

INTER-AMERICAN DEVELOPMENT BANK

# Governing the Metropolis

*Principles and Cases*



Eduardo Rojas  
Juan R. Cuadrado-Roura  
José Miguel Fernández Güell  
Editors

DAVID ROCKEFELLER CENTER FOR LATIN AMERICAN STUDIES  
HARVARD UNIVERSITY

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**Inter-American Development Bank**

**David Rockefeller Center for Latin American Studies  
Harvard University**

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# Preface

It is a well-known fact that Latin America and the Caribbean are the most urbanized developing regions of the world. Early into the 21st century, three out of four of their inhabitants live in urban centers and more than half of the population lives in cities with over one million inhabitants; furthermore, it is expected that 80% of the future economic growth of the region will take place in these cities. The concentration of population and economic activities in large cities has produced notable progress, as urbanization has always been accompanied by growth in per capita income. Moreover, the more urbanized the country, the more rapidly its economy grew, a result of higher productivity of businesses and labor in urban areas as compared to their rural counterparts. Similarly, and as a result of better employment opportunities, higher income, and better access to public services, living standards of the urban population are superior to those of rural areas.

The structure of Latin American cities has changed profoundly; while in 1900, there was not one city in the region with one million inhabitants, by the year 2000, 50 cities had reached this size (seven times more than in 1950 and double the amount in 1975). Four of these cities were among the ten biggest cities in the world, the mega cities of São Paulo (17.5 million), Mexico City (16.7 million), Buenos Aires (12.6 million), and Rio de Janeiro (10.6 million); while Bogotá, Colombia, Lima, Peru, and Santiago, Chile had more than 5 million in population and several others surpassed 3 million (for example, the Brazilian cities of Belo Horizonte, Salvador de Bahía, Fortaleza, Porto Alegre; Caracas in Venezuela; Santo Domingo in the Dominican Republic; and Monterrey and Guadalajara in Mexico). There were also a significant number of intermediate-sized cities (between 100,000 and one million inhabitants), experiencing notable demographic and economic dynamism in recent decades.

The majority of big cities in Latin America and the Caribbean have expanded over territories that surpass the jurisdictional boundaries of the original municipalities. Currently, most cities have labor and service markets spread over the jurisdictional territories of several municipalities and, in some cases, over more than one state or province. The labor and service markets of Mexico City

extend over the territories of municipalities of two states as well as the Federal District (Distrito Federal); the economy of Buenos Aires covers the territories of the City of Buenos Aires (3 million people) and the 32 municipalities of the Province of Buenos Aires (9 million people). This phenomenon, metropolization, affects cities of various sizes. In 2000, the population census in Brazil recorded 40 situations in which the urban economy and services extended beyond the jurisdictional area of one municipality. Within this group, there were cities of all sizes, ranging from the metropolitan area of Londrina in Parana (700,000 inhabitants) to the metropolitan region of São Paulo (17.5 million).

The economic and social importance of urban areas brings forth a complex challenge for countries of the region. Good urban governance is crucial for the social and economic progress of the cities and this challenge must be faced amidst an extensive and complex decentralization process, which has systematically transferred functions and resources from central to local governments. The objectives of this process vary from country to country; nevertheless, the motivations are more or less similar, including improving the provision of services and infrastructure to increase competitiveness and promote local economic growth. To achieve this, the central governments transfer the responsibility for these services to the subnational governments (municipalities, provinces, states, or regions), who better understand local needs and who are more capable of working with local businesses and public organizations. Additionally, it is expected that local governments will contribute to a more equitable development process through the provision of public services such as health, education, and sanitation, which are fundamental inputs for the well-being of the population and vital to attaining greater equity between different groups in society and parts of the territory. Decentralization faces difficulties resulting from deficient intergovernmental relations, inadequate popular local representation processes, weak subnational institutions, and issues with financing subnational governments. These concerns are being addressed through state reform programs, many of which are supported by the Inter-American Development Bank.

The decentralized management of government policies and programs faces additional challenges in metropolitan areas. The complex task of transferring responsibilities and resources to relatively weak institutions is exacerbated by difficulties in the interjurisdictional coordination of services in the management

of these urban agglomerations. These issues are apparent in various sectors that are crucial to the development of the urban economies and the well-being of the population; an example is the inefficient management of transportation in large metropolitan areas, which limits the access to jobs and services for much of the population. Another example is the insufficient attention given to metropolitan environmental impacts, which affect river basins spreading throughout the jurisdictional territories of several local governments. The management of health services between central cities and suburban municipalities presents another coordination issue, as the specialized downtown hospitals must cater to the suburban population without suitable compensation. This ultimately leads to financial problems and deteriorated health services for the metropolitan population as a whole. Similar examples abound, making the lack of importance given in recent debates to this problematic area of urban management in Latin America and the Caribbean even more surprising.

The present publication is a contribution to overcoming this deficiency; it is based on a study, financed partially by the Spanish General Technical Cooperation Fund and the Fiscal and Municipal Management Division of the Inter-American Development Bank, that analyzed recent advances in research and practice on the management of metropolitan areas in Latin America. Starting with a discussion of the competitiveness challenges faced by these metropolitan areas amid globalizing economies and an analysis of the recent evolution of metropolitan management experiences, the book explores the principles of good metropolitan governance.

The book discusses options to improve the democratic governability of the territories under the jurisdiction of diverse subnational governments and identify different ways to tackle the fiscal problems they face. The authors bring forth the theoretical problems as well as concrete experiences of cities in Latin America, North America, and Europe. They offer a broad panorama of these problematic questions and discuss numerous successful and unsuccessful metropolitan management cases. Many cases are analyzed in several different chapters from diverse perspectives, which enriches the analysis and understanding of the capacities and limitations of the experiences.

It is important to draw attention to the variety of experiences in metropolitan management mentioned in this book, many in Latin America. Some are

integrated experiences of metropolitan governance, such as the Greater London Authority or the Metropolitan District of Quito, whereas others address specific problems, such as the Matanza-Riachuelo River Basin Authority in Buenos Aires and the Decontamination Commission for the Metropolitan Region of Santiago. This diversity of experiences challenges the perception that little progress has been made in the management of metropolitan areas. These studies are encouraging though, bringing hope for better and faster progress in the near future; the Fiscal and Municipal Management Division publishes these studies as a contribution to this process. This book offers a synthesis of the state of the art in this important area of subnational government as the foundation for better policies, programs, and institutional reforms oriented towards improving the management of metropolitan areas of the region. The Division hopes the information herein will promote a widespread discussion on this subject, as well as give origin to initiatives of innovative metropolitan management that the Bank can support through its loan and technical assistance programs.

Vicente Fretes Cibils  
Chief  
Fiscal and Municipal Management Division  
Inter-American Development Bank

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Sarah Schineller translated and edited the text for publication.

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# Authors

## **Richard Bird**

Professor, University of Toronto, Canada  
E-mail: [rbird@rotman.utoronto.ca](mailto:rbird@rotman.utoronto.ca)

## **Juan Ramón Cuadrado-Roura**

Professor, Department of Applied Economics, University of Alcalá, Spain  
Director of SERVILAB (Institute of Economic and Social Analysis)  
Email: [jr.cuadrado@uah.es](mailto:jr.cuadrado@uah.es)

## **José Miguel Fernández Güell**

Professor, Department of Urbanism, The Superior Technical School of Architecture, Polytechnic University of Madrid, Spain  
Email: [josemiguel.fernandez@upm.es](mailto:josemiguel.fernandez@upm.es)

## **Jeroen Klink**

Federal University of ABC, São Paulo, Brazil  
Email: [jeroen.klink@terra.com.br](mailto:jeroen.klink@terra.com.br)

## **Christian Lefèvre**

Professor, French Institute of Urban Affairs, University of Paris VIII, France  
Email: [lefevre@enpc.fr](mailto:lefevre@enpc.fr)

## **Eduardo Rojas**

Principal Urban Development Specialist, Inter-American Development Bank, Washington, D.C.  
Email: [eduardoro@iadb.org](mailto:eduardoro@iadb.org)

## **Enid Slack**

President of Enid Slack Inc. Consulting, Toronto, Canada  
Email: [eslack@esci.ca](mailto:eslack@esci.ca)

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# Introduction

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## CHAPTER 1

# The Metropolitan Regions of Latin America: Problems of Governance and Development

**Eduardo Rojas**

## **Urbanization and Metropolitan Development**

### The Urbanization of the Population and Economic Activities

One outstanding characteristic in the recent development of Latin America and the Caribbean is the urbanization of the population and economic activities, and the emergence of several cities with qualities of metropolitan areas. The region is recognized by the demographic and economic importance of its cities, which in 2000 concentrated 75% of the 523 million inhabitants and generated over 50% of the economic growth. There was a notable shift in living situations throughout the 20th century; in 1900 one out of four inhabitants lived in urban centers (cities of 2,000 or more people) and by the early 21st century, three out of four inhabitants were in cities. Additionally, in the early 20th century, no city had a population of over one million; yet in 2000, there were 49 cities that surpassed this mark, four of which were among the ten largest cities in the world. Overall, cities offer better opportunities for personal development and enhanced quality of life, thus it is expected that the population in cities will concentrate 80% or more of the Latin American population by 2025, and nine new cities will form with populations of over one million.

In the last century, a significant transformation occurred in the structure of urban centers of the region. In the early 20th century, the urban structure of

most countries was characterized by the existence of a principal city (with the exception of Brazil and Colombia, with two and three important cities, respectively), the national government seat, the largest concentration of basic services for productive activities, and an array of smaller cities and towns, whose main economies were driven by agriculture production and export of primary products. As the 20th century came to a close, this structure was more complex; the region contained 4 of the 15 largest cities in the world (Mexico City, with 16.6 million inhabitants; São Paulo, with 16.5 million; Buenos Aires, with 11.6 million; and Rio de Janeiro, with 10.2 million) and 45 urban centers with over one million in population, some of which surpassed 5 million (Bogotá, Lima, and Santiago), and many others that surpassed 3 million. Moreover, there were numerous medium-sized cities with between 100,000 and 1 million inhabitants. Today, the majority of these urban agglomerations occupy territories that extended beyond the jurisdictional boundaries of the local authority, with labor and services markets spanning several municipalities, often in different provinces. Mexico City sprawls over municipalities in two states, in addition to the Federal District (Distrito Federal), and Buenos Aires extends over more than 30 municipalities in the Province of Buenos Aires, as well as the city proper. Metropolization affects cities as large as São Paulo and as compact as Londrina (700 inhabitants). Census data of the last the two decades in Latin America reveals a reduced population growth rate of the largest cities, constituting the core of regional metropolitan agglomerations, accompanied by faster growth rates in municipalities and cities along regional corridors with easy access to larger cities that define these regions (HABITAT, 2004).

**Table 1.1. Urban Population of Latin America and the Caribbean**

	Year			Rates	
	1985	2000	2015	1985–2000	2000–15
Population (Millions)	400.8	519.1	631.1	1.7	1.3
Urban Population (Millions)	280.5	389.3	504.9	2.8	2.7
Percentage of Total	70	75	80		
Cities with over One Million Inhabitants	21	47	58		
Population	69.5	153.9	213.1		

Source: HABITAT, 2001.

These metropolitan agglomerations concentrate more than 50% of the productive capacity of their countries, and are highly interrelated with other national and international agglomerations. This system is of great economic importance, as in the future, these cities will contribute more than 80% of economic growth. Daher (2000) discusses the significance of three regional transnational metropolitan routes in Argentina, Brazil, Chile, and Uruguay (São Paulo-Rio Grande do Sul, Buenos Aires-Montevideo in the South Atlantic, and Santiago-Cuyo-Córdoba in the interior), which generate between 50% and 60% of the domestic product for their respective countries. Additionally, these metropolitan corridors actively trade with each other under the framework of the commercial agreements of MERCOSUR, while maintaining strong exporting relations with the Pacific and Atlantic markets. In sector terms, the importance of these metropolitan agglomerations is greater still; for example São Paulo generates close to 60% of Brazil's industrial production, concentrates the majority of that country's business services, and houses a stock exchange of worldwide importance. Similarly, the Metropolitan Region of Santiago, which generates more than 47% of the Gross National Product (GNP) of Chile and more than 50% of its industrial product, offers superior services to businesses and the public, in quantity and quality, and is the control center of the majority of the country's largest companies (de Mattos, 2002).

## Transformation of the Spatial Structure of the Metropolis

### *New Centralities and Urban Dispersion (Urban Sprawl)*

The internal structure of large Latin American cities has gone through significant changes, among which it is worth emphasizing the displacement of the population, industries, and services from city centers to the periphery, and the creation of new centers with their own economic and social dynamics. Low density, often discontinuous, peripheral suburban growth pushes the urbanized area beyond municipal limits; this creates a vast low-density urbanized space, which requires extensive infrastructure networks and increases population and merchandise transportation costs, as well as the costs in administering public

utility services. Contrary to the population boom in these dynamic new urban areas, with more than one new centrality, there is the gradual emptying of old residential, industrial, and service areas, and an abandonment of traditional centers of commerce and social interaction.

The rupture of the traditional compact urban structure of Latin American cities, with only one center, and its replacement with a spatially diffused structure containing more than one nucleus, has been accompanied by the sprouting of new urban “artifacts.” These include: sizable commercial centers situated in the periphery and connected to main avenues or highways; technological or logistical parks located in the outskirts, quickly filling with businesses attracted by modern facilities and easy access to interregional transportation routes; and *gated* neighborhoods, the upscale residences and recreation areas for high-income social groups. These urban places for production, consumption, housing, and recreation are interlinked by often-congested roads, which lack the spatial continuity of the compact cities that predominated until the late 20th century. According to Janoschka (2002) these characteristics reinforce the tendency towards extremely segregated and divided cities. Today’s Latin American metropolises are evolving towards “cities of islands.”

### *Fragmented Cities*

The process of urbanization previously discussed has prompted a remarkable increase in the quality of life for the region’s inhabitants, as the concentrated population allows the provision of basic services at lower costs. Thus, there has been an improved coverage of sanitation, health, and education services, among others. Towards the latter part of the 1990s, the progress in covering basic needs led to the idea that much of the population of Latin America and the Caribbean had moved from a “structural” poverty (a combination of unsatisfied basic needs and insufficient income) to an “economic” poverty (lack of sufficient income to acquire basic goods). Additionally, an “urbanization of the poor” had taken place in the region; the census data showed that the urban poor population (125 million in the late 1990s) was much larger than the rural poor population (78 million in the same period). Nevertheless, in relative terms, rural poverty affects a greater number of people (more than 50% of rural households compared to 30% of urban



households). The majority of the impoverished population obtains its income from the informal sector, which has created six out of every ten new jobs added to the economy in the last decade. Females are at the head of many poor households and the majority consist of extended families (including individuals belonging to several generations) and complex relations (households having members with no relation to the family nucleus). More than half of the parents, or persons in charge of poor households, have not reached an education level superior to the ten years considered necessary to reduce the risk of intergenerational poverty transference (Arriagada, 2000).

The incapacity of Latin American economies to generate jobs in the formal sector explains the high ratios of unemployment, under-employment, and informal employment. The average unemployment rate in the region has increased from 5.8% in the early nineties to 8.4% as the decade closed, and since then, it has not decreased. At least 50% of the countries have two-digit unemployment rates, while the difference in income levels between qualified and nonqualified workers has continued to widen.

Perspectives to eradicate poverty are seriously undermined by the prevailing inequality in income distribution (ratio between the highest and lowest income brackets), which, according to the World Bank (2001), is more pronounced in Latin America than any other region. The population that makes up the lowest 10% in this distribution structure earns 5% of the national income, whereas those in the highest 10% earn 50%. Fundamentally, this disparity originates from the unequal distribution of assets (land and human capital), and from the different levels of access to economic opportunities. The macroeconomic instability, still considerably high in the region, has a negative impact on the underprivileged, who are unable to count on savings as a protection from wage decreases, which often accompanies macroeconomic catastrophes; they also lack the network of social protection to help mitigate the ill effects of such events.

Another distinct characteristic of urban poverty in large Latin American cities is spatial segregation. The mechanisms of urban land markets, which promote price increases, exclude the poor from areas with adequate infrastructure and services, and force them into the least favored zones, further reinforcing the contrast in the quality of life of poor areas with the rest of the city. Consequently, a duality, with multiple negative effects, has emerged within the urban areas of

Latin America; one part of the city, usually consisting of higher-income families and advanced infrastructure and services, coexists with another part of the city, which is generally larger, has less access to services and employment and often faces environmental problems. In addition, it is known that the geographic concentration of poor households favors the intergenerational transmission of poverty, due to the population's reliance on informal activities for income and greater unemployment rates, and has negative impacts on social integration, due to increased inactivity among the youth.

### *Congested and Inefficient Cities*

The population, economic, and spatial growth of the metropolitan areas in Latin America has not been accompanied by a parallel development of the infrastructure and urban services required to satisfy the populations' needs and sustain economic development. The accessibility of basic sanitary systems directly affects the quality of life of the residents, while the inefficiency of the transport and communications networks hampers the productivity and competitiveness of urban enterprises. Additionally, the lack of road infrastructure and public transportation, which increases the time and effort needed to access urban jobs and services, is less documented, but no less influential on the quality of life of the inhabitants. The time it takes workers to travel to work has increased continuously over the last few decades; according to HABITAT data (2002), in São Paulo, workers spend an average of two hours commuting to their jobs. Inhabitants of Rio de Janeiro face a similar problem, traveling almost 100 minutes each day to work, while in Bogotá, the average travel time reached 90 minutes in the late nineties and in Santiago the 60-minute commute average was surpassed years ago.

Infrastructure deficiencies limit economic development in multiple ways (World Bank, 1995). For example, companies with inefficient electricity services are forced to invest in backup systems or they risk a severe loss in production. Similarly, deficiencies in communication systems make international trade and interaction difficult, while traffic congestion in urban areas increases the time and cost of shipping and receiving goods. These setbacks are common in most Latin American cities, particularly in the metropolitan areas, and deter these areas from being efficient platforms for economic activities. They also contribute

to poor living conditions, discouraging dynamic entrepreneurs and highly skilled workers from settling in the cities. Moreover, a high percentage of the GNP is generated in these areas, thus these inadequacies affect the national economy.

Inefficient infrastructure causes low productivity in large enterprises, for example, one study concluded that such deficiencies are the main cause of the overly inflated inventories of many Latin American companies, when compared to similar industries of more developed countries (Guash and Kogan, 2001). In the '70s, '80s, and '90s inventories of raw materials in the Latin American manufacturing sector were two to five times greater than those of similar North American industries. Furthermore, as real interest rates in these countries were two times the rates in the United States, this overstock made it more expensive to develop and manage new businesses in the region, affecting both productivity and competitiveness. Other studies have proven a clear relation between labor productivity and the size of labor markets in large cities. Labor productivity diminishes as cities grow physically (the result of horizontal expansion) and as the average speed of internal displacements decreases (a consequence of the lack of investment in road and urban transportation) (Prud'homme and Lee, 1999). Studies in São Paulo and Buenos Aires indicate that labor markets in these cities are weakened due to inefficient transport systems and excessive commute times. In São Paulo, a laborer has access to less than half of the metropolitan jobs available within a two-hour commuting time, due to road congestion and inefficient urban transport systems. Accordingly, companies have access to half of the labor force available in the metropolis; thus laborers have greater difficulty in finding jobs that maximize their income potential, while companies find it increasingly difficult to find skilled laborers.

## Metropolization: A Development Opportunity and a Challenge

The restructuring of Latin American urban economies, particularly in metropolitan areas, has improved the competitiveness of their respective national economies and, as mentioned previously, led to a situation in which the largest part of the expected economic growth will originate in cities, especially in the metropolitan areas. In spite of their problems, cities offer Latin American countries

the best opportunity to expand economically and improve the quality of life for the population.

This economic restructuring creates challenges for the region, such as rapid growth of jobs in the service industry and a decline in industrial jobs, as well as an increase in informal, less productive jobs. Also, the increase in productivity and profits benefit a relatively small portion of the population by creating jobs that require higher qualifications compared to the manufacturing jobs of the sixties and seventies. Productivity increase and the regularization of informal activities, as well as development of small and medium companies focused on satisfying regional and local demands, are necessary complements to policies which promote competitive export activities for the international markets.

Technological developments have had a positive effect on this restructuring by giving many companies the option of settling outside central areas, promoting the dispersion of new jobs in those urban areas that want better access to interregional markets and logistical export platforms. Nevertheless, the most mobile factors of production, capital, and technological knowledge are dominated by a small percentage of the labor force working in few urban centers, thus other cities are left with obsolete physical capital and the less qualified laborers.

The consequences of the spatial restructuring of Latin American cities are significant. On one hand, the expansion of the urbanized area and the development of new production, commercial, and recreational centers in the periphery, along with the proliferation of gated communities, have increased the social mixture on a regional scale (thus reducing the "macro" social spatial segregation; Sabatini et al., 2001). However, from a "micro" standpoint, this process has led to increased social distance, as there is a lack of common places for mixed social groups to gather and interact. This tendency has both consolidated and expanded preexisting social disintegration patterns with regards to income and access to benefits of urban development, thus increasing social pathologies. Growing delinquency and criminal activity is controlled through closed neighborhoods, private security systems, and abandonment of the public spaces, solutions that actually aggravate the problems (Dammert, 2001). Presently, the cities of the region face a dual challenge: to extend the urban development benefits to all inhabitants and minimize socially deviant behaviors.

## **The Metropolis Government: A Pending Task and a Challenge for the State**

### Decentralization in Latin America and the Caribbean

The decentralization of government functions has been one of the most distinguishing characteristics of the recent evolution in the administration of Latin American and Caribbean cities. To increase competitiveness and promote local economic growth, national governments try to improve services and infrastructures by transferring responsibilities to “subnational” governments, which are more capable of meeting the needs of local economies and working with local entrepreneurs and civil society organizations. These governments, which include diverse organizations with jurisdiction over portions of the national territory, are made up of provinces, regions, and municipalities, and are encouraged to promote a more equitable development process of public health education and sanitation services, among others. Such services are fundamental to assure the well being of the population and create greater social cohesion between different society groups and areas of the national territory.

Sustained efforts to decentralize government responsibilities and resources are prevalent in the region, especially in larger countries (IDB, 1997); Argentina, Brazil, and Colombia are among the most decentralized countries, while Bolivia, Mexico, and Venezuela have made significant advances towards this goal. Nevertheless, there is room for continued progress as Latin American and Caribbean local authorities control only 17% of public expenditures, while in industrialized countries 35% of expenses are in the hands of “subnational” governments. Encouragingly, most local governments in Latin America are becoming more democratic. In 1980 only three countries elected their mayors via popular vote, while in 1997 this method was used in 17 of the 26 borrowing member countries of the IDB, and in six other borrowing countries, mayors were designated by elected municipal councils.

In spite of the developments previously discussed, there is insufficient institutional and financial capacity for subnational governments to assume additional responsibilities in most Latin American and Caribbean countries, which

creates a complex panorama of governance. There are more than 100 states and provinces in the region (also known as departments or regions) and more than 14,000 municipalities; some states have large populations (for example Bahía, Brazil and Buenos Aires, Argentina have more inhabitants than most Latin Americas countries) and others are the economic engines of their countries. Other states are small and relatively impoverished, with fewer resources than an average-size municipality. Ninety percent of the municipalities have less than 50,000 inhabitants, a size that prohibits them from developing a solid fiscal base and institutional capacity to take on complex responsibilities. These capacities vary by region; for example, the institutional capacities of municipalities such as São Paulo, Buenos Aires, and Mexico DF are superior to those of many smaller states, and they are able to develop advanced financial management systems. Conversely, some small municipalities lack stable personnel and their financial management capacity is minimal. Still, given the high degree of urbanization in Latin America, approximately 60% of the population lives in medium-sized cities of more than 50,000 inhabitants, which are large enough to sustain local proficient urban governments and play important roles in the economic development of the region.

A frequent obstacle in decentralization is the obsolete and inefficient framework of intergovernmental relations. The redistribution of responsibilities between different government levels has not always been sustained by a corresponding allocation of resources, nor adequate incentives for local governments to generate sufficient income. In metropolitan areas, the complex task of delegating central functions and resources to relatively weak institutions is compounded by difficulties in coordinating different jurisdictions in administering services and the development of the agglomeration. An example is the provision of potable water, sewage systems, and drainage in the urbanized territory of these areas, which requires operating infrastructures in territories that transcend a single-municipality jurisdiction, and thus several local governments must coordinate their actions. Similarly, management of public transport and environmental concerns in hydrographic and atmospheric river basins requires the collaboration of different jurisdictions.

This complexity brings about a number of fiscal and governance issues that must be addressed. In these areas, several jurisdictions provide different types of services; those governing central areas must provide infrastructure and

services for employees across the entire metropolitan area, whereas the suburban jurisdictions offer only residential services. The main challenges here are to find sufficient resources for service provision costs, as well as to effectively manage this income to ensure that it comes mainly from direct beneficiaries, avoiding unnecessary subsidies and the distortion of consumer choices. Governance problems are common in metropolitan areas, particularly those related to the inhabitants' participation in the decisions that affect them; as these areas expand into territories under the jurisdiction of various local authorities, there is an increasing misalignment between the territories under the control of the elected officials and those affected by investment decisions and provision of services.

Going forward, it is important to apply the principles of strong "subnational" government (IDB, 2001), drawn from recent advances in the theory and practice of social sciences, to the governance problem in metropolitan areas; this book aims to contribute to this process. The subsequent review of the foundations for strong local government sets the frame for the different analyses included in this publication. These bases are not normative prescriptions supporting one particular concrete modality of local management; rather they focus on the analysis of the incentive systems that underlies the solutions of local governments, with a particular focus on those that motivate the decision makers in the provision and financing of local services.

## Foundations for Strong Local Governance

Strong local governance requires well-designed rules and incentives that encourage elected officials to satisfy the population's needs through the efficient management of available resources, of which these four are crucial:

- Those derived from the system of intergovernmental relations that clearly define the responsibilities and resources of each government level.
- Those that originate in the local government structure, which determine the community's level of participation in decisions, as well as the level of supervision over elected officials.
- Those related to the institutional capacity of local governments to carry out their assigned functions.

- Those that originate in the financing mechanisms of the activities and investments of local governments.

### *Intergovernmental Relations*

According to Bird (1999), a well-designed system of intergovernmental relations provides incentives for local government to assign available resources to the most worthy areas of social need. In addition to well-defined responsibilities and sufficient resources, local governments need strict budgetary constraints, which forces elected officials to more effectively manage the inherently difficult task of distributing limited resources to multiple and competing entities.

An adequate system of intergovernmental relations should focus on questions such as:

- Who does what? The task of allocating responsibilities among government levels and making certain they are carried out efficiently is complex. Effectual allocation requires proactive administration in mobilizing the necessary resources.
- Who charges which taxes and fees? Again, this problem relates to resource allocation; the solution consists of finding a close correlation between the income and expenses of the local government and developing a system where it assumes both fiscal and political responsibilities, as well as making certain that local taxes do not distort the allocation of resources within the local economy. Local governments will more effectively administer those resources that voters perceive as their own, and thus preferred sources of local income include service fees, local taxes, and contributions.
- How is the unavoidable imbalance between income and expenses in the local governments solved? Vertical imbalance between government levels can be solved through a system of well-designed transferes; the key to this system is to put local elected officials in charge of allocation decisions, while imposing rigid budgetary constraints on such decisions. These objectives can be reached through programmed and untied transferes based on formulas.
- How are service levels between territorial jurisdictions equalized?



This problem of horizontal disequilibrium is solved through transfer-ences between government levels that are designed and executed according to the enunciated principles.

- Should local governments accumulate debt? There are solid arguments that justify indebtedness in cases when the debts finance infrastructures that can generate benefits for several generations. Nevertheless, in order to avoid softening the budgetary limits imposed on local elected officials, the financial markets and central government regulations should promote a rigid credit discipline. The central government must also make a firm commitment to refrain from bailing out insolvent local governments.

### *Governability*

The previous discussion points out the implicit need for efficient mechanisms to encourage the community's participation in the decisions that affect them, as well as the need to exercise an effective oversight of expenditures. Both are essential requisites in assuring that elected officials act responsibly before the voters and to create transparency in urban management. A democratic, transparent local government promotes community participation and has a better chance of satisfying the interests of the majority, while respecting the rights of the minorities, than a bureaucratic government, whose management is concentrated within its cupola. In other words, a deep democratization of the local government is required with the following fundamental qualities:

- An efficient system to elect officials, which makes it possible for citizens to express themselves regularly with regards to local problems and encourages them to take on responsibility in their solutions.
- Collegiate bodies that represent all interested parties and have the authority to supervise elected officials.
- Formal institutions that attend to community complaints, and provide and receive pertinent information.
- A regulative regime that forces local governments to consistently and truthfully disclose information regarding their actions, provision of services, and financing.

An adequate incentives program, which promotes proficient and trustworthy behavior on the part of the administrators of community affairs, requires effective policies related to the election and removal of key officials. The clear distinction between local and national elections, for example, helps center the population's attention on zonal issues when appropriate. When the elected officials' terms are short and there is no possibility of re-election, their attitudes tend to be opportunistic; on the contrary, longer incumbencies with the possibility of re-election encourages elected officials to create long-term strategies fully committed to the community's interests. Other essential factors of this system relate to the power vested in council members, such as the level of supervision needed over the elected officials and determining the council's capacity to effectively represent different interests within the community.

### *Institutional Development*

Local governments need sufficient institutional capacity to develop complex functions, which requires a long gestation period. At the same time, they must have a solid legal foundation and organized procedures to manage personnel, finances, and creative local development.

Effective administration of personnel requires:

- A career civil service system that, along with eliminating favoritism in designating local government employees, promotes its specialization and professional development.
- A system of personnel management that promotes the career civil service system, while granting flexibility to the elected authorities to adjust the budget allocation to fulfill the designated tasks.

To effectively manage income and expenses the following are needed in order to improve the multi-year planning and financial execution system required by the complex investments and services provided by local governments: a well-organized method to collect taxes and tariffs; dynamic planning and budgeting mechanisms; and well-organized methods to direct and evaluate the results.

The operational capacity of a local government is one of the determinants of its flexibility in discharging its responsibilities. The following aspects of the in-

stitutional structure of local governments determine whether or not their elected officials are creative and audacious: the openness to cooperate with other government levels; the capacity to partner with private agents to undertake specific tasks or complicated projects; the ability to delegate functions to third parties; the aptitude to privatize the provision of services; and the means to supervise and regulate private suppliers. These factors, along with a well-structured system of personnel and financial management, determine whether leaders can creatively and productively utilize the available financial and human resources.

### *Financing*

The method of financing local governments is a determining factor of many facets of the incentives system under which the elected officials and administrators operate. As mentioned previously, officials will handle these decisions more carefully when the community perceives the resources as their own; hence, as in private sector companies, own-resources become the most appropriate source of financing because they are the cheapest source and they stimulate more effective allocation. The most obvious sources are taxes and service charges, as well as the compensatory transferences from other levels of government, when they are stable, programmed, and untied. Carrying debt is appropriate under certain circumstances, for some expenses, such as financing assets with long-term pay-offs, but only when financial markets, regulations, and intergovernmental relations exercise effective control of local indebtedness. Therefore, an important factor of the incentives system is the development of debt discipline, which includes the following crucial steps:

- Strengthening intergovernmental relations to impose strict budgetary constraints and send clear signals to financial markets that rescuing local governments due to insolvency is not an option.
- In negotiating loans to local governments, financial markets, commercial and investment banks, and capital markets must adjust the pricing of the resources according to the risk involved.
- Local governments must regularly provide necessary financial and budgetary information in order to make the above evaluation possible.

These incentives should induce elected officials to act cautiously in contracting loans, focusing on solid projects with enhanced social and economic benefits. Officials can take on unsustainable debt when any one of the above components is not present; even though they may benefit from increased funding, the costs are carried forward to future administrations.

## Challenges and Tasks

The vast and complex task of developing efficient and democratic “subnational” governments, which promote the economic development of their territories while offering needed services to the community, requires coordinated reforms within the political, fiscal, institutional, and financial fields. To improve the quality of the local government, each system of incentives mentioned above must be simultaneously perfected. This task is more difficult in metropolitan areas as these transformations require a long-term vision and substantial political courage on the part of all parties involved. Additionally, they must occur in the local governments with jurisdiction over the territory of the agglomeration, as well as in the institutional mechanisms, procedures, and programs that promote effective coordination of the various jurisdictions’ activities. Despite the complexity, the undertaking is essential as the benefits significantly impact the cities involved; similarly, the importance of the cities and the local governments’ vital role in their appropriate functions make the reforms urgent.

Taking on these challenges requires a solid understanding of the theory and practice of good local government, as well as its creative adaptation to the needs of large metropolitan areas. It is also imperative to respect the diverse institutional arrangements, whether federal or unitary, as well as the diverse legal traditions based on customary laws or the Germanic or Roman traditions.

## Explorations on the Theory and Practice of the Metropolitan Government

This publication, with two parts, aims to contribute to the development of institutions, procedures, and programs, in order to improve the management of metropolises of Latin America and the Caribbean. The first part discusses the

complex problems faced by the metropolitan areas of the region, which have as much to do with their economic importance as with the difficulties of the coordinated management of territories under the authority of different administrative jurisdictions. The second part discusses principles of good metropolitan government outlined in the preceding section. It focuses on those principles related to democratic governance and efficient fiscal administration and analyzes different cases in which they have been applied. The works included in this publication contribute theory and experiences within their respective areas of interest; as such the book explores cross-sectional and sectoral subjects of the theory and practice of metropolitan governance, with the purpose of encouraging a debate and the transformation of prevailing mechanisms of metropolitan management in the region.

Within this book, Cuadrado-Roura and Fernández Güell discuss the economic importance of good metropolitan governance, highlighting the challenges metropolitan areas face in their efforts to improve the competitiveness of their enterprises. The authors argue that competitiveness in the urban realm relies on the disciplined provision of infrastructures and urban services; such provision helps businesses to run efficiently, as well as to create better living conditions in order to attract innovative entrepreneurs and highly qualified laborers, crucial resources for internationally competitive companies.

Given the significance of good metropolitan governance in economic development, the book analyzes different proposed and utilized forms of metropolitan government, a theme which has caught, albeit sporadically, the attention of specialists in local government and urban development for more than three decades. In his analysis of current perspectives on metropolitan organization, Jeroen Klink discusses in detail the recent literature and practice of metropolitan governance. He analyzes the variety of methods used to manage metropolitan issues and the diversity of the existing integral and partial experiences, many of them drawn from Latin America. From the particular perspectives of democratic governance and fiscal issues, the other authors in this book expand upon Klink's analysis.

Such is the case of Christian Lefèvre's analysis of democratic governance in metropolitan areas, which opens the second part of the book and discusses principles of a good metropolitan government. In his work, Lefèvre presents

different metropolitan governance models, while pointing out the complex problems of democratic representation, voice, and identity faced within metropolitan communities. The author analyzes the changes needed within Latin American metropolis governments, insisting on the importance of a gradual development of politically legitimate arrangements, with both operational capacity and social legitimacy. Lefèvre emphasizes the relevant procedures to validate the changes and the crucial role of political leaders in the process. He draws conclusions applicable mainly to Latin American cities; some synchronize with other authors' conclusions, and others are complementary.

The analysis of the fiscal aspects of metropolitan governance made by Bird and Slack suggest the most appropriate methods to finance the multiple and complex responsibilities of an efficient metropolitan government. This is a complicated theme of Latin American intergovernmental relations, given the strong dependency of local governments on resources from the national governments. Centralist traditions in imposing and collecting taxes, combined with significant mistrust in the local government's ability to obtain and administer resources, further hinders the progress towards creating metropolitan areas with independent and prosperous local fiscal bases. The authors are particularly realistic and frank in their approach to this issue, bringing forward the advantages and disadvantages of different financing options, including methods that allow for financing of regional governments, an especially relevant topic in the discussion of metropolitan fiscal issues.

The road ahead in improving the management of metropolitan areas in Latin America is long, as Cuadrado-Roura and Fernández Güell emphasize in the closing of this book. There are no easy solutions and, according to the authors, there are no unique formulas. Each metropolitan area must seek a method that adjusts to its needs, level of development and future prospects, as well as the legal and institutional context in which it operates. The adopted solution will inevitably be the result of a trade-off between the interested parties, which can only be attained through an open and democratic debate. The editors hope that the works included in this book contribute to this debate, presenting the principles of good metropolitan governance and, mainly, a substantiated analysis of the virtues and limitations of the different models and recent experiences in cities that have advanced in the reform of metropolitan management.

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# Management of Metropolitan Areas: Opportunities and Challenges

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## CHAPTER 2

# Metropolitan Areas and the Challenges of Competitiveness

**Juan Ramón Cuadrado-Roura**

**José Miguel Fernández Güell**

### **Objectives, Proposal and Limitations**

Metropolitan areas around the world and particularly in Latin America face significant problems. Many of these problems are not new, rather they originate from the recent growth experienced in these areas in the last decades. This relates to fiscal problems, as well as deficiencies in metropolitan transportation, the sustained demand for more and better infrastructures, and the growing need to expand the coverage of social services. In later years, these new issues emerged and are currently considered crucial: environmental problems, the sustainability of the growth experienced by large cities and metropolitan areas, and the growing competition among these cities at a national, continental, or global level. All are related to the broader concept of the governance of metropolitan areas.

The objective of this work is to present a set of thoughts, analytical tools, and proposals concerning the response that metropolitan areas of Latin America and the Caribbean can and must have in confronting competitiveness. To that effect, the chapter is divided into five sections following this introduction. The first and second sections clarify basic issues of the relationship between metropolitan areas and competitiveness. The first section defines several basic concepts directly related to competitiveness and its effect within the metropolitan area; from this analysis four fundamental challenges are identified: the growing complexity and integrality of metropolitan problems, the diversity in the profiles and interests of the intervening agents, the uncertainty on the future given rapid change and the expanding knowledge of the economic role played by cities.

The second section focuses on the direct relationship between competitiveness and metropolitan areas and includes a methodology to clarify the position that different areas may fill according to the level of development reached by their productive systems and the spatial (geographical) scale of their economic and social spheres of influence. It is also comprised of comments concerning the global/local duality of the metropolitan areas and on factors affecting competitiveness, including the availability of factors of production; the physical, social, and business environment of each area; the institutional arrangements; and the forms of interrelation among public and private organizations.

The third section analyzes the metropolitan phenomenon, making special reference to Latin America and the Caribbean. After a brief characterization of the stylized facts marking the development of the majority of the regional metropolitan areas, this section analyzes the specific problems in the context of the ongoing globalization process. Specifically, this section focuses on the institutional, social, and spatial issues that the authors consider particular to most Latin American metropolises and discusses whether their recent evolution challenges their capacity to successfully adapt to the new economic model.

Based on the preceding discussion, the fourth section focuses on four critical issues, with the caveat that the actual solution must adapt to the peculiarities of each case, and that generalized recommendations and prescriptions have little value. The four critical issues are: the specificity of the metropolitan phenomenon from an economic standpoint; how to improve metropolitan competitiveness; the most appropriate strategies to implement these improvements; and, finally, how to organize the management of metropolitan economies. The discussion of the latter issue leads to the presentation of the key features of three possible models of governance for metropolitan areas in confronting the challenges of competitiveness. Fiscal and democratic governance issues will be discussed in subsequent chapters of this book.

This chapter closes with a short summary and recommendations; obviously, the scope of this work does not allow for recommendations directly applicable to all metropolitan areas of the region. However, it is possible to clearly define the process necessary to confront the issues, define strategies, and set

up the appropriate governance model to tackle the internal (within the metropolitan area) and external (national and international) challenges posed by competitiveness. This work has well-defined limitations due to its length and restricted objective of presenting systematic and clear thoughts on crucial factors of competitiveness; thus, it should be viewed as a starting point for an extended debate on these factors and other challenges faced by the metropolitan areas of the region.

## The Metropolitan Phenomenon from the Point of View of Economics

### The Economic View of the Metropolis

The historic causes of urban growth are varied and include areas such as defense, industrial development, commerce, and institutional and religious functions. After their establishment, certain cities have developed over time, while others have slowly disappeared. Explanations of urban growth are complex and may come from different perspectives; however, for economists the phenomenon results fundamentally from economies of agglomeration. Analogous to enterprises that benefit from economies of scale, cities prosper from economies of agglomeration. Accordingly, cities are conceptualized as agglomerates of activities that generate synergic effects, which cumulatively increase the size of the agglomeration. Enhanced productivity in cities originates from the following (Camagni, 2003):

- Diversification of urban activities and specialization of economic units
- Concentration of public goods and the fixed capital of society, which generates a robust spatial concentration of positive externalities
- High density of contacts due to spatial proximity
- Reduced transaction costs due to proximity

Economies of agglomeration clearly benefit activities linked to knowledge, technological innovation, advanced services, and commerce, among others. Consequently, the escalation of rents, structural changes in the economy,

institutional transformation and the innovation process occur mostly in urban areas; hence the socioeconomic development process takes place mainly in cities and their areas of influence.

Today, cities consist of the largest spatial concentrations of productive activities, and more changes in the social and economic systems take place in cities than elsewhere in the region. Large contemporary cities perform complex functions, such as providing economies of agglomeration and proximity, stimulating creativity and innovation, facilitating accessibility and social interaction, connecting society and the economy with external networks, and achieving a maximum of collective welfare. Furthermore, under a growing globalization of the economies, larger cities are the main places where the functions, activities, and services that structure the international economic systems are developed. The study of cities as economic systems cannot exclude the metropolitan phenomenon, given its contribution to the contemporary economic system. In contrast with traditional cities, characterized by having one central area, well-defined limits, and a clearly delineated area of commercial influence, metropolitan areas that emerged in the twentieth century are marked by more than one central area, diffused limits, extended commercial areas of influence, and highly diversified economies.

From an economic point of view, a metropolitan area can be defined as the territory or collection of territories that present:

- Intense functional interdependence
- Ample labor market with a diversified skill supply
- Spatial concentration of externalities and spillover effects
- Large populations sharing a single set of natural resources
- Distinctive and fairly homogeneous cultures

As a socioeconomic reality, metropolitan areas spread over the territories of several administrative jurisdictions; moreover, to function properly, big metropolises require vast material resources (transportation, water, energy) and produce a profound transformation of the physical environment to satisfy their needs. Unfortunately, in terms of planning and management, the actions taken by local government are often too fragmented and limited to effectively satisfy these demands.

## Competitiveness Applied to the Urban Realm

In analyzing cities as functioning economic systems, concepts such as *competition*, *competitiveness*, and *competitive advantage* should be applied to the urban realm. In the context of the present analysis, in natural sciences, competition refers to the survival of the fittest in a given ecosystem, whereas in business management the term refers to the deployment of enterprise resources in order to thrive in a business environment. In urban analysis, *competition* can be understood as the rivalry among cities to attract investment, enterprises, public resources, and visitors. The term *competitiveness* is traditionally used to describe the capabilities that an enterprise must develop to grow within a market of free competition. Yet, translated to the urban realm, competitiveness refers to the efforts made by cities to develop local productive capacity and improve the quality of the environment in which economic agents operate. Finally, in an enterprise, the notion of *competitive advantage* refers to those characteristics that ensure gains over its competitors. Competitive advantages are sustainable in the medium and long term when the enterprise has a unique quality that competitors cannot imitate. In the urban realm, the term refers to the attributes that a city develops to improve its economic and social position internally or within its area of influence.

Notwithstanding the subtle nuances between these concepts, it is worth emphasizing that this chapter encourages the improvement of the competitiveness of Latin American metropolises, but not the stimulation of rivalry. In the present circumstances, it would be ineffective to exacerbate this level of competition; on the contrary, it is important to expand the competitive capacities of the local productive structure without increasing social inequality or environmental damage. Moreover, certain peculiarities of cities understood as economic entities must be considered when translating these concepts to the urban or metropolitan realm. Primarily, physical development processes have significant inertia; thus traditional morphologic patterns tend to persist over long periods in spite of the transformations taking place. Second, among cities, it is common to develop cooperative relationships in the promotion of economic development; while among enterprises, rivalry prevails. Third, cities do not operate in environments in which only other cities exist to compete with. On the contrary, above city administrations are regional administrations (if they are acknowledged and

given power and autonomy) as well as national administrations whose policies have positive and negative impacts on the cities (for instance through the construction of infrastructure networks or the decentralization of public services). In summary, it is feasible to translate concepts from business management to the urban realm, but only while taking into consideration the differences in scale, complexity, and internal dynamics that exist between the two phenomena.

## Factors that Promote Improvements in City Competitiveness and their Spatial Implications

Historically, the most significant social crisis and transformations have taken place in cities; by definition, a city is a place of conflict where the inherent complexities, diversities, and uncertainties of our civilization emerge. This historic pattern of change is present in contemporary cities and gains greater intensity and projection in metropolitan areas. Today, various economic trends of transformation are pressuring cities of all sizes to improve their competitiveness, such as:

- *The development of a new economic order*, based on international division of labor, spatial displacement of industries, productive restructuring, selective globalization of markets, and the technological revolution.
- *Acceleration of the globalization process*, due to market liberalization policies, production localization strategies of multinational corporations, and innovations in transportation and communications. At the same time, globalization generates asymmetric development accentuating differences between the center and the periphery.
- *The emergence of local issues confronting global trends*, a paradox due to a parallel evolution, in space and time, with the globalization of worldwide trends towards the devolution of power to regional or local governments, decentralization of administrative functions, and dispersal of activities.
- *The consolidation of regional integration processes*, among which the European Union, with the recent incorporation of ten new countries, the North American Free Trade Agreement (NAFTA), and the MERCOSUR are good examples.



- *Changes in the business environment*, via a reorganization of large corporations in favor of more flexible structures, the integration of the small and medium-sized enterprises into the global economy, the creation of competitive advantages based on knowledge, the new business location patterns, and the role played by new technologies in the dynamics of productive systems.

This shift in trends impacts all cities and particularly affects the spatial configuration of metropolitan areas. The most noteworthy implications are:

- *New patterns of urban and regional development* expressed in the re-emergence of cities as poles of regional development, the increase in interactions among cities and in territorial rivalries, the growing suburbanization process, and the concentration of technological innovation in the most advanced metropolises.
- *Emergence and consolidation of global cities*, such as New York, London, and Tokyo, which are propelled by the globalization of those economies that concentrate advanced international financing, enterprise control, and information production. Global cities do not require fixed factors of production (natural resources or infrastructures), rather those that make them attractive places for business (quality of life, the concentration of business decision-making centers, a highly skilled labor force, cosmopolitanism).
- *Dispersion versus spatial concentration of productive activities*, two current contradictory trends. On one hand, there is a growing dispersal of productive activities in the territory, which benefits innovative medium and small cities, while on the other hand there is a spatial centralization of management and global specialized services in a limited number of cities.
- *New organization for the system of cities*. The recent economic scheme is restructuring the system of cities, creating multiple urban networks; this fosters horizontal relations among enterprises and cities, making urban systems less hierarchical and more open. Advanced urban functions in specific metropolitan areas also reinforce hierarchical urban systems.

- *Physical and spatial reconfiguration of metropolitan areas demanding modern production systems and processes.* Big cities are shifting from traditional compact urban patterns into fragmented and diffused spatial structures.
- *Growing awareness of the need for a more sustainable development pattern.* Profound misalignments generated by the new economic order, in developed and developing countries, are stimulating a growing public interest in sustainable development; that is, a process that maximizes synergies between economic efficiency, social equity, and the environment, which minimizes negative externalities. Among other interventions, sustainable development proponents advocate the control of urban sprawl, charging fees for polluting activities to cover environmental costs, and preventing export of negative externalities to developing countries.

This brief analysis of the main economic trends and their spatial implications identifies fundamental challenges in contemporary metropolitan areas such as:

- *The growing complexity and integrality* of metropolitan problems.
- *The diversity* of stakeholders' interests in policy-making.
- *Uncertainty* regarding the future and the process of change.
- *The understanding* of the economic role played by cities.

The scope and dimension of these challenges call for a critical analysis of conventional wisdom and the introduction of innovative approaches and interventions. In addition, new methodologies are required to plan and manage the economic development.

## **Metropolitan Areas and Competitiveness**

The study of competitiveness in metropolitan areas requires a conceptual framework capable of structuring the analysis and providing explanations for their economic behavior; this is needed for the following reasons:

- *The diversity of urban contexts.* Metropolitan economies evolved over long periods in diverse physical, economic, social, and political

frameworks with varying impacts on the productive structure and its dynamics.

- *The complexity of metropolitan processes.* The majority of productive activities taking place in metropolitan areas are linked to complex external processes oriented towards satisfying demand, as well as internal factors originating from the metropolitan structure. Several layers of productive components that differ in their business structure and level of competitiveness add to this complexity.
- *Peculiarities of the Latin American context.* Latin American metropolises present unique physical, socioeconomic, and political features that set them apart from the metropolitan areas of the rest of the world.

Given all these characteristics, this chapter will develop four topics to explain competitiveness in Latin American metropolitan areas:

- Segmentation of metropolitan economies
- Exploration of the global/local duality in these economies
- Systematization of factors influencing competitiveness
- Characterization of Latin American metropolitan areas

The first three topics are discussed in the present section; the fourth is discussed in the next section.

## Segmentation of Metropolitan Economies from an Economic-Territorial Perspective: The Dynamics of Metropolitan Areas

It is common to observe a great disparity in starting points, objectives, methods, and results of the development process of different metropolitan areas. For instance, New York, Mexico City, and São Paulo are three metropolises located on the same continent; however, they are significantly different from an economic point of view. This complex and unbalanced metropolitan phenomenon generates unreliable comparisons based on aggregate data, which inevitably leads to inaccuracies in concept and interpretation. On one hand, a simple and operational segmentation scheme allows for differentiation of the main metropolitan

economic models, while on the other hand, it identifies the competitive factors in each model. Consequently, if the segmentation corresponds to reality, it is possible to draw recommendations for the design of policies and strategies to improve the competitiveness of each type.

To capture the richness and complexity of the main types of metropolises, this chapter presents a segmentation methodology based on Kräfte (1995) and Brenner (2003), along with the authors' experience. The segmentation methodology uses a matrix made up of two variables:

1. *Development level of the productive system.* The purpose of this variable is to assess development and advancement levels of the metropolitan economy. The main criteria that define its value are:
  - Presence of economies of agglomeration, measured as a function of the dimension and variety of the metropolitan productive structure.
  - Availability of advanced services (finance, business consultancy and technology, engineering, design, marketing, etc.).
  - Presence of cutting-edge technology companies (microelectronics, biotechnology, aeronautics, space, chemistry, etc.).
  - Presence of public and private research and development centers (R&D).
  - Explicit and continuous public support for economic development.
  - Highly skilled labor force.
  - Entrepreneurial orientation of local professionals.
  - Articulated and enterprise-oriented social structure.
  - Availability of competitive advantages in the metropolis to develop advanced productive activities.

For simplicity in valuing the level of development, four ranges are considered: very advanced, high, medium, and low.

2. *Spatial scale of economic influence.* This second variable helps determine the spatial scale, with a global, continental, and national range over which the metropolis exercises influence and economic control. This is measured using the following main criteria:

- International economic penetration according to its export capacity in international markets.
- Economic prestige of the metropolis in international markets.
- Geographical size of the commercial area of influence of the metropolis.
- Capacity to attract international visitors (vacation and cultural tourism and business).
- Degree of cosmopolitanism of the metropolis measured by the presence of resident foreigners, origin of visitors, languages spoken, air links to other countries, etc.

