supported by a local galaxy of specialized suppliers and sub-

contractors that include hundreds of small new media production companies and the many anonymous businesses that develop and supply specialty food products for the likes of Loblaw's President's Choice.

Health and Education

Toronto is home to the country's premier complex for medical education and research. Many of its hospitals conduct world-class research in affiliation with the University of Toronto. With the exception of Sunnybrook, these too are concentrated in the downtown core of the region. They are joined by manufacturers of pharmaceuticals (such as Apotex and Novopharm) as well as emerging industries in biotechnology and medical instruments.

These activities should really be understood as part of a larger higher-education complex in the region, which is anchored by our three major universities and our equally vital community colleges (of which some, such as Oakville's Sheridan College, have developed internationally renowned educational programs in programs such as animation). As will be emphasized below, the elements of this sector are crucially important not only for producing the skilled labour needed by other knowledge-intensive sectors in the region, but also for spinning off firms, patents, technological assistance and other forms of intellectual capital so crucial to ensuring success in a learning economy.

Business and Professional Services

While it is commonplace to regard this class of activities as locally oriented and derivative of the wealth generated by the region's other pillars, this image has to be challenged on at least two grounds. First, this sector provides a range of sophisti-

cated services — from engineering to computer system services, from advertising and legal expertise to management consulting, from scientific testing to specialized logistics, distribution and telecom services, from accounting to architects and industrial design — which are essential in enabling other local firms to produce and continually update high-quality, design-intensive products. Second, many of these firms have extended their market reach well beyond the Toronto region and Southern Ontario — i.e. they too have become 'traded' sectors.

Here, Toronto is richly endowed with a deep and diverse pool of local service providers. And the importance of such activities will only grow as two already well-established trends continue to strengthen: (i) the preference for manufacturers, governments and other service providers to outsource more and more of their specialty service needs, and (ii) the dynamic growth of e-commerce, which has fuelled demand for call centres and electronic forms, and further stoked an already hot market for computer systems design and support services.⁷

FOUNDATIONS OF SUCCESS: Local Assets, Global Links and the Mobilization of Capability

It should be clear from the preceding discussion that Toronto's economy exhibits many healthy characteristics. It is still uncommonly well balanced between manufacturing and services production. Knowledge-intensive activities form a strong nucleus — whether in mature or emerging sectors of the regional economy. Moreover, there is compelling evidence that these are highly innovative industries whose products have met the test of continental and, in many cases, global competition.

These pillars also exemplify a key aspect of successful economic regions around the world through the dual nature of the foundations upon which they rest. The means for achieving the successes described above include both *local assets* and *global linkages*. The local sources of competitive advantage in a learning economy are now fairly well understood. Foremost in importance is the local capacity to produce well-educated and highly skilled human capital through an *education system* that is strong at all levels. However, it is equally important to be able to retain this human capital — let's call it by its more familiar name: *talent* — once it is formed (and to attract it from elsewhere). After all, the higher the level of education and skill attained, the greater the level of actual and potential mobility of the worker. And increasingly, the geography of investment in knowledge-intensive sectors is being driven by the pursuit of capability and talent.

We also know that the key to attracting and retaining talented labour is *quality of life*, broadly defined to include: the physical attractiveness of a city region's built form; its environmental quality; the richness and depth of other amenities such as its cultural life, restaurants, and the 'buzz' of its arts and club scene; the quality of its public school system; the diversity and depth of employment opportunities for couples in which both partners are seeking work. What is equally clear is that positive feedback processes can kick in to drive the further expansion of such places. Especially for younger workers in knowledge-intensive sectors, what matters most may be the opportunity to "be in a place where there are lots of other people like me". It is probably for this reason more than any other that so many graduates of the University of

Waterloo's vaunted programs in computer science and engineering end up *not* in Waterloo, but in Seattle, San Francisco and yes, even Toronto.

If capability is the key quality that city regions aspire to generate and accumulate, then *infrastructure* should be understood as those local facilities and institutions that mobilize the capabilities of a region's inhabitants and firms. Educational systems can be understood as a key part of local infrastructure. So can providers of specialized training programs and technology transfer centres. Ditto for innovation supporting organizations (university research labs, public and private research institutes, and a well-functioning venture capital market). Of course, we should also add the more physically obvious forms of infrastructure to this list: the high-bandwidth telecommunications networks *and* the still vitally important transportation networks and facilities for surface and air travel (arterials, highways and bridges, airports); a high-quality public transportation system is also an integral element, since it not only helps reduce surface congestion, but also provides an important travel mode for the journey to work for members of the workforce without access to other means or transportation.