Based on these two variables, a segmentation matrix can be constructed differentiating the following groups:

- *Segment A: Global metropolis.* Large economies of agglomeration make cities such as New York, Tokyo, London, and Paris particularly attractive in the global markets for all kinds of advanced economic activities. They house cutting-edge technology enterprises and advanced research centers and have a highly skilled and specialized labor force and a large cradle of highly progressive professionals and entrepreneurs. In addition to being extremely cosmopolitan, they are global reference points for sectors and market niches, prominent international financial and event centers, and venues for artistic and cultural activities of world relevance.
- *Segment B: Emerging global metropolis.* Metropolises such as Singapore and Hong Kong with economies of agglomeration attract companies providing advanced services and are equipped with modern technology and small, specialized research centers. They depend on decisive public support to attract and develop strategic economic activities and have a concentrated labor force, in certain branches of knowledge, and a growing entrepreneurial culture. The social structure is widely emerging, although it is still fragile.
- *Segment C: Advanced continental metropolis.* Cities that attract significant industrial and service enterprises such as Milan, Madrid, Munich, and Chicago operate mainly on continental markets. These cities ex-

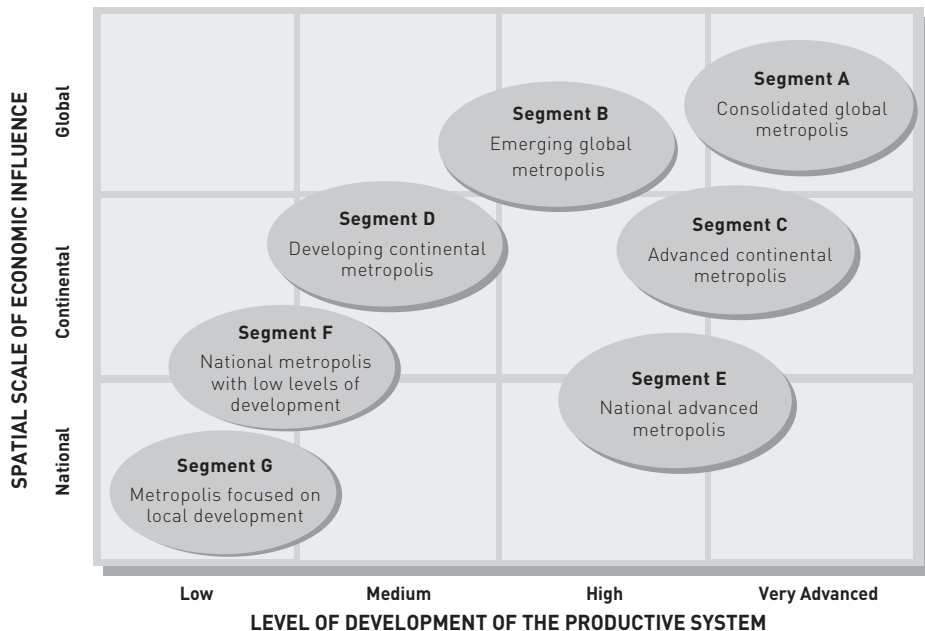
tend their cultural and economic influence on a continental scale and have a highly skilled and specialized labor force and advanced levels of entrepreneurship. The public sector and society actively support economic development.

- *Segment D: Developing continental metropolis.* Metropolitan areas with sufficient economies of agglomeration to attract industries and services such as Buenos Aires, São Paulo, and Mexico City operate on continental markets while providing basic services for national markets. Mostly, they lack technologically advanced industries and research centers of global or continental importance and have a labor force specializing in certain areas of knowledge. Their entrepreneurial culture is weak and public support for economic development is less committed than in the other segments. Their projection is reduced to continental markets.
- *Segment E: Advanced national metropolis.* Metropolises such as Lyon, Helsinki and Barcelona have sufficient economic and social resources to attract industries and advanced services that operate mainly on national markets. They have a solid human resource base and enjoy a dynamic entrepreneurial culture. Both the government and society are conscious of the need for and the benefits of economic development. Their external projection of economic importance is limited to a national scale, yet these cities are committed to expanding their influence to a continental level.
- *Segment F: National metropolis with low levels of development.* Certain cities, such as Lima, Caracas, and Bogotá, have insufficient levels of agglomeration economies to provide advanced service activities, but enough to attract basic services and traditional industries. They have a limited supply of skilled and specialized human resources and a weak entrepreneurial culture, mostly due to sociocultural factors. Public support for economic development is weak, as are organizations of the civil society. They have few global competitive advantages and their projection as economic centers is mainly confined to a national scale.
- *Segment G: Metropolis focused on local development.* Other cities, such as Tegucigalpa and Managua, are incapable of generating sufficient

economies of agglomeration to attract productive activities and their most qualified human resources migrate due to insufficient opportunities in the local markets. Public support for economic development is almost nonexistent and organizations of the civil society are weak. These cities lack adequate competitive advantages and their level of economic influence is limited to a subnational scale.

Logically, other typologies corresponding to intermediate situations exist; however, those presented above sufficiently represent the present international context. It is important to consider that metropolitan economies are not static, but evolve over time in processes that can lead to either growth or stagnation. There are several possible evolution paths of the metropolis within the segmentation matrix.

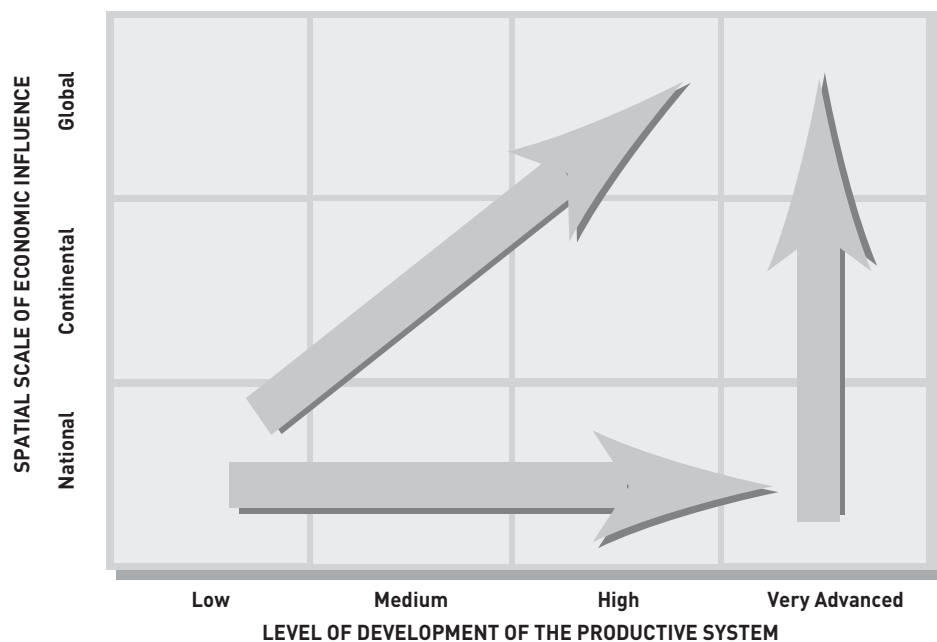
**Figure 2.1. Economic-Territorial Segmentation of Metropolitan Areas**



Among the possible alternative paths in the matrix it is worth noting the most reasonable. The first is a vertical movement for metropolises with advanced levels of economic development that expand their areas of influence, thus moving upwards. The second is a horizontal movement in the base of the matrix; this corresponds to a transformation of a metropolis of national significance, which requires the development of a productive structure to an advanced level. The third is a diagonal movement, in which a metropolis with a low development level and restricted area of influence makes progress simultaneously in both directions.

Three contemporary cities illustrate these movements. The vertical movement is exemplified by Amsterdam, an advanced metropolis of national significance that has experienced rapid economic progress in recent years, expanding its importance in the European urban system. In India, the case of Bangalore represents a horizontal movement; by developing one of the most competitive

**Figure 2.2. Dynamics of Metropolitan Areas**





technological poles of the Asian continent, this metropolis transformed itself from a little known city in the economic realm into an advanced national metropolis. The case of Shanghai exemplifies a diagonal movement in the matrix; in less than thirty years, the city shifted from a national metropolis with development problems to a city competing with Hong Kong and Singapore in the Asian-Pacific region. In sum, the matrix allows the identification of several segments in which important similarities and differences between cities are identified, clearly distinguishing the typologies.

## Global/Local Duality in Metropolitan Areas

The segmentation scheme presented still does not reveal the inner complexity of metropolitan economies. To increase the understanding of this complexity it is necessary to identify the different layers of economic structures that coexist in a metropolitan economy. In a metropolis, three basic levels of economic activity are clear:

- *The global productive structures*: large multinational corporations and innovative local enterprises, which usually belong to advanced sectors competing in global markets.
- *The formal local productive structures*: local enterprises in the traditional sector that compete at the national or regional level. These enterprises operate in the formal sector of the economy.
- *The informal local productive structures*: local microenterprises in the informal sector supplying local markets.

The three levels are not static, nor do they operate independently. On the contrary, if conditions permit, movements occur among the three levels; in other words, an enterprise may start operating in the informal sector and, given the right incentives, then move to the formal sector. Similarly, an enterprise focused on the local markets may, due to innovation and investment, move to supply international markets. From an economic policy point of view, it is better to promote such upward movements rather than to create fiscal and judicial barriers that prevent the formalization of informal enterprises and the development of small and medium-sized businesses.

### **Box 2.1 The Importance of Local Activity in the Economy of Metropolitan Areas**

The economic activities geared to local markets have a significant weight in the economic structure of the metropolitan areas of Latin America and the Caribbean. In broad numbers, and without reference to particular cases, it is safe to assert that up to 80% of the internal gross product of the metropolitan economies (total goods and services produced within their territories) caters to local markets, while only 20% is produced for outside markets, either within the countries or internationally. At first sight, this may be considered a symptom of lack of development and poor insertion in the global markets; however, this is actually a characteristic of all metropolitan areas worldwide.

The “export base theory,” applied to the urban context by Hoyt (1939) and later developed by North (1955) and Tiebout (1956), adopts a “Keynesian approach” when stating that exports from a metropolitan area are the engines that foster local and regional development. Exports to other cities or regions are the determinant factor of economic dynamisms through their multiplier effects over “residential” activities, particularly in the services and construction sector. In urban economics, this theory denotes the size and dynamism of the “export base” (goods and services produced for other cities or regions and the rest of the world) of a city as a key factor in its economic growth.

However, the demand for goods and services originating from a city’s population and local productive activities grows simultaneously with its economy and its demographic and physical size, thus production destined to the “local” market will expand as metropolitan income and investment grow. In many cases, this leads to a decrease in the relative importance of “export” sectors in the metropolis and a growing importance of the activities oriented to local markets.

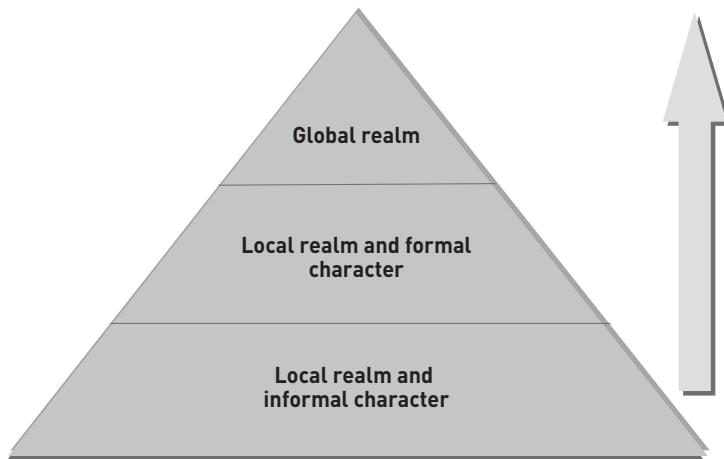
Metropolitan and regional economic growth depends on its “export” capacity that is linked to the expansion of its external markets.\* This growth, in turn, promotes local demand for goods and services. The demographic and income growth occurring in the metropolitan area (population, income, purchasing power, new collective needs, transportation, etc.) promote and sustain local consumption

and investment. The result is that the metropolitan area also supports much of its economic growth with economic activities oriented to local markets.

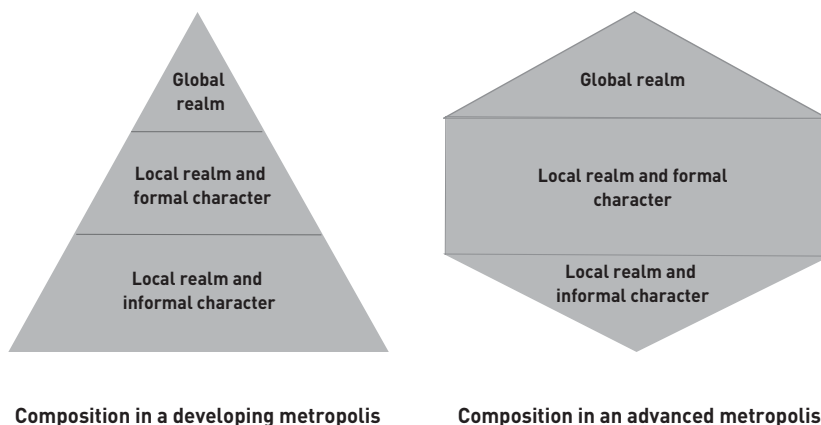
In consequence, in addressing competitiveness in metropolitan areas it is necessary to consider not only the economic links to the world but also its own “internal” dynamism, the demand streaming from its own growth, and the capacity of the metropolises to adequately respond to these demands.

\* Examples are regions or metropolitan areas where tourism is a dominant activity. External demand, determined by the number of visitors, is a basic engine of growth that is supported by local consumption and investment. This type of analysis allows comparisons among advanced and less developed metropolitan economies. In prosperous metropolises, the global and local formal realms will be more important than the informal realm; in metropolises of the third world, the informal realm of the economy is the predominant economic structure.

**Figure 2.3. Levels of Productive Structures in a Metropolis**



The duality of metropolitan economies, with enterprises that operate in the local and global realms and that belong to the formal and informal sectors, is an increasingly common feature. As de Mattos (2002) points out, within different spaces of a metropolitan system, it is common to find, even without

**Figure 2.4. Different Models of Productive Structures**

interacting, the most valued and the most degraded economic activities, as well as social groups that generate information and accumulate wealth in contrast with excluded and marginalized social groups. Interestingly, the three types of productive structures are present in all metropolitan economies, albeit with different intensities; acknowledging this complex reality leads to a differentiation of the strategies and policies pursued to promote competitiveness, while disregarding it may lead to an accentuation of social and economic fragmentation observable in many metropolitan areas.

## Competitive Factors

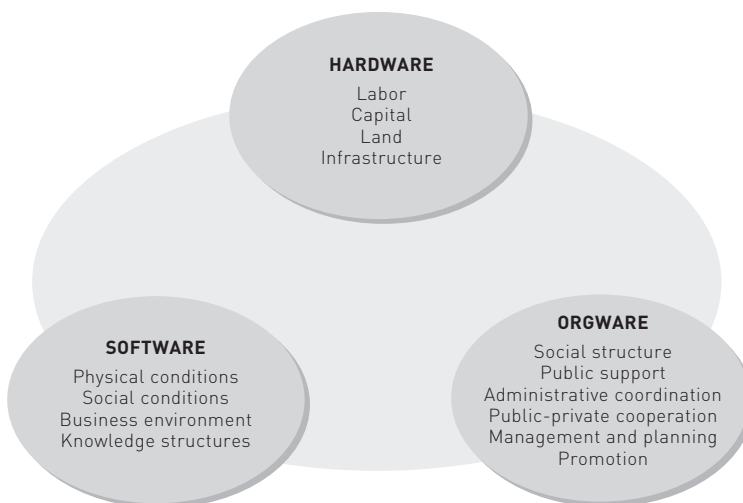
According to van den Berg, Braun, and van der Meer (1999), the factors determining the location of an enterprise in a given territory can be divided into three basic categories:

- *Hardware*: the concrete, “hard” factors affecting location, including labor, capital, land, and infrastructures.
- *Software*: includes the qualitative and intangible, “soft” factors affecting choice of location, the quality of life, the business environment, and knowledge structures.

- *Orgware*: concerns the management of the hardware and the software, including aspects such as public support, interagency coordination, and public-private cooperation.

Growing competition to attract investment and enterprises drives cities to use all their hardware and software potential; consequently, the orgware is turning into a vital factor, significantly influencing the location decisions of enterprises. In the opinion of this chapter's authors, the weight assigned to each factor in determining the location of an enterprise will vary based on the particular metropolitan area. Each economic type of metropolis will have a specific mix of competitively factors; without going into the details for each type in the preceding section, the competitiveness factors linked to the global and local realm are worth noting. It is not appropriate to discuss the "informal" local competitiveness factors since they are well discussed in the literature. Accordingly, Table 2.1 captures the differentiating nuances among factors of competitiveness in each realm of development.

**Figure 2.5. Systematization of Competitive Factors**



**Table 2.1. Competitiveness Requirements According to Development Realm**

Competitiveness Factor	Metropolitan Competitiveness Development at the Local Level	Metropolitan Competitiveness Development at the Global Level
<b>HARDWARE</b>		
<b>Labor</b> Availability, qualifications, productivity, labor costs, and mobility	Abundant, young, and well-trained labor. Managers with skills to operate in local/national markets. Medium to high productivity. Competitive labor costs. Labor mobility is not a critical factor.	Highly skilled labor force capable of operating new technologies. Managers with skills to operate in international markets. High productivity. Labor costs are not a critical factor. Labor mobility is important.
<b>Capital</b> Access to financing, fiscal framework, and public subsidies	Access to traditional financial services and products. Fiscal policies promote the creation of SMEs and new jobs. Public support to attract new enterprises.	Availability of risk capital and sophisticated financial products. Online links with the international financial networks. Fiscal policies promote research and development, and investment in new technologies. Direct public support to improve competitiveness and productivity.
<b>Land</b> Availability of land for productive activities, price, accessibility, and services	Urbanized land in traditional industrial subdivisions with basic services and equipment. Land price is a critical factor. Easy links with highways and railways.	Urbanized land in enterprise and technology parks with advanced equipment and services. Land price is not the determining location factor. Easy links with rapid, high capacity roads, ports, and airports.
<b>Infrastructure</b> Transportation, communications, basic infrastructure, and production facilities	Highways, conventional railways, and a national airport. Advanced telecommunication systems in industrial parks. Competitive pricing for energy and public utilities. Enterprise incubators.	Highways, high-speed trains, and an international airport. Advanced telecommunications system in the whole metropolitan area. High quality and reliable basic public services. Meeting and convention center, fairs and logistic facilities.
<b>SOFTWARE</b>		
<b>Physical facilities</b> Housing, community facilities, and the environment	Good supply of social housing with services and basic equipment. The quality of the environment is not a critical factor. City is valued for its functionality.	Wide variety of housing and community facilities. The quality of the environment is a critical factor. Qualitative factors, like urban design, are highly valued.
<b>Social conditions</b> Education, health, leisure, culture, and safety	Basic and professional education is important. Good sanitation. Leisure and culture are not critical factors. Acceptable levels of safety are a requirement.	University and post-graduate education is important. High levels of sanitation services. Diversified and sophisticated supply of leisure and cultural services. High levels of safety are a requirement.

**Table 2.1. Competitiveness Requirements According to Development Realm**

<b>Competitiveness Factor</b>	<b>Metropolitan Competitiveness Development at the Local Level</b>	<b>Metropolitan Competitiveness Development at the Global Level</b>
<b>Business environment</b> Entrepreneurial capacity, labor conflicts, labor markets, and local disposition to enterprises	Entrepreneurship spirit in traditional productive activities. Availability of trade unions. Collective bargaining traditions. Structured and rigid labor markets. Local awareness on the benefits of enterprise development.	Highly developed entrepreneurial spirit. Big corporations are located in the metropolitan area. Weak trade unions. Direct negotiation culture. Highly dynamic labor market. Strong support for enterprise development.
<b>Knowledge structure</b> Research and development centers, training facilities, technology hubs, and dissemination networks	Education centers specialized in traditional branches of knowledge. Publicly supported local enterprise development centers. Mostly local/sector-based knowledge dissemination networks.	Internationally renowned teaching and research centers. Widely available innovation and technology centers and enterprise incubators. Formal and informal centers and networks that disseminate knowledge on a global scale.
<b>ORGWARE</b>		
<b>Civil society</b> Social capital, cultural factors, and social behavior	Availability of social capital formation mechanisms. Secure transactions environment. Corruption and cronyism declining.	Promotion of social capital formation. Contracting subject to international legislation. Absence of corruption and cronyism.
<b>Public support</b> Modernization of the administration, bureaucratic agility, economic development agencies, and support instruments	Local administration attuned with the needs of local economic agents. Administrative decentralization. Local development agencies to promote endogenous employment generation. Traditional instruments to promote local development (subsidies, tax exceptions, land supply).	Highly efficient local administration in managing information and processing administrative procedures. Public-private organizations to promote economic development with an international outlook. Sophisticated support instruments (lobbying higher tiers of government). Advanced services.
<b>Administrative coordination</b> Involvement of the different public stakeholders	Coordination of local governments. Single window for SMEs.	Coordination of local, regional, national, and continental authorities. Availability of specialized agencies to guide and coordinate public action.
<b>Public-private cooperation</b>	Involvement of the private sector and their organizations in attracting foreign investment and job creation.	Involvement of private actors in financing productive infrastructure and decision making.
<b>Metropolitan planning and management</b>	Planning and management processes under public leadership, but with citizen involvement. Expedited urban development regulation procedures.	Effective involvement of economic agents in planning and managing the metropolis. Transparent urban development management procedures.
<b>Promotion of metropolitan development</b> Attraction of foreign investments, visitors, and image campaigns	Promotion activities managed by public agencies with limited involvement of private actors. Clear plan of action. Strong local image.	Support for economic development administered by private-public associations that develop strategic plans and networks, while assuming a clear leadership role and engaging political support. Clear, well-developed international image.

## The Metropolitan Phenomenon and Competitiveness in Latin America

### A Characterization of Latin American Metropolises

From a conceptual perspective, a metropolitan area can be conceived as a set of territories with common functional, socioeconomic, political, and historic characteristics. Metropolitan territories experience intense functional interdependences, externalities, and spillover effects, thus requiring cooperative planning of their development and provision of services. Along with these general characteristics, each Latin American metropolis has its own spatial and socioeconomic structure linked to its particular history. These characteristics can be synthesized as follows (Bors, 2003; Janoschka, 2002; de Mattos, 2002):

- “Macro-cephalic” urban systems: a phenomenon that is evident in the major metropolises of the region—Buenos Aires, São Paulo, and Mexico City—as well as in smaller agglomerations such as Montevideo.
- High spatial segregation and segmentation.
- Excessive reliance on private modes of transportation: a trend fueled by suburbanization and the deficiencies of public transportation.
- Dual economic structures: innovative and high-technology enterprises, fully integrated into global markets, coexist with a multiplicity of small and microenterprises, which have low levels of innovation and productivity and are disconnected from global markets.
- Dual labor markets: high incidence of informal employment, mostly in secondary and tertiary economic activities mobilizing a great volume of capital and labor.
- Expansion of the informal productive structure: a flow of capital resources from immigrant remittances.
- Suburbanization of the industrial production: marked by the location of new industries and logistic services in the periphery without losing their previous central locations. This form of suburbanization significantly increases the movement within the metropolitan area.



- Spatial dispersal of commercial, recreational, and university centers throughout the whole metropolitan area; originating a multiple-center spatial structure.

Notwithstanding the historic inertia apparent in the development of urban areas, the metropolises of Latin America are not immune to the effects of economic globalization. Before discussing this point, it is crucial to point out the factors that held back economic development and affected metropolitan areas in the last decade. The slow economic growth experienced by the region in the late 1990s and early 2000s originated from multiple causes that vary from country to country,<sup>1</sup> most significantly poor performance of public institutions that led to weak law enforcement and widespread corruption; the weak capacity to collect taxes, the lack of income distribution mechanisms, and the need to improve the regulatory framework for the markets. Furthermore, the following factors had some influence: economic policies to develop competitiveness based on low salaries, the abandonment of local markets in favor of the international projection of productive activities, and the overexploitation of the natural resource base.

In spite of the relevance of the negative factors discussed above, it would be unfair to ignore the efforts made by governments in their resolution. Several countries in the region (for example, Brazil, Chile, and Mexico) have policies in place with a positive influence concerning fiscal issues, monetary and budget stability, and the modernization of financial systems. In summary, with regards to the issues confronted by the region, it is precarious to make general statements given the diversity of the metropolitan development frameworks, as illustrated in the matrix above.

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<sup>1</sup> According to a study by the Inter-American Development Bank (2003a), the slow rate of economic growth experienced by the region is attributable to: low quality of public institutions; inadequate macroeconomic policies; insufficient financing; low quality of the physical infrastructure; low human capital; adverse international economic climate; overexploitation of the natural resource base; and deficient regional trade integration.

## The Latin American Metropolises in the Context of Globalization: Facts, Hypotheses, and Questions

Due to globalization and the consolidation of a new economic order, Latin American metropolises are undergoing profound transformations. Hence, it is worth analyzing how these agglomerations are affected and how they are responding to new economic realities.

First, it is important to acknowledge that in Latin America the metropolitan areas are the center of the new economy, the gates to the first world. From colonial times, the main urban centers have functioned as the connecting points between national economies and external markets. Today, this historic role continues and is reinforced by the current tendency of the economies to operate in the forms of global nets and nodes. The large urban areas are the preferred location for the regional branches of large multinational corporations and often for their manufacturing and distribution facilities. In large metropolitan areas, global corporations disseminate knowledge and technology to the local or national economic structure; likewise, metropolitan areas are the main actors in restructuring the economy, which leads to the liberalization and opening of the markets, the de-industrialization of the productive structure, the growth of tertiary activities, and the privatization of urban utilities. In the opinion of several authors (Artigas et al., 2002; Chion, 2002; de Mattos, 2002; Moura, 2002; Parnreiter, 2002) the most visible and violent effects of social and economic crises are found in metropolitan areas, emphasizing the vulnerability of the global city model. As stated by Prévôt Schapira (2002), crisis moderates the arguments that praise virtues of the big city, such as its capacity to adapt to the uncertainty of the increasingly volatile economy, as well as to dislodge itself from the national territory, in order to project itself in the global realm. The economic transformations sensibly affect the constitution and operation of the metropolises in three basic dimensions: institutional, social, and spatial.

From an *institutional* point of view, the new economic order, based on liberalization and deregulation policies, led to reforms of the state, which, historically, has taken on a centralizing role in the region. Accordingly, the decentralization of administrative functions has equally affected political discourse in almost all Latin American countries, although the degrees of reform consolida-

tion are still quite uneven; for instance, Colombia and Argentina have enthusiastically embraced decentralization, while in Mexico the federal government still retains the majority of the competences that could be delegated to local administrations (states, provinces or municipalities).

In *social* terms, the new economic policies led to a reshaping of the relationship between capital and labor, increases in poverty, and widened social inequalities in urban agglomerations. Specifically, the radical transformation of the labor markets in Latin American metropolises led to losses of industrial jobs, expansions of tertiary activities, and increases in the informal sector of the local economy. For example, in Buenos Aires, the economic transformations resulted in a considerable loss of industrial jobs; also the privatization of utilities led to the lay off of almost half of the employees. In other words, these new policies have caused dualization in Latin American labor markets, fragmentation of the socioeconomic system, and spatial segmentation of metropolitan economies.

From the *spatial* point of view, the process of globalization produced a series of changes in the metropolitan structure (de Mattos, 2002). First, it prompted the consolidation of an economic base, which was mainly composed of tertiary activities organized according to a nodes and network model. Second, the changes in the economic structure significantly impacted the metropolitan labor markets, leading to a dual city (cities with high incidence of informal employment, in addition to employment offered by the formal sector) characterized by residential segregation, crime, and social conflict. Third, the globalization of the financial markets caused speculation in the real estate markets, in which metropolises were considered favorable places for valorization and recycling of assets. Fourth, growing automobile usage and the dispersal of information and communication technologies widened the reach of metropolitan externalities, encouraging the formation of central productive systems connected to other centers in the immediate vicinity of each metropolitan area. Finally, as a new urban landscape emerged and the effects of globalization spread, modern urban artifacts were introduced, such as large commercial centers and landmark corporate headquarters office buildings.

Confronted with this array of major changes, it is worth analyzing whether this recent opening of economies is actually testing the metropolises' capac-

ity to adapt to new economic models. The economic transformations have been rapid, even in countries where social and institutional structures were poorly prepared and lacked sufficient resources to manage their impacts; thus it is reasonable to question whether it is a good move to open the economies before modernizing and reinforcing key public institutions. Presumably, policies geared towards improving the global competitiveness of the economies are taxing the traditional local economic structures heavily; thus it is questionable whether entering the global market without solid and competitive local economic structures makes sense.

These questions are of academic interest and pertinent for macroeconomic policy; they also linger over the municipal administrations of many metropolises in as much as municipalities are promoting economic development and are pressured to devote resources to attract and develop new enterprises capable of operating in the global economy. Often these municipal efforts lack clear objectives and viable strategies, making it difficult to assess the total price of integrating into the global economy.

Moura (2003) suggests that the municipalities are aware of their limitations to confront the region-wide challenges and thus seek alternative solutions to respond to the demands of their constituencies. Usually, the municipalities take over a mediating role between the objectives of local stakeholders and the demands of the global economy and focus on updating the technical and normative structures that impact location decisions of enterprises. They turn "location wars" into management tools, thus focusing on a limited set of objectives directly linked to the global challenge and relinquishing critical functions of territorial planning. It would be unfair to extend this criticism to all municipal administrations in the region; in practice, the concern to be present in the global markets is limited to municipalities in large agglomerations with strong local productive bases. One of the major weaknesses of Latin American cities is the absence of administrative structures to foster local economic development.

This brief review of the economic issues confronted by metropolitan areas of the region highlights the need to adopt appropriate types of planning processes, strategies, and governance models for these cities in confronting the challenges of competitiveness.

## **Metropolitan Competitiveness in Metropolitan Areas of Latin America: Critical Issues**

### Does the Metropolitan Phenomenon Make Sense from an Economic Point of View? (Economic Efficiency)

From an economic point of view, the first dilemma is whether large metropolitan areas are efficient productive platforms or, on the contrary, if they should be avoided entirely, due to their potential to generate negative externalities that surpass the agglomeration economies that they generate.

It is widely accepted that developed metropolitan areas generate positive economies of agglomeration. As Sassen (1991) pointed out, large metropolitan areas are strategic places for large multinational corporations as they provide a milieu that favors innovation, learning, and flexible responses to the unpredictability of the new economy. Following a similar argument, Vázquez Barquero (1999) states that more innovative urban regions can generate externalities that bring increasing returns, such as the diversification of their productive structures, the strengthening of the networks of stakeholders that facilitate the dissemination of knowledge, and the stimulation of innovation and learning processes in businesses. In sum, large urban areas can generate a vast array of synergetic effects, which cumulatively increase their overall size.

In addition, the negative externalities generated by big metropolitan areas are well documented in the literature. It is widely recognized that large urban agglomerations create significant external costs through environmental impacts, traffic congestion, speculative real estate price increases, and social marginalization, among others. These costs are the result of market failure, as the market is only capable of accounting for the private benefits and not the negative impacts on society. Such negative outcomes jeopardize the sustainability of the urban areas and the surrounding territory, threatening not only the current populations, but also future generations.

If it were possible to determine at what point negative externalities exceed positive externalities, it would be feasible to define the optimal size of a city,

or from an economic point of view, its efficient size. This task is difficult as the quantifications of these externalities are exceedingly complex, and even if such a figure could be estimated, the intangible factors in urban dynamics further complicate the analysis, such as the symbolic role of global cities that impacts their size outside of the economic realm. Carmagni (2003) argues that certain cities grow beyond their optimal functional size due to the interdependence among different city functions, as well as the cognitive processes indirectly linked to the collective costs of the city. Furthermore, decisions in sequence, and subject to imitations and trends, reinforce the growing agglomeration processes. Do economies of agglomeration only impact city residents or do they extend beyond city limits generating economic overflows? According to Cheshire and Gordon (1992), if the economy of an urban area grows and develops, the beneficiaries are not only the stakeholders directly involved in this development process; those that earn income in the area also benefit. Moreover, if the city has a large functional economic area, the benefits from the urban economic development are distributed among all those receiving income in the area of influence.

In sum, the metropolitan phenomenon has positive and negative impacts; notwithstanding the negative externalities and dangers of excessively concentrated growth in a few nodes of the global urban system, the inertia of the economic system continues sustaining this process of accumulation. Metropolitan areas of Latin America should develop the capacity to properly conduct this process, taking advantage of this model's positive impact on economic efficiency, while minimizing the social and environmental costs and their negative impacts on the quality of life.

## How to Improve Metropolitan Competitiveness (the Process)

Accepting the inexorability of the metropolitan phenomenon and the need to make adjustments and corrections to minimize its negative externalities, the next issue is how to improve the competitiveness of the metropolitan economy. Accordingly, it is necessary to identify an operational methodology to effectively address these three major challenges confronting Latin American metropolises: (i) growth, densification, and managing the increasing complexity; (ii) the creation

### Box 2.2. The Contrasts of Greater Buenos Aires

The Buenos Aires metropolitan region has 12 million inhabitants and produces 50% of the internal gross product of Argentina. The metropolis is made of two well-differentiated spaces: the central municipalities, mostly made up of middle-income residents, and the suburbia, where poverty and social problems are more predominant.

Buenos Aires, like other Latin American metropolises, serves as its country's door to the first world and the new economy. In the 1990s, Greater Buenos Aires underwent rapid transformations and spectacular changes marked by the growing importance of tertiary activities in the urban economy, the privatization of public utilities, and the emergence of new modes of consumption and recreation. The Argentinean capital city, together with São Paulo and Mexico City, reached "global city" status, meaning they offered the most advanced services to production, adopted and disseminated modern ideas and technologies, and offered the most sophisticated lifestyles. However, these transformations brought about serious social, economic, and spatial imbalances for the metropolitan area, creating an unprecedented urban crisis in the late 1990s; by 2002, over 48% of the households in the area were below the poverty line.

The process of de-industrialization in the country significantly affected the Greater Buenos Aires area, where industrial plants started closing in the 1980s. The loss of salaried employment was accompanied by a surge in informal employment, mostly in commerce and construction. The deterioration of the economic situation fostered social polarization and spatial fragmentation. The growing polarization of the income structure between the rich and the poor resulted from a shrinking middle class, the main casualty of the profound socioeconomic transformations within the country, while the spatial fragmentation was obvious through the weakening of the compact city structure and the popularity of suburban environments, where isolated gated communities predominate along the main regional highways.

In sum, the crisis of the late 1990s heavily impacted Greater Buenos Aires, uncovering the area's weakness in tackling the unpredictability of a volatile economy, and emphasizing the profound social fracture between the central city and the suburbs. Notwithstanding, government officials are still confident that the area can generate new economic opportunities and a more qualified labor force for emerging sectors.

*Source:* Prévôt Schapira, 2002

and augmentation of social capital; and (iii) coping with the changes and uncertainty about the future.

These challenges demand new planning instruments and procedures to improve the competitiveness of the productive structures of these metropolitan areas, such as: legal and economic frameworks to promote private sector involvement in the efficient provision of public services;<sup>2</sup> regulatory and direct interventions in the urban land markets to prevent speculative retention of land and increases in land prices, which impede the installation of new enterprises and make housing access in metropolitan areas difficult; improvements in the environmental conditions, which require establishing environmental evaluation procedures to support ex ante the decisions concerning the location of productive activities in the agglomeration; and finally, strategic planning as an operational framework to account for the complexity of the growth processes, the diversity of stakeholders, and the uncertainty about the future.

Among these complementary, although not mutually exclusive, options it is worth highlighting *strategic planning* as applied to cities and territories, given its capacity to handle problems, generate consensus among stakeholders, and support the decision-making process. Several authors report on the growing acceptance of this planning instrument first used in San Francisco in the 1980s, and more recently in Europe and Latin America (Fernández Güell, 1997; Berg et al., 1999; Vázquez Barquero, 1999; Camagni, 2003). Strategic planning can be defined as a systematic and creative process to establish the basis for long-term, integrated action, which leads to a vision of the future defined and shared by all social and economic metropolitan actors. This instrument relies on an intense collective involvement from the bottom up in order to create a pact between public administrations, economic and social agents, and citizens. Through cooperative strategies and projects that generate and support competitive advantages in the urban area, the vision is more transparent. In sum, a strategic plan is the action framework in which different agents take responsibility for executing the required procedures to materialize the vision.

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<sup>2</sup> In connection with the privatization of public services in Latin America, it is important to consider the failure of the Argentinean experience, the long and costly learning process in Chile, and the difficulties encountered by Brazil to define legal and institutional frameworks for effective public-private partnerships.



Strategic planning reinforces the social capital of a metropolis, provoking discussion and interaction that accomplish the following: create the possibility for an open expression of the values and other identity factors of the urban society, create opportunities for cooperation and the building up of mutual trust, define action procedures, and foster communication and involvement.<sup>3</sup> In other words, strategic planning, in essence, represents the creation of social capital through new forms of local governance, an important factor in improving the competitiveness of the productive structure of a city. The planning process generates ex-ante coordination among private and public decisions and requires setting up reliable agreements among agents involved in the development of the metropolitan area, thus providing a sense of comfort and trust among the agents and reducing the overall risk involved in executing large development projects.

In spite of the advantages of strategic planning, some authors disapprove of certain aspects of the methodology in Latin America. For instance, Moura (2003) criticizes the excessive focus on globalization in strategic planning, claiming that the negative economic impacts generated in the process are overlooked. Recognizing the capacity of strategic planning to facilitate the convergence of all social actors, the author criticizes the difficulties caused by the inequalities and social fragmentation that are exacerbated by globalization. Selectively choosing participants and restricting the definitions of the priorities in some of the strategic plans in the region may cause such complications, which in the end discourages the population from exercising their rights as citizens.

The Strategic Plan for the Rehabilitation of Metropolitan Bilbao is considered among the most successful international practices in this field; the metropolitan area of Bilbao is located on the northern coast of the Iberian Peninsula and has one million in population, half of which live in the central city. The heavy concentration in mature and declining economic sectors aggravated the impacts of the economic crisis of the 1960s and by the end of the 1980s Bilbao was facing serious economic, social, and environmental issues. The port lacked com-

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<sup>3</sup> Social capital can be defined as the set of norms and values that frame interpersonal interaction and the institutions they belong to; the networks of relationships among the different social agents; and the overall cohesion of a society. From an economic point of view, it includes the array of norms, practices, and relationships that facilitate change, innovation, and social development (Camagni, 2003).

petitiveness in the European context, losing business to more efficient ports like Rotterdam and Hamburg; furthermore the air and water in the area were heavily polluted. During this time, Bilbao relied on the “old economy,” yet wanted to transform itself to become a part of the “new economy.”

In order to revitalize the area, the municipality (Ayuntamiento), the provincial government (Diputación Provincial), the Basque government, and the biggest companies in the metropolitan area founded the Association Bilbao Metr poli 30. The association, which included 130 public and private members, elaborated and implemented the Strategic Plan for the Rehabilitation of Metropolitan Bilbao (1989–1992). After more than a decade, the positive results became visible to both the local population and visitors. The unemployment rate fell from 25% of the labor force in 1995 to 10% in 2003, while the number of hotels in the city of Bilbao increased from 28 in 1992 to 45 in 2002. Passenger movement in the Bilbao airport grew from 2 million to 2.8 million between 1997 and 2003, and various urban projects were successfully executed, such as the Guggenheim Museum, the Eskalduna Conference and Concert Center, the new airport terminal, the cleaning of the river (la R a), and the rehabilitation of the waterfront. From an economic point of view, it is worth emphasizing the transition that took place in the local economy from a reliance on heavy industries to advanced services capable of generating companies with strong international projections.

Latin America also has experience with strategic planning; beginning in the 1990s, several cities engaged in such planning, including large cities such as Rio de Janeiro, Santiago, Montevideo, and Bogot  and intermediate-sized cities such as Cartagena de Indias, Curitiba, and Rafaela.<sup>4</sup> Although there is no current rigorous and systematic evaluation of the Latin American experience with strategic planning, it is clear that the level of acceptance, implementation, and follow through of these plans varies significantly. As in Europe, public and private agents successfully implemented some plans, while others never progressed beyond mere exercises of political marketing. Regardless of its pitfalls,

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<sup>4</sup> Most of the cities engaging in strategic planning belong to the Centro Iberoamericano de Desarrollo Estrat gico Urbano (CIDEU) (Iberian-American Center for Urban Strategic Development), an organization created in 1993 under the sponsorship of the Municipality of Barcelona. Currently the CIDEU has 60 members from 19 countries in Latin America.

### Box 2.3. The Strategic Plan of Rio de Janeiro

In November of 1993, the mayor of Rio de Janeiro and the presidents of the Rio de Janeiro Chamber of Commerce and Industrial Federation signed an agreement to prepare and implement a strategic plan for the city. Previously, there had been no action in Brazil to undertake an innovative planning process based on the involvement of both private institutions and community organizations. The agreement created an alliance of enterprises and public agencies to finance and supervise the preparation of the plan; private funding was contemplated from the outset. A consortium of 40 private enterprises and public agencies was created on February 3, 1994. Technical work began in December of 1993 with the establishment of the organization structure and the public involvement process, followed by an analysis of the key issues confronted by the city. The diagnosis provided the basis for the formulation of a preferred model to be attained through the implementation of 7 strategic lines of action and 21 objectives, as well as the execution of 159 projects. The planning process was concluded on September 11, 1995 with the approval of the final plan document. Seven hundred sixty individuals, belonging to public and private organizations, participated in the preparation of the Strategic Plan of Rio de Janeiro, making an intellectual contribution to the consensual strategies for the future development of the city. This successful project prompted other Brazilian and Latin American cities to undertake similar plans during the late 1990s.

the strategic planning processes in Latin America helped promote economic competitiveness among social and economic actors.

## Which Types of Strategies Are Appropriate? (Actions)

Once a planning methodology is selected, the next step is to discuss the strategies to improve the competitiveness of economies of Latin American metropolitan areas. Recently, the most developed countries have implemented a vast array of

strategic actions to propel the economic development of the large metropolitan areas and to maintain their competitive advantages. Generically, these actions can be classified in four groups: actions geared to (i) reinforce the competitiveness of the metropolitan economic base; (ii) improve the metropolitan supply of services; (iii) attract demand for goods and services produced in the metropolis; and (iv) manage and coordinate the economic development process in metropolitan areas.

In addition to the strategies commonly used to improve the competitiveness of metropolitan areas, it is appropriate to make the following recommendations for Latin American cases:

- All strategies seeking to improve competitiveness must *coordinate the local and global economic development realms*. Ideally, the objective is to balance efforts to attract foreign investment and reinforce entrance into global markets with those that promote endogenous economic growth. This differentiation prompts governments to pursue economic development through different means but concurrent goals. Special efforts should be made to reinforce local economic competitiveness before formulating an ambitious development strategy for the global realm. Such actions are aimed at fully utilizing endogenous assets and capacity for economic development, including the resources available in the territory and the productive and entrepreneurial capabilities of the population.
- *Social and environmental issues* must be an integral part of the economic development strategy. The metropolis, through its administrators and citizens, must be aware of the environmental and social impacts of certain productive activities. In order to assess the desirability of allowing new firms to establish themselves in the metropolitan area, a cost-benefit analysis is required, which should include economic factors as well as social and environmental factors. This approach will assist in achieving sustainable metropolitan development; otherwise unilateral policies incapable of accounting for the overall complexity of the phenomenon will prevail.
- When considering large investments or massive urban projects in a metropolitan area, it is necessary to *consider their impacts on the whole*

*agglomeration*, including areas beyond the jurisdiction of the agency responsible for the project. A useful approach to measure competitiveness and gain consistency in analyzing the metropolitan phenomenon is that of the functional urban regions (FUR).

- *Foreign investment, at any cost, is not always convenient*; thus it is important to give priority to activities that generate knowledge over those devoted only to the assembling of modern manufactured products. The indiscriminate granting of tax breaks, subsidies, and other fiscal incentives to large enterprises may lead to an imbalanced fiscal

**Table 2.2 Specific Strategies and Interventions to Improve the Competitiveness of Metropolitan Economies**

Strategies	Interventions
Strengthen the competitive base of the metropolitan economy	<ul style="list-style-type: none"> <li>– Improve the competitiveness of the productive factors</li> <li>– Advance in markets, products, and processes</li> <li>– Disseminate technological innovations</li> <li>– Modernize and diversify the production base</li> <li>– Continuous human resources training</li> <li>– Create an integrated and articulated production structure through industrial and services clusters</li> <li>– Strengthen the export capacity</li> <li>– Promote cooperation among enterprises</li> </ul>
Improve the supply of metropolitan goods and services	<ul style="list-style-type: none"> <li>– Urbanize land for productive activities</li> <li>– Supply affordable industrial space</li> <li>– Provide technological infrastructure</li> <li>– Develop infrastructure for production (transportation, communications, water, energy, waste management)</li> <li>– Expand public support to economic development</li> <li>– Improve physical and social living conditions</li> </ul>
Attract demand for metropolitan goods and services	<ul style="list-style-type: none"> <li>– Prepare a marketing plan</li> <li>– Attract foreign investment</li> <li>– Attract multinational corporations to the area</li> <li>– Provide fiscal and economic incentives</li> <li>– Promote the development of small and medium-sized enterprises (SMEs) capable of supporting foreign investments</li> <li>– Attract visitors</li> <li>– Create and reinforce the good image of the metropolitan area</li> </ul>
Manage and coordinate economic development in the metropolitan area	<ul style="list-style-type: none"> <li>– Create local and regional development agencies, public societies, and enterprises to promote development</li> <li>– Set up participatory decision-making processes</li> <li>– Facilitate the activities of economic agents through administrative coordination</li> <li>– Implement projects through public-private partnerships</li> <li>– Simplify administrative procedures to expand the supply of urbanized land</li> <li>– Create strategic networks among economic activities and areas</li> </ul>

situation for the local government, negatively affecting the provision of infrastructures and social services. The commitment of public resources to promote private investment must be the result of a careful evaluation of the returns in jobs (direct and induced), fiscal revenues, and increases in productivity and technological sophistication of the local economy.

- It is imperative to *reduce transaction costs* to attract and retain productive activities. The administration of many Latin American metropolitan areas is plagued with corruption, insecurity for market transactions, and mistrust of the judiciary system, all hindering individual and corporate efforts to expand and improve production.
- The role and intensity of public support for metropolitan economic development must be clear to all actors involved. The issues confronted by metropolitan areas are significant, thus their solutions require the concerted effort of all levels of government, including local government; the central government; regional governments, such as states and provinces; and regional integration agencies. The central government's participation is crucial, given its role in the provision of infrastructures and services.
- It is necessary to reinforce the presence in the territory of the economic anchor activities, such as public agencies, universities, research centers, and industries that influence innovative enterprises' decisions to locate in the area. These economic activities create a competitive advantage for metropolitan areas.

## How Should the Metropolitan Economy be Managed? (Organization and Management)

The availability of an efficient and strategic planning process is not enough to enhance the competitiveness of the metropolitan economy; in addition, effective governance mechanisms for the metropolitan economy are needed, a condition underlying the solutions to many issues discussed in this chapter.

Initially, this requires coordination among the different administrations responsible for metropolitan affairs. As stated by Brenner (2003), the institutional

policy and regulation functions for metropolitan areas are frequently fragmented in multiple agencies and departments with relatively narrow jurisdictional limits. This situation is unable to cope with the dense urban and regional socioeconomic interdependences created by economic restructuring procedures that go beyond the jurisdictional reach of the existing institutions. This fragmentation of organizations that lack metropolitan reach exacerbates the conflicts between the

#### **Box 2.4. Industrialization Policy in Curitiba**

Curitiba, in the state of Paraná, is one of the fastest growing metropolitan areas in Brazil. From 1970 to 2000 its population grew from 870,000 to 2,725,000. Most of this growth was the result of aggressive industrialization programs focused on large automotive companies.

Within the metropolitan region, the municipality of Curitiba specializes in the provision of advanced services and complex, high value added activities. The periphery contains mainly manufacturing activities, the most significant being the industrial districts that make up the automotive pole of Paraná and the large commercial and services installations. The less dynamic municipalities of the region are excluded from the industrialization process and concentrate mostly marginal activities.

The policy to attract industries to Curitiba has two dimensions; on one hand, the large car manufactures such as Renault, Volkswagen/Audi and Chrysler, attracted by generous fiscal incentives, create employment for qualified labor, foster improvements to the infrastructure, and inject dynamism into the local economy. On the other hand, the new capital- and technology-intensive industrial centers generate few employment opportunities; they are also damaging to the environment and their induced investments are volatile. Furthermore, the fiscal incentives granted to these companies represent a heavy burden for the state budget. Through the Curitiba experience, it is clear that all possible metropolitan impacts should be evaluated before launching aggressive industrialization policies, thus prompting corrective measures that evenly distribute the positive impacts of the ensuing economic growth.

*Source: Moura, 2003*

interests of the cities and those of the transnational capitals. The global capital, as well as the growing population, continually pressure the public sector to supply productive infrastructures and services, such as housing, health, education, and social services; unfortunately, governments are unable to meet the resulting social costs of globalizing the metropolitan areas while maintaining this status, and end up as the main losers in this whirlwind of globally induced demands.

The lack of administrative coordination results from the structure of intergovernmental relationships prevailing in each country. In Latin America, the administrative system is highly centralized, with central governments holding key responsibilities and controlling important resources. In this region, progress in *administrative decentralization* increases the institutional and fiscal capacity of regional or local agencies to regulate urban growth and promote the development of metropolitan economies; however, the functional fragmentation and limited territorial jurisdiction of these agencies create serious difficulties in implementing ambitious economic development strategies. Therefore, organizations that combine political legitimacy with executive authority and planning capacity are crucial to maximize the implementation of key strategies.

Second, there is the issue of the territorial reach of the metropolitan phenomenon. The functional metropolitan area is a spatial, social, and economic unit that extends beyond the central city and vastly exercises its influence. When economic development strategies are put into place within a certain territory, the most frequent problem is the existence of fragmented interventions. It is common for municipalities within a metropolitan area to compete for the attention of enterprises and for public funds for infrastructure and services. This rivalry may deteriorate political and administrative relations, making it more difficult for metropolitan governance and joint action to mollify competing metropolises.

Third, issues emerge from the diversity of the economic base of the municipalities in a metropolitan area. As stated by Moura (2003), municipalities located in the central section of the Latin American metropolitan areas frequently specialize in providing advanced services and complex economic activities, while municipalities in the periphery offer mostly secondary activities. Additionally, some municipalities experience rapid population growth while lacking a sufficient productive base; thus they develop a high dependence on transfers from central or state governments to correct their fiscal imbalances.



Fourth, it is important to highlight the diversity of agents that intervene in the metropolitan economy with diverse and often conflicting interests. Public and private agencies commonly seek economic development, in the same physical space and time, but with divergent paths. Some try to promote or “sell” the metropolis, while others attempt to change physical or economic factors to attract foreign investment; still others attempt a profound transformation of the social, economic, and physical framework of the city. The legitimacy and usefulness of these objectives should not obscure the need for coordination of the different stakeholder activities, which is necessary to avoid duplication and contradictory interventions that confuse entrepreneurs and investors.

Finally, *investor confidence* is of paramount importance. Enterprises that engage in a strategic planning process to improve metropolitan competitiveness demand reliable plans, strategies, and projects directly linked to improving their territory’s conditions and fully supported by the local and central authorities. Under these conditions, the enterprises are able to cooperate with the administrations that support the strategic plan and become partners in its implementation.

Based on these five conditions, the importance of setting an adequate mechanism to govern the metropolitan economy is obvious; the challenge is to determine the best model for each case. The selection depends on many factors: the type of metropolitan area, the scale and reach of its productive structure, the receptivity of the stakeholders to the policies pursued by the administrations, the level of cosmopolitanism or parochialism of the stakeholders, the quality of the competitive situation of the metropolis, and the quality of local leadership [Cheshire and Gordon, 1992].

Based on these considerations, and from a theoretical point of view, three basic models of metropolitan governance can be identified.

### *The Public Centralized Model*

Fundamentally, this is a state-control model, commonly found in Asian countries, in which the public administration plays a dominant role in organizing and managing the economy of the metropolitan region. Its main advantage is the high level of efficacy attained in attracting foreign investment and promoting endog-

enous economic growth. Its greatest disadvantage is a rigid and resistant nature to participatory modes of planning which involve all the metropolitan economic and social agents.

Possibly, the most well-known case is the city-state of Singapore, which has just over 3 million inhabitants and a per capita income of approximately US\$40,000 per year. Singapore has an open, diversified, and entrepreneurial economy, with very strong industrial and service sectors and extensive international trade. The port is one of the world's most modern and handles the largest volume of goods, while Singapore's outstanding infrastructure and central location in the Asian-Pacific rim make it attractive for multinational corporations. Its competitive development strategy is based on three instruments: a network of public agencies, strong technological infrastructures, and advanced transportation and telecommunications infrastructures.

The first instrument is pertinent to this discussion of metropolitan governance. Five key public agencies promote the economic development of the metropolis (Singapore Economic Development Board, 2003):

1. The Economic Development Board (EDB). This agency is the leader in industrial planning and investment promotion, and assists investors in setting up operations in the city.
2. Jurong Town Corporation (JTC). This public real estate agency is devoted to the development and management of industrial and entrepreneurial parks, as well as research and development centers.
3. The National Science and Technology Board (NSTB). This agency develops scientific and technological capabilities in the key industrial sectors for Singapore.
4. The National Computer Board (NCB). The main purpose of this board is to transform Singapore into a center of information technology, and later disseminate these technologies among the enterprises.
5. The Trade Development Board (RDB). This agency develops international commerce and assists enterprises in starting business in Singapore.

These five economic development agencies have made cooperative efforts to rapidly satisfy the needs of new or expanding enterprises, while continu-

ally adapting their strategic programs to changing global trends through frequent review processes. Over the years, these agencies have promoted rapid, sustained economic growth, maintaining Singapore as a competitive and attractive location for production in the Asian-Pacific region.

Singapore uses a strictly public model of metropolitan economic governance, which is state run and oriented to satisfy the needs of the enterprises and foreign investors. This approach apparently works well in small territories with little natural resources, and with an authoritarian model of government and productive structure historically oriented to exportation. The Singapore model undoubtedly excels, although it is difficult to replicate in countries with strong and participatory traditions of governance.

### *The Fragmented/Sectored Public Model*

Similar to the previous model and common in EU countries, the fragmented/sectored public model relies on heavy public sector involvement to support the economic development of a city or region, yet differs in that the public agencies operate in a fragmented and sectored manner. This model requires coordinated efforts based on negotiated arrangements, and its main advantages are high operational flexibility and high levels of agency specialization.

The Madrid Region represents a paradigmatic case; this region is located in the capital of Spain and has experienced strong and sustained growth since the 1990s. Based on the 1978 Spanish Constitution and the Statute of the Madrid Region (Comunidad de Madrid), the regional administration assumed a variety of responsibilities to devise and implement policies that would promote development of industries, commerce, tourism, education, sanitation, infrastructures, and environmental management. This region comprises the following public agencies and productive infrastructures to sustain competitiveness.

1. The Madrid Development Institute (IMADE) (Instituto Madrileño de Desarrollo). This public entity is linked to the Economic Secretariat of the Community (Consejería Económica) and its main lines of action include information dissemination, entrepreneurial support, the promotion of technological innovations, new management approaches and good

practices, the provision of infrastructures and productive services, and international expansion.

2. ARPEGIO. This public agency is connected to the Public Works Secretariat (Consejería de Obras Públicas) and its primary responsibilities include land urbanization, implementation of required infrastructure and equipment, development and selling of industrial space and housing, and building and management of public works and services.
3. The Madrid Development Agency (Agencia de Desarrollo de Madrid). This autonomous organization is linked to the Economic Secretariat (Consejería Económica) and its purpose is to support the development of productive activities in the region, especially small and medium-sized enterprises (SMEs) that are capable of generating employment and innovative technology, and enhancing the overall competitiveness of the metropolis.
4. The Madrid Financial Agency (Agencia Financiera de Madrid). This organization is also connected to the Economic Secretariat and provides financing for SMEs to improve their competitiveness and market positioning. It is divided into two corporations: the Mutual Guarantee Society, Aval Madrid (Sociedad de Garantía Recíproca Aval Madrid) and Risk Capital Madrid (Capital Riesgo Madrid).
5. Productive Infrastructures. The Madrid Region owns several strategically planned industrial parks to cater to the enterprises, some in their initial stages of development: Tres Cantos Technological Park, the Alcalá de Henares Scientific-Technological Park, the Lagartes Scientific-Technological Park, the Transportation Center of Costalada, and the Madrid Dry Port.

The accountability for global competitiveness issues falls mainly on IMADE, the organization geared to facilitate the integration of Madrid enterprises into global markets and to promote the region as an ideal place for new businesses as well as foreign investment. ARPEGIO is responsible for helping foreign firms to settle in the region, providing land and industrial buildings, as well as customized services. Finally, the technological parks mentioned above cater to the needs of the more innovative enterprises, while transportation centers

provide them with modern logistic support. The responsibility to assist local enterprises in entering global markets falls on the other agencies, which support SMEs in Madrid. Local development agencies from the municipalities also support economic development.

Alas, this model still lacks mechanisms to coordinate the activities of the different agencies mentioned. In theory, the Regional Government of Madrid is responsible for the definition of the economic and territorial development strategies, as well as the coordination of all agencies. Although this government has the required competences, it lacks sufficient political support and direction to successfully coordinate the agencies, and is unable to administer an integrated territorial development strategy that encompasses the physical, economic, and social spheres.

### *The Public-Private Cooperation Model*

Public-private cooperation in economic development is appropriate when these sectors share clear, common goals and when it is possible to leverage private investment, inventiveness, and entrepreneurship with public resources. In this type of partnership, public and private resources may be used either jointly or through complementary divided responsibilities.

There are three main ways to promote metropolitan economic development through joint public-private action. The first method, common in the United States, is for business organizations, such as chambers of commerce or business foundations, to assume leadership roles in devising the economic development strategy for the metropolis. For example, the local chamber of commerce in San Francisco launched the San Francisco Strategic Plan (1983); the Miami Beacon Council, consisting of more than 400 local leaders, promoted the Strategic Plan of Dade County in Florida (1985); and the Detroit Renaissance Foundation, financed mainly by local automotive industries, administered the Detroit Strategic Plan (1987). The municipalities and federal agencies in these respective areas usually support these initiatives. Another key aspect of this approach is the active role played by the U.S. local chambers of commerce in attracting foreign investments to their territories; these private organizations devise strategies to attract investors, develop specialized commerce promotion

structures, and train technical teams to assist enterprises in starting business in their territories.

In the 1990s, a second approach, which involves subcontracting private companies in marketing and economic promotion in the public sector, advanced in the United States as part of a trend to reduce the number of public entities and privatize the provision of public services. Some organizations which emerged from this trend are Advantage Minnesota, the Arizona Economic Development Council, and Enterprise Florida.

The third approach, common in Europe, allows business organizations to be involved in the management of those public agencies devoted to promote economic development and productive infrastructures, both verbally and through voting. For instance, in Spain chambers of commerce and business associations are often involved in the boards of public enterprises dedicated to managing trade fairs, logistics service areas, and technological centers.

The main advantage of this model is the superior knowledge and experience the private sector has over the public sector in marketing, sales, and client services. Given their understanding of the factors that influence business location decisions, it is critical for business leaders to be involved in attracting new enterprises to their territories. The main disadvantage of this model is that the public sector loses directive control of the economic promotion policies; in other words, private interests may prevail over community interests, a worrisome trend.

Latin America has experimented with these three models. The centralized public model is present in the Quito Metropolitan District, which has, among its other competences, the capacity to promote competitiveness in the region (see Klink, chapter 3 in this volume). Specifically, this district executes investments to develop macro infrastructure and services for productive activities, such as their dry port, airport, industrial parks, telecommunication services, logistic parks, convention centers, and tourism infrastructure, and supports economic development activities and investments, such as export promotion, development of SMEs, and incentives for research and development. The fragmented/sector model is present in the recently established local development agencies in all countries of the region. The objectives of these agencies, modeled on their European counterparts, are the creation of new jobs in the local economy, support to

SMEs, dissemination of new technologies, labor training programs, and improvements in local productive infrastructure. The public-private cooperation model is less common in Latin America, although one example is Londrina, Brazil where the local chamber of commerce, along with the local government, universities, and enterprises, prepared the Strategic Plan for Industrial Development to expand existing industries and attract new investments and enterprises.

The main conclusions for metropolitan governance drawn from the performance of the three models are:

1. Public involvement in the promotion of metropolitan economic development facilitates the attainment of local economic objectives that benefit the community. Public agencies also promote their own objectives, whether electoral, fiscal, or bureaucratic, influencing the adoption of economic development strategies.
2. The models with strong participation of the public sector are not particularly more effective than the others; it is no easier to coordinate voluntary cooperation among public agencies than among private actors. Concerted action among public agencies is more feasible when few agencies are involved, or when one of them directs the process.
3. The more advanced the metropolitan economies, the more the development process depends on collective learning, the ability to manage conflict, and the capacity to devise open and flexible strategies.
4. According to Brenner (2003), the existence of metropolitan institutions is frequently justified as a basic condition for these areas to keep up with the competitive environment among global cities. Expansion of the regulations, in the spatial sphere, is considered an effective method in economic policy coordination, land use planning, infrastructure investment, policy innovation, interenterprise relations, local labor markets, and local export activities. However, this externally induced approach often contradicts bottom-up pressures that protect local autonomies, as well as the continual fragmentation of the state's jurisdiction.
5. Years ago, Cheshire and Gordon (1992) suggested that if the following characteristics existed within a metropolis, policies oriented to improve competitiveness could be successfully implemented:

### **Box 2.5. The Competitive Challenge in the ABC Region of São Paulo**

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The São Paulo metropolitan region is composed of the central municipality, with 11 million inhabitants, and 38 peripheral municipalities with an additional 6.8 million. Although there is no institutional framework for metropolitan governance, the area launched an interesting experiment in the mid-1990s.

The southeast portion of the agglomeration comprises the ABC Region, containing 7 municipalities with 2.4 million inhabitants. These municipalities have a common identity based on historic, political, and economic factors. A significant proportion of São Paulo's industrial plants are located in the ABC Region. Starting in the early 1990s, the region suffered a rapid loss of industries, resulting from the restructuring of the Brazilian economy based on economic liberalization policies and technological change; unemployment and poverty grew in the region and the quality of life deteriorated.

In the mid-1990s, regional leaders joined forces with the goal of mobilizing social and economic agents to counter negative trends affecting the area. In 1996, they created the Chamber of the ABC Region, a forum to discuss regional economic development issues involving enterprises, trade unions, organizations of the civil society, and the local government. The chamber established several thematic working groups with representation from all stakeholders. Each group elaborated proposals and presented them to other groups, hoping to reach a regional agreement on objectives and activities, identify the parties responsible for their execution, and estimate their economic costs. Since 1997, this process has led to the signing of more than 20 agreements on activities to promote the economic, social, and territorial development of the region. In 1999, the Chamber of the ABC Region created the Economic Development Agency to execute the agreements; this agency manages and disseminates information, promotes the region through marketing activities, and identifies and implements economic and social development projects. The ABC Region model is an incipient metropolitan governance model involving public and private agents, characterized by flexibility, pragmatism, and solid problem-solving orientation.



- a. A limited number of entities representing the urban region;
- b. A strong cultural and political identity;
- c. A strong and competitive economy;
- d. Local interest in formulating a strategic approach to economic development.

## How Are Economic Governance Models Put into Practice?

The final model adopted by the metropolitan governance in a given agglomeration will depend significantly on the type and peculiarities of the area under consideration. An adequate governance model is important, as are clear development objectives and the strategies needed to attain them. The following aspects of this topic are worth highlighting.

First, the typology of the metropolitan economic structure influences the selection of the governance model. Following the segmentation of the metropolises proposed earlier, the most relevant approach for improving competitiveness in Latin America is the one that suits those national metropolises lagging in economic development. The economic dynamism of these areas is greatly determined by the weight of the informal sector in the urban economy, which is usually high. Among the solutions suggested in Figure 2.2, the most adequate seems to be the horizontal trajectory (evolving from a low to an advanced level of development). Accordingly, improvements in metropolitan competitiveness require a governance model led by a public sector capable of implementing policies that integrate the maximum number of informal economic activities to the formal sector, before attempting more ambitious objectives of global market penetration.

Second, the most appropriate metropolitan governance approach varies between situations of extreme fragmentation of public management (as in Santiago, Chile or Buenos Aires) and those of integrated public management (as in Bogotá or Mexico City). In conditions of greater integration, a reasonable solution is the pursuit of a public centralized management model, which utilizes existing structures without jeopardizing the involvement of economic agents. In cases of significant fragmentation in public management, the metropolitan governance structure must begin with administrative and public-private coop-

eration formulas in which community involvement in making decisions is guaranteed; then, progress towards a more consolidated metropolitan structures is possible.

## Final Recommendations

It is not feasible to make general recommendations on how to promote competitiveness in Latin American metropolitan areas. As stated earlier, the metropolises of the region belong to different typologies, marked by their level of development and geographical area of influence, and contain a mixed array of economic productive structures. Confronted with this complex reality, it is preferable to set up a rational analysis process that allows the economic agents of a metropolitan area to conduct a diagnosis of the situation, formulate successful strategies, and set up a governance model according to the particular circumstances. A strategic plan, whose formulation is based on bottom-up participatory methodologies, is recommended, as this instrument guarantees an integrated and multisector approach to the metropolitan phenomenon. This process should have three phases:

- *Define the metropolitan economy profile.* A good diagnosis of the economy is needed to determine its type in the segmentation matrix. It is also important to determine the relative importance of the productive activities taking place in the metropolis (global, local-formal, local-informal).
- *Adopt politically viable development strategies.* Once the profile of the metropolitan economy is clearly defined, the strategies to improve its competitiveness and promote future growth are clarified. Strategies may vary, as stated in the section on the dynamics of metropolitan economies and the selected strategy must be acceptable to the political bodies that ultimately represent the citizens' interest.
- *Select a governance model suited to the local capacities of the metropolis.* As metropolitan areas differ from one another, so do governance methods; no homogeneous formulas exist. In selecting the appropriate governance model, the economic, administrative, sociocultural, and human resources capacities must be considered.

These recommendations are intended to prevent competitiveness policies from being singled out and considered useless. Often, it is perceived that ruthless competition among territories leads to significant public expenditures, without significant impact on local economic development. Fiscal wars, land grants, and widespread subsidies are often a zero-sum competition, which can negatively affect metropolitan development; in these cases, certain policies must be rejected. It is important to remember that territorial competition and competitiveness policies should make metropolitan areas better places to live, offering expanded economic and social opportunities for the citizens. If this is not the case, the general model should be redefined.

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## CHAPTER 3

# Recent Perspectives on Metropolitan Organization, Functions, and Governance

**Jeroen Klink**

## **Introduction: The Key Role of Metropolitan Governance in the Global Economy**

### Definition of City-Regions and Metropolitan Areas

It is difficult to clearly define metropolitan regions and areas, yet in the renewed attention of theoretical literature and the media, they are loosely referred to as metropolitan areas, metropolitan zones, *metropolis*, or even city-regions (Ribeiro, 2000; Klink, 2001). Although we will not enter into a deep analysis of the subtle differences between each of these concepts,<sup>1</sup> it is important to define the notion of metropolitan areas as discussed in this chapter, recognizing that the definition changes over time and that different concepts are utilized according to the geographical context and theoretical position.

A common denominator in analyzing the process of metropolization is the fact that central cities grow beyond their original limits and transform into complex systems based on social, economic, environmental, and political-administrative interdependencies that are part of the overall agglomeration. The challenge is deriving operational definitions of the metropolitan regions that emerge from this process.

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<sup>1</sup> For example, the differences between metropolitan zones, metropolitan areas, and metropolitan regions are examined in FARN, 1999.

The original concept *metropolis* refers to a principal center or *mother-city*. As argued by the United Nations (UN) in 1995, the concept proved rather ineffective, since it was frequently unclear whether its operation was to be based on demographic, administrative, physical, or other (territorial or functional) criteria. In addition, as was observed by Rodríguez and Oviedo (2001), a working definition of metropolitan areas or regions based on the central unit of attraction (implicit in the concept of metropolis) may underestimate their urban diversity. The so-called polycentric metropolitan regions are characterized by the existence of important subcenters.

The initial criterion used by the United States in the 1950s was clearly demographic in nature.<sup>2</sup> The Europeans have found it more difficult to operationalize the concept, considering the variations in administrative arrangements for the organization of metropolitan space, and the absence of official statistical metropolitan areas (as in the United States). In practice, as argued by Rodríguez and Oviedo (2001), a combination of demographic and socioeconomic elements was utilized to delineate European metropolitan areas.<sup>3</sup>

Definitions of metropolitan areas vary depending on the perspective or their particular use. For the purpose of this chapter, definitions on the basis of administrative or demographic variables are insufficient. Instead, we will argue that metropolitan areas are characterized by the complex nature of the social, economic, environmental, and political-administrative interdependencies that occur within their territories. Thus, in terms of Campbell (2002), the principal feature of metropolitan cities is the occurrence of intense interdependencies and externalities/spillovers among local territories, while these territories have a collective identity through their common functional socioeconomic, political, and historical characteristics. Considering this definition, it is clear that the size of the territory alone is not a determining factor.

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<sup>2</sup> The criterion was all contiguous areas having more than 50,000 inhabitants. Later, other variables were added, such as density, and the percentage of the nonagricultural and working population in the central city.

<sup>3</sup> The English criteria are based on interdependencies in the labor market and on commuting patterns, whereby municipalities with more than 75% of the working population living in their own territory are considered self-sufficient. If they fail to meet this threshold, they are considered part of neighboring municipalities (Rodríguez and Oviedo, 2001, p. 9). In addition, the European Commission has most recently formalized the *Regional Urban Functions*, based on a mix of demographic and economic (commuting) criteria.



The above definition implies that the issue of metropolitan management and *governance* is directly related to participatory, multi-stakeholder decision-making procedures over collective goods, and to the management of externalities and spillovers among local territories in the overall metropolitan area (Campbell, 2002). In line with the above definition, we will use sociopolitical/territorial and functional, as opposed to pure demographic or administrative, criteria in our analysis. In addition, the concept of metropolitan areas and city-regions will be used synonymously throughout the chapter.<sup>4</sup>

## The New Role of City-Regions and Metropolitan Areas in the Global Economy

It has become overwhelmingly clear that metropolitan areas and city-regions perform new roles in the international economy (Scott, 2001; Borja and Castells, 1997; Klink, 2001). For the purpose of our discussion, three elements should be highlighted.

The first element is related to the new territorial and competitive role of metropolitan areas and city-regions in the global economy. Local stakeholders, instead of passively depending on macro- and microeconomic forces set in motion by globalization, become increasingly aware of the potential competitive advantages of local territories, for example, based on the presence of a pool of qualified labor, positive technological externalities, and a network of specialized firms (Krugman, 1996; 1997).

As authors such as Scott (2001) have observed, this new role evolves in parallel with changes taking place in overall macro- and microeconomic frameworks in Europe and the United States since the 1970s, and Latin America since the mid-1980s. This economic restructuring has prompted city-regions and metropolitan areas to take on new challenges in the area of regional economic development and territorial competitiveness.

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<sup>4</sup> Therefore, we disagree with Allen Scott's definition (2001) of global city-regions as those metropolitan areas larger than one million in population, with intense functional and territorial interdependencies; this seems to be a rather arbitrary demographic threshold.

This new role for metropolitan areas did not emerge overnight. From the 1970s, national governments began to retreat from traditional Keynesian-style active macroeconomic management aimed at full employment and income generation (Martin and Sunley, 1997). These policies had become extremely difficult to implement and lost some effectiveness in the context of a deregulating international economy, which was characterized by massive flows of international financial capital. At the same time, the gradual tendency towards deregulation and trade liberalization had impacts on the behavior of firms, especially those operating in relatively protected domestic markets. Consequently, a series of microeconomic changes, aimed at managerial and technological modernization, were implemented by enterprises on a global scale, increasing overall levels of firm productivity, yet not always having a positive effect on industrial employment. In effect, in many metropolitan areas characterized by relatively obsolete industrial structures, the increase in productivity and shift from industrial towards tertiary employment resulted in severe net losses in formal jobs.

Most metropolitan areas generating significant national economic activity were severely affected by the impact of these restructuring processes. Within this troublesome scenario, more metropolitan areas and city-regions became aware of the potential to create bottom-up, multi-stakeholder initiatives to promote territorial competitiveness. The objective of such diverse experiences in metropolitan settings such as the Ruhr Valley, Rotterdam, Barcelona, and Milan was to create the right conditions for endogenous development, taking advantage of *the local assets available within the metropolitan region*, for example, in terms of networks between firms, pools of specialized labor, and positive technological externalities (OECD, 2001). These experiences, and others, were based on the perception that a productive mobilization of public and private actors and assets would allow metropolitan regions to make creative use of globalization, instead of becoming its passive victim, and to simultaneously improve urban productivity and the overall quality of living.

The Latin American scenario has not been isolated from this tendency towards creating new roles for metropolitan areas to promote regional competitiveness. Since the 1980s, national governments in the region have initiated policies to promote open trade regimes, deregulation, and privatization, while refraining from traditional technological and industrial policies that characterized the pre-

vious approach of import substitution and protection of domestic industries. The resulting macro- and microeconomic adjustments particularly affected metropolitan regions, such as São Paulo, Brazil, with a large concentration of relatively obsolete industrial establishments. The resulting high unemployment levels in the early 1990s mobilized a number of Brazilian cities and city-regions around the issue of employment and income generation, as well as urban competitiveness. Likewise, in Argentina the impact of restructuring in the Greater Rosario region and the reduction of trade barriers between the countries of the MERCOSUR region, have raised awareness among local stakeholders to potential risks of a more open, international scenario. The revitalization of the port and related logistical infrastructure will allow this city-region and the Argentinean Central Region to play a more aggressive role within MERCOSUR. This awareness has triggered a number of advanced negotiations in the creation of a metropolitan region and a Regional Development Agency (Rivas and Madoeira, 1999).

Second, in this new role, metropolitan areas have the potential to stimulate cooperation among increasingly autonomous local jurisdictions through local participatory processes. There is a great deal of literature relating decentralization with the deepening of local democratic processes via the mechanism of voice and accountability (e.g. OECD, 2001; GTZ & PGU, 1995). Consequently, decentralization would also increase the quality and the efficiency of service delivery (Bahl and Linn, 1992; World Bank, 1993; Musgrave and Musgrave 1995, O'Sullivan, 1993), and facilitate the involvement of a greater number of stakeholders, thereby increasing the quality of public policies. Along these lines, Borja and Castells (1997) claim that the nation-state has become too small and too large at the same time. On one hand, as mentioned above, its macroeconomic apparatus has lost effectiveness due to the size and volatility of massive flows of financial capital at a global level. On the other hand, considering the global transformation towards more democratic, diversified local communities, each claiming an increasing voice and accountability in decision-making processes, national levels cannot contend with local and metropolitan governments closer to these constituencies. In addition, considering the rise of the network society and the fast growth of international economic flows (Castells, 1989), local communities in metropolitan areas would also have more facilities to sidestep traditional national borders and to exchange experiences on a global scale.

Abrucio and Soares (2001) and Stren (2000) correctly observe that the process of decentralization is motivated by diverse circumstances (downloading of expenditures and responsibilities, more voice and accountability, creating fragmentation in order to maintain clientelist power relations). Still, there is widespread, intuitive evidence that certain relationships between decentralization, local democracy, accountability, and efficiency are valid, considering a global tendency towards wider responsibilities for directly elected general-purpose local governments. The Latin American context has indeed witnessed gradual progress towards decentralization, which has been well documented in previous studies (GTZ and PGU, 1995; Stren, 2000). In addition, an increasing number of Brazilian cities and city-regions are experimenting with innovative tools of direct democracy, such as participatory budgeting, city visioning, and strategic planning.<sup>5</sup>

In addition to the above-mentioned broad transformations in the roles of metropolitan areas, the culture of metropolitan and city management is changing rapidly. Some of these changes are relevant for our analysis, such as the evolution of metropolitan governance from the first generation of experiments in the 1960s to the experiences of the 1990s (OECD, 2001; Lefèvre, 1999). The synthesis of changes in the U.S. and European culture of metropolitan and urban management has been well elaborated by Harvey (1989) and Hall (1988) in their analyses of the evolution from urban managerialism to urban entrepreneurialism, including the three pertinent elements identified below.

First, relating to the tendency of global economic restructuring, the leadership in metropolitan areas incorporates new themes and changes established political priorities. While the management of urban services remains on the policy agenda, themes such as regional competitiveness, employment, and income generation gain significance, in light of the gradual retreat of national government from these areas.

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<sup>5</sup> The instrument of participatory budgeting has received increasing academic and policy-oriented attention from Europe, the United States, Canada, Australia, and the UN, in light of its potential to increase quality and transparency of policy making in cities and metropolitan regions, and to promote good governance. For example, the Institute for Housing and Urban Development Studies in the Netherlands has published the results of a comparative study on participatory budgeting in Santo André, São Paulo, and Santa Cruz, Bolivia. See Acioly et al., 2003.

Second, the international scenario is changing and the level of competition among territories is increasing, which forces city-regions to engage in innovative and area-wide strategies of urban and economic revitalization and competitiveness. Considering the volatility of the international scenario and pressure from local constituencies, a growing number of metropolitan areas are willing to adopt more flexible institutional arrangements and new responsibilities (such as local economic development, urban violence, etc.), even if these tasks are not directly formalized as statutory responsibilities.<sup>6</sup>

Third, there is a growing perception of the role of metropolitan management as an articulating and enabling instrument within a multi-stakeholder environment, as opposed to an implementing agency with a functionalist-technocratic methodology aimed at executing effective policies, frequently without much participation from public and private stakeholders (Helmsing, 2001). The concept of governance, the process through which a set of governmental and non-governmental actors (civil associations, public-private partnerships, labor unions, enterprises, etc.) collaborate in terms of collective goods and policy making, indicates a clear shift in paradigm.<sup>7</sup> In addition, the product of metropolitan planning shifts from the comprehensive and detailed master plans, often elaborated without much involvement of actors from the public and private sectors, towards operational, area-based strategic plans that are elaborated and discussed by a wide range of stakeholders from the local community. Through a proper structure, which traditionally transforms long-term visions of competitiveness and quality of living into concrete projects and activities, with definitions of actors, responsibilities, and resources, the strategic plans facilitate a continuity and a pragmatic link between planning and implementation.

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<sup>6</sup> There are clear examples of this tendency in the Latin American setting, particularly with strong local governments such as in Brazil, where the issue of urban violence is relevant. According to the Brazilian constitution, the theme is largely a responsibility of the states and federal government. Nevertheless, in light of growing concerns, a number of cities, especially in metropolitan areas, have set up institutional structures aimed at the prevention of urban violence.

<sup>7</sup> "The term governance is now widely employed to describe the multifaceted types of social and economic coordination at issue here. Concretely, many processes of governance today involve not just agencies of government, but also non-governmental organizations, community based organizations, private-public partnerships, and so on. The term can apply equally well to coordination of the complex economic and social environment of the global city-region as a whole as it can to collective action in regard to specific segments of urban life" (Scott, 2001). For a similar definition see Bourne (1999).

This shift in the culture of metropolitan governance became increasingly relevant for the Latin American context at the beginning of the 1990s, when a growing number of Brazilian and Argentine metropolitan regions took up new responsibilities without being, statutorily speaking, directly responsible for these thematic areas. They did this in a proactive, flexible manner, without shying away from some of the (financial) risks. In addition, leaders in metropolitan areas are also increasingly aware of their important role as articulators who are able to implement strategic projects through public-private partnerships. According to Cocco and Sperotto (2001), local and area-based Latin American metropolitan structures have the potential to become enablers within networked, territorialized management.

Notably, this change from managerial to entrepreneurial metropolitan governance might have broad implications for traditional economic views on the assignment of responsibilities among levels of government within the fiscal federalism system and on the metropolitan level in particular (Abrucio and Soares, 2001). According to the more traditional literature, central or federal levels should support macroeconomic stabilization and the generation and redistribution of income and employment (developmental functions), while subnational governments ought to provide urban and metropolitan services. As a matter of fact, while national governments retreat from some of its developmental functions, the subnational levels are increasingly taking on responsibilities for redistribution and income generation activities.<sup>8</sup> Recent evidence from the OECD region confirms this trend (OECD, 2001).

According to Abrucio and Soares (2001), we should abandon this rather static and dichotomized view on the interactions and intergovernmental relations within federal systems. These authors emphasize that the system of intergovernmental relations should be analyzed in terms of continuous and dynamic relations of conflict and cooperation among the actors, inserted within horizontal and vertical federated policy networks. The basic focus of these policy networks would be to move towards shared decision-making procedures that incorporate formal and informal checks and balances and other mechanisms for conflict

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<sup>8</sup> For a synthesis of this more traditional view, see Musgrave and Musgrave (1995) and Oates (1972).

negotiation. These networks could also counterbalance a tendency towards fragmented intergovernmental relations between local, metropolitan, state, and federal levels (Abrucio and Soares, 2001).

## Key Issues and a Methodological Framework for Analyzing Metropolitan Governance

*There is a mismatch between the needs to organize area-wide functions and the existing administrative and functional structures for metropolitan areas.* While the need for strategic planning in metropolitan areas has been increasingly recognized, it has also become clear that the majority of jurisdictions in these areas are not prepared to give up authority in the name of a regional interest. Therefore, many metropolitan areas are incapable of confronting the challenges associated with the new international and local scenarios, which require the implementation of new regional cooperation agreements. In other words, while metropolitan areas help create favorable environments for improved economic competitiveness and quality of living, and are necessary for the performance of area-wide services and mitigation of externalities, their current institutional, managerial, and financial frameworks are either nonexistent or incapable of dealing with current and future needs (OECD, 2001).

*Building good metropolitan governance is crucial.* The international experience shows that the political economy of changing institutional and financial structures for metropolitan management and planning is a key issue for good metropolitan governance. The synthesis of these accumulated experiences shows that the shift from area-wide technical structures to area-wide political structures requires the negotiation of conflicts that allow the diverse set of stakeholders to be included in institutional reforms (Lefèvre, 1999). Institutional reform proposals aimed at the implementation of metropolitan structures, discussed in the next section, will be unsuccessful if stakeholders are not sufficiently involved from the initial stages. The build up of horizontal and vertical policy networks imply *incremental bottom-up changes* as opposed to abrupt and top-down proposals. The guiding principle of this evolution, which will also be the methodological framework of this chapter, will be the search for better *metropolitan governance*, as opposed to the mere reinforcement of new structures or planning.

*There is no single model for metropolitan governance that can be globally replicated.* The format of metropolitan governance will depend on the particular political, economic, social, and historical background of each country and metropolitan setting (OECD, 2001). Nevertheless, a checklist and specific criteria to benchmark and compare experiences are useful and facilitate the elaboration of specific recommendations. The traditional economic literature is also helpful (Mishan, 1971) and a significant tool in evaluating the efficiency and equity of different frameworks. More recently, criteria related to the qualitative characteristics of the governance process, such as voice, have been added (Bahl and Linn, 1992).

*Efficiency, equity, and voice are essential for good metropolitan governance.* Recent studies by authors such as Bourne (1999) suggest how these traditional criteria apply to the analysis of frameworks for metropolitan governance. The issue of efficiency is related to the existence of economies of scale and spatial externalities. “Economies of scale” refers to the ability of metropolitan structures of governance to capture the economies of scale or scope in service delivery, which also facilitates project financing. The spatial externalities are associated with the capacity of these structures to contain or reduce the negative spill-over effects, or enable the creation of service delivery mechanisms that take advantage of their regional nature (e.g. pollution, transportation, solid waste, tax reductions, natural disasters etc.). The *equity* issue involves the capacity of the metropolitan structure to achieve a pooling and redistribution of costs and benefits of metropolitan development across local political boundaries, for example through tax sharing instruments. Finally, the aspect of *voice* can be translated as the flexibility, accessibility, and accountability of metropolitan decision-making mechanisms or, in other words, to what degree can these decision makers be accessed and held accountable by citizens and service users, and is the model of governance responsive to specific and localized variations in citizen demands? (Bourne, 1999.)

Some of these criteria are summarized in Table 3.1. While the first three criteria tend to favor, or at least stimulate, the configuration of more consolidated structures of metropolitan governance, the latter three criteria favor smaller and more fragmented formats.<sup>9</sup> Of course, the particular weights that are given

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<sup>9</sup> The signs in the table (whether the particular criteria favors fragmentation or consolidation), are by no means a consensus in the literature. In the next section, for example, according to the authors from the so-called public choice school, efficiency in metropolitan governance is stimulated by fragmentation.



**Table 3.1. Structures of Metropolitan Governance**

	Fragmentation	Consolidation
<b>Efficiency</b>		
Economies of Scale	–	+
Territorial Spillovers	–	+
<b>Equity</b>		
Redistribution	–	+
<b>Voice</b>		
Flexibility	+	–
Accessibility	+	–
Accountability	+	–

Source: Based on Bourne (1999)

to each of these criteria will be place-specific. The challenge is to find the right balance according to the specific characteristics and issues faced by particular metropolitan areas, and the policy weights attributed to each of the criteria by the diverse set of stakeholders (Bourne, 1999).

## Revisiting the Theoretical Debate on Metropolitan Governance: Some International Background

### Consolidation versus Fragmentation: Public Choice and the First Round of Debates on Metropolitan Management

There is extensive literature on the issue of the relative superiority of metropolitan fragmentation versus consolidation (Bourne, 1999; Lowery, 1999; Wikstrom, 1997). Through the 1960s in the United States, the intellectual debate, as well as the metropolitan policy stance, favored consolidation. This was also reflected in a series of monographs on metropolitan reform issued by the prestigious Committee for Economic Development in the 1960s. However, an evaluation of the period between 1947 and 1978 showed that of 63 attempts to create some form of consolidated metropolitan organization, only 18 proved to be successful, largely

in the smaller areas (Wikstrom, 1997). Discouraged by repeated failure, reform advocates shifted their attention to other policy issues; meanwhile, a group of authors, using the principles of public choice, began challenging the underlying premises of the consolidations perspective based on free-market principles (Ostrom, Tiebout and Warren, 1961). The most renowned contribution was given by Tiebout, who claimed that a fragmented governance structure would stimulate citizens to “vote with their feet,” forcing each jurisdiction under a continuous competitive pressure to offer an optimal mix of taxes and urban services to its present and potential constituency (Tiebout, 1956). From the 1970s onward, the public choice perspective gained dominance in the theoretical literature (Lowery, 1999; Wikstrom, 1997).

However, in the mid-1990s, the research agenda was opened again, challenging the superior efficiency of metropolitan fragmentation in relation to metropolitan consolidation, or the automatic association between fragmentation and efficiency in the public choice literature (Lowery, 1999). In addition, recent academic attention in the United States has put more cooperative, consolidationist perspectives back on the policy agenda, particularly under so-called New Regionalism (Keating, 1999; Katz, 2000). Wikstrom (1997) challenges the false dichotomy between consolidation and fragmentation and argues that there is surprisingly little knowledge on how incremental voluntary intergovernmental structures are set up in the United States, for example between local governments and counties, special purpose districts, and private sector agencies.<sup>10</sup> Wikstrom points out that a number of empirical research questions regarding the actual evolution of the governance structure of the U.S. metropolis have been left untouched by the public choice literature.<sup>11</sup>

What is at stake in the discussion? According to the public choice school, smaller and fragmented structures for metropolitan governance are more efficient because they stimulate competition between local territories, which will

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<sup>10</sup> This is also called functional regionalism. How do these arrangements work and what are their financial and political viabilities?

<sup>11</sup> What is the preference of specific pressure groups like business leaders, the white population in the suburbs, and black community leaders regarding consolidated structures of metropolitan governance? For example, recent research suggests that the opposition of black leaders and white suburbanites may be moderating (Wikstrom, 1997). In addition, there is a strong hypothesis that business leaders favor more consolidated structures considering the stimulus this gives to regional policies of economic competitiveness.

force local governments to offer the best mix of taxes and services and adjust this mix according to the preferences of communities and citizens in metropolitan areas. In addition, consolidated metropolitan structures would more likely lead to increased costs for large bureaucratic structures. Finally, consolidated structures offer less accessibility, accountability, and flexibility, with a tendency to increase the distance between policy makers and citizens, and they are unlikely to respond rapidly to variations in demand from local constituencies.

Advocates of more consolidated metropolitan structures argue that they are more efficient in light of the economies of scale and the reduction of territorial spillovers. In addition, metropolitan fragmentation would be intrinsically inequitable as low-income communities necessitate higher tax rates to finance equivalent service packages, putting these areas in an ex-ante disadvantageous position to attract capital and human resources. A fragmented structure would also imply large differentials in tax rates, urban development regulation, and building codes among jurisdictions caused by development and excess real estate capital to play one local government off against another. Conversely, the public choice school claims that the creation of consolidated metropolitan authorities is not imperative to obtain economies of scale and avoid territorial spillovers. These attributes can be obtained, for example, through informal service contracts, special purpose districts, and voluntary intermunicipal agreements among municipalities and private sector establishments.

In the next two sections, we briefly outline how the debate on fragmentation versus consolidation was reflected in the United States and Europe, and how the above-mentioned, renewed discussion on metropolitan governance of the 1990s was reflected in a second generation of proposals in these countries.

## Fragmentation and the U.S. Metropolis

According to Myron Orfield, a state legislator in Minnesota and advocate on issues of metropolitan governance, U.S. metropolitan cities can be characterized by their extreme levels of fragmentation, decentralization, and racial and spatial polarization.<sup>12</sup> The fast growth and replication of general-purpose local gov-

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<sup>12</sup> Cited by Cohen [1999].

ernments and territorially limited special purpose bodies have contributed to a highly fragmented institutional landscape.

In what he classifies as “the law of the land” in the United States, Richmond (2000) analyzes the specific historical, political, and institutional conditions under which a decentralized system of land development has stimulated sprawl on metropolitan areas. Richmond argues that a combination of flexible state and land use laws, federal housing finance and highway transportation subsidies, exclusionary zoning in suburban communities, and a deeply routed tradition of the home rule, have all contributed to this pattern. Today, metropolitan regions like New York are spread over 3 states, 31 counties, 800 municipalities, and more than 1,000 service districts (Yaro, 2000, p. 45). Even what Rusk (2000) has called *elastic cities*, that is, urban centers with a state-level legal framework which allows them certain facilities to annex suburban areas, have not been able to keep up with suburban growth. His data indicates that, despite more than tripling their territory, the 50 most *elastic* metropolitan inner cities have lost considerable population to the suburbs. Additionally, cities in the Midwest and Northeast saturated their possibilities of annexation with state government by the early 20th century, while in the South and West, considering the substantial legal and political costs associated with annexation, this option can largely be discarded.

There has been substantial theoretical debate on the relative costs and benefits of the sprawling nature of metropolitan development in the United States, and judging from recent discussions on *smart growth strategies*, the debate is not likely to end soon.<sup>13</sup> Many authors have emphasized the high service cost, the encroachment on scarce environmental resources, and the severe social, racial, and spatial segregation associated with sprawl, especially in the larger metropolitan areas of the Northeast and Midwest. The fragmentation of most metropolitan areas makes it more difficult to implement mechanisms aimed at intermunicipal or supramunicipal governance, especially if these areas have large discrepancies in race and income.

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<sup>13</sup> A recent contribution is seen in Katz (2000), and in many of the newsletters of the Lincoln Institute for Land Policy.

Finally, recent “new regionalist” literature emphasizes that intense interdependencies between inner cities and suburbs increasingly threaten the economic, social, and environmental viability of the metropolitan areas as a whole (Wheeler, 2002). Accordingly, the continued metropolitan polarization and racial and spatial segregation of inner cities have substantial negative spillovers in the suburbs. In this sense, traditional equity (redistribution) and efficiency (economic development) considerations can no longer be separated for the purpose of public policy formulation. For example, Pastor et al. (2000) point out, on one hand, the clear spatial and policy mismatch between some metropolitan area initiatives to reduce poverty and improve the quality of living and, on the other, initiatives of regional economic development. In the United States, the first set of policies are traditionally elaborated and implemented by the so-called community development corporations for inner cities, while the agenda of urban and regional competitiveness is most frequently handled by the regional development agencies and forums dominated by local governments and civic and business leaders. In their empirical research on more than 74 statistical metropolitan areas, the authors find that areas with more efficiently linked regional economic development (suburbs) and community development initiatives (inner city) generally perform better, in terms of competitiveness, equality, and poverty reduction. One successful example of linking efficiency and equity considerations is the tax sharing mechanism of St. Paul, Minneapolis, which avoided tax and bidding wars and a detrimental race to the bottom between municipalities. Another frequently mentioned case is that of Portland, Oregon, which successfully implemented inclusionary zoning and housing policies.

No consensus is apparent on the net costs of the relatively fragmented pattern of metropolitan development in the United States; however, Anas (1999) argues that part of the dispersion and decentralization problems of metropolitan land use patterns are not uniquely American.<sup>14</sup> In addition, the alternative of stopping sprawl altogether, frequently posed by the new regionalist approach,

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<sup>14</sup> According to authors such as Anas (1999), underlying dispersed growth in most metropolitan regions worldwide are general economic and technological factors. For example, an increase in real income generally raises the demand for space, which is easier to satisfy in the suburbs due to lower land prices. In addition, transportation technologies have reduced firms' dependency on inner cities.

has strong net side effects, such as higher land prices and tax burdens for low-income households.

Considering the above analysis, what is the nature of metropolitan governance in the United States? Predictably, few relatively autonomous, elected, and supramunicipal metropolitan planning organizations exist, although one exception is Portland, Oregon (Box 3.1). Instead, metropolitan institutions in the United States are characterized by numerous spatially limited networks of general purpose local governments, special purpose bodies, and sector institutional structures created at state and federal levels; the latter are often aimed at allocating finance for macro-infrastructure and highway transportation to metropolitan areas. Additionally, studies, such as one by Marc Weiss

### **Box 3.1. Portland, Oregon**

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A renowned exception to the rule of fragmentation is Portland, Oregon, a metropolitan service district created in 1977, currently with approximately 1.5 million inhabitants, covering 3 counties and 24 local governments, and consisting of a 12-member elected council and a chief executive. The Metropolitan Service District replaced an indirectly elected intermunicipal council, which had proven incapable of striking the correct and timely balance between local home rule and a strategic metropolitan-wide orientation. According to Rusk (2000), Metro Portland, the new name obtained in the home rule charter of 1992, has been able to control sprawl and stimulate the return of private capital to the inner city. Moreover, the Portland model stands for voice and accountability; citizens know that directly elected councilors and their chief executive are making the major land-use and infrastructure decisions. Consequently, according to Rusk, “land use and transportation decisions are the issues that dominate political campaigns for Metro’s elected offices. The result is that there is a much higher level of knowledgeable citizenship engagement in regional planning issues in the Portland area than in any other regional community in the United States” (Rusk, 2000). In addition to land use and transportation, the Metro provides solid waste disposal services, manages the zoo, and operates a regional tourism development program.

(2002), have documented that metropolitan regions increasingly elaborate policy networks of public and private actors aimed at territorial competitiveness. For example, the Gateway Cities partnership initiative in Los Angeles represents a limited set of cities within the metropolitan area that are strategically organized for economic competitiveness and improved quality of living (Hollingsworth, 2002).

What will be the profile of U.S. metropolitan institutional organization in the coming years? There is no agreement on this issue, yet Yaro (2000) argues that, on the basis of the case of New York and similar large metropolitan areas in the Northeast, the replication of bold, supramunicipal proposals for metropolitan governance, such as the case of Portland, is unlikely. Considering the underlying historical characteristic of spatial and racial segregation of these areas, it will also be difficult to establish intermunicipal agreements on issues such as tax sharing. Conversely, Rusk (2000) claims that the recent perspective of financial resources for large-scale highway infrastructure has the potential to leverage participation of stakeholders at the metropolitan level in favor of more consolidated, supramunicipal metropolitan planning organizations. In addition, the number of intergovernmental working arrangements that has increased since the 60s and 70s can be considered a starting point of negotiations for supramunicipal forms of metropolitan governance; after all, this was the experience of the Metro Portland model that evolved from a clear intermunicipal arrangement into an elected supramunicipal structure. According to Rusk, "In coming decades, directly elected metropolitan governments are likely to evolve in a growing number of regions. They will not be unitary governments. (Anchorage is the country's only such example covering an entire metropolitan area.) They will not replace the mosaic of local governments as primary providers of local services. Their powers will appear limited but will be vitally important, since they will effect regional land-use and transportation planning, affordable housing, fiscal disparities, and major regional infrastructure investments—the 'outside game.' Evolving metropolitan governments will deal with the issues that count for the wealth and health of regions and the future of their central cities" (Rusk, 2000, p. 104).

## The European Experiment: From Functional to Political Legitimacy

According to Lefèvre (1999), the first series of European experiments with metropolitan governance can be characterized by attempts to impose the functionalist ideal of a strong metropolitan government. The main elements of this stylized model were political legitimacy, preferably through directly elected councils or chief executives, autonomy, both in terms of the availability of financial and qualified human resources and in relation to other senior government spheres, and territorial reach. Ideally, the territorial reach of a metropolitan body should be broad enough to reduce negative and positive spillovers; in other words, metropolitan governments should ideally coincide with the functional region.

The English, French, and Italian examples, each in their own right, accurately illustrate the approach taken in the 1960s. The creation of *English metropolitan counties*, established for all major areas in 1972 (with the exception of London which already had a separate status<sup>15</sup>), represents one of the clearest attempts to introduce a pure model of good metropolitan government. In each of the major urban areas, the councils were directly elected and had specifically defined taxing powers. Nevertheless, their territorial reach was relatively limited and clashed with responsibilities of local authorities for land use and transportation. Actually, local governments (the districts) had opposed this introduction from the beginning and did everything to obstruct their operational functioning. In 1986, after 10 years of experimentation, the metropolitan counties were abolished by the central government.

The French experimented with the *communautés urbaines*, which were created in 1966 in four major cities (Bordeaux, Lille, Lyon, and Strasbourg). Although they had extensive formal responsibilities for a wide array of urban services (planning and basic sanitation, transportation, and housing), their territorial reach was insufficient and local government did everything it could to prevent them from becoming real political and area-based actors. In fact, these conflicts reflected the intrinsic characteristic of the French decentralization process that favored local government structures instead of area-wide metropolitan governance.

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<sup>15</sup> The Greater London Council, with an area-wide political structure of its own, had existed since 1963.



In the 1970s, the Italian regions made use of their recently acquired powers to regulate the internal organization of their territory to create intermediate structures, the *comprensori*, between the region and the local government, formally dependent on the regions. In some areas like Bologna, Torino, and Milan, they were designed as intermediate metropolitan areas.<sup>16</sup> Although initially their powers were confined to planning, the *comprensori* were nevertheless designed to be the first step towards building decentralized and de-concentrated meso structures. However, the *comprensori* never received sufficient support from the local governments and the traditional political parties, the latter fearing the erosion of their power base that facilitated the clientelist deals, which evidently depended on the status quo of fragmentation. In the mid-1980s, accelerated by the lack of continued backing from the central government, the *comprensori* were abandoned.

One of the main lessons drawn from the European experiments was that the failure to implement metropolitan governments on the basis of functional-technical justifications (economies of scale, efficiency, redistribution) created severe drawbacks, as senior governments imposed these models without discussion and input from main stakeholders. Combinations of communities, local governments, political parties, and pressure groups opposed the metropolitan model from the beginning, thus these metropolitan structures could be created and maintained only through pressure from central and state government (OECD, 2001; Lefèvre, 1999).

From the 1980s onward, several changes occurred in countries such as the Netherlands, France, Spain, Italy, and, most recently, England, where the decentralization process was intensified. Simultaneously, and also under the influence of the unification process of the European market, countries began transferring responsibilities to the supranational level (the European Union), thereby eroding their capacity and legitimacy from above. Also, the concept of urban and metropolitan management, mentioned in the introduction, gradually changed, giving an enabling role to government within territorialized networks composed of public and private actors. According to Lefèvre (1999), these changes implied that the result of metropolitan governance and institution building

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<sup>16</sup> In Turin, for example, the metro area comprised 200 municipalities, which could roughly be labeled as the functional metropolitan area.

was not predetermined, but rather became open-ended and dependent on the interaction among the actors involved in the process. Contrary to the previous phase of experimentation, the process of constructing metropolitan institutions may be lengthy but, as pointed out by Lefèvre (1999), the result is less uncertain because all actors produce the legitimacy of the institution during the process of constituting the metropolitan government.

This tendency towards the social construction of *metropolitan governance* (as opposed to the top-down formulation of metropolitan governments) may be illustrated by the evolution in some of the English, Italian, and French cases. Although the implementation process of the Greater London Area was quite fast, and its effectiveness remains to be evaluated, the procedures were characterized by a high degree of participation from the civil society and the private sector in London (Box 3.2). The Bologna case is also noteworthy. In light of the previous

### **Box 3.2. Private Sector Leadership in London**

In 1998, the White Paper on London, elaborated by the central government, concluded that the Greater London area (the city and its 32 boroughs) lacked “strategic direction and leadership,” which was reflected in unclear responsibilities and overlapping programs and policies. It was proposed to create a Greater London Authority (GLA), with a directly elected mayor and a separately elected general assembly. The GLA was given far-ranging responsibilities in areas of land use and transportation, strategic planning, environment, and economic development to give the capital “a voice abroad.” The White Paper received important contributions from the private sector, which had been involved in the discussion through its ad-hoc organizations like London First and the London Development Corporation. The private sector was expected to continue playing an important role in implementing the strategic agenda for the London area and has also been involved in the elaboration of “London 2020,” which contains the broad orientations for the metropolitan area that are to be implemented by the mayor. The proposals were discussed for six months, with intense participation from social, economic, financial, and cultural spheres of the London society, and were approved in a referendum in 1998.

Source: OECD (2001)

failure to construct a metropolitan model in a top-down manner, according to a prefixed calendar and without taking into consideration the opposition from local governments, pressure groups, and political parties, the government opted for an intermunicipal model based on informal and voluntary cooperation among municipalities and the provincial government (Box 3.3).

This new generation of European initiatives in the 1990s was also facilitated by a change in attitude of national governments regarding the role of metropolitan areas. In an analysis of the French case, Cole (2000) argues that the diminished role of the central state as a policy actor, the decentralization reforms of 1982–83, and the rise of alternative stakeholders outside of the traditional French bureaucracy (e.g. the private sector, civil society) caused fundamental changes in the metropolitan governance system. The principal results of these transformations have been an increasing number of local institutions and fragmentation, the development of networks and voluntary intermunicipal partner-

### **Box 3.3. The Gradual Construction of Metropolitan Governance in Bologna**

The *Accordo per la Città Metropolitana* (ACM), signed in 1994 by the 48 municipalities and the province of Bologna, aims to construct metropolitan governance on a voluntary basis through flexible intermunicipal cooperation. Each actor is free to withdraw from the process at any time and to participate in some or all of the activities of the institution according to its own preferences. The political structure of the ACM is formed by the metropolitan conference, composed of the mayors, and presided over by the president of the province. The ACM has a light administrative and technical structure, elaborating proposals for the economic-territorial, financial-administrative, and social issues of metropolitan management. The ACM has no autonomous decision-making powers because it is not a substitution for the provincial and municipal councils. Instead, the ACM operates as a political forum in which conflicts regarding urban and metropolitan issues are negotiated and solved in a flexible manner. The ongoing experience of the Bologna region serves as a model for other Italian metropolitan areas such as Rome, Turin, and Genoa.

Source: OECD (2001)

### Box 3.4. The Communauté Urbaine Marseilles Provence Métropole

In light of severe difficulties in developing area-based regional economic strategies and intermunicipal cooperation, the municipalities of Marseilles, Marignane, and Saint Victoret created the Communauté de Communes Marseilles Provence Métropole in December 1992. In 1993, 13 other cities joined this urban consortium of municipalities, followed by another four communes in 1998–99. The metropolitan region of Marseilles was a rare example in which a uniform business tax at a citywide level was effectively implemented.

In July 2000, one year after the promulgation of the new national legal framework on French regional policies (the Chevènement Law), the Communauté Urbaine of Marseilles, composed of 18 cities with almost a million people, was created. Its responsibilities include regional economic development, transportation, land use and housing, crime prevention, waste disposal, and environmental policies.

Source: Municipality of Marseilles Web site and Cole (2000)

ships to enhance local governance and, finally, an increase in new types of policy coordination, particularly through contractual (instead of purely administrative) relationships.

Although initially created by a ministerial decree in 1966, the earlier mentioned *communautés urbaines* have evolved into voluntary intermunicipal structures that provide basic services to smaller communities. At their most complex level, the urban communities have taken over most of the standard communal (municipal) functions in large cities such as Lyons, Lille, and Marseilles. (See Box 3.4.) The 1992 Joxe Law enhanced the power of urban communities by allowing them to levy a business tax on a city-wide basis, thereby facilitating the intermunicipal transfers from richer to poorer areas.<sup>17</sup> Finally, in 1999, the French national government implemented a regulatory framework for regional polices (the *Loi Chevènement*), specifying guidelines for all agglomerations between 50,000

<sup>17</sup> The fostering of voluntary intermunicipal cooperation among local governments is featured in the Jospin Program (1997). See Cole (2000).

and 500,000. The legislation permits an area-wide and multisectoral approach, giving more flexibility to allocate resources through block grants.

## Asian Evidence on Metropolitan Governance

The large metropolitan areas in India have frequently utilized the mechanism of *metropolitan development authorities* (MDAs) in order to avoid the negative consequences of geographical fragmentation. The Bombay Metropolitan Regional Development Authority, for example, is responsible for capital budgeting and metropolitan-wide investment planning and manages loans from the state and federal levels to local governments and municipal corporations. Likewise, the Madras Metropolitan Development Authority, established in 1974, has the principal responsibility to prepare and monitor the implementation of metropolitan-wide investment plans. The Calcutta Metropolitan Development Authority was set up to plan and supervise metropolitan development, although its executive functions were restricted to the investment stage of projects and services, leading to operation and maintenance problems at the municipal level. In general, evaluations of the experience of India's MDAs yield mixed results, but largely these MDAs are characterized by a significant lack of voice of local actors and the nomination of executive officials. They are managed at the federal and state levels through allocation of grants and loans. Typically, MDAs lack decision-making powers and an autonomous resource base, which prevents them from providing specific metropolitan services. In addition, as they have responsibility only for the investment phase of projects, a classic problem arises in which the planning agency prevents effective participation and development of technical, financial, and managerial capacity of the receiving (and operating) agency, mainly the municipalities and municipal corporations (Bahl and Linn, 1992; Singh and Steinberg, 1996).