The final local asset on which successful regions consistently rest is the existence of conditions that foster and support *social (inter-firm) learning*. This form of learning appears to be an increasingly important ingredient in firms' continuous struggle to compete through innovativeness and quality. It provides the opportunity for iterative, interactive forms of innovation as an alternative or supplement to more traditional, linear, private forms of innovation (such as the monolithic, suburban campus-style corporate

R&D lab so closely associated with 'big science'). In this more decentralized and continuous form of innovation, interaction between technology users and technology producers is key. While much explicit, codified knowledge is exchanged between the interacting parties, really interesting things only happen when more tacit forms of knowledge are transmitted. This process has come to be identified as 'learning through interacting'.⁸

This implies that there are two attributes required to support rich, dense networks of socially organized innovation processes. The first is a highly articulated social division of labour — in short, a concentration of large numbers of discrete but interacting economic units which, taken together, comprise a larger production and innovation system.⁹ As my thumbnail sketches of Toronto's economic pillars made clear, these attributes are abundant throughout the region. The second is the local presence of a set of institutions which support learning through interacting. These could include anything from local chapters of industry associations to specialized technology centres designed to encourage shared learning; from supplier clubs set up by major assemblers to chambers of commerce which provide a forum for regular cross-industry interaction. They also include the rich foliage of opportunities for social interaction found in the bars and supper clubs of Silicon Valley, as well as its local labour market institutions which facilitate the circulation and sharing of knowledge by encouraging relatively rapid turnover and interfirm mobility of employees. I shall return to the theme of social institutions at a somewhat wider scale in a subsequent section of this paper. However, suffice it to say that, on

this dimension, I harbour some doubts as far as Toronto is concerned.

While all of these local assets are key sources of competitive strength, they become especially effective when *global linkages* are also strong. In other words, regions are far more likely to develop innovative capabilities when they remain open to flows of ideas, people (embodied skills, experience and ideas), investment, and goods and services. Here, Toronto scores very highly. As a major destination for international immigration, it is the beneficiary of net inflows of talent (and distinctive cultural capital) from around the world. In the post-NAFTA era, it is also fully open to flows of investment, goods and services. For the most part, this is a good thing, although the region did pay an extremely high price from 1989 through to about 1996, as a painful process of adjustment driven by trade and investment liberalization wreaked havoc on many sectors of the local economy.

The essential point here is that we are living in a fool's paradise if we believe that the silver bullet for local economic success is openness alone. If we aspire (as I believe we do) to compete in world markets on the basis of our smarts, our quality, our innovativeness, and our ability to develop new goods and services on a timely basis, so that we stake ourselves firmly to a high-income trajectory of economic development, then the nurturing of our local assets is absolutely central to our mission. If we understand local economic development to be a process of mobilizing the capabilities of individuals and firms, and if one of the most important functions of communities is to generate, retain and attract talent, then this is critical.

DO WE CONTROL THE RIGHT LEVERS?

Does the region have access to the powers needed to implement an effective economic strategy?

Having enumerated the elements of a successful regional economic strategy (and having suggested that the region's economy is big enough, resilient enough, and sufficiently diverse to generate wealth on the scale needed to bankroll its needs), the natural follow-up question is: do we control the policy levers required to help the region's economy maximize its full future potential, and to stay on the high-wage, learning-intensive path to prosperity? The short answer is 'no'.

A comprehensive analysis of this issue is well beyond the scope of this brief paper. However, a number of important points must be made. First and foremost, it is well known that Toronto and the other GTA municipalities — like every other municipal government in Canada — are the constitutional 'creatures' of their provincial master. This legacy of paternalism is one of the oldest and most enduring features of urban life in this country. While the framework for this legacy comes from the British North America Act of 1867, provincial control over municipal affairs — especially finances and planning — has been strengthened by legislative initiative at Queen's Park at key moments in the province's history, beginning with the Depression when many municipalities became fiscally insolvent. It has also been strengthened by the expansion of the Province's fiscal capacity primarily through the provincial income tax.

What does this mean for the management of Toronto's economic prosperity? For starters, it means that the responsibil-

ity for managing the quality of life in the region is split between local (including regional) and provincial governments. Cities fashion their own official plans (subject to Provincial approval), but must work within a framework of basic infrastructure decisions on sewer and water systems, highways, and public transportation networks for which the Province controls the purse-strings or sets policy. While cities may wish to free up vacant brownfield industrial sites for new development, their desire to kick-start the regeneration process is constrained by provincial environmental legislation which sets standards for soil toxicity and liability. As my colleague Joe Berridge will no doubt point out, the scale of investment needs for the refurbishment, renewal and expansion of basic infrastructure is considerable. Finding the ways to finance this investment (and to make sure that investment decisions have due regard for quality of life in the region) are major challenges for local government in the GTA.