The Metropolitan Manila Area in the Philippines is composed of ten cities and seven municipalities, with a total population of approximately 11 million, and concentrating about 60% of the manufacturing establishments and 45% of the nonagricultural labor force in the country. The Metropolitan Manila Development Authority (MMDA) was created in 1990 (succeeding the Metro Manila Authority) as a two-tier metropolitan structure maintaining the autonomy of the local

governments. The Metro Manila Council, the governing board and policy-making body of the MMDA, is headed by a chairman appointed by the country's president, and consists of the mayors of the ten cities and seven municipalities, as well as the president of the Metro Manila Vice Mayors League and the president of the Metro Manila Councilors League. The MMDA is responsible for services such as land use, housing and basic sanitation, development and investment planning, transportation and traffic management, solid waste disposal, flood control, disaster management, and environmental planning and control. Despite its merits, the MMDA has received several critical evaluations (Sosmeña, 2000), such as the need to transform the character of the MMDA from a national corporation into a locally embedded institution, augmenting its effectiveness and accountability. Along the same lines, there has been a long debate about the benefit of substituting an appointed executive with an elected metropolitan chairman (as exemplified in Bangkok). Finally, the municipal autonomy has often caused impasses in the relationship between the MMDA and the cities.

## **The Latin American Scenario: Missing Institutional and Managerial Frameworks for Metropolitan Governance**

### The Role of Latin-American Metropolitan Regions within a Context of Global Economic Restructuring

The rapid growth of Latin American metropolises during the 20th century has occurred within a rather specific political-institutional and socioeconomic setting, combining an authoritarian-centralized government style and relatively autarkic national development strategies based on rigid and protected regimes of import substitution. Industrialization and development strategies were implemented with strong central roles for national governments, with little or no participation from local actors. From the post World War II period onwards, the rapid Latin American rural-urban transition became increasingly visible and most of the region's cities developed intense social and environmental contradictions, as well as significant capabilities in terms of employment, income, and wealth generation.

Given the scarcity of human and financial resources available, the industrialization and development strategies were spatially concentrated into a few urban centers that rapidly evolved into metropolitan regions. In the beginning of the 1960s, particularly in light of the strategic economic importance of metropolitan centers and the severe environmental and social problems generated during their rapid and structurally unbalanced growth, several countries experimented with metropolitan governance, hoping to develop more cohesive functional and administrative structures. As we will see, these first experiments were largely unsuccessful due to the top-down nature of the initiatives. From the 1980s onwards, a new momentum developed in the debate on metropolitan governance in Latin America, although within a different socioeconomic and macro-institutional setting. Complementary to earlier mentioned processes of decentralization and democratization, stakeholders from the private sector, civil society, and the NGOs have claimed new roles within the policy agenda of Latin American cities and metropolitan regions and have become increasingly aware of the importance of metropolitan areas and city-regions in the global economy.

From the 1980s, resulting from the spatial and economic concentration of growth in certain urban centers during the import substitution period of economic policy, metropolitan areas were more dramatically affected by the change in trade regimes and national development models. Consequently, the new and democratically elected leadership in the Latin American metropolis is now held accountable for the solution of several critical challenges, such as unemployment, reducing income levels, deteriorating quality of living, and environment and social polarization (Stren, 2000).

However, the Latin American metropolitan areas lack the efficient managerial, financial, and institutional structures to take on the challenges of building competitive and livable metropolitan regions. The few formal structures for metropolitan governance in place have been implemented with little involvement of local stakeholders during centralized and authoritarian regimes, and can hardly be considered mature institutional frameworks. Furthermore, even though significant progress has been made towards democratization, some countries show democratic gaps in local and metropolitan governance systems.

In the sections that follow, we will evaluate variations on this underlying theme of the relative absence of metropolitan governance systems in rapidly

changing frameworks of social and economic restructuring. We will discuss the cases of São Paulo, Buenos Aires, and Santiago and conclude with some suggestions for a new agenda on metropolitan governance in Latin America for the coming decade.

## Imperfect Institutional Frameworks: The Experience of Brazilian Metropolitan Areas

The first Brazilian initiatives aimed at setting up a framework for metropolitan government were undertaken in the 1960s. In 1963, professional organizations, such as the Institute of Architects, organized a seminar around the issue, while several states launched incipient experiments with metropolitan governance (de Azevedo and dos Mares, 2000; Abrucio and Soares, 2001). In 1967, during the military regime, the metropolitan issue was incorporated in the Federal Constitution and maintained until the 1989 amendment. In 1973 the metropolitan regions were formally recognized through a federal law.

The framework was established in a highly centralized and authoritarian manner, with little or no scope for involvement of local actors. Eventually, because metropolitan councils were dominated by state representatives nominated at a federal level and lacked variation to incorporate the spatial differences between states, experiments with metropolitan governance at the state level were brusquely interrupted. The metropolitan regions of São Paulo, Belo Horizonte, Porto Alegre, Recife, Salvador, Curitiba, Belém, and Fortaleza were established based on broad criteria such as demography, territorial extension beyond the central municipality, social and economic interdependencies, and complexity of area functions. Nevertheless, the federal government, through its technocratic planning agencies and development banks, mobilized a significant flow of resources to metropolitan regions, especially for the housing and urban development sectors.

In the 1980s there was a gradual demise of this political context due to an increased pressure on the national development model, which was based on protected markets, import substitution, and authoritarian decision-making processes, and this led to severe macroeconomic stagnation with disappointing growth figures. As a result, the federal government faced mounting fiscal stress



and a reduced capacity to adequately finance urban development in metropolitan regions. Also, under accelerated impulses of re-democratization and decentralization after 1985, local governments and social movements scrutinized the limiting and inefficient nature of the top-down model of metropolitan planning and management. These new stakeholders had a fundamental role in setting the agenda for the constitutional assembly in 1988.

The constitution of 1989 prompted two important organization changes in metropolitan regions, a retreat of federal government from this thematic area and a delegation to design the format of metropolitan regions to state-level legislature. However, as exemplified in a study of various state constitutions by de Azevedo and dos Mares (2002), advancement in terms of metropolitan governance legislation has been quite modest. While many important states ignore the subject, others simply repeat the same clauses of the Federal Constitution.<sup>18</sup>

There are reasons for the limited progress made by the Brazilian constitution in metropolitan governance. The concepts of functional rationality, economies of scale, and the reduction of territorial spillovers were introduced in a top-down manner during the military regime, which later complicated their reintroduction in the context of the constitutional assembly. Consequently, the issue of re-democratization and autonomous local government dominated the policy agenda. Meanwhile, social movements and local governments began to successfully reinforce the alternative agenda of autonomous local government with ample responsibilities and funding, forcing the issue of metropolitan governance into the background.

As described by de Azevedo and dos Mares (2000) and Abrucio and Soares (2001), these transitions have resulted in a federal system of relatively independent and fragmented local governments, with few built-in mechanisms for intermunicipal and intergovernmental cooperation. Contrary to the more cooperative German and Australian federal models, the compartmentalized and competitive nature of the Brazilian federation impedes the development of mechanisms for shared decision making and checks and balances between different government spheres, while facilitating competitive bidding wars among

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<sup>18</sup> For example, important states of Acre, Roraima, Tocantins, Rio Grande do Norte, Matto Grosso, and Matto Grosso do Sul do not mention the issue of metropolitan government in their constitutions.

local and state governments.<sup>19</sup> This fragmented nature of intergovernmental relations impairs the social construction of horizontal and vertical policy networks aimed at metropolitan governance (Abrucio and Soares, 2001). The rapid expansion of the Brazilian economy, coupled with the absence of compensating technological, industrial, and regional federal policies, seems to have accelerated this latent competitive behavior among Brazilian local governments.<sup>20</sup> These elements have provoked what Klink (2001) labels the dominance of centrifugal forces of globalization over individual metropolitan areas.

## The São Paulo Metropolitan Area

The metropolitan region of São Paulo, composed of the city of São Paulo and 38 surrounding municipalities, with approximately 17.8 million inhabitants (IBGE census data, 2000), also demonstrates a relative absence of a mature institutional framework of metropolitan governance. São Paulo's constitution, although regulating the main parameters of its three metropolitan regions, has shown surprisingly little advancement towards an effective system, with voice, for its main stakeholders. The institutional arrangement left the technocratic structure of the military regime mostly intact and institutions such as EMPLASA, established in the 1970s, still exist. Its formal functions are metropolitan-wide development and land use planning, but it has never really played a role beyond the provision of advisory services and information to local and state governments. The hollowing out of this outdated structure of governance was accelerated by the retreat of the federal government from metropolitan issues, which resulted in a dramatic reduction of policy attention and financial resources. However, other notable institutional experiments are underway, some of which represent valuable lessons for broader discussions and practices of metropolitan governance in the region. For example, the tripartite watershed committees, based on the French experience, are composed of an equal number of representatives from the state

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<sup>19</sup> Another example, the Australian model, is operated through a series of intergovernmental thematic groups (e.g. in the fiscal and financial area) where all the spheres of government are present. Conflicts and consensus are established, whereby each sphere of government gets into a so-called "joint decision trap."

<sup>20</sup> In the terminology of Fiori (1995), the Plano Real and the competitive nature of Brazilian intergovernmental relations have stimulated a "federalism of merchants" (*federalismo de mercadores*).

and local governments and the civil society, and are responsible for environmental planning and watershed management. Although these experiments are innovative compared to older models due to the presence of voice, there is still uncertainty that these committees can overcome structural deficiencies; they typically lack autonomy in decision-making capability, particularly in relation to the state level, and lack a predictable and stable flow of financial resources (Rolniqué and Somekh, 2002).

Another Brazilian example is the incipient system of interinstitutional cooperation, the ABC Region, created by a subset of cities in the metropolitan region in the 1990s and consisting of seven cities with 2.4 million total inhabitants in the southeastern part of the metropolitan region of São Paulo. These cities have common identities based on historic, political, and economic elements, and in the 1970s played an important role in the re-democratization of the country, producing several important political leaders. As documented by Klink (2001), the region concentrated the bulk of industrial investment during the era of Brazilian import substitution, to include car manufacturing, petrochemicals, plastics and metallurgy, and, until the 1970s, could be considered as Brazil's industrial heartland. However, from the 1990s onwards, the combination of trade liberalization and deregulation, without compensating industrial and technological policies, affected the obsolete industrial structures implemented earlier under a regime of protected markets. Although some of the larger establishments began to make a series of managerial and technological investments, the networks of small and medium-sized firms were not able to benefit from this process. The result was a dramatic increase in unemployment and poverty, and a deteriorated quality of living, while the local government's capacity to react with proactive policies was gradually reduced through its shrinking budgets (Klink, 2001). The leadership in the region recognized the serious impact of economic restructuring, as well as the incapacity of the institutional structures to face the enormous challenges of the city-region. In the early 1990s, a productive mobilization began in which the region started to emphasize its own economic, political, and cultural identity (Box 3.5).

The above-described arrangements, within a network of public-private partners, can be considered as an incipient system of regional governance (Klink, 2001; Cocco and Sperotto, 2001), made up of flexible horizontal and vertical policy

**Box 3.5. Regional Governance in the ABC Region, São Paulo**

As important leaders became aware of the dramatic impact of economic and social restructuring on the region, they reacted with a series of initiatives aimed at interinstitutional cooperation in the 1990s. In December 1990, in the public sector, this led to the creation of the Intermunicipal Consortium of the Greater ABC Region which focused on the coordination of municipal policies with considerable spillover effects. This process experienced a severe crisis from 1993–1996, as the mayors failed to treat the regional agenda as a top priority. In the meantime the local community rediscovered its regional identity and created several initiatives, such as the Forum on Issues of Citizenship, which consisted of more than 100 NGOs from the civil society and emphasized regional issues.

In 1996, the state government of São Paulo, through its secretary for Science and Technology, launched a proposal for a Chamber for the ABC Region, aimed at opening up the discussion of regional development issues between local community, enterprises, labor unions, and local and state governments. The proposal was approved in March 1997.

Discussion began immediately, with representation from each of the above-mentioned stakeholders, which resulted in proposals for the elaboration of regional agreements, delegating responsible actors, objectives, activities, and financial resources. Since 1997, more than 20 agreements in the fields of economic, social, and territorial development have been signed, including one on the creation of the Regional Development Agency (RDA). This agency was created in October 1998 with an explicit legal basis and a board of directors from the private sector (associations of enterprises, labor unions, SEBRAE, with 51% participation) and the intermunicipal consortium (with 49% participation). The main mission of the RDA is to stimulate and articulate a participatory strategy aimed at the economic recovery of the region.

*Source:* Klink (2001)

networks, pragmatically oriented towards problem solving. This system, instead of aiming at top-down exogenous investment projects, has operated on the basis of small pilot experiences that incrementally developed trust among its main actors. While in the initial years planning was predominantly focused on the reduction of negative externalities (solid waste, water pollution, etc.) or economic crisis management, more ambitious perspectives in terms of the pooling of local and regional public goods have developed in recent years. In the economic arena, for example, the RDA is expected to perform an enabling role in supplying a set of real and financial services in order to benefit the network of small and medium-sized enterprises.

Despite its achievements, this arrangement faces numerous intraregional and supraregional constraints that will limit its success (Klink, 2001). The internal challenges are related to the structural weaknesses in the regional economic system (Scott, 1999). Theoretically, the economy's niche should be moving to what authors like Storper and Salais (1997) have defined as a dynamic learning economy, characterized by an intense interaction between small and large firms in production chains, and with a crucial role for universities and research centers to trigger this collective learning process. Despite substantial progress achieved over the 1990s, there is minimal interaction between smaller and larger firms and, for that matter, between firms, universities, and local governments. The attainment of a degree of institutional thickness in the region through the Consortium, the Chamber, and the RDA are only initial steps towards the construction of a social regional capital.

Furthermore, there are supra-local constraints on the incipient and innovative regime of bottom-up metropolitan planning. The ABC Region coincides neither with the administrative metropolitan region of São Paulo, composed of the 39 municipalities, nor the functional economic region, comprised of the metropolitan regions of São Paulo and Santos, with the latter controlling the port activities. Consequently, the initiatives of the ABC Region should rise to the real metropolitan level, which implies new challenges in negotiating conflicts, as well as increasing transactions costs. In addition, the present framework of fiscal federalism fails to recognize a city-region level. Ironically, the flexibility of arrangements like the RDA and the Chamber of the ABC Region simultaneously create weak spots; there is no guarantee that state government will acknowledge

financial mechanisms agreed upon by stakeholders within the long-term strategic planning framework. The present institutional arrangements inhibit predictable and transparent long-term sources of finance for proactive territories like the ABC Region.

In summary, the Greater ABC case leads us to a productive impasse. On one hand, its city-regional articulation needs long-term and transparent financial resources to leverage local efforts and social capital, and to replicate the decade-long experience to a larger scale. On the other hand, the experience with participatory bottom-up and multisectoral planning, involving private and public actors, is a promising alternative to the present Brazilian system of administrative metropolitan regions, which has been inherited from the military. Accordingly, further innovations can trigger a more comprehensive, long overdue discussion on the institutional reform of metropolitan governance.

## Greater Buenos Aires

The Metropolitan Region of Buenos Aires (MRBA) does not exist as a political and administrative body, and can be loosely defined as the area including the Autonomous City of Buenos Aires and its surrounding 32 municipalities. In 1999, the metropolitan region generated approximately 52% of Argentina's GDP and concentrated 32% of its population (Escolar and Pérez, 2001). With the Constitution of 1994, Buenos Aires obtained an autonomous structure equivalent to a province with an elected mayor and council and with formal responsibility for its own charter. Consequently, the MRBA is presently the stage of a set of complex interactions among several actors that include:

- 32 local governments, with a relatively limited degree of autonomy regulated by one of the most centralized provincial constitutions of the country;
- The province of Buenos Aires;
- The federated Autonomous City of Buenos Aires; and
- The central governments overlapping with the two provinces.<sup>21</sup>

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<sup>21</sup> In addition, a controversial set of laws regulates the transitional situation of the federal government in the city of Buenos Aires. In reality, these transitional laws have the potential to interfere with the local autonomy (FARN, 1999).

Although lacking a formal framework for metropolitan planning and management, there have been several efforts to install functional arrangements aimed at increased rationality, each with different spatial reach and sectoral objectives (Box 3.6).

During the 1960s, the federal level launched several initiatives to create a *formal metropolitan organization* in Buenos Aires, for example, through the National Development Council and the National Housing Council, which, among others, implemented a study on the Buenos Aires Metropolitan area (FARN, 1999). In 1984, the national government, the province, and the city of Buenos Aires signed a general agreement to implement a study and diagnosis of the common problems faced by the municipalities of the metropolitan region. Subsequently, in 1987 a Special Political Commission on the metropolitan region was created as a task force to mobilize stakeholders into a discussion on a future metropolitan structure for Buenos Aires. Additionally, the commission's aim was to formulate a separate intergovernmental body to coordinate metropolitan policies, with participation from each government sphere in specific deliberative and executive branches. The commission's proposal for the region was presented to Congress in 1989, but never voted upon; nonetheless, its work can be considered as one of the rare concrete attempts of a broader institutional reform towards metropolitan governance. The above proposals vary in regard to their sectoral and territorial reach, and, with the exception of the Special Political Commission on the metropolitan region, each alternative reflects an institutional fragmentation and search for a functional and sectoral rationality in the organization of services with territorial spillovers (solid waste, environmental planning, logistics and distribution, technical networks, etc.). Special purpose bodies were often set up with a significant involvement of central and provincial spheres, sometimes excluding local governments in the outskirts of the metropolitan region under provincial rule, clearly reflecting a deficit in voice and transparency.

There is ample evidence that the new federal framework of the 1994 Constitution, which created a separate status for the City of Buenos Aires and allowed for the development of regions with more flexible intergovernmental cooperation, has revitalized the debate on the future system of metropolitan governance in Buenos Aires (FARN, 1999; Escolar and Pérez, 2001). Nevertheless,

**Box 3.6. Functional Regionalism in Greater Buenos Aires**

The Ecological Coordination Agreement for the Metropolitan Area was created by an agreement between the provincial government and the city of Buenos Aires, and formalized in 1977 (as the *Coordinación Ecológica del Área Metropolitana Sociedad del Estado, CEAMSE*). Although initially formatted as a mechanism to guarantee a regional park system, the institution evolved into a body that coordinates the solid waste disposal and environmental policies of Buenos Aires and 22 surrounding municipalities. The agreement and the new institution involved only the city of Buenos Aires and the provincial government. Hence, although the program covered the territory of the 22 municipalities, which were expected to follow a series of guidelines in the utilization and financing of solid waste disposal sites designated by the Metropolitan Agreement, these 22 cities had no voice in the elaboration and implementation of the environmental policies.

The Central Market Company of Buenos Aires, created in 1967 via an agreement between the central, provincial and local government of the Autonomous City of Buenos Aires, is one of the rare examples of a supramunicipal initiative that was aimed at streamlining regional logistics and distributing food and agricultural products. The company is financed by a combination of local revenues (charges, fines, etc.) and member contributions.

The Tripartite Body for Public Works and Sanitation, created in 1992 by the central government, the Province of Buenos Aires and the Autonomous City of Buenos Aires, aimed to monitor and evaluate the provision of services after the privatization of the main water and basic sanitation networks. The territorial span of this institution is Buenos Aires and 13 surrounding local governments, previously covered by the extinguished state company. One of its main deficiencies has been a democratic gap, as not one representative from the 13 municipalities sits on the board of directors.

The Watershed Committee for the Matanza-Riachuelo Basin, created through a decree in 1993 at the national level, includes several ministries of the central government (environment, public works), the Province of Buenos Aires, and the Autonomous City of Buenos Aires. This body coordinates national, provincial, and city initiatives aimed at the integrated environmental management of the watershed servicing the city and 12 surrounding jurisdictions. Considering its operational structure, the body depends mainly on the national level in terms of its finance and policy guidelines.

Source: FARN (1999)



these debates should consider several deficiencies in the macroinstitutional and political framework.

There are overlapping and often confusing definitions regarding the actors that play a role in the potential MRBA. As mentioned, the local governments in the outskirts lack formal autonomy and are subject to an overly centralized provincial regime.<sup>22</sup> Additionally, the transitional legislation regarding the federal status of the City of Buenos Aires may theoretically interfere with the autonomy of the city. Furthermore, Escolar and Pérez (2001), in their research on the interdependencies between federal and metropolitan organization and finance in Argentina, compared three spatial levels of government (metropolitan versus federal, metropolitan versus the interior of the Province of Buenos Aires, and the central city versus the outskirts) and concluded that severe disparities exist at all levels, while the capacity to manage these differences is rapidly reducing. For example, while the metropolitan area has more income than the rest of the country, its capacity to influence redistribution is relatively weak in light of its inferior political representation within the federation. The opposite is true concerning the metropolitan region and the interior of the province; the interior has lower income levels, while a reduced political representation at the provincial and federal levels create a limited capacity to redistribute income in its favor. Depending on bargaining and exchange of favors, this creates a vulnerable position for the governments in the outskirts of the metro region, with a fragile home rule. Finally, the intrametropolitan relations between the central city and its outskirts follow a common pattern; in the periphery income and employment levels are lower, the infrastructure deficiencies are higher, and fiscal capacity of local governments is less. Overall, these complex situations suggest that the gradual articulation and negotiation of a policy framework for metropolitan governance in Buenos Aires, which will transform the region from a passive spectator into an active political stakeholder, will confront several challenges.

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<sup>22</sup> From a strictly legal point of view, this implies a violation of the amendments of the federal Constitution of 1994, which established a formal autonomy for the Argentine local governments (FARN, 1999).

## Santiago, Chile: Globalization, Fragmentation, and the Challenges for Metropolitan Governance

The growth and evolution of Santiago, Chile cannot be analyzed without considering the intense interdependencies between the metropolitan area and the overall development of the country. Greater Santiago has a diversified economy with a predominance of services, and generates about 48% of the country's GDP. Approximately two thirds of Chile's population is concentrated in the agglomerations of Santiago, Valparaíso, and Concepción. According to Rodríguez and Winchester (1999), during the Chilean phase of import substitution, which lasted from the 1930s until the mid-1970s, the bulk of industrial, commercial, and financial activity was concentrated in the metropolitan regions. In spite of historic discourses of spatial and demographic de-concentration of activities to smaller urban centers, Santiago grew from 3.9 million in 1982 to 4.7 million in 1992, while Valparaíso-Viña and Concepción-Talcahuano continue to grow as well (11.7% and 19.2% over the same period, respectively). As indicated by de Mattos (2000), this process of metropolitan dominance has not been homogeneous over time. While through the mid-1980s the Greater Santiago area lost a share of industrial production (from 47.6% in 1970 to 42.1% in 1985), its participation was later recovered (44.8% in 1990 and 47.4% in 1995).

According to the analysis by Rodríguez and Winchester (1996), the city of Santiago represents a type of paradox. At first sight, the Chilean development model is recognized for its considerable achievements, with annual growth rates of 7.6% during the last decade, according to data from the Central Bank in 1999. Moreover, the city's growth figures have been superior to the country's economic performance, and the urban poverty rate has gone down from 33% in 1990 to 15.4% in 1998. However, a closer look reveals underlying structural challenges that the city cannot avoid in the coming decade. According to the authors, Santiago is socially divided, politically and administratively a fragmented city, and some of its citizens are frightened. The wealth of the metropolitan area as a whole is concentrated in 6 of 34 municipalities and while almost all of them have basic services, there are increasing differences in the quality of these services between areas. At the same time, the rapid metropolitan sprawl increases inequalities

and has devastating impacts on the overall quality of public spaces and urban environment.

While Santiago is certainly not one of the most violent cities in Latin America, the subjective perception of violence has reached bothersome levels.<sup>23</sup> At the same time, the poorer suburbs have become more dangerous, and increasing incidents of crime have destabilized more traditional community networks. However, the fact that metropolitan areas in Chile confront severe institutional deficiencies (Box 3.7) is more pertinent to our discussion.

Any future system of metropolitan governance in Santiago must complete the stage of decentralization and democratization set in motion with the reforms of 1991. The lack of *voice* for local actors and institutional frameworks for metropolitan governance is still significant, while the polarization within metropolitan Santiago seems to be increasing. Recent data on the pattern of metropolization, for example, shows that fiscal discrepancies between central and peripheral local governments in the Greater Santiago area (as measured by the ratios of municipal income and expenditure per capita) are rising.<sup>24</sup> As mentioned earlier, Santiago is growing rapidly and the lack of mechanisms for planning metropolitan land use has led to continued sprawl and the deterioration of environmental quality and public space. Without the development of the institutional, financial, and managerial capacity to implement a strategic view compatible with the metropolitan area's needs, this negative tendency will accelerate over the next few years (de Mattos, 2000; Figueroa, 2000).

However, as Rodríguez and Oviedo (2001) argue, the advancement towards an effective form of metropolitan governance should be carefully analyzed, in light of possible resistance from institutional actors (both central and regional), and must remain within the specific legal and institutional context of the country. According to these authors, it might be easier to elaborate and incrementally implement alternatives that are more in line with the intermunicipal model of metropolitan governance.

<sup>23</sup> For example, a 1997 survey disclosed that almost 70% of the population considered the central area of Santiago, Chile to be unsafe (Rodríguez and Oviedo, 2001).

<sup>24</sup> These discrepancies in fiscal capacities between central and peripheral municipalities have increased from a factor of 7 in the early 1990s, to almost 10 at the end of the decade (Rodríguez and Winchester, 1996, p.14).

### **Box 3.7. Institutional Deficiencies in the Framework for Metropolitan Governance in Chile**

The political-administrative structure of Chile is divided into 13 regions (each headed by a superintendent), which are divided in 5 provinces (each administrated by a governor). Finally, at the lower tier, 341 communes exist, which are administrated by elected mayors and councils. There are no specific structures relating to cities or metropolitan areas and agglomerations; this is more dramatic in a city such as Santiago, which lacks a single general-purpose body of government and is fragmented over three provinces (Santiago, subdivided in 32 municipalities, and the provinces of Cordillera and Maipo, which include Puente Alto and San Bernardo). In light of this fragmentation, the institutions at the central and regional level, such as the regional wings of the ministries for housing, transportation, public works, and environment, have more impact on planning and management of cities and metropolitan areas like Santiago.

The regional government is an important actor for metropolitan planning and management, overseeing economic development, physical planning, and investments in basic infrastructure. Although its legal status was consolidated in the constitutional reform of 1991, which defined formal autonomy and funding, the region lacks voice, preventing its transformation into a mature political actor in metropolitan governance. The administrative structure provides for a council (whose members are indirectly elected from the municipal councils) and a superintendent, who takes on a double role as a member of the central government (appointed by the president and ministry of the interior) and as the regional executive. In practice, the regional government undertakes the bulk of decision-making responsibilities regarding metropolitan affairs in central government, while still having little financial autonomy; for example, the National Fund for Regional Development, which concentrates the main sectoral resources for housing, urban development, and transportation, is controlled by the central government.

*Source:* Rodríguez and Oviedo (2001)

## Examples of Metropolitan Districts: Caracas, Quito, and Bogotá

The previous cases can be contrasted with three examples that may be classified as exceptions to the rule of missing frameworks for metropolitan governance in Latin America. The first, more consolidated example is the metropolitan district of Quito, created in December 1993 by law. Quito has special status within the political division of the country and is composed of provinces, cantons, and *parroquias*. According to the latest census data of 2000, the metropolitan area of Quito has close to 1.9 million inhabitants (15% of the national population) and concentrates a substantial part of the economic activity of the country, 34% of industrial establishments, 27% of the value added, and 33% of the country's gross capital investments (Rodríguez and Oviedo, 2001). The Quito model functions according to a two-tier metropolitan structure and includes an elected metropolitan mayor and council with broad responsibilities for economic development, land use, environmental planning, and transportation (Box 3.8).

Another city with a formal structure for metropolitan governance is the Metropolitan District of Caracas in Venezuela, created in 1999. The Greater Caracas area, or Capital Region, has approximately 4.49 million inhabitants and is divided into two separate geopolitical entities: the traditional core Libertador (in effect the western two-thirds of the Caracas Valley, with close to 1.98 million inhabitants in 2000) and, in the eastern area of Greater Caracas, the fifteen municipalities located in the state of Miranda. Greater Caracas has experienced several opposing movements of metropolitan consolidation and fragmentation. Between 1936 and 1989, 4 of the 15 municipalities in Miranda were merged into the Sucre District, which was governed by a single municipal council. In 1989, however, due to the reduction of national transfers to the Sucre District and the consequent need to increase local taxes, the wealthier districts began to outwardly oppose this district, complaining that the majority of the higher taxes did not benefit their neighborhood.<sup>25</sup> Soon after the 1989 reform law, the Sucre

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<sup>25</sup> The more affluent neighborhoods in Chacao were especially against the rise in taxes and embraced slogans such as “the smaller the better” in relation to debates on the size of the Sucre District.

### Box 3.8. The Metropolitan District of Quito

The Metropolitan District of Quito (MDQ) has a relatively decentralized format with the following structures: a metropolitan council (with 15 elected members), presided over by an elected metropolitan mayor as the chief political executive; companies that provide services (water, transportation, etc.); and zonal administrations that represent deconcentrated units of management.

While the overall political structure of the country grants autonomy for the provinces and the municipalities, the MDQ has special status and responsibilities for a wide array of services, such as land use planning and control, environmental control and planning, transportation, water supply and solid waste, disaster management, health and education, and cultural and historical heritage. The financial viability of the MDQ is based on transfers from the central government (through the Development Fund) and its own resource base (taxes and special contributions).

The MDQ deals with issues of regional competitiveness, reflected in recent plans for both the revitalization of its macro-infrastructure and equipment (port, airport, industrial parks, logistics and telecommunications, convention centers, infrastructure for tourism) and local economic development (export promotion, support to small and medium-sized enterprise, incentives to research and development, etc.).

*Source:* Rodríguez and Oviedo (2001)

District was separated into four cities,<sup>26</sup> and over time the Capital Region has undergone additional fragmentation.<sup>27</sup>

Although the region has had difficulties in articulating mechanisms aimed at intermunicipal and voluntary cooperation, the mayors of Greater Caracas undertook one limited effort in the 1990s (Ellner and Myers, 2002) requesting the national government to institutionalize the contacts among them.

<sup>26</sup> Particularly, the reduced municipality of Sucre was thrown into a severe financial crisis.

<sup>27</sup> For example, the coastal zone Vargas was separated from Libertador (Caracas) in 1998.

In 1994 the president created the Council of the Government of the Metropolitan Area of Caracas (CGAMC). The goal of the CGAMC was to become an articulating and coordinating body for an orderly decentralization; committees to coordinate transportation, urban planning, public security, health, garbage collection, and urban maintenance were established at the first meeting. This structure proved ineffective, however, as the governor of the Federal District of Caracas and the governor of Miranda, rather than the mayors, paid the bulk of the council's expenses.

The limitation of the intermunicipal model in the Caracas context led to periodical proposals for the implementation of a supramunicipal structure with responsibilities for area-wide governance, giving the municipal councils and mayors control over local issues. In 1996, a plan was offered by the presidency, and while the mayors of Caracas and Sucre were generally receptive to the proposal, several of the more affluent communities (e.g. Chacao, El Hatillo, Baruta) were in severe opposition, fearing they would have to underwrite services in the low-income areas.

In his first year in office in 1999, President Chávez installed a Constituent Assembly to draft the new constitution, and took on the challenge of designing metropolitan governance for Caracas. The proposal for the Metropolitan District of the City of Caracas, comprised of the most densely populated cities in the Capital Region core, was implemented in 2000. The New District lacks the unambiguous legal personality of Chávez's original proposal due to severe opposition from the governor of Miranda, who succeeded in making changes to the original project. Box 3.9 points out several important ambiguities in the definition of responsibilities when this final document was composed.

The next example is the metropolitan district of Bogotá in Colombia. The Colombian political-administrative structure is composed of departments and municipalities; while the departments are allocated relatively limited functions such as health, education, and intermunicipal roads, the local governments manage basic services such as water supply, sanitation, and electricity. Within this overall setting, Bogotá is considered a special district with 18 submunicipalities (each having a mayor) that are subordinated to the mayor of the capital-center city. The metropolitan region of Bogotá-Sabana concentrates approximately 21% of the population and 50% of the value added tax of the country. The Colombian

### Box 3.9. The Metropolitan District of Caracas

In spite of severe opposition from state governor Mendoza and middle-class neighborhoods in cities like Chacao, in 2000 a Metropolitan District for Caracas was created, with an elected metropolitan mayor and legislative council comprising the areas of Libertador (the federal district of Caracas, which was later eliminated), and the municipalities of Sucre, Baruta, Chacao, and El Hatillo (belonging to the state of Miranda).

The district has a two-tier structure with a metropolitan mayor and council, while maintaining the municipal jurisdictions. The metropolitan area has a wide array of responsibilities in urban development planning, such as low income housing, transportation, public health, solid waste collection and disposal, local and metropolitan policing, management of parks and open metropolitan spaces, disaster management, and the harmonization of tax and pricing strategies for services at a metropolitan level (among others).

The experience of the Caracas District is quite recent. Several legal issues still need to be solved. For example, due to pressure from the state governor, the Constitution does not clarify the status of the four Miranda municipalities; in certain circumstances, they respond to the governor, while in others, to the metropolitan mayor. In addition, the boundaries between the metropolitan and local municipalities are awaiting more specific legislation regarding responsibilities. In the meantime, there are also clear indicators that territorial segregation in the Metropolitan District has been growing, characterized as a process whereby the impoverished low- and middle-income classes are pushed to the outskirts, competing for space and generating a series of conflicts, while the more affluent segments are located in gated communities in the central areas of the city.

Finally, the metropolitan mayor may prove to be rather vulnerable to the political cycle, and more particularly to the presidency. For example, the first elected mayor, Alfredo Peña, has built up a dependence on central government “in light of the national executive’s desire to maintain control and the unwillingness of the capital city’s electorate to pay for the true cost of its privileged life style” (Ellner and Myers, 2002).

*Source:* Ellner and Myers, 2002; Rodríguez García, 2001; Lacabana and Cariola, 2003



institutional framework for metropolitan regions was established by law by the president in 1978, and recently updated in 1994. In addition to a metropolitan mayor (the mayor of Bogotá), the system provides for a metropolitan council. The council is composed of the mayor (also presiding over it), one representative of a council of the neighboring municipalities, one representative of the municipal council of the capital city chosen by majority vote, one mayor of the neighboring municipalities selected by the governor of the department, and one member designated by the governor.<sup>28</sup>

Metropolitan regions are responsible for the elaboration and implementation of the planning for metropolitan-wide services, including the financial dimensions (betterment taxes, coordination of fiscal policies, etc.); the resulting legal framework is binding for the member municipalities. In a recent discussion on the Colombian system of urban and metropolitan planning, a number of challenges were highlighted for Bogotá. First, administrative control and decisions are highly dominated by the central city of Bogotá, as is reflected in the selection of members of the technical teams and the managers, which is highly influenced by the preferences of the mayor of Bogotá. Likewise, and in the absence of legal impediments, it has proven difficult for submunicipalities to forward technical proposals.<sup>29</sup> Moreover, the planning of metropolitan land uses has also been heavily influenced by the center city, resulting in a lack of strategic perspective that incorporates the trade-offs in costs and benefits for each member city/submunicipality of the metropolitan region. Finally, there has been little involvement of non-governmental actors (such as labor unions, enterprise associations and representation from civil society) in the design and implementation of a system of metropolitan governance. Consequently, this has led to a relative absence of planning for issues related to systemic competitiveness, regional endogenous development, and technological and managerial restructuring of companies, themes that have only recently emerged as the focus of discussions (González and Puertas, 2002).

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<sup>28</sup> In case of metropolitan regions with more than five cities (like Bogotá) the governor can indicate an additional delegate to the metropolitan council.

<sup>29</sup> Actually, any proposal that succeeds an absolute majority in the council can be forwarded.

## **Moving Forward in Latin America: The Shift from Functional Metropolitan Planning and Management towards Metropolitan Governance**

Evidently, more differences than similarities exist when looking at the historical, political, institutional, and socioeconomic dimensions of the Latin American cities discussed in this section. Perhaps, Latin American metropolitan areas, with the exception of Quito and Caracas, lack a mature and consolidated structure for metropolitan governance, unable to face the challenge of creating urban competitiveness, environmental sustainability, and higher quality of living.

Each of the cities discussed has either nonexistent (Santiago) or incomplete (São Paulo, Buenos Aires) structures for governance, and mismatches between administrative-political realities and sociopolitical and economic needs. Nonetheless, it would be unwise to implement complex, audacious, and far-reaching proposals. Although the government of Venezuela rapidly established a two-tier institutional and legal framework for Greater Caracas, it is still uncertain as to how this metropolitan district will succeed in light of some of the remaining ambiguities in the relation between the metropolitan mayor and the other institutional actors that affect metropolitan governance (more specifically the governor and the other mayors).

This somewhat *immediatist* search for supramunicipal structures for metropolitan governance has been the main characteristic of recent debates in the metropolitan region of São Paulo. For example, part of the regional press, and some research institutes, have proposed far reaching “solutions,” such as the creation of the state of Greater São Paulo, which transforms the constitutional status of the present metropolitan region. Likewise, in reference to the earlier-mentioned impasse in the ABC Region, it is often recommended to transform the region’s status into a separate metropolitan region.

Although stimulating as an intellectual exercise, these wide-ranging proposals towards supramunicipal structures miss the point, failing to take into account the earlier lessons of moving from functional towards political structures of metropolitan governance. Alternatives for metropolitan governance need to be constructed over time through negotiations of conflicts between the

stakeholders involved, a process that will involve a time-consuming and complex elaboration of horizontal and vertical networks between public and private actors within national and federated systems.<sup>30</sup> The European and U.S. experiences, as well as some of the authoritarian functional experimentation in Latin America during the 1960s and 1970s, have proven that this requires the incremental build up of territorial and localized social capital.

Perhaps this is the main lesson of building up metropolitan governance in general, in particular in Latin America; *the product* (reduction of territorial spillovers, collective goods, economies of scale, delivery of specific metropolitan services, etc.) and *the process* (voice, transparency, and accountability) of the metropolitan agenda cannot be separated into two different issues. This took place during the first wave of experimentation in the 1960s and 1970s, which was either ignored or boycotted by local governments, pressure groups, and communities, and consequently, could only be upheld under pressure within centralized and authoritarian regimes. With the surge of decentralization and re-democratization, these approaches have increasingly become nonoperational.

The incremental move forward should be characterized by the elaboration of horizontal and vertical networks of public and private partners within federated or unitary national systems. These networks should gradually bring in more functional rationality within existing systems of metropolitan governance, taking into account accumulated past experiences. To avoid putting institutional actors into rigid straitjackets of formal relations, institutional frameworks should be flexible and participatory, guiding the evolution of interjurisdictional and intersectoral cooperation towards live and mature systems of metropolitan governance. Accordingly, metropolitan agenda setting becomes a more open ended and multi-stakeholder learning process, with advances and set backs, in which products and processes become increasingly interdependent. In that sense, recent 2005 federal legislation aimed at the strengthening of intermunicipal voluntary cooperation among municipalities in Brazil is promising. Instead of putting local governments into a rigid straitjacket of norms and rules, a flexible institu-

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<sup>30</sup> Under the present conditions, it will be difficult to implement a proposal to create an additional state for the Greater São Paulo region because of expected resistance from the State of São Paulo. The real issue is how the existing fragmented format of Brazilian metropolitan regions can be transformed into a mature system that combines efficiency, financial autonomy, and voice, involving both local, state, and federal actors.

tional framework is provided where voluntary cooperation in any sector that falls under municipal responsibility (water supply and basic sanitation, income and employment generation, urban transportation, etc.) is being stimulated through the possibility of management contracts.<sup>31</sup>

Along these lines, even if there is no formal supramunicipal or intermunicipal structure for metropolitan governance, numerous metropolitan areas do provide for specific services and functions in some manner. This is clear in the discussion of the Buenos Aires case, where a vast array of specific-purpose bodies and arrangements exist; and also in the U.S. case, even in the absence of formal metropolitan governance, in which a complex set of contractual arrangements, specific-purpose bodies and voluntary intermunicipal collaborations prevail. The existence of these formal and informal arrangements for the delivery of specific services and/or functions (functional regionalism) can be important building stones towards more mature and consolidated (intermunicipal or supra-municipal) forms of metropolitan governance. We will return to this point when we discuss a tentative model for metropolitan governance.

The implication of the policy networks of metropolitan governance concept is that ex-ante and straightforward prescriptions of metropolitan governance, such as “more versus less” central government involvement, or, alternatively, “re-centralization versus decentralization,” are no longer adequate. For example, in the Brazilian context, the federal government, after its full retreat in the demise of the authoritarian regime, is looking for a new role in these policy networks focused on metropolitan governance. Conversely, in the Argentine and Chilean cases, the local governments, and especially those in the outskirts of the metropolitan region, should be given more voice.

Finally, in light of the ineffectiveness of simply imposing metropolitan governance proposals, the above-mentioned broad and flexible frameworks for policy networks should be complemented with managerial and financial structures. These structures should encourage more cooperative mechanisms aimed at collective decision-making procedures among local actors, for instance through the design of grant and finance guidelines for investment projects at the

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<sup>31</sup> The so-called Lei dos Consórcios Públicos also allows partnerships between the municipalities and the state and federal ministries (the latter only if the state government is also involved).

metropolitan level (“the carrot and the stick approach”). This could be more effective by involving actors who have accumulated some experience in strategic planning at the metropolitan level.

## A Tentative Model of Metropolitan Governance

The international experiences of Europe, the United States, Latin America, and Asia clearly demonstrate the diversity of metropolitan government models. Indeed, one lesson that can be drawn from the above analysis is that the search for effective, equitable models of metropolitan governance is open-ended and ultimately depends on incorporating crucial stakeholders, such as local governments, pressure groups, and communities, from the initial stages. Lefèvre (1999) has defined this as the shift from technical-functional towards political legitimacy for metropolitan institutions.

Table 3.2, based on Rodríguez and Oviedo (2001), contrasts the two stylized extreme models of intermunicipal and supramunicipal metropolitan governance. Realistically, there will be a *much more complex myriad of in-between arrangements*, which will evolve over time both in function of historic, political,

**Table 3.2. A Stylized Model of Metropolitan Governance**

Characteristics	Models			
	Supramunicipal		Intermunicipal	
	Central Govt Dependency	Autonomous	Autonomy linked to Central Govt	Fragmented Autonomy
<b>Link with other spheres of government</b>	Part of regional/provincial govt Subordinated local govts	Intermediate power between central, state and local govts	Association of all local govts of the area	Association of some local govts of the area
<b>Political legitimacy</b>	Designation of regional authority Indirectly elected regional council	Direct election of metropolitan mayor and council	Indirect election of representatives by central and local govts	Indirect election of representatives by local govts
<b>Financial resources</b>	From central/state level	Financial autonomy	Financial dependence on senior/local govts	Financial dependence on senior/local govts

Source: Rodríguez and Oviedo, 2001

and socioeconomic conditions, and of the dynamic learning process set in motion in each specific country and metropolitan setting.

To illustrate, while the European approach in the 1960s was characterized by the search for the supramunicipal model, the new momentum of the 1990s prompted substantial intermunicipal elements, shown in the case of Bologna and the recent French experiences with metropolitan governance. In addition, and irrespective of whether the prevailing model is characterized by a supramunicipal or intermunicipal approach, the search for political legitimacy and voice has become crucial. This is reflected by the emphasis on directly elected mayors and a general assembly in the cases of the Greater London Authority, Quito, and Caracas (supramunicipal models), and the deliberate strategy of a political and mediating role for the Metropolitan Conference and the Urban Communities in the cases of Bologna and Marseilles (intermunicipal models). It is sometimes difficult to thoroughly evaluate the autonomy of specific arrangements; for example, although the Caracas Metropolitan District has an elected mayor and council and a separate constitutional status, its financial dependence on central government resources limits effective autonomy.

Finally, as previously mentioned, irrespective of the existence of formal intermunicipal or supramunicipal arrangements for metropolitan governance, the majority of metropolitan areas do provide specific functions and services. Nevertheless, additional research is needed on the effectiveness of these arrangements. The focus on specific mechanisms and procedures in the delivery of these services and functions is important in moving towards more consolidated, improved forms of metropolitan governance. To illustrate, in the United States, although there is no formal supramunicipal metropolitan structure (with a few exceptions like Portland) and considering that the institutional landscape does not follow a simple intermunicipal model, there are a wide array of arrangements such as special purpose districts, state-municipal metropolitan councils, and variations of functional regionalisms and voluntary contracts. In addition, there is a renewed activism of metropolitan regions in economic development, involving leading representatives from local and state government, civil society, and the business community. According to a similar tendency in Europe, the movement towards a cooperative metropolitan governance system in the United States is characterized by an incremental and

**Table 3.3. Functions Delivered/Coordinated By Metropolitan Regions\***

Case	Functions							
	Economic Development	Transport	(Strategic) Planning & Land Use	Environment (incl. Solid Waste)**	Social Services***	Culture	(Crime Prevention)	Police Disaster Management
Portland	X	X	X	X				
GLA	X	X	X	X	X	X	X	X
Indian MDAs		X	X	X	X			(X)
MDA Manilla		X	X	X	X			X
Caracas		X	X	X	X		X	X
Quito	X		X	X	X			X
<b>Intermunicipal</b>								
Bologna		X	X	X	X			
Marseille	X	X	X	X	X	X	X	
<b>Incomplete structures</b>								
São Paulo	X			X				
Buenos Aires				X	X			
Santiago								

\* Involvement either defined as delivery or coordination/supervision/evaluation/monitoring

social construction of mechanisms for better delivery of specific metropolitan services and functions.<sup>32</sup>

To better specify the implications of functional regionalism, in Table 3.3 we have summarized an array of effectively (or partly) delivered functions and services in and around the metropolitan areas discussed. A few points stand out in the analysis of this table;<sup>33</sup> first, the cases of formal supramunicipal metropolitan governance (especially Quito, Caracas, and London) contrast with the absence of metropolitan service delivery in the case of Santiago. However, at the same time, several cases with deficient and incomplete institutional frame-

<sup>32</sup> According to Yaro (2000), this transition in the United States should be based on the three Ts [Things Take Time] and the three Ps [Persistence, Patience and Perseverance], as opposed to grand designs of metropolitan governance.

<sup>33</sup> The table summarizes the main functions provided by (and not in) metropolitan regions; for example, in São Paulo a range of services for the metropolitan area are provided by the state companies (e.g. transportation, planning, and technical networks like water supply and sanitation).

works for metropolitan governance, such as São Paulo and Buenos Aires, provide metropolitan functions, such as local economic development (for example, on a submetropolitan level in São Paulo through the RDA of the ABC Region), watershed management (the Watershed Committees in São Paulo, the Watershed Committee for the Matanza-Riachuelo basin in Buenos Aires), or land use planning. Strategies towards improving metropolitan governance should consider the existing formal and informal structures that provide services and functions (suboptimally) to metropolitan areas in baseline situations. We will revisit this point in the final recommendations of the chapter.

## Open Issues

This chapter has only made general comments on recent perspectives on metropolitan organization, function, and governance in the literature. A number of issues still need further in-depth analysis, including: *the links between fiscal federalism, policy networks of intergovernmental relations, and systems of metropolitan governance*. Although it is known that there are many interactions between the macro and the urban levels (World Bank, 1991; Shah, 1994), the theoretical literature has largely neglected the relationship between these significant levels. Accordingly, many argue that these networks are strategic in shaping viable systems of metropolitan governance. However, there is minimal knowledge on the inequalities within federal systems, how they are dealt with through explicit and implicit (nonintentional) mechanisms of redistribution, and their final impact on the political and financial viability of metropolitan governance.<sup>34</sup> For example, the municipalities in the outskirts of the metropolitan region of Buenos Aires are not only poorer than those in the interior provinces and the city of Buenos Aires, but also lack sufficient voice to alter the distribution of funding in their favor; meanwhile, fiscal and socioeconomic discrepancies continue to grow within the metropolitan area. Likewise, in metropolitan São Paulo, municipalities in the outskirts experience substantial net leakages

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<sup>34</sup> An example of an undesirable, unintentional effect is the multiplication of municipalities that occurred after the Constitution of 1989 in Brazil. The built-in sharing formulas of redistribution that favor smaller and poorer localities cause the division of a fixed national amount of tax resources over an increasing number of municipalities, leading to substantial net losses for metropolitan areas.



of financial resources to the rest of the federation. More empirical knowledge is needed on how policy networks between local, metropolitan, and national actors influence the distribution of responsibilities and resources within the federation; and subsequently, how this distribution influences the (financial) viability of metropolitan regions.

Another issue that needs attention is *the role of leadership and voice/participation in creating efficient systems of metropolitan governance embedded in policy networks*. Successful experiences in metropolitan governance highlight territorialized networks of public and private actors that have succeeded in constructing mechanisms for collective decision making. What is the role of strategic planning and leadership in these experiences? Is it necessary to have effective leadership to sustain metropolitan governance structures? Alternatively, does the lack of leadership lead to ineffective procedures for participation and voice?

Going forward, it is also important to consider the difference between *normal versus informal metropolitan governance and the delivery of metropolitan services*. Both the U.S. context and an analysis of some Latin cases clearly illustrate, in spite of the absence of formally functioning institutions for metropolitan planning, the substantial range of informal and voluntary arrangements aimed at metropolitan governance (intermunicipal consortia, special purpose bodies, contract management, local and regional development agencies, informal development chambers, etc.). But, how have these informal structures performed? Which functions have been effective and what kind of services are delivered through formal and informal mechanisms of metropolitan governance? Do informal structures represent an incremental learning process towards formal metropolitan governance, or efficient mechanisms of intermunicipal coordination that facilitate accessibility, accountability and transparency?

There is also a question of *how to measure, monitor, and evaluate the progress and performance of metropolitan areas through adequate systems of indicators*. How can the theoretical criteria of evaluation (efficiency, equity, and voice) be transformed into a workable set of indicators of how well metropolitan frameworks perform their designated tasks; for instance, improving the local and regional productivity, reducing urban poverty and inequality, and effectively managing the urban environment (Cohen, 1999)? This complex task has been minimally addressed to date (OECD, 2001).

Lastly, there is a need for *specific in-depth case studies within the general framework of metropolitan governance*. To date, there have been several studies on specific sectoral issues (clean air, land use and transportation, economic development planning, etc.) within metropolitan regions; however, there is a lack of detailed analytical work on the metropolitan governance structure in specific cases, especially in Latin America. In this chapter, we have only briefly outlined the possible methodological structure for these more detailed studies.

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# Principles of Good Metropolitan Government

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## CHAPTER 4

# Democratic Governability of Metropolitan Areas: International Experiences and Lessons for Latin American Cities

**Christian Lefèvre**

### **Introduction**

Governability can be defined theoretically as the “permanent balancing process between governing needs and governing capacities” (Kooiman, 1990). A society is governable when there is little difference between needs (problems) and capacities (solutions). Governability is the capacity to maintain dysfunctions under control while conducting change towards desired directions. For our purpose, we will choose a more pragmatic definition; governability is the state of a territory (for instance, a metropolitan area) where it is possible to produce public policies and collective action capable of solving problems and developing the territory. This definition implies that governability is not only concerned with solving existing problems in metropolitan areas, such as transport, housing, and environmental degradation, but also with development, which means that governability is future and growth oriented.

In that context, governance is considered as the capacity for metropolitan areas to establish tools, mechanisms, instruments, and arrangements to make these territories governable. Governance includes the political institutions called “government” in political sciences literature; therefore, for our purpose, governance encompasses all kinds of institutional arrangements, including institutions such as metropolitan authorities. It is only concerned with arrange-

ments that can create governable metropolitan areas, that is, with the ability to deal with problems that are increasingly intersectoral in nature and to produce intersectoral, integrated policies. Obviously, this is also true for metropolitan development. Therefore, this report will only examine arrangements dealing with one policy sector when this sector could be a first step towards integrated policies. For instance, and to put it bluntly, we will not cover the experiences of most U.S. special districts, as we do not consider them as governance arrangements based on our definition of governability.