In the crucially important field of education, the city's dilemma is especially poignant. On the one hand, as I have already pointed out, from a strategic point of view there is absolutely no doubt as to the crucial importance of investing in human capital formation at all levels of the education system. And yet, with the Province's recent reorganization of expenditure and revenue-raising responsibilities for K-12 education, local municipalities within the GTA have effectively lost control of the single most important policy lever for economic development. Even if their citizens wish to impose higher taxes on themselves in order to dedicate more resources to their local educational system, they are now prohibited from doing so. Instead, they are faced

with a 'one size fits all' approach which is set and imposed by the Province, regardless of local variations in preference or need.

Similarly, responsibility for the financing and development of the region's innovation-supporting organizations (including colleges, universities, hospitals and public research institutes) is shared between the provincial and federal governments. While the Province provides the lion's share of funds for capital and operating costs, and determines policies and priorities for post-secondary educational programs, the Federal government plays a key role through its control of our national research councils (SSHRC, NSERC and the MRC) which disburse funds to bankroll research in universities, hospitals and research centres. Once again, the outcomes for Toronto have been mixed. While the region benefitted tremendously from the provincially driven expansion of the university and college system during the 1960s, it has also suffered from the same governments' failure to support this system adequately through the 1990s. By all objective indicators, Ontario's universities have been significantly underfunded in comparison to those in the rest of Canada, and to those publicly funded institutions of comparable stature in the United States. While recent moves to shore up provincial funding — at least in fields deemed as high priorities by the Province — and the recovery from early-1990s cuts to the federal research councils' budgets are positive developments for the Toronto region, these actions also vividly underscore our continuing dependence on senior levels of government for the financing and control of key public components of the region's innovation infrastructure.

More generally, while the Province is the most obvious senior actor in this discussion, it should be said that the Feds assert their influence on the innovative capability and dynamism of the GTA in less obtrusive — but no less important — ways. Although not framed as 'urban' policies, these federal initiatives have each in their own way exerted a major influence over development in the region. I have already alluded to the crucial significance of the 1965 Canada-US Auto Pact, whose production-sharing provisions created the framework and impetus for a wholesale rationalization and expansion of the assembly and parts-producing sectors in the GTA and across Southern Ontario. The Free Trade Agreement and NAFTA have also had a profound influence on the competitive environment for the region's economy, even if the jury may still be out on the question of the net bottom line for job creation and wealth generation in the GTA.

Banking policy — set largely by the Feds, although with a significant provincial role in the regulation of securities trading — continues to shape the size and nature of financial services activity in Toronto. While some lament the recent federal decision to prohibit domestic bank mergers, believing this to have negative long-run consequences for the city's banking sector, this too must be acknowledged as a highly contentious and complex area for debate.

Finally, we must recognize the tremendous significance of federal (and, to some extent, provincial) cultural policy (and, of course, federal immigration policy) on the development and growth of Toronto's cultural economy. Policies designed to bolster the production and dissemination of 'Canadian' cultural products (by setting

CanCon requirements for radio and television programming, or by providing direct financial support and investment incentives for film and TV production, book and magazine publishing, and other means of support for the arts) have, along the way, spurred the development of major media and arts industries in Toronto. They have also created the foundations to support the now rapidly growing multimedia sector in the region.¹⁰

In sum, it is clear that most of the key policy levers for shaping the economic trajectory of the region are not directly controlled by local (or, where they exist, regional) governments in the GTA. In some cases, such as in education, this is the source of real and probably justifiable frustration at the local level. In other cases, it is reasonable to ask whether or not it makes sense for local governments to control the levers in question, such as those which shape the innovation-supporting infrastructure of the region. I shall leave these kinds of questions to my learned colleague Enid Slack.¹¹ However, I wish to emphasize one key point here: namely, that it is foolish or misguided to presume that, just because city-regions have become the key locus for innovation and learning, they must now be expected to provide the full wherewithal to support these activities themselves. If one looks at many of the world's great clusters of economic activity, the influence of senior (especially federal) governments is almost universally very strong. While this is most obvious in great capital cities like London and Paris, it is equally true of places like Silicon Valley, which has risen, fallen, and risen again at least in part on the basis of national defence policy and military procurement in the US, and whose high-tech firms show more than passing interest in federal anti-trust and competition policy.

THE STATE OF OUR SOCIAL AND CIVIC INSTITUTIONS: Is Toronto a 'Learning Region'?

When one surveys the experiences of the world's most successful economic regions (whether they be true city-states such as Singapore and pre-1997 Hong Kong, or less autonomous forms such as Silicon Valley, Southern California, Germany's Baden-Württemberg, Italy's Emilia-Romagna, and others), one is struck not only by their sheer innovative dynamism and wealth-generating potential, but also by another characteristic: the quality and focus of their social and civic institutions. While it is notoriously difficult to prove a conclusive link between economic development and the quality of institutions, a large and rapidly growing international body of work in economics, political science, geography, planning, sociology and other social sciences is converging on the central idea that institutions matter a great deal.

This literature suggests that several attributes of local institutions are key. The first is what might be called 'reflexivity', by which I mean the process of engaging in critical self-reflection in order to foster the continuous improvement of the regional economy and its quality of life. To be most effective, this process must be conducted in an open, transparent, democratic and participatory way. Continuous improvement of this sort may arise through two different aspects of reflexivity: the ability to diagnose a region's own weaknesses and strengths accurately, and the ability to identify successful practices in other regions and transpose them back to the home region — i.e. to learn from elsewhere.

Flowing directly from this analysis, the concept of the *learning region* has emerged to describe those places that

provide the right institutional environment to encourage both private and social learning at four different scales, three of which I have already discussed: the individual worker, the individual firm, and within groups of related firms. The fourth scale of learning, then, is found within the governance mechanisms themselves.¹² Hence, the role of the region-state (including both public and private sector institutions) is to *animate* the formation of interactive relationships between individual firms, and between firms and the kinds of regional institutions described earlier. However, such regional agencies and institutions should also be thought of as learning organizations themselves, in that they lead and facilitate the collective process of critical self-assessment, and they actively seek to emulate and learn from the successful experiences of counterpart organizations and strategies in other regions and nations.

Moreover, these regional institutions play a key role 'in sickness and in health' — that is, not just in helping the success stories become and remain so, but also in helping regions recover from adversity and setbacks. Hence, one finds examples of such institutional *animateurs* playing key roles in Silicon Valley in order to deal with some of the less desirable side-effects of success (e.g. traffic congestion, labour shortages, housing affordability) and to ensure that the region's firms continue to meet emerging competitive challenges. One also finds these organizations spearheading the drive to restore a declining regional competitive edge in places like Baden-Württemberg, whose machine-tool and automotive industries encountered serious difficulties in the early to mid-1990s, for the first time since the end of the Second World War. Similarly,

in chronically lagging regions such as Wales, local organizations of this sort have enjoyed significant success in helping to convert a classic branch-plant economy into something resembling a learning region, in which large, foreign-owned manufacturers have been encouraged to grow deeper roots into the Welsh economy through closer, more collaborative relationships with local suppliers and colleges.

On this dimension, I fear that Toronto does not at present fare terribly well. The formation of effective, reflexive civic institutions of the sort described above implies a further characteristic that has not been made explicit thus far, but which is notoriously elusive in the GTA: a strong *unity of purpose* through the recognition of, and focus on, common goals for economic and social development. It also implies the existence of governance mechanisms whose spatial scale corresponds to the boundaries of the full regional economy. Here too we fall well short of the mark.

On the positive side, we have enjoyed a strong history of institutional innovation — most importantly through the establishment and evolution of Metropolitan Toronto — which has likely made an important contribution to the region's economic prosperity by providing a rational scale for planning and decisions pertaining to infrastructure investments, by pooling and spreading the benefits of growth region-wide, and by creating a single, integrated tax jurisdiction. We have also produced effective private sector governance organizations such as the Toronto Area Industrial Board which made significant contributions to this process by promoting a GTA-wide vision for economic development.¹³

On the negative side, the region has seen the emergence and entrenchment of deep internal political divisions which sap its energy and prevent it from achieving the kind of unity of purpose I have just described. The origins of this problem may well lie with the political fragmentation of the region through the Province of Ontario's creation of the regional municipalities surrounding Metro Toronto in the 1970s. This has had at least two unfortunate consequences. First, it accentuated political and social differences by creating parallel (and rival) power structures without the benefit of an overarching governance structure to promote region-wide decision-making and consciousness-raising. Second, discrepancies in Provincial funding formulas for education and infrastructure, along with local variation in assessment practices, differentiated between Metro and its surrounding neighbours, creating substantial differentials in tax rates for industrial and commercial property. This not only produced a much stronger centrifugal influence on employers (particularly manufacturers) within the region, but also fuelled a process of intra-regional competition for employment and investment which most analysts agree is unproductive, wasteful of scarce resources, and has probably served to reduce the region's overall appeal to potential incoming investors.