This report is based on the assumption that there is no link between the fact that metropolitan areas are becoming significant places of societal regulation as producers of wealth and receptacles of major social problems and the emergence as political entities. In the future, technology and new management tools and processes alone cannot facilitate metropolitan governance for two reasons: first, technology separates as much as it links, and second, the major goal in the governability of metropolitan areas is to establish them as political entities where technological and management tools are secondary. This issue will be the guiding thread of this chapter, considering that the establishment of metropolises as political entities is a political process that can be hazardous and conflicting.

Accordingly, the report will mainly draw on experiences from countries that have been through this process, namely most European countries and Canada. The political, institutional, and spatial diversity of these countries allow for a relevant panel against which we can assess the few metropolitan experiences in Latin America, namely those of Bogotá, Buenos Aires, Caracas, Quito, São Paulo, and Santiago, Chile. In the first part, we will present various models of metropolitan organization, while the second part will concentrate on the metropolitan legitimacy question. A third part will stress specific elements of metropolitan governance building and, in conclusion, we will present some lessons and recommendations for Latin American cities.

## **Models of Metropolitan Organization**

We would like to avoid the debate regarding metropolitan government as it took place in the 1960s, a conflict between the reformers (Wood, 1958) and the public choice school (Ostrom, Tiebout and Warren, 1961); this is a debate mostly

confined to the United States and, more recently, the United Kingdom. Rather, we will present the justifications and rationales for establishing governance arrangements, considering these justifications and rationales as *postulates* from which the various experiences and models of governance have been constituted; these models will be analyzed in a second section. A third section will examine the obstacles and possible reasons for the failures or successes of most metropolitan arrangements.

## Justification and Rationales for Governing Metropolitan Areas

*Economic Reasons.* Generally speaking, the literature and political discourses of the 1960s and the 1970s argue that metropolitan areas should have specific forms of government to address economic problems. During that period, problems of an economic nature included avoiding *free riders* behavior and duplication of services and allowing economies of scale to manifest themselves; while the most critical metropolitan issue was fragmentation of the metropolitan area, notably political and institutional (Ostrom, Tiebout and Warren, 1961).

The more recent debate, while keeping these questions alive, has added new reasons why metropolitan areas should be governed with specific arrangements; for instance, the economic competitiveness of cities is a key element for the well-being of the populations in metropolitan areas. In the context of globalization, some authors (Gordon and Cheshire, 1996) have referred to competitiveness as “territorial competition” and in that regard, metropolitan areas have become key places for the production of economic wealth as well as territories where economic competitiveness, innovation, and economic regulation take place. Several theories, such as “institutional thickness” (Amin and Thrift, 1995) and “organizing capacity” (Van den Berg et al., 1993, Van den Berg and Braun, 1999), have stressed that governmental arrangements of metropolitan areas can play a positive role in economic competitiveness. To put it bluntly, those areas that have governmental arrangements designed to produce collective action at an area-wide level would be better off confronting and winning territorial competition at an international level. By overcoming the political and

institutional fragmentation of their metropolitan area, they create an efficient decision-making system and a governable metropolis; thus some areas will be able to produce the necessary infrastructure and amenities (such as an international airport, a trade center, better worldwide access through transport and telecommunication infrastructure, etc.).

*Social Reasons.* Government arrangements are also crucial in solving social problems, social segregation being the most important. Concerning the U.S. case, the reformers, and more recently authors such as DeHoog, Lowery, and Lyon (1991), have discussed “institutional racism,” defined as the social segregation caused by the institutional fragmentation of U.S. metropolitan areas, which occurs mainly because U.S. municipalities enjoy self-government and substantial autonomy in terms of responsibilities. These authors agree that fighting municipal autonomy through arrangements aimed at solving area-wide problems would significantly reduce social segregation.

In other countries, notably in Europe, the question is more one of social cohesion than social segregation; government arrangements at the metropolitan level are considered instruments to enhance social cohesion because they take into consideration the area-wide social problems, for instance, by producing public policies that promote solidarity among municipalities. This is clearly an objective of recent reforms in France relating to social housing and public transport and in the UK in respect to the economic competitiveness agenda (Kleinman, 2002a).

*Political Reasons.* Three questions should be successfully addressed in establishing governmental arrangements in metropolitan areas. The first question, as argued by the reformers in the 1960s, is how metropolitan areas constitute themselves as social units and, as such, obtain representation from a political entity; for instance a metropolitan authority. As we will see in the following sections of this chapter, this is debatable and a significant challenge for metropolitan areas. The second issue, posing a question of accountability, is how the inhabitants and elected representatives can control the metropolitan areas, as the new “relevant” territories of production of public policies. Indeed, an increasing number of policies are designed, financed, and implemented at the metropolis level without democratic control. Consequently, there is a necessity to build up democratic governmental arrangements at the area-wide level. Third, fragmentation facilitates corrupt practices because it is easier in a fragmented

system to develop networks capable of controlling a sector of policy or of public intervention. Hence, building metropolitan arrangements in order to govern metropolitan areas, explained in the Introduction, will help to reduce fragmentation and perhaps prevent corruption.

*Other Reasons.* Concluding this section, there remain a few important and more recent issues that are part of the political and social agenda of metropolitan areas, as well as the agenda of national and international organizations. First and foremost, there is the environmental issue, which directly concerns metropolitan areas since the majority of the population lives in these settlements, particularly in Western countries. Questions of metropolitan environmental protection and preservation are more adequately addressed at a metropolis or regional level, rather than a municipal level. More generally speaking, there is the question of the quality of life in urban areas, a vague but rather delicate issue of a multisectoral nature whose enhancement requires the coordination of public policies that are facilitated by metropolitan government arrangements, such as those mentioned in the Introduction.

## Metropolitan Governance Models

For reasons that will be explained and analyzed further, actual metropolitan governance arrangements are usually the least constraining for local governments. In order to clarify this presentation, we have divided the governance models into two categories: governance through institution building and governance through cooperation. By institutions we are referring to public metropolitan authorities, either in the form of local government units or a formal cooperation body between local governments with the capacity to govern in a policy sector or on the whole or portion of the territory of a metropolitan area. As we will discuss later, these two categories are not mutually exclusive; in a metropolitan area, both may exist. However, the differences in culture and tradition among countries must be considered when proposing governability solutions. Countries such as France, Germany, or Italy (perhaps Canada as well) think in terms of institution building, or creating metropolitan authorities; meanwhile, others such as the United States and England rely mainly on cooperation and association arrangements.

### *Metropolitan Governance through Institution Building*

The establishment of metropolitan institutions has been accomplished through two modalities: supramunicipal arrangements and intermunicipal arrangements. Usually, supramunicipal arrangements point towards the introduction of a new government tier, which is independent of existing local government units, whereas intermunicipal arrangements point towards the establishment of an institution that depends on existing units of government (usually the municipalities) for its financing and functioning. Intermunicipal models are more frequent forms of metropolitan arrangements, while the supramunicipal modality is less common and “crystallized” in the “metropolitan model” (Sharpe, 1995) that is presented below.

The *metropolitan government model* is the most refined of the institutional arrangements to govern metropolitan areas. L. J. Sharpe has established the key features of this model:

- Political legitimacy of the metropolitan authority through direct elections;
- Jurisdictional territory matching the functional territory of the metropolis;
- Independent financing resources, notably through its own fiscality;
- Relevant responsibilities and competences; and
- Adequate staffing to elaborate and implement relevant policies and actions.

By and large, this is an ideal model that has been implemented in the past in “strong” and “weak” forms. “Strong” forms are those that incorporate the five features above, while “weak” forms utilize only a few. Indeed the diversity in the implementation of the metro model is such that it is not possible to synthesize all experiences. Therefore, we will take six examples of this model, three strong forms: the previous Greater London Council (GLC), the present Comunidad Autónoma de Madrid (CAM), and the Metropolitan District of Quito (MDQ); and three weak forms, the Verband Region Stuttgart (VRS), the present Greater London Authority (GLA), and the Metropolitan District of Portland.

1. *The Greater London Council (GLC)*, created in 1963 and abolished in 1986, was populated by about 7 million people and consisted of the



Greater London County, larger than inner London, and included the City of London and 32 boroughs located within the green belt. At that time, the jurisdiction of the GLC closely matched the functional area of London, which is not true today (see the discussion of the GLA below). The Greater London County was run by the GLC, an assembly of directly elected representatives of the London population; however, there was a two-tier governing system distinguishing the 32 boroughs and the GLC. The GLC had its own revenue derived from a tax on the boroughs, while it also received funding from the national government. Although initially the GLC had only a few areas of responsibility, gradually the state allocated significant functions to the assembly, such as planning (notably the Structure Plan, which was mandatory and with which local plans had to be consistent) and transport. Later, the GLC, with a staff of approximately 10,000, controlled numerous metropolitan functions.

2. *The Comunidad Autónoma de Madrid (CAM)* was created in 1983, taking on the same juridical and political status as 17 other Spanish regions established between 1979 and 1983. Political history has made the CAM a metropolitan authority de facto (Rodríguez-Álvarez, 2002), although it only represents the bulk (and not all) of the regional population. However, today the CAM territory consists of 179 municipalities and covers most of the functional area of the Madrid metropolis, with a surface of about 8,000 km<sup>2</sup> and a population of 5.2 million people. The municipality of Madrid accounts for 55% of the regional population. A regional council of directly elected members, from which a president is elected, administers the CAM. The 179 municipalities are below this council and have limited power compared to the region. Indeed, in Spain, the region acts similar to a federated state as in federal countries, with legislative powers and many competences. The CAM is composed of only one province and, as such, has taken over the powers of the previous province of Madrid. Today, with a recent reallocation of functions, the CAM is responsible for policy sectors such as transport and infrastructure, education, health, planning, economic development, environment, culture and research, many of

which are its exclusive responsibility. To carry out these functions, the CAM has a significant budget and staff; for instance, in 2002 it had a budget of close to 11.4 billion euros and approximately 150,000 employees. The CAM derives its budget from various sources, such as its own resources, notably regional taxes, a share of the national income tax, and central government transfers.

3. *The Metropolitan District of Quito (MDQ)*, created through law in 1993, is one of the three existing Latin American metropolitan districts, along with Caracas and Bogotá [see Chapter 3], and is composed of 12 zones, 16 urban parishes and 33 rural parishes, totalling 2 million in population. The MDQ has a two-tier structure; at the metropolitan level a directly elected mayor governs the metropolitan council of 15 persons, also directly elected. At the lower level, there are 61 zones and parishes. The MDQ has strategic and management functions, and, with the assistance of metropolitan companies, is responsible for a wide array of services such as planning, environment, transport, water supply and solid waste, health, and education. The MDQ is financed by a combination of state transfers and its own taxes.
4. *The Verband Region Stuttgart (VRS)*, established in 1994 after a substantial controversy, was created by the Land of Baden-Württemberg. Its jurisdiction, more or less the functional territory of the metropolitan area, covers 179 municipalities over 3,600 km. There are close to 2.6 million inhabitants in the VRS, with 600,000 people living in the main city of Stuttgart. An assembly of 90 directly elected members, serving a 5-year term, administer the VRS. The kreise and the municipalities are below the regional level, most of which opposed the creation of the VRS. Consequently, the VRS is quite weak, with few responsibilities, one of which is to act as the public transport authority of the metropolitan area; this sector makes up 88% of the VRS total budget. The VRS Act allocated the VRS additional functions, such as tourism and regional planning, although due to strong opposition from local governments, none have been transferred to the regional authority. Due to its limited responsibilities, the budget and staff of the VRS are minimal, with only 40 employees and a budget of 286

million deutschmarks in 2001. The VRS has no taxing authority and its budget depends entirely on subsidies from the Bund and the Land (50%) and other local governments, primarily the kreise. Although the VRS has authority to set up a tax over the kreise, political issues have prevented this. Overall, the VRS is a weak metropolitan authority as it has limited powers and means, although it has political legitimacy and its jurisdiction somewhat matches the territory of the functional metropolis.

5. *The Greater London Authority (GLA)*, established in 2000, was the first metropolitan authority for London after the GLC was abolished in 1986. The GLA territory is the same as the GLC, thus it is at odds with the London functional area, which covers a large part of the south-east of England (Kleinman, 2002a). A directly elected mayor, whose activities are scrutinized by the London Assembly, heads the GLA. This assembly includes 25 representatives of the London population, 11 elected at large and 14 by specific constituencies. Consequently, the true leader of the GLA is the mayor, who has strong political legitimacy. The GLA is assisted by four sectoral agencies (Transport, Economic Development, Police, and Fire and Emergency) that are more or less controlled by the mayor. The 32 boroughs and the City Corporation of London are below the GLA. Functions devolved to the GLA are mainly strategic in nature (economic development, planning, environment, and health) with the exception of transport, which has been transferred to the mayor in its operating dimension (the mayor chairs Transport for London, the major public transport company of the area). The national government's tight control over the GLA activities (and budget) seriously limits GLA autonomy. The GLA has virtually no fiscal resources of its own, except a congestion charge that was established by the mayor, and largely depends on national subsidies and funding from the boroughs. Consequently, the GLA is notably weak when compared to its antecedent, the GLC, which is confirmed by its minimal staffing and budget; the GLA employs only a few hundred, while the GLC had about 10,000 in personnel, and its budget only about 6.1 billion euros.

6. *The Metropolitan District of Portland* (Metro Portland), established in 1979, covers 24 municipalities and 3 counties and is the only metropolitan-wide body in the United States with a governing structure directly elected by the voters (Ross Stephens and Wikstrom, 2000). There are seven members on the board, each serving for a 4-year term. Metro is responsible for the coordination of growth management, land use, and transport planning, while providing metropolitan solid waste disposal and managing the metropolitan zoo. Metro derives its revenues from a variety of resources, such as solid waste tipping fees and an area-wide property tax for the zoo. Subject to the approval of the voters, Metro may realize revenues from an income and/or sales tax. By U.S. standards, Metro is an innovative metropolitan arrangement; yet by European standards, it is critiqued as a weak metropolitan governance arrangement with limited responsibilities and resources.

As mentioned, these metropolitan government arrangements are illustrations of the variety of the metro model; strengths and weaknesses are not easy to state because each assessment varies depending on the criteria used. For instance, functional legitimacy of the Greater London Council can be determined as either a strength or weakness, depending on whether the criteria are political or fiscal. It is also difficult to thoroughly assess recent models, such as the Montreal Metropolitan Community or the Greater London Authority, since the success of metropolitan governments depends largely on their integration within the political and institutional environment, a process that requires time.

Nevertheless, we will make some general comments, particularly regarding the relations between functional and political legitimacy of these metropolitan authorities. For example, the GLC has been based on functional legitimacy, which has created conflicting areas of responsibility with the London boroughs, notably in public transport and planning. Lacking political legitimacy and political and social support from local actors and the population, the GLC has not been able to act as a true metropolitan authority when challenged by the boroughs and the central government. In contrast, the legitimacy of the Greater London Authority is political and largely concentrated through the mayor, as we shall see. On the other hand, its functional legitimacy is weak; thus the GLA must

find its place in the new political and institutional environment, which requires a stronger focus on negotiation and bargaining.

This is also true for the VRS. This authority has been the protégé of the Land and the city of Stuttgart and its creation was possible due to an exceptional political situation (the establishment of the “Great Coalition” between the left and right in the Land Assembly, where the setting of a metropolitan authority over the Stuttgart area was part of the “majority deal”). Consequently, the VRS is a weak institution and will continue to fight the opposition of most local authorities without support from the new Land majority.

*Intermunicipal joint authorities model.* Intermunicipal joint authorities are arrangements based on cooperation, voluntary or obligatory, between the municipalities of the metropolitan area. Similar to the metropolitan model, intermunicipal joint authorities are diverse, which we will present through a few illustrations. It is possible to establish a simple typology of these institutional arrangements, depending on the degree and nature of the cooperation between local governments. We have identified three categories of intermunicipal arrangements, which include those that are the most complete and constraining for the municipalities; those similar to the previous model, yet with a jurisdiction limited to a portion of the metropolitan area; and those that are largely mono-sectoral, capable of being extended to other sectors.

#### a) Metropolitan-Wide Intermunicipal Joint Authorities

As we have stated, this category is the most complete and constraining arrangement for the municipalities (or any other local government unit involved). Although this arrangement is administered by indirectly elected boards and lacks political legitimacy, the other elements are built in, such as a jurisdiction which closely matches the functional area, own financial resources, adequate funding, significant responsibilities, and adequate staffing. The French *communautés d'agglomération* and *communautés urbaines* are likely the best illustrations of such arrangements. They can be found throughout the national territory, existing in about 150 urban areas, and have gradually increased their role in the administration of large cities.

1. *Communautés d'agglomération and communautés urbaines.* These *communautés* cover functional areas; in 2003, nearly all of the 150

French urban areas, defined in functional terms by the National Statistical Institute (Insee), were administered by either *communautés urbaines*, for those over 500,000 inhabitants, or by *communautés d'agglomération*, for those between 50,000 and 500,000 people. The *communautés* are regulated by indirectly elected councils, composed of the representatives of the municipalities of the urban area. On a mandatory basis, both types of joint authorities carry several significant functions of area-wide importance, such as public transport, environment, social housing, planning, economic development, culture, sewerage, and waste disposal. To carry out these functions, the *communautés* have a specific tax, an area-wide business tax taken from the municipal taxes; in addition they receive grants from the state and their member municipalities.

2. The *Communauté Métropolitaine of Montreal* (CMM). This *communauté*, established in 2001, covers 64 municipalities and is led by a council composed of the mayor of the amalgamated city of Montreal, who chairs the council, and 13 representatives of the Montreal city coun-

**Table 4.1. The Variety of Institutional Forms of Metropolitan Governance: Metropolitan Model and Metropolitan-Wide Intermunicipal Authorities**

	Territorial Match with Metro Area	Multipurpose	Own Resources	Degree of Political Legitimacy
GLC	YES	YES	YES	DIRECT
CAM	YES	YES	YES	DIRECT
MDQ	XXX	YES	YES	DIRECT with elected mayor
VRS	YES	NO	NO	DIRECT
GLA	NO	YES, mainly strategic	Only congestion charges	DIRECT with elected mayor
Metro	XXX	FEW	FEW dedicated sources	DIRECT
C.U. France	YES	YES	YES	INDIRECT
MCC	XXX	YES	NO	INDIRECT

XXX: Unclear

cil, which includes mayors and representatives of other municipalities. The CMM is responsible for economic development, strategic and land use planning, culture, social housing, solid waste disposal, and metropolitan infrastructure. The CMM has no direct resources of its own; most funding comes from municipalities (73%) and the Province of Quebec (27%). In 2003, the CMM had a budget of \$70.8 million Canadian.

#### b) "Inframetropolitan" Intermunicipal Joint Authorities

This is a more diversified category whose characterizing feature is the fact that intermunicipal cooperation takes place in a portion of the metropolitan area only. As a consequence, these forms of cooperation, although plurisectoral, vary with respect to functions devolved to the joint authority, their funding, and other responsibilities. Two examples will help illustrate the variety of these arrangements.

1. *The Association for the Development of the North Milan area (ASNM)*. The goal of ASNM, established in 1996 on a voluntary basis, was to undertake the economic and social transformation of northern Milan. The ASNM includes four municipalities with about 300,000 inhabitants; the population of the entire metropolitan area is approximately 4 million. A council composed of the representatives of the four municipalities, the Province of Milano, and the chamber of commerce (which in Italy has the status of "functional local authority") directs the ASNM, and the mayor of the most important municipality acts as the chairman. Initially, the ASNM had only a few functions, notably the urban regeneration of the area. Since then it has gradually acquired new responsibilities such as strategic planning; however, these responsibilities are "delegated" by the municipalities and may be withdrawn. As the ASNM has no resources of its own, funding is derived mainly from the four municipalities, as well as grants from the province, region, state, and the European Union.
2. *The ABC Region in São Paulo*. In 1990, seven municipalities of the metropolitan area of São Paulo created the intermunicipal consortium of the Greater ABC Region, now inhabited by 2.4 million people (while

the metropolitan area covers 39 municipalities and 18 million inhabitants). Responsibilities of the intermunicipal consortium are strategic in nature, notably the coordination of planning and economic development of policies at the ABC regional level.

#### c) Monosectoral Intermunicipal Joint Authorities (with Plurisectoral Potential)

We are interested in the metropolitan-wide monosectoral joint authorities with a potential to move towards the administration of other policy sectors, which can be found in various countries, such as Spain with the *comunidades* and the United States with a few examples of special districts. The creation of the German transit federations is also significant because these arrangements group public actors of various government levels and generally cover the functional metropolitan area.

The German transit federations or *Verkehrsverbund* (VV), found in almost all large urban areas of Germany, as well as Austria and the German-speaking area of Switzerland, are complex models, involving the central municipality, the *kreise* of the metropolitan area (the central municipality having the functions of a *kreise* in Germany) and the Land. These transit federations are responsible for the planning and management of public transport in the metropolitan area, which

**Table 4.2. Institutional Modes of Metropolitan Governance**

Types of Metropolitan Arrangements	Territorial Match with Metropolitan Area	Own Resources	Multipurpose	Degree of Political Legitimacy	Examples
Metropolitan Government Model	YES	YES	YES	DIRECT	GLC,
Intermunicipal Authorities	YES	YES	YES	INDIRECT	French C.U. and C.A.
Monosectoral Metropolitan Authorities	YES	NO	YES	INDIRECT	CMM German Transit Federations U.S. Special Districts
	YES	Sometimes	NO	Direct or indirect	
Authorities Inframunicipal	NO	NO	YES	INDIRECT	ASN ABC
	NO	NO	YES	INDIRECT	



includes setting fares, administering the subsidies (coming from the Bund, the Land and the kreise), deciding the level of services, and managing the public and private transit operators. In addition, some administer the parking system and are involved in urban land use planning, with the authority to oppose building permits or land settlements that would require overly complex or costly public transport development.

The various modes of governance, whether developed through institutions or institutional arrangements, do not always function independently. Indeed, a combination of these modes can be found in many metropolitan areas; for instance, the Greater Manchester area is managed by the Association of Greater Manchester Authorities (AGMA), a voluntary joint authority gathering the 10 districts of the metropolitan area along with several monosectoral joint authorities (to take care of public transport, waste disposal, etc.).

### *Noninstitutional Modes of Governance*

Noninstitutional modes of governance focus on a more efficient coordination of policies in various sectors and at the area-wide level. These arrangements are not institutions, nor do they focus on the establishment of institutions, rather they are formalized through precise procedures and specific instruments. This excludes less formal modalities of cooperation; for instance, charters or metropolitan conferences, such as the conference in Caracas in the mid-1990s (Paiva, 2001), which are too “light” in terms of the governance modes defined in the introduction. We have classified the variety of noninstitutional modes of cooperation into two categories; the first relates to the coordination of existing structures, while the second is concerned with formalized agreements.

*Coordination of Existing Structures.* These types of metropolitan arrangements are found in areas without a metropolitan institution, where either monosectoral bodies or plurisectoral, inframetropolitan structures carry out public policies. As a consequence, these bodies and structures are unable to manage the urban area because either their jurisdiction is too small or they are overly monosectoral. A solution to this problem has been to establish a mode of cooperation at a wider level by using specific instruments or arrangements, which has been implemented in almost all large British metropolitan areas.

British cities have been covered by public-private partnership (PPP) structures from the mid-1980s. PPP systems entail an extreme fragmentation of public policies and metropolitan areas because they are often monosectoral, they last only as long as a national or European program exists, and generally concern a small area within the metropolis. To compensate for this fragmentation, a few cities have established “supreme” partnerships, whose aim is to unite existing PPPs, coordinating their activities in economic regeneration, planning, and other fields. These partnerships exist in almost all large British urban areas; for instance, in 2002 the Birmingham Community Strategy Partnership (BCSP) was created, which is in charge of producing a strategic plan for the city. The BCSP gathers the most significant PPPs in the area, whose members now include the City of Birmingham, the Chamber of Commerce, various business associations, the voluntary sector, and others. It is directed by a coordinating committee and is composed of 12 partners including the City of Birmingham, the Chamber of Commerce, and representatives of each PPP.

*Formalized Agreements.* Various countries have developed formal, and sometimes quite sophisticated, instruments to help coordinate both public actors and policies. Although these agreements are generally monosectoral, or limited to specific purposes (infrastructure financing for instance), and their functionality depends on the political willingness of local government units (which may cause instability depending on political partisan continuity), they may represent interesting modalities of governance. Three examples illustrate this category.

1. The Italian Procedure of *Accordi di Programma*. Since the last decade, Italy has developed a complete set of instruments to facilitate the cooperation between public authorities and between the public and private sectors. One of them is the *Accordi di programma* (program agreements), an agreement involving all public actors (public companies included) for the financing and execution of large infrastructure projects such as subway systems, world trade fairs, airports, and railway stations. This is a formalized procedure with several phases, the first of which is a general meeting requested by either the mayor, the chairman of the province or the president of the region, gathering all public actors concerned by the project. The actors then agree on

the financing, phasing, and implementation of the project, and finally the program agreement is approved by the regional council and becomes law. If one actor does not act in an acceptable manner, sanctions and penalties may be issued. Hundreds of program agreements are signed each year in Italy.

2. *Territorial Pacts in Italy.* These pacts are agreements between public and private actors to establish and implement a development program over a large area. Once the actors agree on the program, it is proposed to the state; if approved, it becomes law. The program sets up the content of the pertinent policies, designates who is in charge of the general coordination of the policies and actions (very often the province), and regulates the phasing and financing of the program. Territorial pacts are administered by a formal structure composed of the entities that have signed the program (local governments, chambers of commerce, trade unions, etc.). There are several territorial pacts approved in Italy each year and their management structure is funded by the state.
3. *Spatial Planning in Berlin.* In Berlin, after the failure of the political amalgamation of the two Länder in 1996, the Berlin City-State and the Land of Brandenburg formed a joint department (Gemeinsamen Landesplanungsabteilung, GLBB), which administers land use planning. This body, unique in Germany, gathers both ministries responsible for spatial planning and makes decisions on a consensual basis. In case of serious conflicts, a regional conference is held, chaired by the mayor of Berlin and the president of Brandenburg. In 1998, the GLBB imposed a mandatory master plan on the municipalities.

## Obstacles and Failures

Generally speaking, the metropolitan government model has been seldom implemented, thus it is difficult to discuss the lack of success or failures of such a model (Lefèvre, 1998). Until recently, this has been the case with most “integrated” forms of intermunicipal cooperation, such as the French *communautés urbaines*. Understanding the obstacles is therefore of considerable interest for countries that want

to implement a successful model at the metropolitan level, which will be the focus of this section. The second part of this report will discuss on-going and promising experiences that have tried to overcome the obstacles. Experts, observers, and practitioners of metropolitan governance have identified the following major obstacles: (i) institutional modes of governance have generally been imposed to local governments; (ii) metropolitan governments and metropolitan arrangements are often ambiguous; (iii) metropolitan governance is often overly dependent on the juridical and political strength of municipalities; and (iv) there is frequently a lack of political legitimacy in metropolitan areas.

### *A Top-Down Process Largely Imposed by the States*

The history (even the most recent) of the most “integrated” metropolitan modes of governance portrays a very rigid and top-down process established by state laws. This has been an obstacle because local actors have had to deal with “artificial” or “unwanted” structures and arrangements.

First, the states have generally produced universal and rigid reforms with respect to metropolitan areas due to their national and homogeneous viewpoint on what should be done, even in federal countries. Thus, laws were set up and implemented homogeneously, independently of the urban area considered. This is clear in France where, since the 1960s, the governance modalities of a metropolitan area were set up in the same way all over the country, with similar institutional structures, competences, and fiscality. This rigidity is still evident in the acts of 1999 and 2000. The same situation is found in Italy, where the last law establishing the “metropolitan cities” concerns the ten most important urban areas and proposes to implement the same structures in all of them, without considering the unique specificities of each.

Furthermore, local actors and local governments, whether municipalities or intermediary tiers such as the *départements* in France, the *provinces* in Italy and the *kreise* in Germany, generally are not consulted, which indicates a centralistic attitude of the states. Common in the 1960s and 1970s, the same behavior is dominant in most countries today. This has been the case in Canada, with the forced amalgamation in Toronto and Montreal in early 2000, as well as in France in recent laws. In Germany, institutional reforms of Stuttgart (1994)

and Hannover (2000) have passed without the support of most municipalities and intermediary tiers such as kreise. Still, there has been willingness to consult; for instance in Italy, where a referendum was mandatory to implement the proposed reform, and in London, where the GLA organization and functioning has been approved by the people. However, this is not a general rule and often produces more negative than positive results, exemplified by the negative votes for Amsterdam and Rotterdam and for the amalgamation of Berlin. In this context, the London case appears as an exception.

Additionally, when consultation is carried out, it is generally regarding a “ready-made” proposal that cannot be amended by local actors or the population. This occurred in Rotterdam, where the population was asked to vote for a Greater Rotterdam authority, as well as the dismantling of the Rotterdam municipality; more than 90% of the Rotterdammers voted in opposition. Therefore, as it leaves little space for suitable negotiation among local actors, this metropolitan governance reform process is questionable.

Finally, metropolitan governance structures are based on functional legitimacy at most. The GLC was established to produce and deliver services to the London population. The VRS was created to deal with transport problems and “centrality charges” that the city of Stuttgart refused to take care of alone (the free rider issue). French *communautés* have been established to produce economic development and deliver public services.

### *Ambiguity of Metropolitan Government Arrangements*

Metropolitan governance arrangements are ambiguous because their main characteristics (financing system, functions, territories, etc.) result from a bargaining between local actors and the states or senior governments. At least five areas of ambiguity characterize metropolitan governance arrangements: (i) the lack of autonomy vis-à-vis the various existing local governments and the state; (ii) the lack of “institutional capacity”; (iii) the lack of financial resources; (iv) the lack of adequate competences; and (v) inadequacy between the jurisdictional territory and the functional metropolitan area.

Even the most integrated forms of metropolitan governments lack autonomy; that is they lack the juridical and political capacity to enact and imple-

ment their own policies. In most countries, the bargaining between states and local governments has resulted in the establishment of “weak” or “controlled” metropolitan arrangements. For instance, the GLA is weak because the state fears that a stronger tier could act as a rival (as in the battle between the GLC and the central government) (Kleinman, 2002b); the boroughs also object as a stronger tier could impose stricter policies. Similarly, in France all metropolitan authorities depend on the political willingness and strength of member municipalities, while the state has always been reluctant to establish supramunicipal governmental units for fear of being challenged. As a result, although the laws give the *communautés* rather significant responsibilities, they have always compromised with their member municipalities, accomplishing little in the end, at least until recently (Lefèvre, 1998).

Also, although the rationale has been to give metropolitan arrangements area-wide competences, this has not always occurred in practice, mainly due to a difference between the “de jure” responsibilities given to the arrangements and the “de facto” competences. Additionally, other governmental tiers have refused to transfer some metropolitan functions. This is evident in Paris and London, where the state controls important policy sectors such as public transport and economic development, as well as in most Latin American cities.

Furthermore, there is the corollary lack of financial resources, as well as restrictions on spending the resources that exist. In intermunicipal governance modalities, municipalities are often reluctant to transfer financial resources automatically to the joint authorities and prefer to be in control. In France, for example, the political rule has been to “share” the *communautés*’ resources among the municipalities. In the metropolitan model examples, with the exception of the CAM, authorities have few resources and have difficulty in obtaining more, exemplified by the recent unsuccessful demand of the VRS to the Land of Baden-Württemberg. As a result, although metropolitan arrangements are responsible for most functions, they lack the institutional capacity, mainly in staff and expertise, to implement their policies and to challenge those of others. This is apparent, for example, when comparing the GLA with the GLC or the VRS with the administrative and technical apparatus of the city of Stuttgart.

Finally, the jurisdictional territory of most metropolitan arrangements does not match the functional area, which is the case of almost all large com-

munautés urbaines in France, with perimeters that have not changed since the 1960s. This is also true, as we have mentioned, for London, where the GLA's territory remains unchanged compared with the GLC's perimeter, as well as for many metropolitan bodies in Latin America.

### *The Legal and Political Strength of Municipalities*

The legal and political legitimacy of municipalities found in most countries of Europe and North America is an obstacle to successful metropolitan governance arrangements. Hence in order to build efficient modes of governance, the issue of municipality legitimacy must be addressed. First and foremost, history has provided the municipalities with legitimacy; indeed, even in countries where the state has been historically powerful like France or the United Kingdom, municipalities are the most legitimate institution along with the state. Municipalities are considered the basic unit of democracy (especially in the United States) and consequently have developed a political strength based upon the population's feeling of belonging. In many countries, such as France, Italy, Brazil, and Germany, they have acquired a constitutional status, which guarantees their rights. This makes it difficult, usually impossible, to alter their status to even the slightest extent, concerning their responsibilities or financial resources.

Moreover, metropolitan governance needs to address the issue posed by the existence of a municipality that is stronger than the others, namely the central city. Areas such as London, where strong central cities do not exist, are exceptions. Generally speaking, all intermunicipal arrangements are based on an allocation of seats in management and decision-making bodies, in correspondence with the population weight of the city in the agglomeration. Thus, central cities virtually control these arrangements, which has been an obstacle for metropolitan governance in many cases; for instance, Rome accounts for 70% of the metropolitan area, while Turin accounts for almost 50% of the urban area. This domination is often encouraged by state laws that give the chairmanship of metropolitan arrangements to the mayor of the central city, which is the case in Bogotá and Montreal. Even when the central city does not demographically dominate the area-wide political bodies, its weight is important; thus, it remains the principal "partner," without which and against which nothing can be achieved. For

example, the city of Lyon represents 36% of the communauté urbaine population; the city of Milano 36% of the province; and the city of Stuttgart 23% of the VRS. Evidently, the demographic weight of central cities often means the existence of a technical and administrative apparatus, giving them a “capacity to act” incommensurate with other municipalities of the area.

Additionally, recent trends towards decentralization, apparent in nearly all countries in Europe and Latin America, have enhanced the political power of municipalities, especially the largest. Indeed, the various decentralization laws could have transferred power, functions, and recourses to area-wide arrangements rather than favoring basic local governments. For instance, in France, the decentralization acts of the early 1980s, which initiated and set the framework for decentralization, transferred state powers to municipalities and provinces (*départements*) without consideration for metropolitan areas. Since then, various laws have been established to compensate for this. This situation is prevalent in most European countries, notably those with directly elected mayors, such as Italy and the UK, and in some German Länder. By and large, this is also the case in Latin America, where the recent decentralization process has reinforced municipalities.

### *Metropolitan Areas Lack Legitimacy*

The lack of legitimacy of metropolitan areas is likely the most crucial obstacle for metropolitan governance. Legitimacy lies elsewhere (in the states, in municipalities, etc.); thus decision making remains outside of the metropolitan areas as well. This lack of legitimacy exists because metropolitan areas lack identity and they are not “reference” territories for the society as a whole.

Metropolitan areas carry no identity for the people, including the social groups, who inhabit them. Indeed, metropolitan reforms have been set up to resolve efficiency problems such as service provision, fiscal disparities in the financing of services, and others, yet metropolitan reforms have been based on functional legitimacy, and have largely forgotten, or failed to consider, other aspects of legitimacy, for instance creating an identity for metropolitan areas. As a consequence of history and time, this sense of identity and belonging has remained in municipalities and existing traditional governmental units. Obvious-



ly, metropolitan arrangements, whether supramunicipal or intermunicipal, are recent and do not carry a similar historical density as older political structures. Yet, leaders should compensate for this, which has taken place only recently. This lack of identity partly explains the negative votes in support of metropolitan government reforms, which happened in Amsterdam and Rotterdam when voters were asked to choose between the establishment of a new tier of government at the metropolitan level and the maintenance of central cities, some of which dated back to the Middle Ages and beyond. This also took place in the UK when the metropolitan councils were abolished and the population failed to react before or after their abolition, as if it were irrelevant. Another example is Greater Manchester, which does not have a soccer team, while the City of Manchester is famous for Manchester United and, in many countries, for better or worse, soccer clubs are essential for territorial identity.

Furthermore, metropolitan areas do not serve as “reference territories” for political and institutional structuring of society. For instance, political parties are territorially based at the level of provinces or states, but not at the metropolitan area level. This is evident in Europe and in the United States, where not one metropolitan-wide organization or political party can be found. The same is true of other segments of society; economic actors are seldom organized at the metropolitan level, but rather at the municipal or provincial stage. For example, in Italy, Ireland, and Spain, chambers of commerce are organized on a provincial basis, while in France and Germany, the municipal level (generally intermunicipal) is the most common. This is more or less the same situation for traditional business associations (Lefèvre, 2002). Similar territorial bases appear for trade unions, the church, and interest groups, which are generally organized at various levels, but never at the metropolitan level. This is also true for the most important political actors, the state in unitary countries, and the states in federal countries. Additionally, the technical and administrative apparatus of the state, although complex and diversified, is rarely organized at the metropolitan level. In Germany, *Länder* are organized at the level of *Regierungsbezirke*, which concerns certain areas of the Land. Primarily, in France, Spain, and Italy, as well as several Latin American countries, the state is organized territorially at the provincial and/or regional levels. This territorial organization of society has a direct effect on metropolitan areas, as well as their governance arrangements. Metropolitan

areas are not referential territories; as such they are not considered as relevant territories for the elaboration and implementation of policies and the structuring of decision making and power.

## **Building Metropolitan Governance by Building Metropolitan Legitimacy**

“Giving” legitimacy to metropolitan areas is key in the success of metropolitan governance; however, this legitimacy cannot be “given,” but must be produced. This part of the chapter focuses on the conditions required for the production of three complementary elements of legitimacy: political, functional, and social. Political legitimacy is the ultimate form of legitimacy as, theoretically, it offers the unchallenged power to constrain individual and collective actions, in the name of the collective interest. Generally, this is carried out through the establishment of public institutions, often a metropolitan authority. Functional and social legitimacy play an essential role because they legitimate the institution on the basis of its functional necessity (for instance, the need to produce adequate policies) and social necessity (the metropolitan area is a relevant territory to cultivate a sense of belonging and social interactions). These three dimensions of legitimacy are necessary to build strong forms of metropolitan governance and facilitate the integration of nonpublic actors in the provision of services and the implementation of public policies.

### **Building Politically Legitimate Arrangements for Metropolitan Areas**

Reinforcing the importance of addressing political legitimacy in all metropolitan governance arrangements, we will now analyze the few experiences undertaken in building politically legitimate arrangements for metropolitan areas in the following domains: (i) making metropolitan arrangements acceptable to local governments; (ii) dealing with central-city domination; (iii) balancing metropolitan empowerment with neighborhood participation; and (iv) giving democratic status to metropolitan arrangements.

### *Metropolitan Governance Arrangements Must Be Acceptable to Local Governmental Units*

In particular, two local government units must approve the metropolitan governance arrangements: the provincial or intermediary tier of government and the small municipalities. We will discuss central cities in the following section.

The establishment of an arrangement focusing on the governability of the metropolitan area challenges the existence of provinces, or any other intermediary tiers of government, making its acceptance difficult. This is understandable for spatial reasons (in many cases the territory under the jurisdiction of the intermediary tier closely correlates or conflicts with the metropolitan area), because of competences (in many cases part of the competences of the intermediary tiers would be transferred to the new metropolitan arrangement) and due to political disputes over power in metropolitan areas (the intermediary tier would lose power to the metropolitan arrangement). To avoid a conflict between the new metropolitan arrangement and the intermediary tier, the recent suggestion has been for metropolitan arrangements to become intermediary tiers themselves, similar in constitutional status to existing tiers (thus avoiding the institutional conflicts that could emerge with the creation of a new tier of government, which requires changes to the constitution). Both Italian and Dutch governments have chosen such arrangements.

In Italy, the 1990 Act proposed that when a metropolitan area matches, more or less, the perimeter of an existing province, the province automatically becomes the metropolitan authority with all the responsibilities, staff, and resources established in the law. The Dutch government made a similar proposal. In the Italian context, when the metropolitan area does not match the province perimeter, for example, in Bologna and Milan, a new province is created, covering the metropolitan area and gaining the powers and recourses provided in the law. The same solution has been applied in London, where the Greater London area is under the responsibility of the Greater London Authority, which has the same authority as the English regional governments to be established in the near future. In doing so, the British government has avoided a territorial conflict; yet, the territory of the GLA does not match the functional area of London, forcing

authorities to cooperate with the two other regions (South East and South West) to address issues of metropolitan significance.

The situation is different with regards to the municipalities, which are generally afraid of being set aside or marginalized in the decision-making process of the metropolitan area. To avoid this, many countries have decided to guarantee the representation of municipalities on the boards of the metropolitan arrangements, which is more important when metropolitan areas are composed of tens or hundreds of municipalities, such as in Stuttgart (180), Madrid (180), or Lyon (55). For instance, the last decentralization acts in France provided the guarantee for each municipality, regardless of size, to be present directly or indirectly on the boards of the intermunicipal joint authorities (directly when smaller, or indirectly through a rotation system by which a few small municipalities represent all others for a year or two, and then this responsibility shifts). The solution in Italy has been to give the province the opportunity to represent the small municipalities.

### *Confronting Domination of Central Cities*

Most metropolitan areas are dominated by a central city, although not always in absolute terms. This situation has caused conflicts for economic reasons (e.g. central cities have been reluctant to take care of centrality costs by themselves) and political motives (battle for political control over the metropolitan area). Two powers cannot control the same territory; metropolitan governance reform must take this into consideration when confronting the domination of central cities over their metropolitan area. Yet, this issue has been overlooked in most reform projects. Recently, this conflict has been dealt with in two ways, by reducing the power of the central city in metropolitan structures and by abolishing the central city.

Reducing the political weight of central cities is a flexible way of dealing with central city domination because it focuses on political negotiation. In a democratic system, it is considered legitimate that an institution representing the public should have power equal to the volume of people it represents. Based on that assumption, the influence of central cities on area-wide boards should be commensurate with their demographic weight. However, this “commensurate” power has inhibited the involvement of other cities due to a fear of entering struc-

tures controlled by the central city in which they will lack the capacity to discuss or oppose policies that they consider damaging for their inhabitants. The most obvious solution has been to give central cities a reduced power, unequal with their demographic weight. *Communautés urbaines* in areas such as Lyon and Nantes, France, have voluntarily implemented this solution, agreeing to receive fewer seats than their population weight would demand, and transferring some seats to the suburban municipalities. This occurred due to a change in the political elite, who have become less focused on their own territory and more open to metropolitan issues and to cooperating with suburban municipalities. However, the control of the intermunicipal board still remains in the hands of the president of the *communautés urbaines* who usually is the mayor of the central city. In order to appear less domineering, those presidents give many vice-presidencies to suburban municipalities, as well as to political parties from the opposition. Overall, the nature of leadership is changing and, at least in Europe, this is a favorable and necessary condition for successful metropolitan governance arrangements. Leadership will be discussed in the third part of this chapter.

A second and more brutal “solution” has been the dismantling of central cities, primarily introduced by the 1990 Act in Italy and the government proposals of the mid-1990s in the Netherlands. In both countries, the decision was made to dismantle the central cities and recompose them into various “metropolitan municipalities,” with the same limited responsibilities as other municipalities in the area. In the case of the Netherlands, Amsterdam was to be replaced by a few towns and Rotterdam by 10 towns; in Italy, Milan was to be replaced by 20 municipalities, Bologna by 10 municipalities, and so on. However, this plan has not proven realistic as both Amsterdam and Rotterdam populations voted negatively for such dismantling. In Italy, the political elites in favor of the establishment of metropolitan cities (*città metropolitane*) have hesitated in similar proposals (albeit mandatory), fearing refusals that may hinder the efforts already under way towards the creation of such cities (see the Bologna experiment analyzed in the next section).

Interestingly, a reverse process has recently taken place in Canada, when the provinces of Ontario (Toronto) and Quebec (Montreal) opted for an amalgamation of central municipalities into a larger central city. Consequently, stronger central cities now exist in these two metropolitan areas, which may cause serious conflicts with outer parts of the metropolitan area in the near future. The

solutions envisaged to deal with central city domination must face the current countertendency to reinforce the power of central cities. Indeed, the recent political evolution, in Europe at least, has been towards what is called “municipal presidentialism,” which is the reinforcement of municipal administration through direct elections of the mayors. This has taken place in Italy with the 1993 Act, in various German Länder in the 1990s and in Great Britain with the 2000 Local Government. In addition, the recent bill in Spain regarding “cities with a big population” aims at empowering central cities (Rodríguez-Álvarez, 2003) without specifically addressing the metropolitan issue.

### *Balancing Metropolitan Power with Neighborhood Participation*

One of the most frequent critiques of metropolitan governance arrangements, notably of the Metro model, has been the distance it creates between political power and the citizens. Metropolitan reformers acknowledge this issue, stating that metropolitan empowerment should go hand in hand with neighborhood empowerment to compensate for this distance. At the local level, many cities have established neighborhood councils, such as in Amsterdam, Bologna, Islington (London area), and many U.S. and Canadian towns. In the past, this has been done on a voluntary basis; however, several countries have recently decentralized power at the neighborhood level with special laws. In France, the “Close Democracy Act” of 2002 (*loi sur la démocratie de proximité*) created neighborhood councils in all municipalities with over 80,000 inhabitants, while in Quebec (Canada) *arrondissements* have been established in the amalgamated city of Montreal. This is also the case in Rome with the recent establishment of 20 *municipi*.

Neighborhood decentralization can take many forms, from simple (neighborhood consultation) to the most complex (neighborhoods as actual inframunicipal government units). The rationale of the 2002 law in France was clearly to balance metropolitan empowerment realized in recent laws and state policies (as we will discuss later) with a consulting power given to inhabitants for local affairs; this case remains in the framework of representative democracy, neighborhood councils being consultative bodies. Other cities have chosen a different perspective. In 2001, Rome embarked in a profound decentralization at the

neighborhood level with the transfer of responsibilities and financial resources in the sectors of local housing, parks, culture, and local development to the 20 *municipi* run by directly elected councils.

### *Giving Democratic Status to Metropolitan Arrangements*

Metropolitan governance arrangements, such as intermunicipal joint authorities (in France and the UK) have been strongly criticized because of their democratic deficit. Such bodies have gradually acquired more powers, including taxing powers, without being directly elected. One way of solving this problem has been to directly elect the assemblies, and/or the executives, of these arrangements, which occurred in London with the direct election of the GLA mayor and assembly. In France, the direct election of the president and councils of *communautés urbaines* and *communautés d'agglomération* has been discussed for years and should be approved soon. In Italy, the 1990 Act on Metropolitan Cities concluded that the president of the metropolitan city, as well as the council, should be directly elected, while in various Latin American cities, such as Quito or Bogotá, the presidents of metropolitan districts are directly elected; in the United States, this pertains to Metro Portland.

Nevertheless, the direct election of assemblies and/or executives of metropolitan governance arrangements does not solve the question of the political and social acceptance of these arrangements, as experienced in certain British metropolitan counties that were abolished without any serious defence from their citizens, even with directly elected assemblies. Metropolitan governance arrangements should demonstrate their usefulness and the benefits they offer to the community. They must be visible and assessed for their responsibilities, and as such must be accountable to citizens; this is often difficult for intermunicipal arrangements because the municipalities are ultimately accountable to the community. In other models of governance, accountability depends on the existing instruments and procedures, for instance in the case of London's mayor, who is not only scrutinized by the assembly, but must also present his policies and achievements to the public twice each year. Indeed, the mayor of London considers visibility and accountability so important that he has multiplied the opportunities to communicate with Londoners.

## Building the Functional Legitimacy of Metropolitan Governance Arrangements

Although most, if not all, metropolitan governance arrangements have been established for functional reasons, they have not all acquired a functional legitimacy; first because the allocation of functions is not a technical process, rather it is a political process in which metropolitan arrangements have not always succeeded. Additionally, functions given to metropolitan arrangements are only useful if they demonstrate the necessity of their establishment.

### *The Allocation of Functions between Government Tiers in Metropolitan Areas Is a Political Issue*

Functional legitimacy means that metropolitan arrangements have elaborated and implemented policies to solve the relevant issues. In order to do so, these arrangements must have the means to address the metropolitan problems mentioned in the first part of this work. However, the allocation of responsibilities of metropolitan relevance is not only a technical question (what are metropolitan and municipal responsibilities?), but also a political one, questioning the power of existing governmental units, including the state. Therefore, the allocation of responsibilities to metropolitan arrangements is the result of a trade-off between political forces embedded in institutions. This validates, as exemplified earlier in this work, that metropolitan governance arrangements are often ambiguous, first, because some metropolitan functions have not yet been allocated, rather they remain in the hands of the state, the municipalities or other tiers, and second, because in practice, they do not have the capacity to use these functions to develop adequate policies.

For example, this has been the case for the French communautés urbaines, established in the late 1960s, which have not been able to elaborate and implement metropolitan-wide policies until recently due to the veto power of the member municipalities. This power meant that, in spite of the responsibilities allocated to the communautés urbaines by law, the mayor could deny any action imposed by the communauté. Every mayor had the political right to refuse a project or policy if he or she believed it would run against municipal interest.



Nonetheless, the French experience yields some positive points and lessons. First, the political situation, as expressed above, is changing and today, more *communautés* are able to impose certain actions and policies upon municipalities, or make them acceptable. This is a result of the *communautés* having found their place in the metropolitan political space, due to time (French *communautés* have existed for almost 40 years in the largest urban areas), as well as a shift in the mentality of the political elite, becoming less parochial and more open to area-wide issues. This situation exists in several European metropolitan areas, such as Rotterdam, Bologna, Lyon, and Turin (Jouve and Lefèvre, 2002a). These experiences have proven that the political acceptance of metropolitan arrangements is a process that requires time, as well as a change in political personnel at the local level.

### *Using Public Policies as Tools to Legitimate Metropolitan Arrangements: The Italian Case*

Functional legitimacy is not given, but has to be conquered by metropolitan structures that already exist. Some Italian cities have tried to use public policies to legitimate the future existence of metropolitan arrangements; Bologna has been the most advanced urban area to attempt this (Jouve and Lefèvre, 1997). Six years after the approval of the 1990 Act on Italian metropolitan governments, not a single area had established the *città metropolitana*. Therefore, the municipality of Bologna, along with the Province of Bologna, decided to innovate in implementing the 1990 Act. They signed an agreement (*Accordo per la Città Metropolitana*, ACM) with the goal of establishing a metropolitan authority in the future. Any municipality in the province may adhere to this agreement, which creates a political body (the metropolitan conference) to handle metropolitan problems and develop technical and administrative structures in three different sectors: administrative and financial affairs, territorial affairs, and social affairs. Each structure is on a voluntary basis. The role of the technical bodies is to address specific problems of metropolitan importance and find remedies through joint working groups of the technical and administrative apparatuses of the province, the municipality of Bologna, and any other municipalities interested in joining these groups. The goal is to produce policies at the

metropolitan level, without waiting for the creation of a metropolitan government. Indeed, such policies will confirm that cooperation at the metropolitan level can solve problems, thus legitimating the establishment of a metropolitan form of government.

After about two years of cooperation, the Bologna agreement produced a strategic prospectus, a metropolitan card that any citizen of the metropolitan area could use to access administrative and public services, regardless of its location (for instance a citizen of a suburban municipality could get administrative papers in any municipality), and allowed for some administrative and technical simplification of procedures. The political and technical elite in charge of the agreement believed that successful public policies could help constitute a metropolitan territory and a sense of solidarity, which could develop into a sense of belonging. This was considered a necessary first step, before relying on a referendum, which would have given political legitimacy to the process of building metropolitan governance.<sup>1</sup>

Other Italian cities have tried to follow the Bologna example, producing institutional innovations such as the “metropolitan offices” in Rome. From 1994 to 1998, the municipality of Rome, the Province of Rome, and the Region Latium established common offices to discuss and address the metropolitan problems of the area. These “common offices” were abolished after the defeat of the Left in 1999 at the provincial elections, and in 2000 at the regional election; the municipality of Rome was the only one remaining with a leftist majority.<sup>2</sup>

### *Building Metropolitan Governance through Territorial Projects and Agreements: The Case of France*

France has been one of the most consistent countries in pursuing policies focused on the constitution of metropolitan arrangements. This process has accelerated since 1999, when the state adopted a clear approach to establishing metropolitan authorities in the 150 largest urban areas. In addition to creating

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<sup>1</sup> The Bologna experience stopped in 1999 after the political defeat of the Left in the Bologna municipal election.