This has already proved a tough legacy to overcome. As these local political divisions become further entrenched, they amplify the continuing economic, social and cultural divergence between 416 and 905. And this divergence feeds back to accentuate still further political differences, as the stark divisions within the region's political geography demonstrate in the recently concluded provincial election. Furthermore, despite the crea-

tion of a Greater Toronto Marketing Alliance with a mandate to present a unified face to the rest of the world (and especially to potential investors and employers), and the birth of the Greater Toronto Services Board to promote region-wide decision-making with respect to infrastructure and transportation, we are still some distance away from having a truly integrated structure for the management of economic development in the region. Furthermore, the present politics of division and discord, plus the reluctance of the Province to alter the status quo in any fundamental way, do not augur well for the future. Even though we remain one functional — though perhaps increasingly less well functioning — economic region (as the earlier quote from Markham's director of economic development so eloquently asserted), unity of purpose may be our most scarce commodity.

Notes

¹ Boston Consulting Group (1995) *The Fourth Era*. Toronto: study prepared for the Task Force on the Greater Toronto Area.

² Note that I am *not* asking, at this point, "do we produce enough tax revenue — under local control — to pay for the various public goods required to ensure our continued competitiveness?" While I will address this question below, I leave a fuller discussion of the issue to my colleague Enid Slack. Slack, Enid (2000) "The road to financial self-sufficiency for Toronto: what are the impediments and how can they be overcome?" in Mary W. Rowe (ed.) *Toronto: Considering Self-Government*. Owen Sound: Ginger Press, pp. 54-66.

³ Significantly, the Odyssey is now being exported back to Japan, where it is marketed as the Lagreat.

- ⁴ This constitutes a decidedly positive development for the Ontario and GTA automotive industry, whose assembly sector has traditionally remained notorious for performing very little research and development in the province.
- ⁵ This term, coined by Joel Kotkin in a recent *New York Times* article, refers to suburban enclaves of technology-based firms and their workers' residences, epitomized by places such as Irvine in Southern California.
- ⁶ Quote attributed to Stephen Chait, in an article by Ijeoma Ross, "High-tech firms log on to Markham," *The Globe and Mail*, Tuesday, June 1, 1999, B12.
- ⁷ For recent evidence on the explosive growth of employment in these sectors, see Bruce Little, "New jobs in unheard-of places," *The Globe and Mail*, Monday, May 24, A2.
- ⁸ The classic works in this field include E. von Hippel (1988) *The Sources of Innovation*, (New York: Oxford University Press); B-A. Lundvall (1988) "Innovation as an interactive process: from user-producer interaction to the national system of innovation," in Dosi, G. et al. (eds.) *Technical Change and Economic Theory* (London: Pinter Publishers) pp. 349-69; and B-A. Lundvall and B. Johnson (1994) "The learning economy," *Journal of Industry Studies*, 1, 23-42.
- ⁹ According to AnnaLee Saxenian, the social organization of economic activity clearly differentiates Silicon Valley from other agglomerations of microelectronics and computer production such as Massachusetts' Route 128. While the former can attribute much of its technological dynamism to its open, dispersed and highly interactive forms of inter-firm organization, the latter suffered stagnation and decline in the 1980s and early 1990s because of its local firms' obsession with secrecy, self-sufficiency and vertical integration. See her 1994 classic *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, (Cambridge, MA: Harvard University Press).
- ¹⁰ For a more complete discussion see S. Brail and M.S. Gertler (1999) "The digital regional economy: emergence and evolution of Toronto's multimedia cluster," in H-J Braczyk, G. Fuchs and H-G Wolf (eds.) *Multimedia and Regional Economic Restructuring* (London: Routledge), pp. 97-130.
- ¹¹ Slack, Enid (2000) "The road to financial self-sufficiency for Toronto: what are the impediments and how can they be overcome?" in Mary W. Rowe (ed.) *Toronto: Considering Self-Government*. Owen Sound: Ginger Press, pp. 54-66.
- ¹² See for example R. Florida (1995) Towards the learning region, *Futures*, 27, 527-536; and K. Morgan (1997) "The learning region: institutions, innovation and regional renewal," *Regional Studies*, 31, 491-503, for a broader discussion of the learning region concept.
- ¹³ See the recent PhD thesis by Betsy J. Donald (1999) "Economic Change and City Region Governance: The Case of Toronto," Department of Geography, University of Toronto, for more detailed presentation of these arguments.