<sup>2</sup> In May 2003, the province was regained by the Left with a proposal to enhance cooperation with the municipality of Rome, the president of the province being the former first deputy mayor of Rome.

the new *communautés urbaines* and the *communautés d'agglomération*, the state established specific agreements and projects that urban areas must follow to receive governmental grants; these were specified in two 1999 acts regarding national territorial planning and intermunicipal cooperation. According to these two acts, *communautés urbaines* and *communautés d'agglomération* councils must approve a territorial project, which is a 5- to 10-year plan concerning infrastructure, economic development, social housing, culture and environment at the metropolitan level. Additionally, the plan details the required funding and operations to reach the stated objectives. Once approved by the *communauté* council, the project is then discussed with the state; if approved by the state, there is an agreement, the *contrat d'agglomération*, signed between the state and the *communauté*. This agreement guarantees that the state will finance part of the actions contained in the territorial project; accordingly, negotiations take place between the state and the *communauté* regarding the funding. In addition, the law states that the regional council must sign the *contrat d'agglomération*. Therefore, the region will also finance the actions envisaged in the *contrat d'agglomération* and will be part of the *contrat de Plan*, a larger 5-year agreement signed by the state and the regions. Moreover, European structural funds will feed the general budget of the territorial project.

By 2004, five urban areas had produced their territorial projects and signed an agreement with the region and the state. For instance, the Bordeaux agglomeration contract amounts to 1.2 billion euros over a 7-year period. The *communauté urbaine* of Bordeaux (CUB), the departmental council of Gironde, the city of Bordeaux, the regional council of Aquitaine and the state (regional prefect) have signed the agreement. The state brings 17% of the total funding, while the CUB brings 36% and the regional council 15%. Other contributors are the EU, the *département* of Gironde, municipalities, consular chambers and national public agencies, such as the National Railways (SNCF) and the National Center for Aerospace (CNES). Although the economic development and social cohesion dimensions are present in the agglomeration contract, its major funding goes to transportation infrastructure for road and public transport (in this case a tramway). The total amount devoted to economic development is about 300 million euros (200 million for research and innovation, 96 million for NTIC infrastructure and regeneration of the port area); 224 million euros are allocated to

social cohesion, part of the “balanced development of the agglomeration” theme, 173 million of which comes from neighborhood state policy funding. Through this system, these metropolitan area projects are becoming territorial reference for the policies of all institutions (the département is also involved in its funding). This contract is legitimized by the state because without such a territorial project, the *contrat d’agglomération* would not exist, nor would state or European funding.

We refer to institutional building through the creation of *communautés d’agglomération*, territorial projects, and specific agreements between the state and local authorities as “constitutive policies,” which are state policies that set up a general framework for collective action. This is not a top-down process, nor is it considered a central government imposition, for several reasons. First, with the plurimandate holding system, those who vote on these reforms (the national deputies) are also local elected officials, since in France most national deputies are also mayors or members of local authority boards. Second, the content of the policies is not specified and local actors must give substance to territorial projects and agreements. Third, the various laws implemented in that field have received strong support from large city associations, while the state plays the role of “facilitator,” using its legitimizing power to help metropolitan areas constitute themselves into political actors. Indeed, it gives metropolitan leaders a legitimacy to elaborate and implement valid metropolitan policies and build successful metropolitan arrangements.

## Socially Acceptable Metropolitan Governance Arrangements

Here, we will discuss modalities used to mobilize civil society in a broader context. Pertinent activities range from those that help create a sense of belonging to the metropolitan area to those focused on building a “capacity to act,” which is exemplified in the strategic planning undertaken by many European metropolitan areas.

We have already discussed examples of the creation of a sense of belonging and solidarity in the Bologna case; however, these activities were aimed at legitimizing a nonexistent form of governance. Those activities that foster social acceptance of an already existing metropolitan government are different. For

example, the urban areas of Stuttgart and Hannover in Germany have created a “day of the metropolis,” an annual, one-day celebration of the metropolitan area, in order to present the government to the people and cultivate a sense of belonging to the urban area through cultural events.

This type of activity is exceptional; more common examples include civil society involvement through a strategic planning process. The unique and interesting cases in Barcelona and Turin will illustrate this mobilization of civil society. The process in Barcelona is sophisticated and presented as a model, while the Turin process involves a strategic plan focused explicitly on building a metropolitan city in the politico-institutional sense.

### *The Barcelona Case in Mobilizing Civil Society*

The first strategic plan of Barcelona was elaborated in the late 1980s as an instrument to integrate the 1992 Olympics infrastructure with the city activities. A specific organization, Barcelona Plano Estratégico, was established for this purpose. Today, this plan has evolved into a very sophisticated instrument in charge of the economic and social development strategy of the metropolitan area, and Barcelona has recently approved its third strategic plan covering the metropolitan area (36 municipalities and 2.9 million inhabitants).

The Barcelona Plano Estratégico has a sophisticated organization. It is led by the General Council (*Consejo General*) which appoints the Delegated Commission (*La Comisión Delegada*) and both bodies are assisted by several structures. The Consejo General is composed of 300 members: the mayors of the 36 metropolitan municipalities, business associations, banks, chambers of commerce, universities, foundations, intermunicipal bodies, trade unions, newspapers and others (in short, almost all representative structures of economic, social, and cultural interests). The Consejo General, whose main function is to approve plans, is chaired by the mayor of Barcelona, who is assisted by 20 vice-presidents (the president of the chamber of commerce, the chairmen of sectoral metropolitan agencies such as public transport and environment, the presidents of trade unions and the Barcelona Fair, etc.). The Comisión Delegada, the day-to-day executive body, is composed of 22 members (9 municipalities, the major trade unions, the university, the Fair, the port authority, and the metropolitan

sectoral agencies) and is chaired by the deputy mayor of Barcelona. Three “think tank” structures (*organos de reflexión*) and six liaison commissions (*comisiones de enlace*) assist the Comisión Delegada. These structures are: (i) the strategic development council, which proposes the objectives of the strategic plan; (ii) the prospective commission divided in two subcommissions, one that analyzes the links between private and professional life in Barcelona and another that is in charge of union enlargement; and (iii) the strategic commission, which takes care of strategic issues such as accessibility of the metropolitan area, how to attract new talent to the area, training and education, immigration, etc. The six liaison commissions are in charge of building links: (i) between economic and strategic sectors; (ii) with other municipalities of Catalunya, other Spanish, European, and world cities; (iii) between sectoral plans (culture, environment, professional training, etc.); (iv) between data and economic analysis; (v) within the territorial plan of Barcelona; and (vi) between environment and spatial planning.

With this sophisticated organization, the metropolitan area of Barcelona is partially governed through a structural mode of mobilizing the area’s “living forces,” under the direction of local government, essentially the central city.

### *The Turin Example: Strategic Planning to Establish a Metropolitan Authority*

The Turin plan, the first strategic plan at the metropolitan level in Italy, was elaborated between 1998 and 2000, with the 2006 Olympics in view, and approved that year. Following its approval, a public agency was established, Torino Internazionale, with the goals of coordinating and monitoring the activities approved in the plan; controlling the implementation of the projects identified in the plan; and updating the plan through 2010. Torino Internazionale has 122 members: local governments (the province, the central city, and 37 other suburban municipalities), development agencies, two “territorial pacts,” firms, business associations, the chamber of commerce, cultural associations, universities, the airport authority, trade unions, etc. It is led by the mayor of Turin and administered by an assembly of partners, which appoints a nine-member board. The plan consists of the following strategic orientations, managed by six board members and six working groups: (i) integrating Turin in the world system (large infrastructure

such as the high-speed train and airport; (ii) building a metropolitan government; (iii) research and education; (iv) culture, commerce, tourism, and transport; (v) urban quality of life (social integration, urban regeneration, Agenda 21); and (vi) employment and enterprises.

The strategic plan led to the signing of a pact between all local governments. In 2000, a metropolitan conference was established, which comprises the 22 municipalities of the first ring of the metropolitan area. This conference, chaired by the province of Turin, is considered the first step towards a metropolitan city as illustrated in the Bologna experience. In 2002, a permanent working group was constituted, which was composed of the city of Turin, the province, and Torino Internazionale; and was designed to organize and support the activities of the metropolitan conference. Consequently, metropolitan governance is viewed as a process, with the strategic plan as the instrument used in reaching a consensus among the most significant actors of the metropolitan area.

## The Specifics of Metropolitan Governance Building

In the third part of this work, we will stress three significant points in building successful metropolitan governance arrangements: the importance of procedures, leadership, and the state.

### The Importance of Procedures

The process of building successful metropolitan governance structures needs to be well structured. The procedures play significant roles here, as illustrated by the Bologna agreement and the contract between urban areas, the regions, and the state in France. Along with enhancing the structure, procedures help produce consensus that give meaning to the process. In the “governance era,” the sense of public policies, or collective action, is no longer given by the actors (usually the state), but has to be constructed by the actors. A successful construction of the procedures must be oriented to the long term because producing consensus and a sense of action requires time; also, it must be gradual to ensure a mutual, progressive adjustment; and involve all stakeholders in order to avoid blockages that typically occur when stakeholders’ access has been denied.

It is a risky process to involve all stakeholders because opening the system of actors is like opening Pandora's box; all actors do not have the same power, lacking equal resources, and thus their expectations must be understood and channelled efficiently. Who should decide and who should have the final say? These are ambiguous questions, due to the legitimacy of the actors involved in the overall process, and the fact that countries have different traditions and practices. For instance, in the Netherlands, the state is ultimately in charge because it is considered the representative of general interest, whereas in other countries such as France, Italy and Germany, local governments must have the final say and conduct the procedures. On the other hand, in the UK, the private sector and more generally, the non-governmental actors, have been given a legitimacy that is rather unique in the Western world. In any case, the process and procedures must be "controlled" by an efficient pilot, which is why the question of leadership is a major issue of metropolitan governance building.

## The Importance of Leadership

For our purpose, a leader is a person, group, or collective agent, such as an institution, who gives a process direction and acts upon conflicting issues, and who must be considered legitimate by other actors and society as a whole. Generally speaking, the leader belongs to the public sector and is elected or represents voters.

Leadership changes along with the legitimate basis for leadership. Before, a leader was identified as legitimate because he or she was a member of a political party, a strong ideological figure, or occupied a central position in an institution. Today, power is defined more as the capacity "to act" (Stone, 1993) rather than to impose or force the public or other actors to obey; consequently, political partisanship is losing importance. Due to this shift, today a leader must have different qualities and features, because in a more pluralistic and fragmented, less centralistic society, consensus is crucial in producing policies and actions that address relevant issues. Accordingly, a strong leader must have the capacity to aggregate these pluralistic and fragmented interests into a legitimate project that is acceptable for all or most of the stakeholders. If social values are important in this process (Jouve and Lefèvre, 1997), they are no longer sufficient because the political legitimacy based on shared, universal values is no longer



adequate to build a capacity to act. Therefore, this basis for legitimacy must be altered, which may lead to the metropolitan territory becoming the new legitimizing element. In short, a leader, whether individual or collective, is someone who can prove that he or she represents the general interest of the metropolitan area, with the necessary recourses to act accordingly. These resources should come naturally from his position and also from his capacity to be supplement them with resources of other actors. Therefore, a legitimate leader must be willing to negotiate, enter into relations with other segments of society, create links, foster the research for consensus, and ultimately, to propose a project acceptable to the most relevant stakeholders.

In the following portion of this section, we will present three types of leadership: individual, collective, and institutional. It is essential to point out that they are not alternative, rather, ideally, they should complement each other; for example, an individual leader must incorporate institutional resources and have assistance from a group.

### *Personal Leadership to Enhance Metropolitan Governance Arrangements: The Case of London*

As discussed, the Greater London Authority is a weak form of the metropolitan model, notably with respect to the state. However, it has a strong political legitimacy given by the direct election of the assembly and the mayor. Indeed, the mayor is the most important figure of the GLA because the assembly has little power, while by law the mayor takes on an executive role. Mayor Ken Livingstone, elected in 2000, is no ordinary mayor; first he was the last leader of the GLC and one of the strongest opponents to Prime Minister Thatcher's policies. Second he was elected without the support of his own party, the Labour Party, which chose another candidate; therefore he has always been an independent politician. Third, he is the first elected mayor in Great Britain and was elected by the most important constituency of the country, while the House of the Commons elects the prime minister (which Mayor Livingstone often points out), and finally, he is a charismatic leader.

Since he has been in charge, Ken Livingstone has adopted a pragmatic attitude (Kleinman, 2002b). Although he was known as "Red Ken," as he led the

left wing of the Labour Party and outwardly opposed Tony Blair, he was elected with the support of the unions and businesses. Since then, he has taken on a flexible demeanor, agreeing to bargain with influential businesses (with his support, business associations established the London Business Board, which is one of the permanent interlocutors of the mayor), incorporating economic growth as a crucial element in GLA strategies (notably for economic development and spatial planning), and negotiating with the boroughs and involving them in the elaboration of the GLA strategies. After only 3 years in office, Mayor Livingstone became the central political figure of the metropolis.

Ken Livingstone has successfully worked with the weaknesses and strengths of the GLA. As the representative of Londoners (an image he has carefully managed by using public meetings, forums, etc.), he has stated that the GLA lacks the power (for instance, in housing policies) and financial resources to implement efficient strategies. As a legitimate leader, he demands more power and resources from the central government, with the full support of important stakeholders, a support that he has cultivated through an efficient use of the powers given by the GLA Act.

### *Collective Leadership and Metropolitan Governance: The Case of Bologna*

The Bologna case differs from the London case in several respects. Although the mayor of Bologna, Walter Vitali, led the establishment of a metropolitan city through the Bologna agreement, he was a weak leader overall, with little charisma. However, he had a strong political legitimacy as the mayor of the central city since the 1993 act, which established the direct election of mayors in Italy (previously the municipal council, often run by unstable party coalitions, appointed the mayors). In addition, the 1993 act established the direct election of the deputy mayors and many high local public officials, positions that had previously been in the hands of political parties. The mayor of Bologna, although a member of the Communist Party (PCI), was fairly independent from the party.

Mayor Vitali was assisted by a group of about 20 people, who either came from the PCI or shared the same values. Some of them were appointed as deputy mayors (the deputy mayors and the mayor form the cabinet or the *Giunta*, the

executive of the municipality) and to crucial positions such as president of the Chamber of Commerce or of the Bologna International Fair. Additionally, the two higher local governments, the province and the region, which were controlled by the PCI, supported Mayor Vitali. With this group taking on the crucial positions, the Metropolitan Agreement (ACM) could proceed smoothly. The group controlled not only political positions that approved the ACM, but also the necessary technical, administrative, and financial resources used to implement policies voted by the Metropolitan Conference; for example, the region passed a regional act supporting the Metropolitan Agreement and linking the metropolitan area with the Province of Bologna, which in Italy is the juridical function of the region. Thus, on political, financial, and administrative terms, the group was able to move forward towards developing a metropolitan city. The failure of the PCI to win the Bologna municipal elections, among other reasons, caused the sudden stop of the ACM in 1999.

### *Institutional Leadership: The Case of the Comunidad Autónoma de Madrid*

The Comunidad Autónoma de Madrid (CAM), which corresponds to the Spanish regional tier, is a very powerful government, as noted in the first part of this chapter. The important legislative, juridical, executive, and administrative powers of the CAM make it the most important governmental tier, a quasi-federated state in a quasi-federal country. Additional features have allowed the CAM to become the political and institutional leader of the Madrid metropolitan area: the fact that its territory closely matches the functional area of the metropolis, the full absorption of the Province of Madrid because the CAM is a mono-provincial region, the building of a neo-corporatist power system, and the stability of its executive.

The building of a neo-corporatist system is a very unique characteristic of the CAM. According to Rodríguez-Álvarez (2002), the metropolitan area of Madrid is governed by the CAM through various councils and agencies; these are composed of representatives of the economic and social sectors such as the Economic and Social Council, a consultative body established in 1991, as well as several employment, professional training, and economic development

agencies, all operating at the metropolitan level. Specific economic and social structures, such as chambers of commerce, business associations, and trade unions, are organized on a provincial level, and involve the most important stakeholders. Although the management of the CAM has been politically erratic, as it has changed hands between the socialist and the conservative parties, it has been relatively resolute over all in policy priorities and decisions, as well as in building strong relationships, notably with the private sector, a policy supported by all CAM presidents.

## The Role of the State

In spite of current statements and analysis regarding the declining role of the state, the last three decades of recent experiences in metropolitan government and governance show that the state is still a powerful actor. For our purpose here, the state means the central government in unitary countries and the federal government and other federated states (Länder in Germany, provinces in Canada, etc.), in federal countries. Principally, the state can intervene positively to help establish metropolitan forms of government as a producer of laws (that is a legitimizer), as a mediator, and by restructuring itself at the metropolitan level. Once again, these types of interventions are not alternatives and should be used jointly to create and monitor a process.

To better understand the following section, it is necessary to clarify that, in general, the state has had a tendency to treat national capitals differently with respect to other metropolitan areas. For instance, decentralization laws did not fully apply in Paris until 2000, London has been given a specific form of government, Rome is supposed to have its own institutional status soon, and in Latin America, several capitals have their own form of metropolitan government or arrangements, notably Quito and Bogotá. The state does not consider the national capital as an ordinary city, as there is a tendency to intervene directly in the management of its capital through specific agencies and/or resources. However, the management of cities such as Paris and London has changed significantly, indicating that national capitals are gradually integrating “common situations” of other large urban areas. As a consequence, the following section concerns all metropolitan areas.

### *The State as Producer of Laws and Regulations*

Producing laws is one of the most important powers of the state. In the last decades, central and senior governments have produced numerous laws and other legal acts in the field of metropolitan organization, thus legitimizing the concerned metropolitan governance arrangements. In fact, the Metropolitan City Agreement of Bologna failed in part because of the Italian state's dismissal of the ACM supporters' request for legal approval of their experience at the national level. The most significant juridical intervention of the state was the enactment of national laws to establish institutional forms of metropolitan arrangements. Notable examples of such laws are the 1966 act, which created *communautés urbaines* in France; the 1970 Local Government Act in the UK, which established metropolitan counties; the 1990 Act no. 142 in Italy, which established *Città Metropolitane*; the 1994 Act of the Land of Baden-Württemberg, which established the VRS; the 1999 Act on *Intercommunalité* in France; and more recently, the 1999 and 2000 Provincial Laws regarding Toronto and Montreal. Also, in Latin America, state laws have established all metropolitan institutions, such as the Metropolitan District of Caracas and the much older institutions of Quito and Bogotá.

However, in more recent years, state intervention has been less constraining and has taken the form of what is called "constitutive policies," which are policies concerned more with the framework of public policies than with their content. To be more specific, they are more focused on the process than on the result of a policy. For example, the French 1999 act, which established territorial projects and *contrats d'agglomération*, does not define the explicit content of those instruments but concerns the process; that is, the links between the establishment of a *communauté d'agglomération* and the assistance of the state. The same is true of territorial pacts and *accordi di programma* in Italy. However, being less constraining does not mean that these state regulations or laws are unimportant in helping the establishment of metropolitan governance arrangements; on the contrary, they legitimate a process that local actors must follow, which often seems a prerequisite for its initiation.

### *The State as Mediator*

The role of the state as a mediator is rather new, notably in countries of a strong centralist tradition, such as France and the Netherlands. As we have seen, metropolitan governance arrangements are taking place in a more polycentric system of actors, where the state is no longer at the center. Thus, the state is required to change its behavior in relation to the other public actors, as well as within the private sector and the civil society. This change has been rather difficult, depending on the countries, and in federal or regional countries (such as Spain and Italy), depending on the regions or other senior governments. Behaving as a mediator between local actors requires the administrative and technical staff of the state to make changes, which include strengthening their capacity to listen, avoiding the imposition of decisions on actors, and developing a capacity to negotiate, which means accepting the legitimacy of other actors' ideas and stakes. Moreover, the state is also a legitimate mediator because it remains a powerful actor; namely it has resources that it can use as "carrots and sticks," thus there is a higher chance of a successful mediation. Two examples from Germany will illustrate this statement.

1. In Germany, the largest metropolitan and polycentric area, the Ruhr (11.5 millions), is fragmented (Knapp, 2001), with about 20 municipalities of more than 100,000 people each. In the early 1990s, facing the unwillingness of the major cities to cooperate amid severe economic crisis, the Land of North-Rhein-Westphalia established 15 regional conferences across its territory, 10 covering the Ruhr area. These conferences are consultative bodies administered by a joint management committee, which is chaired by the Land or by local governments, and composed of local governments, chambers of commerce, business associations, trade unions, etc. Their organization and management vary from one conference to the other. The head of each of the four subadministrative units of the Land, a kind of "prefect" (*Regierungsbezirke Praesidium*), acts as a mediator between local actors. It is difficult to assess the success of these regional conferences and observers have various opinions on the subject (Knapp, 2001); however, all agree that the regional confer-

ences have helped to establish a “culture of cooperation” among local players.

2. The Verband Region Stuttgart (VRS) could not have been established without the Land of Baden-Württemberg. First and foremost, as we have seen, the Land has created the new metropolitan arrangement by enacting a law, yet this is the result of a long process. In 1991, the Land set up a metropolitan conference composed of all the mayors of the metropolitan area and the executives of the kreise. This conference was a place to debate and negotiate various “hot” issues, such as public transport and the refusal of the City of Stuttgart to bear the entire costs of metropolitan equipment and infrastructure. The first result was the identification of key points of agreement and conflict. In 1992, after new elections at the Land, the new majority identified the cooperation in the Stuttgart region as a priority and put the conference in charge. In that conference, chaired by the Land, members discussed various models of metropolitan governance (a metropolitan city, a metropolitan kreise, etc.); this resulted in the establishment of the VRS in 1994.

These examples show that the role of the Land, a powerful German institution with significant juridical, political, and financial resources, has been essential to start, promote, and institutionalize cooperation between local actors.

### *Metropolitan Areas as “Reference Territories” for the State*

In almost every country, the state often has a complex territorial organization, principally because each ministry may have its own structure. The most famous model of this territorial organization is the Napoleonic model, through which the state organization matches that of the local government; it is found in many European countries (France, Italy, the Netherlands, some German Länder, Spain) and in Latin America, albeit in rather altered forms. The territorial organization of the state is the product of history, and as such reflects the instruments used by the state to control its territory. Thus, metropolitan areas, because they are mostly nonlocal governments units, are not considered. However, many states have started a territorial restructuring of their technical and administrative ap-

paratus and are seeking new territorial references, such as metropolitan areas, for their policies.

There are many reasons why some states have embarked on structural territorial changes of their apparatus and policy making; one of the most significant is their failure to find adequate responses to local problems with their existing traditional territorial organization. Indeed, in many European countries one of the key concepts in public policy making is “territorialization,” meaning that in order to elaborate and implement cross-sectoral policies, the state, as well as some other actors, must change their scale of governing.

The British state was among the first in Europe to address this issue of “territorialization” with the establishment of nine Government Offices for the Regions (GOR) in 1994. The Blair government followed this track with the creation of nine Regional Development Agencies in 1998, and a year later with the white book “Reaching Out: The Role of Central Government at the Regional and Local Level.” The British government has clearly chosen to restructure itself at the regional level, yet in the territorial restructuring, metropolitan areas are not considered. Even though the Greater London Area has been declared as a region, it does not match the functional urban region, as we mentioned earlier. In fact, most countries have chosen to restructure themselves at the regional level, or to empower their regional apparatus, while at the same time empowering the regional tiers; this is the case of Spain and Italy. Metropolitan areas are seldom chosen as relevant “territorial references” for state restructuring, although in some cases regional empowerment may coincide with metropolitan empowerment such as in Madrid, London, and Paris.

The reforms in national policy making that specifically address metropolitan issues are more convincing. In this respect, the French example previously mentioned is one of the most pertinent, since it deals with multisector policy making and develops a long-term process towards metropolitan empowerment. However, there are some signs of a similar evolution in other countries, such as the Netherlands in the ongoing discussion regarding state policies for the Delta Metropolis (the Randstad). In the early 1990s, the U.S. federal government emphasized the relevance of metropolitan areas in federal policies regarding transport and the environment; indeed, transport is the policy sector most receptive to the metropolitan framework, as demonstrated by national public transport policies in many countries.



## Lessons for Latin American Cities

Before presenting some lessons and recommendations for Latin American Cities (LACs), it is important to state and reiterate a few critical elements. First, LACs are diversified in their social, economical, and political aspects, to the extent that it is questionable to consider LACS as monolithic blocks. This is important when dealing with metropolitan governance arrangements since it has been demonstrated that local factors are more vital than before in the successful building of such arrangements. It has also been proven that the process leading to metropolitan governance is essential and that ready-made products should be avoided, stressing the importance of local factors even more. For these reasons, it seems inappropriate and unrealistic to seek and propose governance models. The models identified in this report cannot be realistically transferred to Latin American metropolitan areas; in fact, they should be seen as a set of experiences from which it is possible to draw some lessons and recommendations for LACs.

However, LACs have many common characteristics that need to be addressed in order for metropolitan governance arrangements to succeed. First, they have a strong centralist state history and behavior; second, there is a decentralization process taking place in almost all countries; third, the civil society is not sufficiently involved; fourth, there is ongoing corruption; fifth, the local governments lack adequate administrative and technical capacities; and sixth, most of the population lives outside of formal sectors and established legality. These common characteristics are not only specific to LACs, but they are found in other countries and continents, such as in Europe. For example, strong centralist states are found in the Netherlands and the United Kingdom, while the decentralization process at the municipal level is common in countries such as France, Italy, and some Scandinavian countries. Corruption is a significant element of local political life in southern Europe, as is a lack of adequate staffing and training for local governments to elaborate and implement needed policies. The lack of involvement of civil society is a leitmotiv in countries such as France, Italy, and Germany, while in some European countries, such as Italy, there is still an important informal sector and cities such as Naples, Bari, and Palermo are the locus of large-scale illegal activities.

However, many of these problems cannot be dealt with at the metropolitan or local level because they relate to a country's specific history and national political culture; as such they are discussed in this work only as general remarks. For instance, many of these problems require a change in political elites and more democratic education and training of the population, which takes a long time (Putnam, 1993). Perhaps the importance of time is the first lesson to be drawn from experiences in metropolitan governance, being that the most successful ones have had time to establish themselves in their political and social environment.

Accordingly, we have tried to present some recommendations, starting from a rather schematic typology of metropolitan areas, according to the degree of development of metropolitan governance arrangements, and linking this typology to major issues with which such metropolitan situations must deal. The proposed recommendations relate to the process of building metropolitan arrangements.

By and large, here we distinguish three types of metropolitan areas:

1. Those that lack metropolitan governance arrangements as defined in the introduction; in Latin America, the Santiago area may be an example of this situation (type 1).
2. Those that have some metropolitan arrangements, whether sectoral or at the inframetropolitan level; São Paulo seems to be an example of this situation (type 2).
3. Those where metropolitan governance arrangements exist, such as a metropolitan authority; Quito, Caracas and Bogotá are good examples of this situation (type 3).

These metropolitan areas must focus on three major issues regarding their governance:

1. The identity of the metropolitan area;
2. The accountability of their governance arrangements; and
3. The legitimacy of their governance arrangements.

As we have discussed, these issues, as well as the recommendations connected to them, are linked. This is important, as we are concerned by the

process of building metropolitan governance arrangements, and not by metropolitan governance per se. As we have previously stated, it is up to local actors to give precise substance to the arrangements to achieve success. It is also clear from this work, and the introduction of this fourth section, that a prerequisite exists for the creation of successful governance arrangements: people must have the quality of being citizens. Indeed, in order to participate in political life, which is part of the definition of a citizen, people must have access to public services. The fact that a substantial number of Latin Americans do not receive any public services is a serious obstacle to their full citizenship, which affects their sense of belonging, claim for accountability, and the legitimacy of metropolitan arrangements, among other important aspects of citizenship.

## Recommendations for Identity Issues

The goal regarding identity issues is to establish metropolitan areas as reference territories for the population, which in turn creates a sense of belonging and of solidarity. As noted, this identity has not been achieved in any metropolitan area; therefore, the recommendations regarding this issue are valid for all metropolitan situations. The difference lies in who is responsible for implementing these recommendations.

It is recommended to establish spaces to debate metropolitan issues at the area-wide level in order to develop a sense of belonging to the metropolitan area. These spaces of debate can be forums, represented by all stakeholders, including the population. Their composition will vary according to contextual elements, such as the existence of decentralized units of governments and citizen participation structures, the various existing bodies representing stakeholders. In metropolitan areas where no governance arrangements exist, it is the responsibility of the state to help establish such forums, which can be accomplished by enacting a law at the national level or by giving this responsibility to the local level when possible. In metropolitan areas with sectoral metropolitan arrangements, the state can play the same role while relying on existing arrangements to establish such structures, notably those that carry the potential to become plurisectoral, such as those in charge of transport and planning. In metropolitan

areas with significant governance arrangements at the area-wide level, metropolitan authorities should establish such forums, with the state giving legitimacy to local experimentations in that domain. However, these forums must receive information regarding the problems of the metropolitan area; depending on the situation, it is up to the state, local or not, or to existing arrangements, to elaborate and communicate this type of information to the population and the various representative bodies. In areas with metropolitan arrangements, whether sectoral or plurisectoral, the dissemination of information regarding the functions of these structures, their policies, and their problems should be the responsibility of the metropolitan bodies.

## Recommendations Regarding the Accountability Issue

Accountability means that the people can openly discuss the activities and policies of metropolitan governance, and that their questions must be answered. In metropolitan areas of type 1, accountability is insignificant as there are no metropolitan governance arrangements. In type 2 situations, the accountability issue can be dealt with by implementing particular instruments, such as mandatory public hearings, using the Greater London Authority as an example (specific days of debate, meetings of the GLA in various parts of London, etc.). When it exists, it would be the responsibility of the local or national state to make these instruments mandatory or to legitimate them when they are proposed and developed by the sectoral or inframetropolitan bodies.

Type 3 situations differ; although the accountability tools elaborated for type 2 situations may be used, this is insufficient because the responsibilities of metropolitan governance arrangements are more extensive and carry wider political implications. In cases when the boards of the metropolitan arrangements are not directly elected, we recommend that a change be made so the public has a voice in the selection of the decision makers, particularly when these arrangements may levy their own taxes. In addition, stakeholders and public representative councils could be established in order to scrutinize metropolitan bodies and serve as structures where metropolitan authorities can consult the “living forces.”

There are few examples of stakeholder participation in LACs. One interesting example is the ABC chamber in São Paulo; according to Klink (Chapter 3 in this volume), this chamber gathers enterprises, labor unions, local and state governments, as well as the local community, and operates through thematic working groups. It would be useful to thoroughly assess the functioning of this chamber and to see whether it could serve as a “model” for other LACs. Similarly, foreign examples such as the social and economic regional councils in Spain, or the “metropolitan councils of development” in France, could also serve as interesting models.

## Recommendations Regarding the Legitimacy Issue

The legitimacy issue has two dimensions: functional and political. Although they are linked, we deal with them separately in the following recommendations. In type 1 metropolitan areas, the legitimacy issue is first and foremost a functional question. However, it must be kept in mind that any actions in the development of functional metropolitan-wide governance arrangements must not impede political legitimacy in the long run. On the functional side, the establishment of an area-wide, sectoral, or plurisectoral structure is recommended. The nature and significance of such structure (consultative, decision making, etc.) should vary according to the level of the political debate regarding metropolitan governance in the urban area. On the political side, accountability instruments and mechanisms should be established in the creation of such areas.

In type 2 metropolitan areas functional legitimacy requires either the transformation of sectoral arrangements into plurisectoral structures, or the spatial expansion of inframetropolitan governance bodies. Intersectoral coordination must be encouraged as a first step towards the building of plurisectoral structures. Territorial agreements, such as in the ABC region in the São Paulo metropolitan area, must be supported because they can be the catalyst for a larger territorial and sectoral agreement, thus leading to a claim for politically legitimate arrangements. This is the responsibility of the state, which must rely on existing technical, administrative, and political “relays” carrying a metropolitan dimension within the local system of actors, for instance planning agencies. In that case, the state can either give incentives to create such plurisectoral and area-wide bodies, or legitimize existing local experiences. Political legitimacy

would require these new arrangements to be acceptable to the public, using accountability instruments previously mentioned, as well as to existing local authorities.

In areas with metropolitan governance arrangements (type 3), functional legitimacy should be fulfilled by the existing metropolitan arrangements. However, this functional legitimacy may be enhanced by the state when making metropolitan areas “reference territories” for its policies and administrative and technical reorganization, for instance by establishing metropolitan provinces in countries where provinces are part of the central government apparatus, such as in Chile or in Argentina. In the policy domain, this can be done in choosing

**Table 4.3. Summary of Major Recommendations for Latin American Metropolitan Areas**

Issues	Metropolitan Situation	Recommendations	Who May Intervene ?
<b>Building Metropolitan Identity</b>	Type 1	Establish spaces for debates (forums) Make metropolitan issues visible	State
	Type 2	Establish spaces for debates (forums) Make metropolitan issues visible	State with existing sectoral arrangements
	Type 3	Establish spaces for debates (forums) Make metropolitan issues visible Disperse information regarding activities and policies of metropolitan arrangements	Metropolitan structures
<b>Accountability</b>	Type 1	None	
	Type 2	Establish accountability instruments (public hearings, etc.)	State
	Type 3	Direct election of metropolitan arrangements boards Establish structures to represent stakeholders	State Metropolitan authorities
<b>Legitimacy</b>	Type 1	Establish metropolitan-wide governance arrangements and make them accountable with accountability instruments	State Local actors
	Type 2	Establish plurisectoral structures from monosectoral ones and make them accountable with accountability instruments	State Existing metropolitan arrangements
	Type 3	Direct elections of metropolitan structures Establish structural links between metropolitan-wide and local arrangements	State Metropolitan authorities

metropolitan areas as “reference territories” to elaborate and implement state sectoral policies and plurisectoral policies, for example several ministries working together at the metropolitan level and on a permanent basis as exemplified by the French case.

In these metropolitan areas, political legitimacy is the main issue. As previously stated, to shift from intermunicipal governance structures to supra-municipal arrangements with the direct election of decision-making bodies is one step towards reaching full political legitimacy; but it is not sufficient. Instruments linking the metropolitan decision-making system to the municipal or neighborhood level must accompany the establishment of supramunicipal bodies; such instruments can be assemblies of mayors or neighborhood councils, which must be consulted by supramunicipal bodies. Careful attention must be given to the central city and these arrangements must take into consideration the fact that the power of central cities must be reduced. Particularly, this is the case in previous federal districts and federated cities like the City of Mexico, Caracas, Buenos Aires or Bogotá, which seem to be strongholds vis-à-vis the metropolitan areas. The “model” of the city of Bogotá seems excessive in that it concentrates too much political and institutional power in the metropolitan district.

## Other Recommendations

Many of the proposed recommendations require the involvement of the state. Indeed, the state must have a significant role in establishing and reinforcing metropolitan governance. However, as previously mentioned, most Latin American states still have a centralistic attitude towards local governments, which is considered an obstacle to metropolitan governance. Therefore, a less centralistic training of governmental administrative and technical apparatus with regards to the metropolitan issue is recommended, which can take place through specific regional education and training programs.

Metropolitan areas lack political legitimacy and political visibility, as in many countries, national decision-making systems, such as the national assemblies and senates, remain in the hands of rural interests (such as in France, Switzerland, and many U.S. states). In many cases, urban interests are poorly represented, yet it seems difficult to enact laws and constitutive policies in favor

of metropolitan areas, giving them more say, without a significant change in the national representation system. This must change, but a sufficient solution will take time and the resolution of political conflicts.

Decentralization processes in most Latin American countries have been focused on municipalities; although this may have had positive effects, it has reinforced local governments, which have the most to lose with metropolitan empowerment, thus complicating the emergence of metropolitan areas as political entities. The decentralization process should be based on a true “subsidiarity principle,” with power allocated to the most appropriate political structures, for instance to municipalities for municipal issues, but to “above municipal” structures for problems in the metropolitan range, such as transport, social housing, and planning. This leads to these recommendations: decentralization should not contribute to the fragmentation of the metropolitan areas nor the municipalities, and, in the case of large municipalities, neighborhood decentralization, often a method to mobilize the civil society, should follow the “subsidiarity principle” and give neighborhoods few responsibilities and little political autonomy. When municipalities are small, neighborhood decentralization remains questionable.

## Conclusion

As we have shown, it takes significant political process and hard work to give metropolitan areas the status of a political entity with adequate powers and resources; it is the role of political elites, notably metropolitan elites, to develop such a process. In order to succeed, these political elites must present the metropolis as a place of societal regulation and themselves as capable of taking on a governing role in that context. However, due to the conflicting nature of this process, they need support from other actors: the state, local stakeholders, and the population. The state’s support is imperative as it is the only player who can give legitimacy to this political process and political outcomes, notably with respect to the political strength of municipalities. In addition, the local stakeholders are important in the process as policies and collective action can no longer be restricted to the public sector, yet need the support of social and economic interests. Lastly, in democratic systems, metropolitan arrangements cannot last without the support of a population with a strong sense of belonging.



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## CHAPTER 5

# Fiscal Aspects of Metropolitan Governance

**Richard Bird and Enid Slack<sup>1</sup>**

## Introduction

Large metropolitan areas are significant generators of employment, wealth and productivity growth; moreover, they are crucial to the economic success of their respective countries. In the emerging global “knowledge-based economy,” innovation is key to prosperity, as firms compete not only on the basis of cost but also on their ability to create and deliver new products in a timely manner (OECD, 1996). Innovation occurs mainly in large cities and city-regions, as the concentration of people and firms increases social and economic interaction.

Metropolitan areas are attractive because they provide benefits of close proximity (agglomeration economies) such as face-to-face interaction, abundant business services, and greater accessibility to skilled workers and transportation and communications networks. Consequently, large metropolitan areas produce sufficient critical mass to support specialization in labor, knowledge, businesses, services, infrastructure, institutions, and media.<sup>2</sup>

To attract businesses, cities must provide services that attract and retain highly trained individuals. Recent studies suggest that “knowledge workers” who hold the key to city economic success are attracted by diversity, social tolerance, a lively arts scene, recreational opportunities, high-quality public schools and

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<sup>1</sup> The authors thank Uri Raich for his assistance, and the participants in the seminar organized by the Inter-American Development Bank for valuable comments on an earlier version of this study.

<sup>2</sup> In most Latin American countries, the extreme centralization of past government action, combined with a marked bias of public expenditure for the capital city, may have led to a situation in which the major metropolitan areas may be too big from a purely economic perspective. The discussion of this issue is outside the scope of this work.

safe neighborhoods (Florida, 2002). Cities also need to provide a variety of services to be globally competitive: transportation, water, sewage control, garbage collection and disposal, police and fire protection, parks and recreation, affordable housing, and social assistance. Cities need access to financial resources to maintain infrastructure and deliver services that will make them internationally competitive.

In this context, local governance plays a critical role in enhancing economic potential. Urban governance institutions, including local and regional municipal government, and regulations pertaining to land use, finance, and infrastructure, largely shape the physical and social character of city regions. The type of government structure in place for a country's metropolitan areas can affect the quantity, quality and efficiency of services and the fair distribution of costs throughout the entire region. A strong governing structure enhances citizens' connection to their government, as well as government's accountability to its citizens.

This chapter reviews, from a fiscal perspective, the different models of governing structure found in metropolitan areas around the world. Although there is considerable dispute in the literature (e.g. Divay and Wolfe, 2002; see also Chapters 3 and 4 in this volume) regarding the overall effect of the design of governing institutions on government outcomes, where money comes from, who controls it and under what conditions it may be spent is important. The financing of public expenditures, a key issue in any city or metropolitan area strategy, directly affects the feasibility of any developmental proposal or service-provision goal (World Bank, 2002). In particular, experience has shown that most metropolitan institutions that "self-finance," attaining freedom from the demands of the financiers, thrive, while others tend to fade away in the bickering between contending financial supporters.<sup>3</sup>

As Divay and Wolfe (2002) illustrate, an extraordinary variety of metropolitan governance institutions exist worldwide, reflecting the inherent complexity and context-specificity of the underlying issues in need of attention. To simplify

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<sup>3</sup> See, for example, Davis and Raich (2003) for a discussion of abortive attempts at "institutionalizing" some metropolitan structure in the Mexico City region and the relative success of the only such structure that controlled its own finances. The Annex to this chapter contains a more detailed discussion of the present situation in the Mexico City region.

the discussion, the next section describes the key parameters of four different models of government structure, one-tier, two-tier, voluntary cooperation and special districts. Next, with the traditional binocular vision of economists that focuses on efficiency and equity aspects, we evaluate how these models work in practice, drawing on several real-world examples. Specifically, we consider how efficiently and equitably these models deliver services and share costs throughout the metropolitan area, as well as their ability to reduce negative or positive spillovers of service delivery across local boundaries.

Following a brief discussion of local government expenditures in large metropolitan areas, again drawing on international experience, we then evaluate the advantages and disadvantages of various revenue-raising tools based on the different governing structures set out earlier, detailing the main sources of revenue used by local governments in metropolitan areas: taxes (income, general sales, selective sales, and property taxes), user fees, intergovernmental transfers and other revenues.

The conclusion summarizes findings on the fiscal aspects of governance for metropolitan regions around the world and makes suggestions for future developments in Latin American metropolitan regions regarding governing structure types, allocation of responsibilities and revenues among governments within metropolitan regions and between the national and state governments, the role of intergovernmental transfers and other related fiscal issues. These conclusions are based on a broad examination of the complex fiscal problems faced by metropolitan areas in Latin America.

Recent studies of cities such as Bogotá, Cali, Santiago, and Mexico City are cited in this chapter, as well as research of authors, such as Klink (Chapter 3) on São Paulo and Buenos Aires.<sup>4</sup> Strikingly, there has not been a recent comprehensive attempt to analyze urban finance in Latin America along the lines of the World Bank studies of the early 1970s (as summarized in Bahl and Linn, 1992) and the study of Mexico City by Oldman et al. (1967). It is difficult and time consuming to analyze the finances of metropolitan areas in the detail needed, particularly when the taxing, spending and borrowing of many govern-

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<sup>4</sup> See also World Bank (1999) on Rio de Janeiro and Carr (1992) on Quito.

mental institutions in the area are rarely recorded comparably. Nonetheless, without such in-depth fieldwork, it is impossible to prescribe solutions in any given country.<sup>5</sup>

## Governance Models

In this section we briefly cover, from a fiscal perspective, four models of government structure used in metropolitan areas around the world: two-tier governments, one-tier governments, voluntary cooperation (including intermunicipal agreements) and special purpose districts.<sup>6</sup> We use diverse criteria to evaluate the models, some of which suggest that a fragmented system of small government units may be appropriate, while others suggest large, consolidated government units would work best. No “one size fits all” model emerges from this discussion. As is often the case with institutional design, while the questions seem universal, the answers are highly context-specific.

For example, the “subsidiarity principle” suggests that the effective provision of services requires decisions to be made by the level of government closest to the individual citizen.<sup>7</sup> When this is done, it is argued, resources will be allocated with the greatest efficiency, accountability, and responsiveness. In particular, with differences among localities in preferences and costs, there is a clear increase in efficiency by delivering services in a decentralized fashion. In principle, smaller, fragmented government units should stimulate competition between local jurisdictions, inducing them to offer an optimum mix of taxes and services (Klink, Chapter 3). Access and accountability, both of which depend on the citizens’ level of access to local government through public meetings, hear-

<sup>5</sup> It is also worth mentioning that there are several aspects of metropolitan finance that will not be covered in this study. One example is the question of whether metropolitan regions are winners or losers concerning intergovernmental fiscal flows. Bird (2006) discusses the difficulties of analyzing such issues and argues that it is not critical from a policy point of view.

<sup>6</sup> According to the categorization used by Lefèvre (see Chapter 4), all four models are examples of “governance through institution building.” Lefèvre refers to the two-tier model as the “metropolitan” model, voluntary cooperation as “metropolitan-wide intermunicipal joint authorities” and special purpose districts as “monosectoral intermunicipal joint authorities.” Conversely, Klink (Chapter 3) categorizes models of government structure as “supramunicipal” (two-tier governments) and “intermunicipal” (which includes both voluntary cooperation and special purpose districts).

<sup>7</sup> The subsidiarity principle was included in the Treaty of the European Union in 1992 in the context of the division of powers and responsibilities between European governmental bodies and their member countries. The principle has also been applied to the role and structure of government at all levels (Barnett, 1997).

ings, elections, and direct contacts with officials, are also easier to achieve when local government units are smaller and more fragmented.

Alternatively, a larger consolidated government structure may take advantage of economies of scale in service provision, thus reaping lower per-unit costs as the amount of the services they deliver increases.<sup>8</sup> The existence of externalities (interjurisdictional spillovers) also suggests that a larger jurisdiction may be needed to ensure that benefits of public services are enjoyed within the boundaries of that jurisdiction. Finally, equity considerations suggest that a larger jurisdiction will ensure that all communities, both with higher needs and a small tax base and lower needs and small tax base, provide an adequate service level. In economic (and fiscal) terms, the selection of a governance structure depends on the weights assigned by decision makers to these conflicting considerations.

## The One-Tier Model

In the one-tier model of urban governance a single local government provides a full range of local services. This model can apply to two different cases in a metropolitan area: a series of small fragmented municipalities or one large consolidated municipality.

Fragmented, one-tier governments are common in the United States, in places such as Houston, Texas, which has been described as a model of “fragmented single tiers” (Savitch and Kantor, 2002). Houston, now covering over 600 square miles, is a city surrounded by 790 governments and special districts, which frequently overlap and compete for industry. Texas permits cities to annex unincorporated areas, and over time Houston has taken advantage of this legislation to blunt the competition.

Klink (Chapter 3) characterizes U.S. metropolitan institutions as a large number of “spatially limited networks of general purpose local governments, special purpose bodies, and sector institutional structures.”<sup>9</sup> Similarly, Orfield

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<sup>8</sup> The significance of this factor is unclear as there is some evidence that costs are higher for larger government units due to “bureaucratic congestion” (Boyne, 1992, 336). On the whole, the empirical evidence on economies of scale is conflicting and fails to generate clear conclusions.

<sup>9</sup> Portland, Oregon is one exception to the rule of fragmentation. Portland’s Metropolitan Service District, with a directly elected council, is responsible for land use and transportation, solid waste disposal services, the zoo, and regional tourism (Klink, chapter 3).

(1997) emphasizes that U.S. local governments are characterized by fragmentation, decentralization, and income polarization. However, in practice, as discussed below, these small, fragmented single-tier governments often engage in voluntary cooperation and participate in special purpose districts that cover the metropolitan area.

Generally, large, consolidated single-tier governments have formed either by *amalgamation* (the merger of two or more lower-tier municipalities within an existing region) or *annexation* (the appropriation of a portion of a municipality by an adjacent municipality). In these cases, only one political body makes metropolitan taxing and spending decisions. Similar to the way the upper-tier municipality finances services in the two-tier model discussed in the following section, this governing body provides a wide range of services financed through various user fees and taxes levied across the metropolitan area.

The term “one-tier” government infers that uniform services are provided throughout the metropolitan area. However, this is not always the case, particularly when a one-tier municipality has been created from the amalgamation of municipalities. Differential services and service levels may sometimes persist under the unified government. Often, rural residents do not receive all of the services available to urban residents. Similarly, when user fees finance services, those who pay directly benefit from the service. Even when property taxes are used to finance services, special area rating for a specific service can be applied in those areas of the municipality that receive the service. For example, if garbage collection service is provided only in urban areas of the municipality, then a special area rate<sup>10</sup> for the service may be levied only on urban residents. In short, as services are not standardized across a newly consolidated metropolitan municipality, neither are tax rates. Of course, if a goal of amalgamation is to create one all-encompassing jurisdiction, then such differences in service delivery and tax rates should not be maintained beyond a short transition period.

In the seminal study by Bahl and Linn (1992), consolidated, one-tier governments were favored as providing better service coordination, clearer accountability, more streamlined decision making, and greater efficiency. Moreover, the

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<sup>10</sup> Special area rating has also been used to ensure that preexisting financial differences (e.g. in reserves and debt) of the constituent municipalities continue to be reflected in resident tax rates.



larger taxable capacity of the consolidated one-tier government would increase its ability to borrow and to recover capital and operating costs from user fees. Services may be more fairly funded due to a wider tax base for sharing the costs of services that benefit taxpayers across the region.

Large one-tier governments can also take advantage of economies of scale in service provision. Moreover, municipal amalgamations have the potential to internalize externalities, as rural residents outside of the original municipal boundary now pay for the use of urban services. Of course, redrawing municipal boundaries is only the first step in linking taxes to service benefits by ensuring that the beneficiaries are located within the serviced jurisdiction; the next step is to identify the benefits and to tax them accordingly. For example, charging rural residents for their use of recreation facilities and libraries is fair, while it is not fair to charge them for garbage collection if they do not benefit from this service (Vojnovic, 2000).

The success of consolidated, one-tier governments in achieving accountability and efficiency (in terms of cost savings) is a subject of debate. In terms of accountability, a large-scale, one-tier government may reduce access and accountability because the jurisdiction becomes too large and bureaucratic. In an effort to overcome this problem, committees have been established and satellite offices have been opened across the municipality where residents can pay tax bills, apply for building permits, etc.<sup>11</sup> Such methods may increase accessibility, but their impact on accountability is unclear. In addition, they may offset any potential cost savings resulting from a larger government unit.

A thorough review of the empirical evidence in the United States on fragmented versus consolidated local governments concluded that lower spending is a feature of fragmented systems, while consolidated structures are associated with higher spending (Boyne, 1992). Evidence from municipal amalgamations in Canada also suggests that cost savings have proven to be elusive (Sancton, 1996; Slack, 2000). When several municipalities are amalgamated, some dupli-

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<sup>11</sup> In 2002, the provincial government merged the City of Montreal, with a population of one million, with 27 other municipalities in Montreal (with a total population of 800,000). The new city was divided into 27 boroughs, each responsible for local services such as garbage collection, swimming pools, snow clearing and libraries. Nine boroughs were located in the central city, where none existed previously, and, although residents of the ex-suburbs lost control over some municipal services, residents of the former City of Montreal gained autonomy.

cation, such as with politicians and bureaucrats, is reduced. On the other hand, experience suggests that when municipalities with different service levels and wage scales merge, expenditures may increase. For example, when the fire departments of several municipalities are amalgamated, the number of fire chiefs, and perhaps some deputy chiefs, may be reduced, thus cutting costs. However, now thousands of fire fighters in this newly amalgamated municipality will have the same job, working for the same employer and they will request comparable salaries and benefits. Thus, there is a tendency for salaries and benefits to harmonize upward with higher municipal expenditures, generally outweighing any cost savings.<sup>12</sup>

Generally, amalgamations result in the harmonization of service levels across the new municipality, likely at the highest service level enjoyed before the amalgamation (Slack, 2000), thus increasing costs. Of course, such higher costs are not necessarily a bad thing, as some municipalities lack sufficient resources before the amalgamation and cannot provide an adequate level of services. Amalgamation may allow these municipalities to provide a service level comparable to wealthier municipalities, hence increasing regional equity. In addition, amalgamation may reduce competition between municipalities, decreasing overall efficiency and responsiveness to local needs, and increasing costs. Box 5.1 illustrates some of these points with reference to Toronto, Canada.

## The Two-Tier Model

The two-tier model (called the “metropolitan” model by Lefèvre, see Chapter 4) consists of an upper-tier governing body (usually a region, district or metropolitan area) encompassing a large geographic area and lower-tier or area municipalities (such as cities, towns, villages and townships). The upper tier (referred to as a “supramunicipal” structure by Klink, see Chapter 3) provides region-wide services (characterized by economies of scale and externalities), while the lower tiers are responsible for services of a local nature.

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<sup>12</sup> Service delivery costs could be reduced without changing government boundaries, for example, through the involvement of the private sector in municipal service delivery and the provision of services by one municipality to another. These possibilities are not discussed here in detail.

Redistribution is achieved at the upper-tier level through both tax and spending policies:

- On the tax side, rates are generally levied uniformly across the region and the lower-tier municipality contribution to the upper-tier municipality depends on the tax base size. The larger the tax base in any municipality, the larger its contribution to the upper-tier government.
- On the spending side, the upper-tier government funds services that benefit the entire city-region yet are not necessarily distributed among lower-tier municipalities in the same way as revenues are collected. A uniform tax at the upper-tier level, combined with region-wide expenditures, redistributes resources from municipalities with large tax bases to those with small tax bases, although service levels and tax rates may vary with respect to services provided by lower-tier municipalities.

In principle, the upper tier should be responsible for services that provide region-wide benefits, generate externalities, entail some redistribution, and display economies of scale. Services that provide local benefits should be the responsibility of the lower tier; see Table 5.1 for further details.

Two-tier governance structures permit various degrees of redistribution and can have important advantages over the one-tier model in terms of accountability, efficiency, and local responsiveness. Critics of the two-tier model often argue that costs will be higher due to waste and duplication in service provision by two levels of government. The evidence in support of this argument is weak, yet taxpayers are often confused by who is responsible for what services in two-tier structures. Moreover, the existence of two levels of municipal council may lead to considerable “wrangling, inefficient decision-making, and delays in implementing policies” (Kitchen, 2002, 312). Box 5.2 describes the recent adoption of a two-tier structure in London, England.

## Voluntary Cooperation

Voluntary cooperation, described as “minimal” government restructuring, consists of an “area-wide body based on voluntary cooperation between existing units of local government in the agglomeration with no permanent, independent

### **Box 5.1. Toronto – An Example of One-Tier Government**

On January 1, 1998, a new City of Toronto was created. The new city replaced the former two-tier structure, consisting of a metropolitan level of government and six constituent lower-tier municipalities (one of which had been the City of Toronto).<sup>\*</sup> This restructuring resulted from legislative action by the provincial government (through the passage of Bill 103, the City of Toronto Act, 1996). Local opposition to the proposed amalgamation was widespread and emphasized the loss of local identity and reduced access to local government.

The City of Toronto delivers a wide range of services, including social services such as welfare assistance, public health and housing (34 percent of total operating expenditures), roads and transit (19 percent), emergency services such as fire and ambulance (16 percent), and parks, culture, and recreation (5 percent). Toronto relies heavily on property taxes to finance services (45 percent of revenues in 2003) followed by provincial grants (23 percent), user fees (16 percent), and other revenues (16 percent).

The new city levies property taxes on residential, commercial, and industrial properties to fund city-wide services. The rates of property tax are uniform across the new city, which has resulted in a tax reduction for municipalities with a low tax base and high tax rate, and an increase in tax for municipalities with a large tax base and a low tax rate.

None of the governance studies in the Greater Toronto Area (GTA) commissioned by the provincial government in the years prior to the amalgamation emphasized problems within the metropolitan level of government, nor the need to create a “megacity.” In contrast, these studies identified serious problems in the coordination of transportation, planning, water provision and waste management among the regions within the Greater Toronto Area (GTA). In partial response, following the amalgamation of the new City of Toronto, the Province of Ontario established a Greater Toronto Services Board (GTSB).<sup>\*\*</sup> However, the GTSB was not given taxing or legislative authority, except to oversee regional transit. The GTSB was not intended to be another level of government; rather it comprised elected officials

from each of the municipalities in the GTA. Eventually, the province disbanded this government body, while regional transit was taken over by the provincial government. Therefore, in the end, although one major concern in the GTA region had been coordination of service delivery across the region for some time, neither the creation of the new City of Toronto, nor the (former) GTSB adequately addressed these fundamental regional problems.

While it is probably too early to evaluate the “megacity” of Toronto, it can be argued that it is too small to address region-wide spillovers related to transportation and planning and too big to be locally responsive and accessible (Slack, 2000). Although amalgamation did not generate cost savings, it did prompt a fair sharing of the tax base, as well as local service equalization, so all citizens could experience a similar level of services. In fact, such equalization extends across the whole city-region for reasons unrelated to the amalgamation of the City of Toronto. Despite the disappearance of the GTSB, social services and social housing expenses are pooled across this wider region through an equalization formula that measures each municipality’s ability to contribute to these costs. However, no municipality influences how the others spend their money on these services, and because these service costs are beyond the control of any individual municipality, their contribution is uncertain from year to year. This provincially mandated pooling system may be more equitable, but it is unlikely to provide incentives to efficiently raise revenues, and actually reduces local accountability.

\* The new City of Toronto lies in the Greater Toronto Area (GTA), along with the regions of Durham, Halton, Peel, and York. In 1999, the population of Toronto represented about half of the population of the GTA, with about 2.4 million inhabitants, while the other regions consisted of 2.2 million inhabitants.

\*\* The Greater Toronto Services Board Act, 1998 set out the structure and responsibilities of the Greater Toronto Services Board (GTSB) and the Greater Toronto Transit Authority.

institutional status” (Sharpe, 1995)<sup>13</sup>. These structures are popular because they are politically easy to create and disband. Although the voluntary model

<sup>13</sup> Lefèvre (Chapter 4) refers to this model in the United States and France, as “metropolitan-wide intermunicipal joint authorities,” while Klink (Chapter 3) describes it as an “intermunicipal” model.

does not include an elected, area-wide government, it is an alternative method of recognizing the interrelationship of localities within a region. Cooperation takes different forms in different countries. Bologna, Italy, exemplifies an inter-municipal model of metropolitan governance on a voluntary basis (see Chapter 3). In 1994, Bologna, along with 48 municipalities, signed the *Accordo per la Città Metropolitana* (ACM), which is composed of the municipality mayors and presided over by the president of the province. Each municipality may withdraw

**Table 5.1. Allocation of Expenditure Responsibilities in a Two-Tier Model**

Function	Upper Tier	Lower Tier	Justification
Welfare Assistance	X		Income redistribution; externalities
Child Care Services	X		Income redistribution; externalities
Social Housing	X		Income redistribution; economies of scale; externalities
Public Health	X		Income redistribution; economies of scale; externalities
Ambulance	X		Economies of scale; externalities
Roads and Bridges	X	X	Local versus regional roads
Public Transit	X		Externalities; economies of scale
Street Lighting	X	X	No externalities
Sidewalks	X	X	No externalities
Water System	X		Economies of scale
Sewer System	X		Economies of scale
Garbage Collection	X		Economies of scale; externalities
Garbage Disposal	X		Economies of scale; externalities
Police Protection	X		Externalities; economies of scale
Fire Suppression	X	X	Local responsiveness; economies of scale for specialized services
Fire Prevention/Training	X		Economies of scale
Local Land Use Planning	X	X	Local access, responsiveness
Regional Land Use Planning	X		Externalities
Economic Development	X		Externalities
Parks and Recreation	X	X	Local responsiveness
Libraries	X	X	Local responsiveness

at any time and participate in some or all of the activities of the Metropolitan Conference.

In other countries, voluntary cooperation may take the form of consortia, communities of communes, urban communities (France), joint intermunicipal authorities (Spain and Belgium), public bodies, joint agencies, and core cities (the Netherlands) (Hermann et al., 1999). These forms of cooperation generally imply administrative integration as well as political linkage, giving member local governments some form of representation on the boards. Moreover, as a rule, these organizations can levy taxes or collect contributions from the municipalities, or they can levy user fees to pay for services. Box 5.3 illustrates a well-established voluntary cooperation structure in Vancouver, British Columbia, Canada.

Voluntary cooperation is a method to provide services across a region without resorting to amalgamation. Municipalities can retain their autonomy with respect to expenditure and tax decisions, while achieving economies of scale in service delivery and addressing externalities associated with service provision (Sharpe, 1995). However, there may be problems of accountability when services are provided by another jurisdiction. While the municipalities involved may accept some degree of redistribution, this is not automatic as in more formal metropolitan governance structures.

The voluntary model works well when policy makers in the various local governments have the same objectives. However, cooperation usually involves bargaining, and some municipalities in a region have little with which to bargain. Latin America faces significant problems in metropolitan areas, such as global competition, fiscal disparities and sprawl; thus, any solution may require a governance structure that has a permanent institutional status.

A less structured form of voluntary cooperation involves intermunicipal agreements, which are formal or informal agreements between municipalities to provide specific services (see Box 5.3). Commonly, under this approach, no official area-wide body is set up to oversee the arrangements. For example, in Los Angeles, the county provides some services on behalf of municipalities in the Los Angeles metropolitan area on a contract basis, which is common in other U.S. jurisdictions as well (Sharpe, 1995).

Such agreements are generally proposed to reduce costs or to establish specific joint obligations for different municipalities. They work well for smaller,

### Box 5.2. London – An Example of Two-Tier Government

As set out in The Greater London Authority Act in 1999, the new Greater London Authority (GLA) was formed on July 3, 2002. Greater London, with a population of 7.4 million, comprises 32 boroughs and the Corporation of London. The GLA, a unique governance system in England, created a 25-member assembly elected on two different electoral bases (14 on a constituency basis and 11 London-wide) and a directly elected mayor (who is not a member of the assembly). The mayor appoints the chief executive, sets the administration budget, and ensures proper management of central government funding. The Assembly has no service responsibilities and its powers are subject to the scrutiny of the mayor.

The GLA plays a strategic role in air quality; bio-diversity; culture and tourism; economic development; transportation; waste; land use; and planning, while also promoting economic development and wealth creation; social development; and environmental protection. The GLA is not allowed to spend funds on functions assigned to the lower-tier municipalities (the boroughs and the Corporation of London), such as education, housing, social services, street cleaning, waste disposal, roads, local planning, and most arts and leisure services. Four GLA functions are accountable to the assembly through the mayor, but are run by separate authorities:

- Transport for London (TFL) is responsible for roads, buses, trains, subways, traffic lights, and regulation of metered taxis and un-metered “mini-cabs.” The mayor is the board chairman and appoints the commissioner and 15 nonexecutive members.
- The London Development Agency (LDA) coordinates economic development and regeneration, while promoting business and working in partnership with industry, public, and voluntary sectors. The mayor appoints the 17-member board and chief executive.
- The Metropolitan Police Authority (MPA) has 23 members, with 12 assembly members, one appointed by the home secretary (a member of the national cabinet), four magistrates, and six independent members. The police commissioner is appointed by the queen on advice of the home secretary, who shall consider any recommendations by the MPA, the assembly, and the mayor.



- The London Fire and Emergency Planning Authority (LFEPA) has responsibility for fire and emergency services. The mayor appoints the chair and 17 members, consisting of nine assembly members (including the chair) and nine members nominated by the boroughs and appointed by the mayor.

The largest portion of the GLA budget is for transport (54 percent of total expenditures in 2003–04) followed by police services (36 percent), fire and emergency planning (5 percent), and economic development (4.5 percent). The GLA derives its revenues largely from central government grants (almost 63 percent of revenues in 2003–04) followed by user fees (20 percent), property taxes (11 percent), and other miscellaneous revenues (6 percent).

contracted services, or for sharing identifiable costs. In addition, they are effective for services such as fire fighting and emergency dispatch, maintenance of boundary roads, purchasing in bulk, and issuing debentures. However, intermunicipal agreements do not offer a solution to the need for region-wide coordination and generally fail to provide clear public accountability, except through the contract or agreement. Thus, citizens are often confused about whether they should report a service problem to their local government or the contracted organization. Furthermore, experience suggests that intermunicipal agreements may increase the likelihood of intermunicipal litigation and conflicts (GTA Task Force, 1996).

In conclusion, intermunicipal agreements may be successful in achieving coordination and efficiencies for specific services, but they are not suitable for achieving region-wide coordination. In fact, they have been described as second-best solutions to reorganization, leading to “an impenetrable jungle of *ad hoc* commissions and complex arrangements that even the most conscientious municipal voter will never understand” (Sancton, 1993, 33–34). Despite these harsh words, given the rigidity of their legal structure, many Latin American countries may consider a voluntary cooperation approach so local governments can work together to resolve common problems.

**Box 5.3. Vancouver – An Example of Voluntary Cooperation**

The Greater Vancouver Regional District (GVRD), with a population of approximately 1.8 million people and consisting of 18 full-member municipalities and 3 unincorporated areas, illustrates voluntary cooperation within a two-tier structure. In 1967, the provincial government of British Columbia created the GVRD, a regional government, to increase municipal cooperation within the Vancouver city-region and take over the functions of previous special-purpose bodies. Originally, the GVRD was responsible for hospitals and planning, yet its responsibilities have grown to include borrowing for municipalities, air pollution control, parks, solid waste disposal, public housing, collective labour relations, and public transit (1999). Their largest expenditures are for water and sewers (42 percent of total expenditures in 2002), capital expenditures (23 percent), and solid waste management (16 percent). GVRD revenues are made up of user-fees accounts (80 percent), property taxes (8 percent), and other investment income (5 percent).

Municipal GRVD representatives are elected to their municipal councils and then appointed by their respective governments to serve on the board. Member municipalities can opt out of many district functions, and the district provides particular functions for different areas, especially for unincorporated areas.

Regional organization in the Vancouver area has always been characterized by voluntary participation of individual municipal governments through consensus building. As one study noted, “metropolitan governance has emerged in place of metropolitan government in the Vancouver region; that is, metropolitan-wide services and their spatial implications are managed regionally in the absence of metropolitan government” (Oberlander and Smith, 1993). A regional government has the following characteristics: direct representation, revenue-raising capacity, autonomy, authority, and the capacity to coordinate multiple functions, while the GVRD takes on the responsibilities to a limited degree and at the will of its constituent governments.

Advantages of the Vancouver model include the preservation of local autonomy, diversity, and the distinct identity of its member municipalities, yet a lack of au-

thority to implement policies creates problems. For example, in 1994, a master plan was developed which focused on the preservation of farmland, housing concentration, and rapid transit construction, yet presently no municipality is obligated to respect this plan. In addition, region-wide concerns are not taken into account in local decisions and the GVRD is only permitted to step in when delegated by member municipalities.

Although the Vancouver model does not provide a distinct upper-tier government directly accountable to residents, this type of voluntary cooperation model has advantages for cities in search of a flexible institution that supports the municipalities. It has been argued that such “intermunicipal confederation” works best for consulting on goals and visions, but not so efficiently in implementation (Artibise, 1999).

An additional concern with voluntary cooperation in Vancouver is the inequitable sharing of costs and benefits. While the GVRD has developed a fair system for financing services such as water and sewers, charged according to the level of service provided, cultural and recreational facilities and municipally funded social services in the core are funded entirely by taxpayers in the core (the City of Vancouver), even though the benefits spill over to residents throughout the region.

## Special Purpose Districts

The final approach to metropolitan governance discussed here is the establishment of special purpose districts to deliver services that spill over municipal boundaries. Single-purpose special districts, which Lefèvre (Chapter 4) refers to as “monosectoral intermunicipal joint authorities,” may provide similar municipal services for several municipalities or manage regional services with significant externalities. This form of cooperation is used mainly in countries with a history of strong and autonomous local governments. In the United States, for example, one-third of all local governments are special districts or school districts. Special district boards are often indirectly controlled by the constituent municipal councils and manage services such as transportation, water and waste management, and economic

development. They also administer taxing, price setting, and other policy-making decisions. In contrast, school board members are often directly elected.

Special purpose districts address each service spillover on an individual basis; as spillover boundaries usually vary for each service, different-sized special districts could be established, such as a region-wide transit district or a hospital district.<sup>14</sup> Other advantages of these districts may include the delivery of services by decision-making professionals removed from political influence, the provision of services using additional expertise available to the municipal government, and the allocation of dedicated user fee revenues to finance capital expenditures (Bahl and Linn, 1992).

Conversely, several disadvantages with special purpose bodies have been identified:

- Since each body has responsibility for a single service, it is not required to make trade-offs between expenditures such as transit, water, and sewers. It is difficult to coordinate interrelated activities with several independent special purpose bodies.
- The proliferation of decision-making bodies has “created a diffuseness of government organizations that is difficult for citizens to understand” (Kitchen, 1993). Such bodies weaken general-purpose local governments through competition for resources and by reducing political accountability (Bird, 1995).
- There is no direct link between expenditure decisions made by the special purpose agencies and the local councils responsible for collecting the property taxes to fund them, thus reducing accountability.<sup>15</sup>
- Lacking accountability, there is little incentive to be efficient; a higher level of technical efficiency through better management is not equal to economic efficiency. Services may be delivered in a timely manner,

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<sup>14</sup> Special districts illustrate the concept of functional, overlapping competing jurisdictions (FOCJ), which envisages that “welfare could be improved substantially by promoting competition between newly emerging jurisdictions organized along functions instead of territories” (Frey and Eichenberger, 1996, 315). In this approach, FOCJs would be real governments with enforcement power and the ability to levy taxes; they would extend over areas defined by their responsibilities; they would overlap geographically; and individuals and communities could choose their governmental unit.

<sup>15</sup> As noted in Locke and Tassonyi (1993), in Ontario, Canada, when setting their own tax rates local municipalities, responsible for collecting all property taxes, must consider taxes levied by the upper tier and by school boards, but have no actual control over school board levies and only limited influence on the upper tier.

but they are not necessarily delivered to the right people in sufficient quantities and quality (Bird, 1980).

Three schemes have been suggested to address the obvious coordination problems (Bahl and Linn, 1992). The first is overlapping membership, in which certain individuals sit on a number of district boards, promoting coordination but failing to address accountability. The second is the encouragement of multifunction districts rather than single-purpose districts, which may lead to general-purpose government. Finally, even though special districts remain separate authorities, they may be subjected to political considerations in the decision-making process (as with elected school boards in the United States).

The delivery of certain public functions by essentially non-governmental organizations, called quasi-autonomous non-government organizations (QUANGOs) or extra-government organizations (EGOs), has been common in the UK for a long time, with approximately 5,500 such organizations in existence today, 4,700 of which operate at the local level. These bodies are generally run by appointed, rather than elected, individuals and manage nearly one-third of all government expenditures (Amos 1996). They are not subject to the same regime as government agencies with respect to accountability, accessibility, and information provision, and they may provide services efficiently, but not in an accountable manner (Slack, Bourne and Gertler, 2003).

## Conclusions on Government Structure

Several models of regional governance are available in theory and in practice; but none is clearly the best model of governance for large metropolitan areas.<sup>16</sup> Nonetheless, the following conclusions emerge from this brief review:

- A strong regional structure, which encompasses the entire city-region, is important. Metropolitan areas are characterized by strong interdependencies (social, economic, environmental, and political-administrative) and by externalities among local jurisdictions (see

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<sup>16</sup> Other reviews of this issue have also concluded that no one model fits all cases or stands out above the rest (McMillan, 1997; Divay and Wolfe, 2002; and see Chapter 3).

Chapter 3). Some form of regional structure is needed to address region-wide problems, such as fiscal disparities among municipalities and externalities in service provision, as well as to resolve transportation and environmental coordination issues and ensure the economic competitiveness, social cohesion, and fiscal viability of city-regions in the global economic setting. Few problems and processes stop at municipal boundaries, and feasible solutions require larger geographical units and access to a larger pool of resources, both human and financial, than available to small local governments. Some form of regional structure seems necessary to enhance regionally based competitive advantages and to take full advantage of new and emerging opportunities for economic cooperation, as well as to enhance productivity and competitiveness in an increasingly knowledge-based economy.

- Although the need for a regional structure is clear, the precise form it should take will vary with local circumstances. Different models (e.g. one-tier or two-tier) have worked successfully, to varying degrees, in different places. An effective government is more important than the precise model of governance chosen for a city-region. Voluntary intermunicipal agreements and special districts may be effective for the provision of some services, but these approaches fail to provide a sufficient regional foundation for metropolitan areas to compete in the global economy. Voluntary cooperation is applicable when local autonomy is paramount and policy makers in various local governments share objectives. However, it will not work well when objectives differ among local governments.

A one-tier structure is easier to understand and more transparent than a two-tier structure, thus enhancing political and fiscal accountability. Complex in design, two-tier structures may result in undesirable duplication, overlap, and general confusion among citizens about who is responsible for different functions and overall funding. On the other hand, a two-tier structure may achieve greater efficiency than a one-tier structure, as desirable economies of scale and scope can be realized at the upper-tier level, while the continued existence and vitality of the lower tier permits more responsiveness to variations in preferences

and maintains a closer linkage between local financing and spending decisions (Bird, 2001). Any degree of regional distribution can be achieved within either structure, although in a one-tier structure, uniform tax rates make all taxes available for redistribution.

## Local Government Expenditures in Large Metropolitan Areas

According to the traditional literature on fiscal federalism, the major role of local governments is to provide goods and services within a particular geographic area to residents who are willing to pay for them.<sup>17</sup> To the extent that the benefits and costs of particular services are confined to local jurisdictions, so that the actions of one municipality have no effect on other municipalities, efficiency is presumably enhanced because the mix and level of services vary according to local preferences. Moreover, local officials are often in a better position than central government officials to satisfy local tastes and preferences.

Although the major role for cities is to provide services to residents, they do not need to produce the goods and services themselves; rather, the proper role of local government is to make decisions about which services to provide and how to provide them. Municipalities may, for example, contract out service delivery to another government or to the private sector.<sup>18</sup> This dimension of metropolitan finance is addressed later with respect to financing metropolitan infrastructure.

### Types of Local Expenditure

Cities make expenditures on a variety of goods and services. The types of local expenditures they make determine, to a considerable extent, the revenue

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<sup>17</sup> Generally, stabilization policy is not considered an appropriate function of local governments, as they do not have access to monetary policy, and capital and labor flow freely across local jurisdictions. In the case of redistribution, local efforts to address income disparities will likely result in the movement of high-income groups to low-tax areas and low-income groups to high-tax areas. Nevertheless, in practice, local governments engage in some redistribution (Bird and Slack, 1993).

<sup>18</sup> Using the terminology of Osborne and Gaebler (1992), experience suggests that local governments should focus more on “steering” (policy formulation) than on “rowing” (providing services).

they need. Local government expenditures range from those with private-good characteristics to those with public-good characteristics. The efficient provision of services requires local governments to charge for services that have private good characteristics (for example, where it is possible to identify beneficiaries and exclude those who do not pay and where there are no externalities and undesirable redistributive consequences).<sup>19</sup> User fees are appropriate for services such as water, sewers, transit and recreation, whereas taxes and transfers are more appropriate when it is difficult or costly to charge user fees.

Local governments are generally assigned expenditure responsibilities for “hard” services, such as roads and transit and water and sewer services. In many cases, they are also responsible for “soft” services, such as affordable housing and income subsidies. The nature of local services has implications for how they should be funded; for example, the property tax is suitable to finance “hard” services that are property-related. However, it is less appropriate for funding “soft” services. In Scandinavian countries municipalities impose substantial income taxes to finance social services. Regional and local governments that deliver a wide range of services need a mix of revenue sources that reflects the mix of services they provide (Bird, 2001).

Local government expenditures can also be classified as operating or capital expenditures. Operating expenditures comprise day-to-day expenses of the municipality, such as wages and salaries, benefits, short-life equipment purchases, repair and maintenance, and servicing of long-term debt (principal and interest), while capital expenditures are for long-term assets. Generally, operating expenditures increase steadily over time along with population, inflation and other factors, while capital expenditures are inherently lumpy. A large increase in expenditures in one year, such as constructing a bridge, is not necessarily matched by equally large expenditures in subsequent years. Thus, from a financing perspective there is an important timing issue for local governments. Municipalities need either to allocate current revenues, such as property taxes, user fees and development charges, reserve funds or borrow money to ensure that funds are available for future capital investments. These revenue sources are discussed later.

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<sup>19</sup> For an extended discussion of when charging fees is reasonable and convenient, see Bird and Tsiopoulos (1997).



## Comparing Expenditures across Jurisdictions

Although cities around the world provide similar services, the distribution of local expenditures differs across jurisdictions and is difficult to compare because information is recorded using a variety of methods. Moreover, local government structures are often complex and differentiated, making it a challenge to design and ensure the reliability of adequate data collection (Bird, 1995).

A recent comparison of the municipal finances of selected U.S. and Canadian cities reported significant differences in how municipal services are delivered and how expenditures are reported (Slack, 2003). For example, public transit is run as a utility in most cities, while in some cases, such as Toronto, transit revenues and expenditures are consolidated with city revenues and expenditures. In other cities, such as Los Angeles, only the city's subsidy to the transit utility is considered a city expenditure. Similarly, in some cities, such as Boston and Detroit, education expenditures are made by the municipal government, and in other cities education expenditures are delivered by separate school authorities and are not consolidated with municipal expenditures. This makes it difficult to compare both the distribution of expenditures among functions and the total expenditures across different local governments.

It can be especially difficult to compare the expenditures of fragmented cities in a metropolitan area with cities in which the municipal government is coterminous with the metropolitan area (Slack, 2003). For example, Atlanta is located in Fulton County, Georgia, but the metropolitan area of Atlanta stretches well beyond Fulton County. Similarly, the city of Toronto, although a one-tier municipality, does not cover the entire Toronto metropolitan area, comprised of four other regional governments and 25 lower-tier municipalities. Consequently, it is not easy to compare revenues and expenditures of metropolitan areas within one country, and more difficult to make meaningful comparisons worldwide. Vast differences in "local" expenditures of central and state (provincial) governments further exacerbate the problems; for example, in Canada, the provincial government is responsible for hospitals and corrections facilities, whereas in the United States these are local (county) functions.

After researching five U.S. cities (Atlanta, Boston, Chicago, Detroit, and Los Angeles), Slack (2003) found considerable variation and no clear patterns

in the level of expenditures and the distribution among categories, as shown in Table 5.2. The fact that per capita expenditures appear higher in some U.S. cities than others discloses little. Higher expenditures may be the result of higher service levels, needs or costs, inefficiencies in the delivery of services or inadequate provision for the replacement of infrastructure used up in the course of providing current services. In short, the amount spent on services does not necessarily reflect the quality, level, or condition of the underlying infrastructure.

## Expenditures in Large Metropolitan Areas

The standard economic theory of local governments does not distinguish among large metropolitan areas, intermediate-sized cities, or towns and villages. Yet, as a recent study of decentralization in Latin America noted, “a structure that fails to distinguish between major metropolitan areas and small villages makes it difficult to clearly define the functional responsibilities of local government” (Burki et al., 1999, 24). For example, if all local governments had the same responsibilities, the assignment would likely reflect the abilities of the smallest municipalities or, more likely, those municipalities would be unable to fulfill their responsibilities.

Therefore, different types of municipalities must be distinguished in terms of expenditure assignment. For example, in Germany the “city-states” of Berlin, Bremen, and Hamburg have broader responsibilities than larger municipalities, although the latter may assume the responsibilities of counties (Burki et al., 1999). As noted in Box 5.4, many countries make similar provisions for their national capital areas.

The magnitude and complexity of local government expenditures in large metropolitan areas is greater than in smaller urban or rural areas for many reasons, such as the size and concentration of the population (Freire, 2001), and the presence of a more socially and economically heterogeneous population (Nowlan, 1994). In most countries, larger cities are wealthier and carry out a wider range of services (Bird, 1995). As noted previously, local governments in large metropolitan areas are required to provide a sophisticated transportation and communications network and services that improve

**Table 5.2. Local Government Expenditures, Selected U.S. Cities, 2000  
(US\$ per capita)**

	Los Angeles/LA County, California	Atlanta/Fulton County, Georgia	Chicago/Cook County, Illinois	Boston, Mass.	Detroit/Wayne County, Michigan
Education	57	0	0	1,283	1,641
Libraries	22	34	29	75	30
Health and Social Services					
– Health	180	48	55	3	309
– Hospitals	168	176	152	112	29
– Public Welfare	433	67	48	162	88
– Total	781	291	255	277	426
Transportation					
– Highways	102	121	212	132	216
– Air Transportation	175	562	194	0	174
– Parking	3	0	1	6	0
– Other Transportation	155	231	13	106	0
– Total	435	914	420	244	410
Public Safety					
– Police Protection	355	328	396	398	333
– Fire Protection	147	189	107	205	110
– Correction	89	122	60	145	85
– Protective Inspection/ Regulation	16	25	13	20	25
– Total	607	664	576	768	553
Environment and Housing					
– Natural Resources	23	5	0	3	49
– Sewerage	30	393	46	186	452
– Solid Waste Management	37	73	59	69	110
– Parks and Recreation	93	171	45	38	187
– Housing/Community Development	72	20	69	303	152
– Total	285	662	219	599	950
Government Administration	321	366	186	143	368
Interest on Debt	126	228	194	87	168
Other	179	389	232	481	461
Total General Expenditures	2,813	3,548	2,111	3,957	5,007
Utility and Liquor Store Expenditures	666	654	110	105	637
Employee Retirement Expenditures	381	375	327	403	507
Total Expenditures	3,860	4,577	2,548	4,465	6,151

Source: U.S. Census Bureau's Government Finances: 1999–2000.

**Box 5.4. Financing National Capital Regions**

The ultimate freedom for a metropolitan region would be achieved as an independent nation or city-state, such as Singapore. The second best status would be as a regional government, such as Berlin, Bremen, and Hamburg, three of the 16 Länder (states) in Germany. In many countries, the national capital region, often the largest city, has a “separate and not equal” status when compared with other regions (states) or cities. This region may generate more resources, but it may also symbolize more control.

In a recent study, Boyd and Fauntroy (2002) compared eleven national capitals around the world, including three in Brazil, Mexico, and Venezuela, all located in districts that are distinct in some respects from other regions or localities.\* The same is true of Washington, D.C., and Canberra, Australia. This study also covers Bern, Switzerland and Hamburg, Germany, both city-states, as well as Ottawa, Canada, which is comparable to other cities in the province in which it is located. Also covered are London, Rome, and Paris, capitals of unitary countries, which are governed by local or metropolitan authorities.

All of these cities elect mayors, or councils to select a mayor, with the exception of Caracas, Venezuela, which has an appointed governor and an elected council. Similar to Berlin and Bern, Canberra has separate representation in the upper chamber of the national legislature, while in Washington, D.C., citizens are unable to vote for their representatives in the lower chamber.

Berlin has 12 boroughs, each with its own elected mayor and assembly, yet without independent revenue authority. Caracas consists of two of the five municipalities in the Caracas Metropolitan Area, while the other three are located in the contiguous State of Miranda. London’s current internal structure was previously discussed, and Paris has 20 districts (arrondissements), each with a mayor and council.

The national government has no direct oversight authority over Ottawa (although provincial officials do), Berlin or Bern. However, in all other cases, such as Caracas, Canberra and the District of Columbia, the national government has explicit

veto power over the decisions of local governments in the capital region. Until 1988 in Canberra, the national government had the power to approve the city government's budget, while in Mexico, this power was recently taken away.

In contrast, while Mexico City receives no special financial assistance from the national government,\*\* Caracas, Brasilia and Washington, D.C. do, as does Canberra, to a very limited extent.\*\*\* Berlin and Ottawa receive a federal grant in lieu of paying property taxes on federal property, while Bern receives only reimbursement payments for direct services rendered. On the other hand, France, Germany, and the UK offer their capital cities grants for certain purposes. Table 5.3 describes funding given to the different capital districts by the national government.

\* Although not discussed here, the Special (Capital) District of Bogotá, Columbia, also the capital of the surrounding Department of Cundinamarca, combines both municipal and special powers (e.g. access to revenues), generally reserved to the departmental (regional) level. In 2000, a Constitutional amendment created a new administrative region consisting of the Capital District and Cundinamarca, and its municipalities, and the contiguous departments. However, the proposed funding and administration of this entity is unclear.

\*\* On the other hand, for many years, as noted in the Annex, Mexico City received important federal financial support for services such as transport.

\*\*\* In fiscal terms, Washington, D.C. is poorly treated; its budget is debated and reviewed by the federal government and its ability to tax is severely restricted. For example, the levying of income taxes on the work force living in the adjacent states of Maryland and Virginia is not allowed, nor is the charging of tolls on the bridges coming into the city. Moreover, the federal government does not pay taxes for the large amount of real property they own in the city, nor do they reimburse the city adequately for local services they utilize. See the recent study of Washington's fiscal plight in O'Cleireacain and Rivlin (2002).

the quality of life (parks, recreational facilities, cultural institutions) to attract professionals who are at the "cutting edge" of economic competitiveness. On the other hand, large metropolitan areas attract low-income individuals and households seeking employment opportunities and a wider range of specialized social services, thus requiring higher expenditures on social services, social housing, and public health.

Consequently, large metropolitan areas usually provide a wider range of services than smaller cities and rural areas. For example, smaller cities may not have a public transit system, as low urban densities make this service economically unviable, nor cultural facilities, such as opera houses or art galleries, as they require a minimum size to make provision possible. As their own communities do not provide such services, people from smaller cities often use cultural

**Table 5.3. Some Fiscal Aspects of National Capitals**

City	% Budget from Senior Government	Form of Transfer and Tax Powers
Berlin	32% (includes payments from states and European Union)	Equalization transfers like other states, plus direct payments for culture, infrastructure, and security. City boroughs have no tax powers and receive funds from state government.
Bern	40%	Revenue sharing from Bern canton; small amount from nation as reimbursement for direct services. Full tax powers (except indirect taxes).
Brasilia	72%	Same taxation powers as states, but receives large discretionary transfer from federal government.
Canberra	No data	Almost all revenue from various federal transfer programs. Able to levy payroll tax.
Caracas	67% (approx.)	Special grants and support.
London	83%	General and special grants. Limited to own revenues, but recently imposed vehicle congestion charge.
Mexico City	39%	Aid is same as state governments, but receives more from own revenues than other cities.
Ottawa	8% (federal only)	Payment in lieu of property taxes on federal property. Also receives substantial funds from provincial government.
Paris	No data	Aid is same as other local governments, plus special payments. Only national government can authorize local taxes.
Rome	No data	Funding and tax power are same as other cities.
Washington, D.C.	10%	Some special federal payments. Limited tax power.

facilities and other services in the metropolitan area, causing a dilemma among policy makers as to how to ensure that nonresidents who use services pay for them. The creation of city-region governance structures is one proven way to address such problems; other methods are discussed in the following section. In addition to providing varied goods and services in greater quantities, metropolitan governments must manage a more complex urban environment, structure land use to promote efficiency, and employ financial tools in a way that promotes efficiency. These tasks are often more complex in metropolitan regions than for local governments in general.

As a result, per-household expenditures in large metropolitan areas are generally higher than in other municipalities. For example, operating expenditures in London, England, are about 30 percent above the average for all local

governments (Office of the Deputy Prime Minister, 2002). In particular, expenditures are higher on housing in London (two to three times higher in per capita terms than in other parts of England) and on health (due to the higher operation costs and the high cost of five medical schools) (Office of the Prime Minister, 2003). Additional characteristics that differentiate London from other cities in England include ethnic diversity (one in four Londoners is an ethnic minority), income disparities (although London is a wealthy city, it has the second highest unemployment rate among England's regions), and its role as a global city in terms of finance and business services (Office of the Prime Minister, 2003).

As economies of scale exist in service provision, there may be opportunities for lower expenditures per capita for certain services. However, the reported empirical evidence, such as by Hirsch (1959), concerning economies of scale can be best characterized as "mixed," depending on the service in question (such as policing, refuse collection, water, sewage, and education) and the units of measurement (such as the jurisdiction or facility size). For some urban services, such as water and sewage, expenditures per capita declined when quantity increased, while others rose as output expanded, a sign of diseconomies of scale. Other studies have found economies of scale for "hard" services such as water, sewers and transportation, but generally not for police, refuse collection, recreation or planning (Bird and Slack, 1993). Hard services are capital intensive, so large government units are more prepared to make the substantial investments needed for projects such as extending the water distribution system or building a "least unit cost" size sewage treatment plant (Bahl and Linn, 1992). Other services, such as policing, are highly labor intensive and unlikely to show significant, if any, economies of scale.

Measurement problems, such as in population and expenditures, have been identified in such cost studies. Population, commonly used as a proxy for output, is not an efficient measure as two municipalities with similar populations might have different outputs for a particular service due to demographic differences. Expenditures, mainly used as a proxy for cost, are not the most effective measure, partially because their patterns may reflect differences in local government wealth. As discussed later the local government fiscal base is likely to be correlated with population size (Hermann et al., 1999), so larger expenditures do not always signify higher costs.

## Responsibilities in Two-Tier Structures

As discussed above, in two-tier structures of local governance the upper tier is generally responsible for services that are region-wide in scale and scope. While ideally (see Table 5.1) the upper tier should be responsible for area-wide services such as major infrastructure, transportation, water and sewers, waste management, broad spatial planning, and economic development (Divay and Wolfe, 2002), in practice the division between upper-tier and lower-tier functions differs vastly from city to city. For instance, as mentioned in Box 5.2, more than half of the 2003–04 budget of the Greater London Authority was spent on transportation, with policing as the second largest recipient of funding, and the remaining budget was divided between economic development, fire and emergency planning, and planning of other services. Mainly through central grants, the lower tiers (boroughs and the Corporation of London) were responsible for financing services such as education, housing, social services, roads, local planning, and arts and leisure services.

In sharp contrast, as Box 5.3 shows, the budget of the Greater Vancouver Regional District is fairly small (\$191 per capita in 2002 compared to \$1,135 per capita for the lower-tier municipalities combined). Unlike the London model, housing and social services are principally the responsibility of British Columbia, while the remaining local-level responsibilities are shared between the upper and lower tiers. For example, policing and fire protection are lower-tier responsibilities in Vancouver (accounting for 25.4 percent of lower-tier expenditures) along with parks, recreation, and culture (15.1 percent). Lower tiers also make expenditures on water, sewers, transportation, development services, and waste management, while a separate regional authority is responsible for transit.

## Financing Large Metropolitan Areas

As with expenditures, revenue needs and patterns tend to vary in large metropolitan regions, reflecting both the different nature and level of services they provide and their greater ability to levy taxes. As a rule, large metropolitan areas should have greater fiscal autonomy than other urban or rural areas, where



“autonomy” means greater responsibility and ability to manage local services and to levy taxes and collect revenues (Bird, 1984). The revenue sources utilized by local governments of all sizes may include user fees, taxes, and intergovernmental transfers. This section discusses these major revenue sources, as well as the financing of capital expenditures and other infrastructure through municipal borrowing.

## User Charges

The efficient provision of goods and services requires local governments to charge directly for services wherever possible (Bird 2001a). Charges should be levied on the service beneficiaries, when they can be identified. Through user fees, residents and businesses are aware of the cost of services received from local governments. Moreover, appropriate pricing helps governments make more efficient decisions regarding service quantity and citizens make more efficient decisions about consumption.<sup>20</sup> User charges are especially appropriate for services such as water and public transit, in which individual consumers are the main beneficiaries.

User charges are especially suitable for large metropolitan areas, as they encourage more efficient use of services and land. When marginal cost pricing is the basis, higher fees are charged to consumers far away from existing services and hence costly to serve. However, if consumers are charged “average” cost, those in outlying areas would pay less than the marginal cost of the service and they would be subsidized. Thus, uniform pricing of urban services, while often politically appealing, is economically inefficient. Urban sprawl is encouraged, as people in the central, high-density areas often pay more than the marginal cost of the service, in effect subsidizing service use by those in outlying areas (Slack, 2002). For instance, studies in Chile have shown that under-pricing and distortions in water and sewer pricing have resulted in severe locational distortions (Daniere and Gomez-Ibanez, 2002).

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<sup>20</sup> For example, in a rigorous empirical study, Borge and Rattso (2003) point out that the financing of sewer service by Norwegian local governments through user charges has significantly reduced the cost of this service.

Many believe that relying too much on user charges will have a regressive result. However, many studies have shown this is not true in large urban areas; those who benefit most from under-pricing services make the most use of them, and the poor are not well represented in this group (Bird and Miller, 1989). Relatively simple pricing systems, such as low initial “life-line” charges for the first block of service use, can deal better with any remaining perceived inequity by introducing more adequate pricing systems.<sup>21</sup> Finally, more appropriate pricing of urban services relieves pressure on urban finances by reducing the apparent “need” for more under-priced infrastructure investments. Users will always want additional free services; cities are not obligated to provide them.

## Taxes

If the benefits of a particular service go beyond the individual consumers, user charges cannot be used. Thus, when the benefit area of the service is largely coterminous with the municipal boundary, local resident taxes are effective methods of finance.

A truly local tax might be defined as a tax that is assessed and collected by local governments, at rates decided by local governments (Bird, 2001). However, in reality many taxes may not have both of these characteristics, and the “ownership” of the levy may be unclear. In some countries, a tax is called a “local” tax when part or all of its proceeds accrue to a city, yet the central or provincial/state government determines the tax rate and base. These taxes are better considered as central or provincial/state government taxes allocated to cities through a transfer. This interpretation is particularly plausible when there is little connection between the amount transferred and the amount collected locally.

On the other hand, a central tax with a related transfer program may be considered a local tax from a different perspective. For example, if a local government decides whether or not to impose a particular tax, determines the tax base, sets the tax rate, receives all of the revenues, and yet the tax is collected

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<sup>21</sup> Singapore recently proposed to *increase* the progressivity of its revenue system by imposing higher levies and charges for a number of government services (including road pricing through electronic monitors that charge for usage of public roads).

by the central government, the latter acts only as a collection agent (presumably because of a comparative advantage in tax collection). In this case, there is no intergovernmental transfer except in the narrowest accounting sense. While many cases between these extremes are also conceivable, when appraising local taxes, it is important to remember that names and appearances can be deceiving.<sup>22</sup>

As Bird (2001) notes, the traditional theory of fiscal federalism prescribes a limited tax base for subnational governments. The only efficient taxes are those that are easy to administer locally, are imposed solely (or mainly) on local residents, and do not raise problems of “harmonization” or “competition” among subnational governments or between subnational and national governments. Ideally, the characteristics sought in an efficient subnational tax might include:

- The tax base should be relatively immobile, to allow local authorities some flexibility in varying rates without losing most of their tax base.
- The tax yield should be adequate to meet local needs and sufficiently buoyant, expanding at least as fast as expenditures over time.
- The tax yield should be relatively stable and predictable over time.
- It should not be possible to export the tax burden to nonresidents.
- The tax base should be visible to ensure accountability.
- Taxpayers should perceive the tax to be reasonable.
- The tax should be relatively easy to administer effectively.

In the conventional view, the only major revenue source that passes most of these tests is the residential property tax, and to a lesser extent, taxes on vehicles and user fees. However, as Bird (2001) stresses, unless local governments have some significant degree of freedom to alter the level and composition of their revenues, neither local autonomy nor accountability are meaningful concepts.<sup>23</sup> The most critical feature of an efficient local tax is the local government’s ability to impose tax rates, as long as they do not lend themselves to tax export-

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<sup>22</sup> See OECD (1999) for a practical attempt to detangle some of these issues, and Ebel and Yilmaz (2003) for their analytical importance.

<sup>23</sup> Although in principle, the local administration of a tax is not of primary importance, in practice, experience suggests that local administration definitely increases local control (Mikesell, 2003).

ing. Rate flexibility and restrictions on local ability to shift taxes to nonresidents are essential for a tax to be adequately responsive to local needs and decisions, while remaining politically accountable.

Taking this broader view of the relevant criteria, Table 5.4 (adapted from Bird, 2006a) distinguishes between taxes potentially suitable for local (lower-tier) governments in a metropolitan region and for region-wide governments. It is apparent that potential revenue sources for regional governments are much wider and more similar to states or provinces than traditional local governments.

**Table 5.4. Evaluation of Possible Metropolitan Government Revenues**

Criterion	User Charges (R)	Property Tax (L)	Excises (R)	Personal Income Tax (R)	Payroll Tax (R)	Sales Tax (R)	Business Taxes (L, R)
Revenue Adequacy	Adequate for some activities; not in general	Adequate for general local government	Unlikely	Unlikely	Yes, if industrial area	Yes	Unlikely
Revenue Buoyancy	No	Not much	Varies	Yes	Yes	Yes	Likely
Correspondence of Payers and Beneficiaries	Excellent, if well-designed	Fair, if properly executed	Not high	Not high	Depends on employment pattern	Depends on mobility	Depends on design
Local Accountability	Excellent	Low	Not good, unless rate set regionally	Low, unless have rate discretion	Only with rate discretion	With set rates	Usually low
Administrative Cost	Sometimes high	Fairly high	Low	Very high, unless imposed as regional surcharge	Not high	Moderate	Sometimes high
Compliance Costs	Irrelevant, in principle	Vary, but not high	Low as a rule	Medium	Not high	Moderate	Often high
Latitude for Corruption	Low	Moderate	Low	Probably high in most countries	Low	Moderate	High
Political Acceptability	Not high in most countries	Moderate	High in some instances	Low	High	Uncertain	High
Distortionary Impact	None	Moderate	Low	Moderate	Not high	Low	Usually high
Progressivity	Not relevant in principle (though may be in political terms)	Possibly	Regressive in general, except fuel	Largely unknown	Low	No	Usually unknown
Reduces Regional Disparities	Likely to some extent	No	No	No	No	No	No

L Local (lower-tier)

R Regional (upper-tier)

## *Property Taxes*

Invariably, the property tax has an important role to play in funding local needs for municipalities of all sizes. For example, this tax accounts for over 90 percent of local tax revenue in five of the twenty-seven OECD countries, Australia, Canada, Ireland, New Zealand, and the United Kingdom (OECD, 2000).

The property tax seems appropriate for financing local services for at least two key reasons. First, real property is immovable once it is taxed and second, there is a connection between the types of services funded at the local level and the benefit to property values. As mentioned earlier, the property tax resembles a benefit tax, to the extent it approximates the benefits received from local services. In particular, residential property taxes are appropriate to fund local governments because they are borne by local residents.<sup>24</sup> Those who enjoy the benefits of local services are required to pay for them.

On the other hand, the nonresidential portion of the property tax, generally the most important part in developing countries, is inherently less appropriate for financing local government expenditures. Taxes on business may be partially exported to jurisdictions in which consumers of the products or services produced in those properties or owners of the business reside, reducing accountability because those bearing the burden of the tax are not actually enjoying the benefits. Local residents may demand greater expenditures in this case, as they know the costs will be paid by "other people's money." Thus, some restriction on the use of nonresidential property taxes, through maximum or uniform rates on residential and nonresidential property, may be desirable.

Large metropolitan areas tend to have relatively more commercial and industrial property than smaller urban areas. A larger commercial/industrial tax base permits local governments to make greater expenditures than smaller municipalities for the reasons noted above. Restrictions may be especially necessary in metropolitan areas when the taxes exceed the benefits received from local government activities and thus are exported.<sup>25</sup>

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<sup>24</sup> This statement is too simple to be fully accurate; for a more detailed discussion, see Bird and Slack (1993).

<sup>25</sup> See Bird (2006b) for a discussion of the justification of local taxes on business and the method by which such taxes might best be imposed.

**Box 5.5. Urban Finance Models in Cities and Urban Development Patterns**

Over the years, many have argued that urban taxes, especially land taxes, are important tools in shaping the pace and nature of urban development. While this complex subject is not discussed thoroughly here, an overview of land and property taxes around the world (Bird and Slack, 2004) draws several conclusions that are worth reviewing.

Many countries impose various taxes and charges on land transfers. Such taxes invariably discourage the development and formalization of land markets. This taxation, often at surprisingly high rates, is attributable primarily to the fact that the “taxable event,” the recorded exchange of title, is visible even if the true value of the transaction is not. Countries concerned with efficient land use should consider lowering such taxes and recovering any immediate revenue loss by, for instance, strengthening basic property taxes.

In addition, some countries impose other special taxes on land for essentially non-fiscal purposes: to reap “unearned increments” (*plusvalía* in Colombia), to recoup the costs of public investment expenditures (special assessments and betterment levies in various countries, e.g. *valorización* in Colombia), or to discourage the holding of “idle land” through “penalty rates” (as seen in Colombia as well). Unfortunately, even though such ideas are attractive and variants have been attempted around the world, in practice, positive effects have not been proven. The control of urban land speculation and reaping of land value increments for public use may be worthy objectives, yet attempting to achieve this indirectly through fiscal instruments has been counterproductive.

Countries such as Colombia have succeeded in recouping some benefits to adjacent property owners from certain public investments through “benefit-related” charges such as *valorización*. Similarly, as discussed in the main text, development charges and other forms of “value capture” have recently been employed in some U.S. states and Canadian provinces to help finance some urban infrastructure development. However, the role of such devices in most Latin American metropolitan regions is likely to be limited.

Finally, despite this generally negative assessment of using special land taxes for “planning” purposes, it is important to remember that land taxes impact land use patterns. For example, advocates of land value taxation argue that taxing land alone is more favorable to investment and growth than taxing land and improvements. The uneven way in which property taxes are often applied within urban areas, based on differential taxes on housing and business, has different impacts in older and newer areas and may affect the pattern of urban growth (Slack, 2002). These effects should be addressed through sensible fiscal (and land) planning.

To the extent that property tax differentials are matched by differentials in public service expenditures, they should not result in a negative impact on location or land use. In the absence of such “matching,” however, there will be a pattern of positive and negative subsidies, which may negatively affect urban development patterns. As Oldman et al. (1967) argued in an early analysis of Mexico City’s finances, such misallocations can be more damaging in the rapidly urbanizing Latin American cities. Forty years of further development has underlined this point.

Policy choices, with respect to the property tax structure and its impact on land use, include the tax base and its exclusions, the definition of property value for different classes of property (such as residential, farm, commercial, and industrial properties), the percentage of the value that is taxable, and the fluctuation of taxes within and between classes of property. Unfortunately, information in most countries is too inadequate to permit analysis of the existing, almost certainly non-optimal, tax systems on land use. Given the low effective tax rates currently applied in most countries, the resulting distortions are moderate. Yet, in view of the likely increased importance of property taxation to finance Latin American metro regions in the future, property tax reforms should take into account the need to be politically acceptable and administratively feasible, as well as the proper design of the increased taxes from an economic perspective. This does not mean that “gadgets,” such as land value increment taxes and progressive land taxes, with their high and insuperable political and administrative costs, should have a significant role, rather that there should be more focus on simple and effective local property taxes, with perhaps heavier taxation on land than on improvements.

**Table 5.5. Property Taxes in Select Latin American Countries**

Country	Property Tax as % Local Revenues	Local Discretion over Rates	Base Assessed By:	Tax Collected By:
Argentina	35.0	Yes	Provincial and local governments	Provincial and local governments
Chile	35.1	No	National government	National government
Colombia	35.0	Yes, subject to limits	Local governments	Local governments
Mexico	58.7	Yes	State and local governments jointly	Local governments
Nicaragua	6.4	No	National government	Local governments

Source: Compiled from Bird and Slack (2004)

Property taxes are relatively costly and difficult to administer properly, despite their many virtues, and these problems are exacerbated as the size of the tax burden increases (Bird and Slack, 2004). Moreover, in most countries even a well-administered local property tax cannot finance major social expenditures (education, health, social assistance) (Bird, 2001). Local governments financed primarily by property taxes must confine their activities to providing local services such as street cleaning and refuse removal, or become heavily dependent on transfers from senior levels of government. Indeed, this is the pattern in most developed countries, including the relatively few in which the property tax is the mainstay of local finance. Matters are generally worse in developing countries, which seldom allow local governments any rate flexibility, although there is great variation from country to country (see Table 5.5).<sup>26</sup>

### *Income Taxes*

Income taxes represent the most important source of local tax revenues in 13 of the 27 OECD countries including, Sweden, Norway, Denmark, Finland, Czech

<sup>26</sup> Lately some Latin American countries have experimented with land value capture systems (for instance, betterment). From the fiscal perspective taken here, these systems yielded little; their main purpose is not to generate income but rather to promote more efficient land use patterns. For discussion, see Bird and Slack (2004).



Republic, Switzerland and Belgium (OECD, 2000). A strong case can be made for a local income tax to supplement property taxes for large metropolitan areas. As previously noted, city-regions should be permitted to levy their own tax rates to ensure that they have fiscal autonomy. However, even within the largest metropolitan areas, it is desirable to “piggyback” onto central government income taxes, levying the tax as a supplement to central or provincial income tax, rather than imposing independent local taxes. Yet, this supplemental local income tax only makes sense along with an effective, well-functioning central income tax, which unfortunately is rare in Latin America, a case further analyzed by Shome (1999).

A metropolitan income tax can be justified based on the call for governments in large metropolitan areas to address issues of poverty, crime, land use planning, regional transportation and other region-wide needs (Nowlan, 1994). In this case, the use of an income tax, rather than a property tax, is a more appropriate choice for funding, because it is more closely related to ability to pay. Furthermore, since mobility across jurisdictions, in response to tax differentials, is less in larger geographic areas, it makes sense for large metropolitan areas to take advantage of sources such as income taxes.

In addition, as the residential property tax is tied to the consumption of housing rather than consumption of public goods, this portion of the property tax is a benefit tax only to the extent housing and local goods consumption are highly correlated across various households (Thirsk, 1982). In large metropolitan areas with a heterogeneous population, however, income is more highly correlated with consumption of public services than with property value. In this sense, a local income tax may be a better benefit tax than a property tax in large metropolitan areas (Nowlan, 1994). Of course, this argument would not apply when there is a strong relationship between income and property values, often the case in large cities in many developing countries.

Income taxes (as well as payroll and sales taxes) are more buoyant than property taxes (see Table 5.4). Income taxes increase or decrease in response to changes in wages and salaries so revenues respond immediately to changes in the economy, while property tax revenues respond slowly because economic growth is not capitalized fully into real estate investment and land ownership (Pagan, 2002). Moreover, in many countries, even if property values increase, as-

sessed values, on which property taxes are invariably based in Latin America, are not updated on a regular basis (Bird and Slack 2004). As income taxes respond to changes in the local economy, cities that levy income taxes in an economic boom have an advantage; yet this may be a disadvantage in an economic downturn. For example, in many U.S. cities, recession results in slower than expected growth in revenues from income, sales and tourism-related taxes (Pagano 2002).<sup>27</sup>

One reason local governments have seldom been given access to income taxes in industrial countries concerns the degree to which central governments' rely on this source of revenue. In many developing countries, however, even central governments have trouble collecting enough from the income tax. Thus, in Latin America, there are no easy solutions for metropolitan revenues, given the combination of weak personal income taxes at the central level, the difficulty of strengthening these taxes in the near future and the obvious reluctance of central governments to share productive tax bases with local governments. Nonetheless, countries concerned with establishing sustainable metropolitan governments should explore the possibility of imposing regional surcharges on personal income taxes.

### *Payroll Taxes*

Payroll taxes have been important sources of regional government finance in Australia and, although to a lesser degree, in countries such as Mexico and South Africa. These taxes have several advantages and at least two disadvantages. Their advantages include easy administration, at least when imposed on large enterprises, and decent productivity at relatively low rates. Their disadvantages are their tendency to act as a tax barrier to employment in the modern sector and to distort some choices of production techniques (Bird, 1992). Additionally, in most countries the payroll tax basis is already heavily exploited to finance the central government's social security systems.

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<sup>27</sup> Fifteen U.S. states allow municipalities to levy income taxes. The method for setting local tax rates varies across states; for example, the authority that sets tax rates is sometimes constrained by the state or by voter approval. Some cities levy local income taxes on earnings, while others levy on earnings and business net profits. In addition, some cities apply taxes to nonresidents as well as residents (Von Ins, 2001).

In any case, to the extent that payroll taxes can be made effective on a regional basis, so can flat-rate personal income taxes, which are likely to be levied on a similar base without the factor bias inherent in payroll taxes. Moreover, in theory if not in practice, personal income taxes can be levied more easily on a destination (resident) than origin (employment) basis (Bird and Wallich 1992), an important factor in considering the potentially distorting aspects of subnational factor taxes. Hence, in economic terms, surcharges on a nationally uniform personal income tax base, rather than on payroll taxes, would appear to be a more appropriate way for subnational governments to tax wages in most developing and transitional countries. However, in administrative terms, a payroll tax, levied as a final tax at the enterprise level, is undoubtedly simpler (unless the personal income tax is levied similarly on total wages and salaries at the enterprise level, and is not aggregated with other forms of income on an individual basis).

### *Vehicle and Fuel Taxes*

The strongest economic and administrative case for regional excises concerns vehicle-related taxes (Bahl and Linn, 1992). From revenue and administrative perspectives, the most important, as well as simplest and least expensive, automobile tax is the fuel tax, which can generally be levied at the regional level. In addition, various regions could impose taxes at different rates; yet, given the mobility of the tax base, they would probably not be able to differ much from rates imposed by their neighbours. Differential regional fuel taxes could be imposed at the refinery or wholesale level, with these businesses acting as collection agents for the regional governments and remitting taxes in accordance with fuel shipments. Such municipal fuel taxes are levied in many U.S. jurisdictions and in a few larger Canadian municipalities, and these generally piggyback onto state/provincial fuel taxes, principally because the administrative costs of levying their own taxes would be prohibitive. The revenues generated from these taxes are often earmarked for local roads and transit services.

A user charge on road usage, reflecting the marginal social cost, would result in more efficient use of the road. Although a city fuel tax does not reflect the marginal social cost of vehicle use, as does a direct user charge, it may still be broadly considered as a benefits-based tax (Slack, 2002). Such a municipal

fuel tax would be most appropriate for large metropolitan areas that have transit systems in need of a dedicated source of revenue. As long as roads are under-priced, there is a strong case to subsidize urban transit (Bird, 1976), and a well-designed “road tax” can deal with both sides of this problem. Kain and Liu (2002) provide an interesting empirical study on these issues in the Chilean case.

To the extent that automotive taxation is intended to price either the use of publicly provided services or externalities, fuel taxes are a crude instrument, while toll-roads and reasonable annual automobile and drivers’ license fees can be more effective benefit taxes. For example, vehicle fees might be based on age and engine size (older and larger cars generally contribute more to pollution), the location of the vehicle (cars in cities add more to pollution and to congestion) and axle weight (heavier vehicles do exponentially more damage to roads and require roads that are more costly to build). Similarly, drivers’ license fees might take into account driving records (20 percent of drivers are responsible for 80 percent of accidents).<sup>28</sup>

### *Sales Taxes*

In many countries, general sales tax is the most economically sensible, administratively viable, and elastic regional revenue solution. Given the obstacles to imposing income taxes in Latin America, the only “big” possible source of metropolitan regional revenue, aside from business taxes as discussed in the next section, appears to be some form of general sales tax.

The general sales tax imposed in most countries is a value-added tax (VAT). The future of the retail sales tax, once favored as a regional tax (Musgrave, 1983) and still in place in most U.S. states and a few Canadian provinces, seems bleak. However, the dominance of the VAT poses a serious problem for the financing of regional governments, as most tax analysts consider independent, subnational VATs to be either infeasible or undesirable for reasons such as high administrative and compliance costs, the possible loss of macroeconomic control, and central governments’ general reluctance to share the VAT base. Others emphasize the problems arising from cross-border (interstate) trade, arguing

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<sup>28</sup> See Bird (2006a) for a more extensive analysis of these fees and other possible local taxing methods.

that subnational VATs are distortionary if levied on an origin basis, and unworkable, at least in developing countries, if levied on a destination basis.<sup>29</sup>

There has been significant discussion in the literature (see the survey in Bird and Gendron, 2001) about the implementation of a regional VAT in countries such as Argentina and Brazil, but to date this has not been accomplished and it seems a remote possibility in Latin America. Nonetheless, since this subject is near the top of the tax reform list in Brazil (at the state, rather than regional level), this concept should not be disregarded.

### *Business Taxes*

Finally, many countries have regional and local business taxes, such as corporate income taxes, capital taxes, nonresidential property taxes, transit taxes (*octroi*), license fees (*patente*) and various forms of industry and commerce taxes (Bird, 2006b). Most of these taxes would not score highly based on reasonable criteria, as few are equitable and almost none are neutral. Even though most accentuate disparities between localities, giving more benefits to those with more, this may make them especially attractive to metropolitan areas. Tax exporting is also common with most of these taxes, thereby violating the correspondence principle that those who pay should be the beneficiaries. Many are costly to administer, especially considering the cost of compliance and the discretionary nature of the operating facilities, hence they become a basis for corrupt transactions.

Nonetheless, the political realities of governing in a democratic society may encourage subnational governments to impose taxes on local business, popular with officials and citizens for several reasons. Principally, they often produce substantial revenue and are more elastic than other taxes, such as property taxes. Also, as no one is certain of the incidence of these taxes, it is easy to presume, or assert, that someone other than local residents assumes payment. Lastly, in many countries, local governments have more discretion over such taxes than other forms of taxation with regards to their rate, base and application.

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<sup>29</sup> Currently, the only functioning destination-based subnational VAT is in the province of Quebec, Canada (Bird and Gendron 1998).

Overall, there exists a good economic case for local business taxation as a form of generalized benefit tax. Undoubtedly, as argued earlier, appropriate user charges should pay for the specific public services benefiting certain business enterprises. Yet, when it is not feasible to recoup the marginal costs through user charges, some form of broadly based levy on business activity may be warranted. This argument lends little support to local taxes via any specific input, whether labor (payroll tax) or capital (corporate income tax or property tax). Rather, it suggests that a broadly based, neutral levy, such as a value-added tax, should be imposed.

As Bird (2006b) argues, a VAT levied on an income basis (production, origin) rather than on consumption (destination) is most appropriate for this purpose. This type of tax has three important distinguishing features. First, it is levied on the sum of profits and wages, or on investment as well as on consumption. Second, it is imposed on an origin rather than a destination basis and thus, as is appropriate for a benefit tax, taxes exports rather than imports. Third, it is assessed by a subtraction (or addition) method on the basis of annual accounts, rather than on a transaction or invoice credit method.

If adopted, this tax would be more neutral than most local business taxes, which often discriminate against certain investments, and should be less susceptible to base erosion than most other forms of business tax. These advantages would exist even if rates were set to produce the same revenue as existing business taxes. Thus the adoption of this tax would have the advantages of eliminating inefficient spillovers and encouraging more accountable subnational governments. While many technical issues need further thought and discussion,<sup>30</sup> moving toward such a local business tax would be a substantial improvement in many countries,<sup>31</sup> as both Italy (Bordignon, Gianni, and Panteghini, 2001) and Japan recently illustrated.

Any business tax, even when well designed, could somewhat weaken the link between taxpayers and beneficiaries, and consequently induce confusion about those responsible for payment. To reduce such ill effects, it may be

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<sup>30</sup> See Bird and McKenzie (2001) for a discussion in the Canadian context.

<sup>31</sup> An alternative approach might be to rationalize the existing set of levies imposed on business, although this path may be more suitable for smaller local authorities (Kelly and Devas, 2001).

advisable to set rate limits to prevent both excessive tax exporting (e.g. by setting a ceiling rate) and tax base shifting or “beggar-my-neighbor” policies (e.g. by setting a minimum rate). Such restraints on what may be called “harmful competition”—harmful in the sense of reducing the well-being of the region as a whole—may be especially needed in metropolitan regions where the location of economic activities is often sensitive to fiscal differentials.

Most local business taxes are likely to be regressive, but in general, the equity of local taxation is a less important question than some think. As noted earlier, from many perspectives, local governments can be viewed as entities that provide services to residents, so that the benefit principle rather than the ability to pay principle is the best equity perspective (Bird, 2001).

## Intergovernmental Transfers

Transfers from senior levels of government, motivated by fiscal imbalance, externalities, or equity, provide another important source of revenue for local governments in most countries. When municipalities have inadequate revenues to meet their expenditure needs, there is said to be a fiscal imbalance, and although large metropolitan areas tend to have greater revenues than smaller cities, “few countries permit local governments to levy taxes capable of yielding sufficient revenue to meet expanding local needs” (Bird, 2001b, p. 114). Fiscal imbalance can be addressed by increasing the sources of revenue at the local level or by reducing expenditure responsibilities.<sup>32</sup> For example, if senior levels of government were to take on the funding of some services, then local fiscal needs would be reduced. Alternatively, senior levels of government could allow local governments to raise revenues from additional tax sources. For example, large metropolitan areas could be given access to more revenue sources, leaving unconditional grants for smaller urban and rural areas. The nature of the governing structure at the metropolitan level may affect the size of the tax base as well as the capacity of local governments to meet expenditure requirements.

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<sup>32</sup> Fiscal “balance” is a tricky concept; for extended consideration of its meaning and measurement (at the federal-provincial level), see Bird and Tarasov (2003).

Grants are also appropriate where services spill over municipal boundaries (e.g. regional highways) and may result in an under-allocation of resources to a service due to the failure of local decision makers to consider the benefits that accrue to nonresidents. A transfer from a senior level of government, particularly a conditional, matching grant,<sup>33</sup> provides an incentive to allocate more resources to services generating these interjurisdictional externalities because it must be spent on the service that generates the externality and also matched by a local government contribution to reflect the extent of the externality.

Of course, as discussed above, in the case of large metropolitan areas, some of these externalities can be internalized within the jurisdiction if boundaries are extended to include all of the users of the service. Nonetheless, for services that generate externalities beyond the borders of the metropolitan area, some transfers may still be appropriate. As we noted in the introduction, the benefits of an internationally competitive metropolitan area extend beyond its boundaries to the whole country. Thus, some transfers from central governments may be justified for those municipal functions that contribute to international competitiveness.

In most countries some municipalities (and metropolitan regions) are simply unable to provide an adequate level of service at reasonable tax rates, perhaps because the costs of or need for services may be higher in such communities, or the tax base may be smaller. Under these circumstances, an equalization grant is appropriate, taking into account both differential needs and capacities (Bird and Smart, 2002).

In most countries, however, it seems unlikely that large metropolitan areas should receive equalization grants, except in the form of "capitation payments" for such nationally important, locally provided services as education and health (Bird and Fiszbein, 1998). Large metropolitan areas generally have much larger (per capita) tax bases than smaller urban or rural areas, due to higher economic activity and densities of residential, commercial, and industrial development. On the expenditure side, service costs and needs may be higher than

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<sup>33</sup> For further discussion of the rationale and form of intergovernmental transfers in urban areas, see Bird and Slack (1993).



in other urban areas. Still, this factor seems unlikely to outweigh the greater potential tax base in metropolitan areas.<sup>34</sup>

An alternative approach to achieve equity may be to design the governing structure to cover the entire metropolitan area, combining rich communities and poor communities to create equalization within the metropolitan area. Such equity concerns were the main reason for the adoption of the one-tier governance model in 2000 in Cape Town, South Africa (van Ryneveld and Parker, 2002).

In summary, in both principle and practice, transfers are less important for large metropolitan areas than for other local governments. Indeed, in countries with wide regional economic disparities, the wealthiest regions (including large metropolitan areas) should be able to raise and spend most of their budgets, although even they are likely to remain somewhat transfer-dependent in financing education and health. To achieve this goal and reduce their present dependence on intergovernmental transfers, large metropolitan areas need an appropriate governing structure, as well as additional “portfolios” of revenues, including both a property tax (for stability) and some form of income or sales tax (for elasticity). We will return to this issue below.

## Financing Infrastructure

In Latin America, it is common to finance large metropolitan capital works essentially from central funds; an example is the Mexico City subway. However, as demonstrated by a recent detailed study on the central government financing of the metro in Santiago, Chile (Kain and Liu, 2002), this practice may result in both increased regional inequality and distorted metropolitan growth. In general, metropolitan infrastructure should be financed locally, and often by borrowing. In a number of countries, however, due to restrictions on local borrowing (and on local revenues in general), municipalities are increasingly turning to the private sector to finance infrastructure costs in new developments, as well as to improve existing infrastructure in developed areas. Development charges and public-private partnerships are two ways that the private sector has become involved in infra-

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<sup>34</sup> Moreover, the costs of services in remote areas tend to be much higher than in large metropolitan areas, owing to higher transportation costs (greater distances), higher heating costs (climatic conditions), etc. (Kitchen and Slack, 2006).

structure financing, and both methods are used more widely in large metropolitan areas, where infrastructure costs tend to be particularly high.

### *Borrowing*

Local governments in most countries are not permitted to borrow to meet operating expenditure requirements;<sup>35</sup> however, borrowing is permitted to make capital expenditures. When the benefits of a capital investment, such as the construction of a water treatment plant, are enjoyed over a long period, it is both justifiable and efficient to fund the project partially through borrowing so that benefit and cost streams are balanced as the debt is paid.

Nonetheless, local access to capital markets is often heavily restricted in developing countries (Rodden, Litvack and Eskeland, 2003). Smaller municipalities, even in countries with well-developed capital markets, may be able to borrow only through a financing authority or state/provincial body, partially to reduce borrowing costs by pooling the requirements of different municipalities.

In countries in which local governments borrow directly, a municipality's bond rating largely dictates the rate of interest needed to make its bonds marketable. These ratings involve detailed assessments of municipal capacity to carry debt and raise revenue, even in depressed economic circumstances. Since municipality size is negatively correlated with the interest rate attached to the debt instrument, smaller local governments generally pay higher servicing costs and have less access to bond markets than larger municipalities.

In principle, provided there is no central subsidization of such borrowing (e.g. through guarantees, explicit or implicit), this method of financing capital investment is a good idea. In practice, many developing countries have experienced substantial difficulties, thus imposing tighter restrictions on subnational borrowing. While in the long run, as Rodden, Litvack, and Eskeland (2003) point out, such restrictions should be loosened, it is unlikely that most Latin American countries will allow their largest cities much leeway in the near future.

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<sup>35</sup> Although borrowing is not strictly a source of revenue, it is discussed here to compare the ability of large metropolitan areas in accessing capital markets to finance expenditures with other municipalities, as well as to provide a more complete, highly condensed picture of infrastructure finance.

### *Development Charges*

Development charges, also referred to as “lot levies” or “exactions,” are one-time levies imposed on developers to finance capital costs associated with new development, as well as redevelopment, and are widely used by municipalities in Canada and the United States to pay for infrastructure (Snyder and Stegman, 1986). The rationale for charging developers for such costs is that “growth should pay for itself” and not be a burden on existing taxpayers. Other levies often imposed on developers include:

- Land dedications that require developers to set aside land for roadways and other public works, school sites and environmental concerns;
- Parkland dedications, in which a portion of the land, or cash, must be set apart for parks;
- Density bonuses, under which developers are granted higher densities in return for providing day care, preserving a historic building, etc.;
- Connection fees permitting developers to invest in existing water and sewer facilities and;
- “Over-sizing” provisions (often called “front-end financing”), requiring developers to provide additional infrastructure, beyond the basic, strict requirements (in some cases, local governments agree to recover part of these costs from future owners).

Most studies that have investigated who is ultimately responsible for development charges (the new homebuyer, developers or pre-development land-owners) conclude that it depends largely on the supply and demand conditions in the new housing market (Slack and Bird, 1991). Nonetheless, over the long term, it seems likely that the homebuyer bears the bulk of these charges.

When properly implemented, such development charges can act as an effective method of marginal cost pricing, hence inducing more efficient development patterns, and discouraging urban sprawl (Slack 2002). In principle, it is crucial for charges to be differentiated by location to reflect the different infrastructure costs. Unfortunately, in practice, few instances of such differentiation have been found.

### *Public-Private Partnerships*

The private sector can be more directly involved in the provision and financing of public sector services through explicit public-private partnerships. Public-private partnerships involve the direct participation of one sector in a venture controlled by another sector, with both partners contributing funds or services in exchange for the benefits of certain rights or future income.

Partnerships may involve private participation in public works or public participation in private ventures. Public equity in private undertakings, in which a local government becomes a partner in a private, profit-making project, is common in transitional countries (Bird, Ebel, and Wallich, 1995), yet unusual in the United States. Under this arrangement, the government provides property or services in return for a share of the revenues, and as the repayment to the public sector depends on the profitability of the venture, the private sector benefits while the government shares the risk. The resulting uncertainty of the revenue stream to the local government discourages such ventures.

The most common form of public-private partnership occurs when a private firm contributes to the initial capital cost of a facility and operates it under a city's guidance for several years, ultimately transferring the facility to the municipality. Under this arrangement, the developer finances the facility and recovers its investment through operating revenue. The government avoids the initial capital costs; even though it initially forfeits profits, it benefits later in taking over the facility.

Another common arrangement is contracting out services such as water and sewers, waste management, recreational facilities, and transportation. Empirical studies on contracting out suggest that services are usually provided at a lower per-unit cost (Kitchen, 2002). However, the increased efficiency is more a result of enhanced competition than because the service was provided by the private sector. Competitive tendering encourages contractors to be efficient, but opponents of contracting out have argued that private-sector delivery is sometimes lower in quality and requires significant monitoring by the local government. Nonetheless, most evidence suggests that contracting out, including "privatization," is economically effective. Positive results depend more on the existence of (or potential for) competitive suppliers than on who owns

the right (or obligation) to provide the service. For example, replacing a public monopoly with a private one is unlikely to improve the situation; rather it may worsen it.

In general, public-private partnerships relieve municipalities of the financial responsibility for up-front capital costs, thus enabling the construction of needed infrastructure even when government funding is constrained (Tassonyi, 1997). In addition, partnerships prompt municipalities to construct facilities without incurring municipal debt. The operation of facilities and programs by private or not-for-profit operators reduces municipal operating expenditures and may enable the collection of additional revenue, while also permitting the public sector to draw upon private sector expertise.

Nevertheless, several risks are associated with public-private partnerships. For example, the regulatory framework could change and cause delays in the project, negatively affecting the private sector. Also, the services provided may not satisfy the public needs, or the private sector may not be able to carry out its expected role, negatively affecting the public sector. Often, there is a non-negligible risk that long-term costs of private sector financing may be greater than the cost of public sector financing (Slack and Bird, 1991).

Of course, there are more public-private partnership arrangements than have been described here, and, as always, their structure and how the risks are shared will determine their potential for success from a public policy perspective. Based on experience in developed countries (e.g. with sports arenas), metropolitan governments in developing countries must be especially careful in such arrangements not to assume the “downside” risk of projects while allowing their private partners to reap any “upside” gains (Bird, 1995). As Glaeser and Meyer (2002a) point out, there is still much to be learned about efficient privatization in the urban context.

## Some Implications for Metropolitan Areas in Latin America

The crucial question regarding financing metropolitan governance structures in Latin America is not *how much*, but rather *what kind* of government activity has to be financed and who should finance it. At best, this chapter constitutes a

step in the long road toward discovering the best answer to this question for any particular metropolitan region.

Presently, there are examples in Latin America of most forms of governance previously discussed, such as the one-tier “metro” models in Quito, Bogotá, and Caracas; the two-tier model found in Santiago; the limited voluntary cooperation model found in São Paulo’s ABC system; and special-purpose bodies in Buenos Aires (see Chapter 3). Some of these, as well as other metropolitan regions, may be considered over-centralized because of the over-dominance of the central city (such as in Bogotá) or, more commonly, the over-dominance of the central government (such as in Chile).<sup>36</sup> More commonly, many metropolitan regions have poor structures (or nonstructures) of governance and are considered to be too fragmented for sufficient service financing and provision.

In these circumstances, it is important to determine which of the models discussed in this chapter seem most promising for Latin America, while questioning what should be done in each metropolitan area in order to improve governance and service delivery. Unfortunately for those who want simple answers, the thrust of our earlier argument is that there are no “best practice” answers; that is, there is no system that fits universally. One country may move in one direction (e.g. amalgamation), while another moves in a different direction (e.g. developing several region-wide special districts), but both may end up in essentially the same place, depending on the details.

Nonetheless, as we suggested above, most Latin American countries should develop more effective systems of governance that adequately encompass the economically relevant metropolitan region. Presently, there does not appear to be a country in Latin America that has accomplished this.<sup>37</sup> However, the nature of the “best” system for any particular region remains highly context dependent in both theory and in practice. Moreover, as experience in Mexico shows (Davis and Raich, 2003), the political complexities that disrupt this progression

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<sup>36</sup> As Ades and Glaeser (1995) show, most major metropolitan capitals in Latin America are almost “too large” as a result of the extreme over-centralization of policy and regulation that characterizes most countries of the region.

<sup>37</sup> In addition to Chapters 3 and 4 in this volume, see Glaeser and Meyer (2002) on Santiago, Davis and Raich (2003) on Mexico City, World Bank (2002) on Cali, and Acosta et al. (1999) and Zapato and Chaparro (2002) on Bogotá.

are overwhelming, so nothing is likely to change rapidly.<sup>38</sup> Change requires an adjustment to the allocation of both power and money, which is not easy.<sup>39</sup>

The first step might be to construct meaningful regional databases in order to permit the systematic comparison and evaluation of alternatives. Although this request for more research does not sound like much, most countries have done very little. We need such data in order to analyze and discuss (let alone sensibly react to) such “hot button” issues as the relations between core cities and suburbs, public and private sectors in different cities, and the rich and the poor within metropolitan regions and the country as a whole.<sup>40</sup>

Solutions in Latin America, such as the development of constitutional amendments to permit metropolitan regions to have provincial status, are not likely to be put easily or quickly into place. Fortunately, outcomes may be more susceptible to change by altering financial rather than governance arrangements. As we discussed above, it is important that metropolitan regions be essentially self-financing. The present situation, in which Latin American cities remain highly dependent on central financial support, is far from ideal for many reasons. Over time, viable solutions are attainable only by those who live in these metropolitan areas, as they both pay for them and live with the consequences. The right decisions can be made, albeit slowly and painfully at times, by reaching widespread agreement, not by a magic central-planning wave of the wand.

Efficient government in metropolitan areas requires publicly elected and responsible mayors and councils with strong organizational independence and complete, transparent responsibility for financial management. Over the last few decades, many Latin American countries have made considerable strides in increasing the democratic accountability of local governments. However, this advancement has rarely been matched by needed improvements in financial arrangements to ensure wise executions.

Meyer and Glaeser (2002, p.10) point out that “proper public policies will not persist (or will not be implemented adequately) unless the political institu-

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<sup>38</sup> For a brief discussion of the present situation in Mexico City region, see the Annex.

<sup>39</sup> Davis and Raich (2003), for example, suggest that in order to move forward in the Mexico City region, a number of alternative, as well as complementary, solutions should be pursued, such as amending the constitution to permit metropolitan region governments, building on voluntary cooperation and establishing special districts. This is not an easy process

<sup>40</sup> Even if data are available, care must be exercised in analyzing regional fiscal problems, as discussed further in Bird (2006).

tions are designed to provide politicians with the right incentives to implement those policies.” In order to move in this direction in metropolitan regions of Latin America, an effective form of metropolitan governance is needed, as well as an appropriate fiscal structure, both between the region and the rest of the country and within the region. As argued here (and recently suggested by a number of authors), governance questions have a variety of solutions. Unfortunately, there is a lack of comprehensive and up-to-date consideration of the fiscal aspects of metropolitan governance in Latin America.<sup>41</sup> In this brief chapter, we have made a case for such research and sketched some key parameters in need of more attention, based on the particular circumstances of each metropolitan area, before deciding on the most suitable finance method.

## **Annex: Some Fiscal Aspects of Mexico City’s Metropolitan Zone<sup>42</sup>**

Mexico, like most developing countries, has gone through an acute process of urbanization in the last few decades. In 1990, two-thirds of the urban population lived in four metropolitan areas with over one million inhabitants, Mexico City, Guadalajara, Monterrey, and Puebla. By 2000, this number had doubled to eight, adding Tijuana, Leon, Toluca, and Torreon, and the population of these eight cities grew from 22.5 million in 1990 to 31.7 million in 2000 (OECD, 2002). In 2000, Mexico had 31 metropolitan areas with 42.3 million people, and 61 percent of the total population (100 million) lived in cities with more than 15,000 inhabitants. Presently, 75 percent of the country’s population live in cities and produce 85 percent of the national product.

These developments are apparent in the Metropolitan Zone of the Valley of Mexico (*Zona Metropolitana del Valle de México – ZMVM*), which, according to the “Ordering Program of the ZMVM,” consists of the 16 boroughs in the Distrito Federal (DF), 58 municipalities in the State of Mexico and the municipality of Tizayuca, Hidalgo. The ZMVM has grown from 9 million people in 1970 to almost

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<sup>41</sup> An additional consideration, discussed briefly in Box 5.5, is the interdependence of urban finance and urban development patterns.

<sup>42</sup> This Annex was prepared by Uri Raich.



18 million in 2000, and the metropolitan area expanded from 2,127 square kilometers in 1970 to 4,902 square kilometers in 1995. Most of this expansion took place in the State of Mexico, whose metropolitan municipalities have experienced a population growth of 320 percent from 1970 to 2000. In contrast, the DF's population grew by only 35 percent over the same thirty-year period. Presently, over half of the population of the ZMVM lives in the State of Mexico (Iracheta, 2002).

## Governance of the ZMVM

Although the ZMVM represents a single metropolitan continuum, for legal, political, and financial reasons, it has mainly been recognized as a conglomerate of municipal and state jurisdictions that operate according to their own logics. Legally, Mexico is a federal republic composed of three tiers of government: federal, state, and municipal. The constitution explicitly prohibits the formation of an intermediate level of government, which has prevented the legal recognition of metropolitan areas in Mexico. Despite this inflexibility, Mexico has a long history of intergovernmental mechanisms; hence the governance of metropolitan areas takes place through the formation of collective bodies (commissions) or narrow bilateral agreements.

Politically, with the advent of full democracy in Mexico, the ZMVM, at one point a single-party dominated area, is now governed by the three main political parties. At the executive level, the PAN holds the federal government, while the PRI controls the State of Mexico and the PRD governs the DF. In 2000, at the legislative level, the PAN had a simple majority of seats in the Congress of the State of Mexico and the PRD had a majority in the Legislative Assembly of the DF, while in terms of local governments, the PRI governed 61 percent of municipalities of the State of Mexico and the PRD controlled 10 out of the 16 DF boroughs. This political plurality contrasts with the political reality that existed for many decades. In all likelihood, further changes in the real governance structure are on the horizon.

Financially, the population growth of the ZMVM has created fiscal stress both in terms of efficiency, in keeping up with the high demand of services, and equity, in deciding which party is responsible for funding. This fiscal debate has been highly politicized both by the State of Mexico and by the DF. The former ar-

gues that the DF exploits many of its resources without proper compensation; at the same time, the DF contends that commuters from the State of Mexico work and consume services in the capital without contributing financially. This conflict is exacerbated by the fact that the federal government, formerly an important financier of metropolitan projects (e.g. the metro), is facing its own fiscal difficulties.

These legal, political, and financial constraints have prevented the design of coordinated policies in the majority of the areas in which the DF and the State of Mexico interact, such as water, transportation, solid waste disposal, and environmental concerns. As the majority of the water consumed in the DF comes from the State of Mexico, the environmental and financial conditions of the State of Mexico have suffered. In the transportation sector, there is a notable difference in the quality of the services and infrastructure, favoring the DF, and regarding solid waste disposal, the State of Mexico produces less waste than the DF, but receives most of the DF's waste (Iracheta, 2002). Finally, concerning environmental issues, areas of the ZMVM producing the most pollution do not fully internalize their costs, thus creating serious negative externalities to the overall metropolitan area.

## Finances of the ZMVM

Unlike other metropolitan areas in Mexico, the ZMVM consists of jurisdictions with different legal characteristics. Along with several differences between the DF and the State of Mexico at the state and local levels (see Box 5.4), the municipalities of the State of Mexico have a different financial status than the boroughs of the DF, which lack financial autonomy. Some of the key fiscal aspects of the jurisdictions are listed here.

*The Distrito Federal (DF).* As the DF is the capital of the country, there are direct financial impacts:

- Although the Federal Congress is no longer responsible for the approval of the fiscal and budgetary legislation of the DF (since 1994), it is still in charge of authorizing its levels of indebtedness.
- The government of the DF not only has all the fiscal faculties of a state, but also centralizes the fiscal functions of its local governments or

boroughs. For example, the DF collects payroll taxes, the most important state taxes, and property taxes, which are the primary own-source of municipal revenues. Similarly, the DF collects user charges, fees, and fines at the state and borough levels, thus raising far more of its own revenue than any other state or local government.

- The boroughs of the DF do not have the right to exploit their local fiscal bases, as all activities are centralized in the Treasury of the DF, thus they lack fiscal autonomy and depend entirely on budgets apportioned by the Legislative Assembly. This centralized budgetary process does not follow any clear criteria or recognize the origin of different revenue sources. Although the DF Financial Code (article 115-A) states that the mayor should propose the budgetary appropriation of the delegations in accordance with five criteria (extreme poverty, urban infrastructure, population, population in transit and urban services) to the Legislative Assembly, the actual process is unclear and the Fiscal Code does not establish the relative weights of each criterion (Sobarzo, 2002).<sup>43</sup> Boroughs, unlike municipalities, do not receive their intergovernmental transfers in a clear and predictable way.
- The DF is not treated equally when it comes to the distribution of federal resources; it is excluded from certain federal transfers yet receives high amounts of direct federal spending.

*The State of Mexico.* The State of Mexico and its municipalities have specific revenue sources clearly defined in the federal and state constitutions. Both states and municipalities have own-source revenues, such as taxes, user charges and fees, products, fines, and betterment levies, plus intergovernmental transfers and credit. As mentioned above, while payroll taxes are more lucrative, the main tax for municipalities is the property tax. While states get most of their fees from vehicle and transport-related sources, municipalities' main fees come from licenses and the provision of water services.

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<sup>43</sup> Population appears to be the key factor in determining budgetary allocations of most boroughs; however, in some cases, this relationship is not clear.

Subnational governments in Mexico receive transfers from two main sources, revenue shares (*participaciones*) and contributions (*aportaciones*). *Participaciones* are unconditional transfers received by the states and municipalities from the National System of Fiscal Coordination (SNCF). They are based on formulas calculated as a proportion of a federal revenue pool (*Recaudación Federal Participable – RFP*), composed mainly of specified shares of the federal income tax, the value-added tax and fees on the extraction of minerals and oil. Municipalities receive at least 20 percent of a state’s *participaciones*.<sup>44</sup> *Aportaciones* are earmarked transfers, taking on their current form in 1997 when Congress approved a new budgetary item, the Federal Contributions to States and Municipalities (Ramo 33), which is composed of seven funds targeted to the decentralization of three main areas: health, education and infrastructure.<sup>45</sup>

## Fiscal Trends in the ZMVM

The ZMVM has the country’s highest concentration of economic activity. On average, between 1993 and 2000 the DF produced 23 percent of the country’s GDP, followed by the State of Mexico, producing 10.5 percent. Together, the DF and the State of Mexico produce one-third of Mexico’s GDP, with higher levels of revenue collected by the states with more economic activity. In 2002, the DF collected 43 percent of the total state own-source revenues of the country, while the State of Mexico raised 9 percent. In terms of transfers, the DF received 24 percent of *participaciones*, while the State of Mexico received 11 percent, and in terms of *aportaciones* the DF raised 2 percent, while the State of Mexico collected 10

<sup>44</sup> The SNCF establishes the guidelines for the distribution of *participaciones* from the federation to the states. However, each state legislature regulates its own distribution of *participaciones* among its municipalities. Currently, the SNCF consists of two funds: the Fund for Municipal Promotion, one percent of the RFP, transferred from states to their municipalities according to a federal formula based on property taxes and fees from the provision of water, and the General Fund of Revenue-sharing (FGP), 20 percent of the RFP. At the federal-state level, 45 percent of the FGP is distributed on an equal-per-capita basis, 45 percent is based on the states’ own revenue collection previous to the SNCF and adjusted annually based on certain federal revenue growth. The remaining 10 percent is inversely distributed to states with the lowest allocations. In the State of Mexico, 40 percent is distributed on an equal-per-capita basis, 40 percent according to the municipality’s fiscal effort in collecting fees and taxes, and 20 percent in inverse proportion to the previous two criteria.

<sup>45</sup> These funds are: Fund of Contributions to Basic Education (FAEB); Fund of Contributions to Health Services (FASSA); Fund of Contributions to Social Infrastructure (FAIS); Fund of Contributions to the Strengthening of the Municipalities and the Federal District (FORTAMUNDF); Fund of Multiple Contributions (FAM); Fund of Contributions to Technological and Adult Education (FAETA); Fund of Contributions to the Public Safety of the States and the Federal District (FASP).

percent. Nonetheless, the evolution of revenue sources in these two entities has followed very different patterns.

In the last decade, DF revenues have significantly changed, as own-source revenues have increased and federal funding has diminished. Fiscal reform substantially raised the collection of local taxes, mainly property and payroll, and water fees. In 1980, own-source revenues of the DF financed 30 percent of its total expenditures, increasing to an average level of 45 percent in the 1990s. On the other hand, the DF was adversely impacted by a reform of the revenue-sharing formula and a federal decision to cancel transport-related transfers to the DF, and, from 1989 to 2001, the *participaciones* received by the DF declined from 55 to 45 percent of total revenues (Beristain and Rodríguez Gómez, 2001). Moreover, as they are excluded from the education funds (FAEB and FAETA) and the infrastructure fund (FAIS), the DF receives few *aportaciones*.

Taxes are the most important own-source revenues in the DF, accounting for an average of 45 percent from 1989 to 2001. In that same period, “products” represented 27 percent,<sup>46</sup> while user charges made up 17 percent. Taxes and user charges grew at an annual rate of 10 percent, due to the introduction of a payroll tax, which raised 40 percent of total taxes, and a property tax reform, raising 44 percent of total taxes. The DF collects 47.7 percent of total property taxes imposed in Mexico, and a similar fiscal centralization is reproduced within the DF, as four boroughs (Cuauhtemoc, Miguel Hidalgo, Benito Juárez, and Álvaro Obregón) account for almost 60 percent of the total property tax in the DF.

In contrast to the DF, the State of Mexico and its metropolitan municipalities have become more dependent on *participaciones*. The composition and evolution of revenues in the State of Mexico and its metropolitan municipalities are similar.<sup>47</sup> On average, between 1989 and 1999, own-source revenues amounted to 44 percent of the total revenues of the State of Mexico and 50 percent of the total revenues of the metropolitan municipalities. At the state level, this proportion decreased from 58 percent of total revenues in 1989 to 25 percent in 1999.

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<sup>46</sup> “Products” are the resources that the subnational governments receive from the use of their patrimonial goods, such as the sale and rent of their properties.

<sup>47</sup> The calculations shown here take into account the 34 metropolitan municipalities defined in the National Survey of Urban Employment, leaving out 24 other municipalities of the ZVM.

Similarly, at the municipal level, the share of own source revenues fell from 60 percent in 1989 to 30 percent in 1999. Between 1989 and 1999, *participaciones* in the State of Mexico increased from 31 to 44 percent of total revenues, and in the metropolitan municipalities, *participaciones* increased from 27 to 41 percent of total revenues.

Although, in per capita terms, the State of Mexico receives the largest share of *aportaciones* of any state (10 percent), it is still the second lowest. The metropolitan municipalities in the State of Mexico receive resources from the FAISM, the municipal portion of the infrastructure fund (FAIS), and the FORTAMUN, which is targeted to improve the safety in the municipalities. From 1998 to 2002, these municipalities received an average of 40 percent of the total state share of the FAISM and 70 percent of the FORTAMUN.<sup>48</sup>

States receive direct federal spending for the financing of infrastructure projects, yet the federal government decides the type of work, purpose and geographic area of the investment. Erratic in nature, spending on infrastructure investment is best analyzed in average terms. From 1980 to 2000, the average yearly federal investment in the DF, 57.7 million pesos, was 7 times higher than in the State of Mexico, 8.3 million pesos, and the DF accounted for one quarter of all federal investment spending. In per capita terms, between 1980 and 2002 federal investment spending averaged 6,781 pesos annually in the DF, double the national average and more than eight times the 862 pesos invested in the State of Mexico, one-third of the national average.

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<sup>48</sup> Much of the remaining funds went to municipalities in the Metropolitan Zone of Toluca (consisting of five municipalities), the second largest metropolitan area in the State of Mexico.

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# Final Reflections

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## CHAPTER 6

# The Long Road towards Good Metropolitan Government

**Juan Ramón Cuadrado-Roura**

**José Miguel Fernández Güell**

### **The Difficult Task of Drawing Conclusions**

In closing this volume, the term “conclusions” sounds too categorical. The complexity of the subjects discussed within different texts makes drawing definitive proposals difficult; accordingly, this last chapter does not attempt to do so, but offers some thoughts and answers to questions that the authors, and hopefully the readers, consider interesting. In any case, it is evident that the following pages cannot substitute for nor effectively summarize the information in the previous chapters, since each one contains ideas, criteria, and recommendations that cannot be elaborated on here.

The central question constituting the “leitmotif” of the different chapters has been the “governance” of the metropolitan areas, a significant problem that has provoked frequent debates around the world. In Latin America, the question is more crucial than in other contexts, considering that the dominant urban systems of the region are characterized by metropolitan areas that, in many cases, concentrate more than 30% of each country’s population; for this and other reasons, they generate large-scale problems and challenges, as well as development opportunities.

The evolution of every metropolitan area is subject to remarkable medium- and, mainly, long-term changes, obviously linked to the international economic context. Thus, it would be very puerile to offer “general conclusions” and/or “recommendations” with regards to the governance of the metropolitan areas of Latin America and the Caribbean so early into the twenty-first century.

Nonetheless, the chapters included in this book offer a wide set of thoughts, based not only on the knowledge and analytical capacity of their authors, but also in the study and the direct knowledge of numerous international experiences. Without a doubt, the theoretical/practical basis of the material within the chapters of this book makes a specific contribution to the debates on the governance of Latin American metropolitan areas, many of which have problems analogous to those in some cities of Europe, Asia, and North America, although with differences and nuances that must be considered.

This closing chapter does not contain conclusions drawn from the other chapters of the book; rather it offers possible answers to some of the questions raised in reading the book as a whole. In any case, it should be emphasized that the synthetic and selective character of this closing chapter leaves out certain aspects and proposals whose analyses require a thorough reading of the individual chapters.

## **The Challenge of Competitiveness in Metropolitan Areas: How to Approach the Problem**

Metropolitan areas worldwide, and particularly those in Latin America and the Caribbean, must take on significant problems and challenges, both immediate and forthcoming, of which the following are the most relevant: the need to care for growing social needs; incorporate more advanced infrastructures; and deal with problems of financing and expenditure control, intrametropolitan and regional transportation, and environmental issues. Nevertheless, all of the issues, and the possible solutions within each field, correspond to the more ample question of “governance,” the central theme of this book. They also are linked to the objective for each metropolitan area to reach the maximum competitive capacity in a continually globalizing world.

The second chapter of the book deals with the transference to the metropolitan scope of some concepts common to other analytical fields, such as “competition,” “competitiveness,” and “competitive advantage.” As discussed, in a business environment, competition refers to the deployment of the resources necessary to prosper in the market; while in an urban environment, competition can be understood as rivalry between cities to attract investments, businesses,

public resources, and tourism. The term competitiveness is commonly used to describe the capabilities that a company, or group of companies, must develop in order to stay and grow in a market ruled by free competition. When translated to the urban realm, competitiveness refers to the effort made by cities to promote the development of local productive capacities and improve the quality of the environment in which the economic agents operate. Finally, when applied to the business world (and with qualifications to national and regional economies) competitive advantages are the characteristics of an enterprise that can guarantee a winning position among other businesses. When transferring this concept to the urban scope it concerns the attributes that a city has, or is capable of developing independently, which improve its economic and social position within its territorial area of influence or the urban system in which it operates.

The approach suggested in the second chapter stresses the need to improve the competitiveness of the metropolitan areas of Latin America without stimulating rivalry among them. The reason is simple: the ultimate purpose is to improve the competitive capacities of the local productive base, while reducing social inequalities, and minimizing and controlling environmental impacts.

As a rule, cities are places where conflict is always present and where complexities, diversities, and uncertainties abound. We refer to this as the "historical pattern," which has been evident in all large cities for many years and has intensified in larger metropolitan areas. These areas are particularly exposed to the effects of certain key forces and tendencies, among which the most influential are, first, the development of a new economic order that is based on an international division of labor, a productive restructuring, and processes of "de-localization." Second, this runs in parallel with an accelerating globalization process, fueled by different factors such as market liberalization policies and innovations in communications and transport. Third, it is important to mention the consolidation of regional economic integration processes, among which the European Union and progress in NAFTA and MERCOSUR are good examples. Finally, closely related to the previous tendencies, the metropolitan areas and regions are influenced by changes in business environments which include the reorganization of large companies and conglomerates, the search for productive flexibility, the role of knowledge in creating competitive advantages, and the decisive role of new technologies in the dynamics of productive processes.

Undoubtedly, these changes and tendencies affect all cities, but uniquely with respect to metropolitan areas, which, as a result, show increasingly noticeable impacts in their economic development and spatial configuration. As noted in the second chapter, these changes have created the following effects: patterns in urban and regional development; processes of concentration and “suburbanization;” a new global role of certain large metropolitan areas and the relative backwardness of others; the physical-spatial reconfiguration of the metropolis due to changes in the productive processes; and increasing “competition” between cities, which is accompanied by the need to cater to the growing needs and demands of the citizens. In this sense, a double perspective is apparent with regards to the competitiveness of larger cities and metropolitan areas: one directed “outwards” in relation to the other metropolises and one that must focus “inwards” to solve the challenges raised by its expansion and the demands of the population.

In the case of Latin American metropolitan areas, the analysis of competitiveness demands a specific conceptual framework marked by three important characteristics. The first is the diversity and heterogeneity of the metropolises; the metropolitan economies of the region have historically evolved in very diverse physical, social, economic, and political frameworks, which have clearly influenced their structure and particular productive and social dynamics. The second prominent characteristic is the unique complexity of the urban processes taking place in the region, linked to the productive changes previously discussed, and accentuated by the permanence of diverse productive layers, which differ in their level of competitiveness and business structure. The final characteristic is the peculiarity of the Latin American context, which in certain cases sets Latin American metropolitan areas apart from others in the world, due to political circumstances and lack of political-social stability.

Based on the discussion above, as a starting point, the analysis in the second chapter took the need to differentiate the situation of each metropolitan area in Latin America and the Caribbean. It is impossible to understand the problems of a given metropolis without placing it in a comprehensive and realistic frame of reference; accordingly, a segmentation proposal was formulated differentiating metropolitan areas in a matrix with two basic dimensions. One of the dimensions relates to the development of the productive system and the other to

the spatial scale of economic and political-social influence of the particular metropolitan area. This process allows for the metropolitan areas to be organized into different categories: consolidated, emerging global metropolises; advanced, developing continental metropolis; advanced national metropolis with a low level of development; and metropolises focused on local development.

European, Asian, and Latin American metropolitan areas can be compared with one another by placing them in one of the positions, a necessary step in formulating a strategy towards more effective competitiveness. Accordingly, the medium- and long-term objectives can be placed in relation to the factors that directly influence this competitiveness, such as basic factors (infrastructures, capital, labor, land, etc.); those related to the development of new activities (social conditions, business environment, knowledge structure and physical conditions); and those related to institutional aspects and collective organization (social network, public support, administrative coordination, public-private cooperation, planning, and metropolitan management).

Nevertheless, in developing any strategy it is important to remember that most Latin American metropolises have distinct characteristics with regards to their spatial and socioeconomic structure, a result of their unique historical development and current circumstances of each country. Among these, the following stand out: the macrocephaly of many urban systems (compatible with strong segregation and social fragmentation); a clearly dichotomist economic system (advanced enterprises, with sophisticated technology, coexisting in the global markets with other less innovative, less productive businesses that are disconnected from the global markets); the duality of the labor market and the highly informal component of the economy; the “suburbanization” of industrial production; and the dispersal of commercial recreation and university centers within different metropolitan zones.

The search for the most appropriate approaches to these problems is critical. Experiences from various successful international cases indicate that possible actions can be classified into four groups: (1) to reinforce the competitiveness of the metropolitan economic base; (2) to improve the metropolitan supply of productive recourses (land, service infrastructure, technological infrastructures, etc.); (3) to attract demand for metropolitan goods and services (with the elaboration of a marketing plan, attracting foreign investors, support of

local SMEs); and (4) to administer the economic development of the metropolitan areas (through promotion and management agencies and “incentives” for public-private collaboration, administrative streamlining, etc.).

In the search for concrete recommendations, the second chapter emphasizes key ideas that we will simply reinforce here, while referring the reader to a more extensive analysis in that chapter:

1. Any strategy focused on competitiveness must articulate both the local and global development realms.
2. Social and environmental concerns must be integrated into the economic development strategy.
3. When considering large investments and projects in the metropolitan space, the city should be regarded as a space that extends beyond its institutional limits.
4. It is necessary to attract foreign investments, but not at any cost.
5. The reduction of transaction costs is necessary to attract and retain productive activities.
6. The role and intensity of public support in the metropolitan economy should be clarified.
7. The anchor institutions for economic activity in the territory should be reinforced.

Contemplating these and other recommendations, it is clear that in the quest to increase competitiveness, there are neither recommendations nor solutions that can be generalized to all the metropolitan areas of the region, an essential principle referenced in various sections of the second chapter. Based on the development level of the country, as well as that of the metropolitan area, and its spatial scale of economic influence, Latin American metropolises belong to diverse typologies and have dissimilar economic structures. Consequently, confronted with this complex and varied reality, it seems advisable to establish a rational process to allow metropolitan agents to analyze their particular situation, formulate successful strategies, and choose the model of governance that fulfills the area’s needs.

It seems convenient to organize such a process under the format of a strategic plan that guarantees a comprehensive and “multisector” approach to

the metropolitan phenomenon, based on a “bottom-up” participation system. In particular, this process should include three basic steps:

1. Defining the economic profile and social problems in the metropolitan area, which is equivalent to making an efficient diagnosis of the area’s situation, considering the double dimension mentioned.
2. Adopting development strategies to encourage growth and improve competitiveness, based on its political viability.
3. Choosing a model of governance based on local capacities, without using the success and rationality of models applied in other areas as references. Metropolitan realities differ from one another; thus the method of governing metropolitan economies does not need to follow a homogeneous pattern.

The chapter closes with an affirmation that is worthy of consideration: if these recommendations are put in practice, it is possible to avoid one of the worst critiques of policies and strategies of competitiveness: their uselessness. Frequently, fierce competitiveness between areas and territories depletes significant financial resources without considerable effect on local economic development. The chapter concludes by noting that “it is important to remember that territorial competition and competitiveness policies should make metropolitan areas better places to live, offering expanded economic and social opportunities for its citizens.”

## **Is It Possible to Build an Effective Model of Metropolitan Governance for Latin America?**

The international experiences analyzed by Jeroen Klink clearly demonstrate that a unique model of metropolitan government does not exist. In fact, the analysis shows that the search for good metropolitan governance may lead to more than one answer, which greatly depends on the level of commitment of local governments, pressure groups, and communities in the search for more efficient and equitable models.

In the case of Latin America, as discussed previously, city projects present greater differences than similarities, due to their unique historical, political,

institutional, and socioeconomic characteristics. As a general feature, a large majority of Latin American metropolitan areas lack a mature and consolidated structure of metropolitan governance, one capable of confronting the challenge of competitiveness, sustainability, and quality of life in an urban realm. The cities analyzed in this chapter lack governance structures altogether, have incomplete structures, or a misalignment exists between the political-administrative realities and the socio-political and economic needs.

Although the devising of audacious, long-term proposals that aim to rapidly implement models of metropolitan governance is tempting and stimulating as an intellectual exercise, such proposals would most likely fail, as did similar experiences of the 1960s and 1970s. Today, it is more feasible to create alternatives for metropolitan governance through a negotiation process between interested parts. Obviously, this process is long and cannot be developed overnight; rather it demands the progressive building up of social capital and complex horizontal and vertical networks between public and private actors in the urban system.

Based on this assumption, it is possible to formulate a tentative model that outlines the most effective itinerary in building good metropolitan governance in Latin America. This model delineates a series of basic conditions and qualities of metropolitan governance for the entire region, which must be adapted to suit local characteristics in order to guarantee its efficient implementation.

First, the building of effective metropolitan governance demands that the product (reduction of negative externalities, creation of economies of scale, and provision of specific metropolitan services) and the process (voice, transparency, and accountability) of the metropolitan program must be contemplated together. Specifically, the search for political legitimacy and voice has proven vital in metropolitan governance processes.

Second, it is important to create mechanisms to enhance cooperation between urban agents, which make possible the progressive construction of social capital and the introduction of a more rational functionality in the existing systems of metropolitan governance. This objective can be reached through the creation of horizontal and vertical networks between public and private agents operating within the urban, regional, and national systems. In order to avoid forc-



ing institutional actors into a “straitjacket” of formal relations, the institutional frameworks should be flexible and participatory, and guide the evolution of the “interjurisdictional” and “intersectoral” cooperation towards dynamic and mature systems of metropolitan governance.

Third, the new model of metropolitan governance should be supported by existing formal and informal institutional arrangements, whose goals are to provide specific metropolitan services through voluntary intermunicipal collaboration. This support is crucial in developing more mature and consolidated forms of urban governance.

Finally, the ample and flexible frameworks for the policy networks previously mentioned should be complemented with managerial and financial structures that stimulate cooperation arrangements aimed at establishing a collective decision-making process among local actors.

These four conditions promote a metropolitan program that is, in essence, an open and flexible learning process, with multiple stakeholders and successive advances and retrogressions, and where the products and processes become more interdependent. Obviously, these suggestions for a tentative model do not entirely solve the question of metropolitan governance in Latin America. Several questions exist that require deeper analysis:

1. What bonds exist between fiscal federalism, political networks of intergovernmental relations, and systems of metropolitan governance?
2. What is the function of the leadership and community participation in building effective systems of metropolitan governance?
3. What influence do the informal structures of metropolitan services have in the incremental learning process towards more formal metropolitan governance?

Clearly, these questions indicate the need for more empirical, in-depth knowledge of existing relations between metropolitan agents, the function of leadership and process of participation, and the role of informal structures.

## What Factors Are Key in Building an Effective System of Democratic Governance in Latin America?

The fourth chapter offers a series of important thoughts on governance, its demands, and alternative models. According to the author, Christian Lefèvre, governance can be defined as a process of permanent stabilization between the needs and capacities of government. Based on the analysis of various cases, Lefèvre suggests that in order to attain such equilibrium in metropolitan areas, three basic interrelated issues must be addressed: (1) the identity of the metropolitan area; (2) the responsibility of government actions; and (3) the legitimacy of government involvement.

In order to establish identity, metropolitan areas must become territories of reference for the population, in other words, creating a sense of belonging and solidarity; the development of spaces to debate metropolitan issues is recommended in building such unity, such as forums, where all interested parties, including citizens, have proper representation. The composition of these forums will vary depending on contextual elements, such as the existence of decentralized units of government, citizen participation structures, and organizations that represent agents interested in solving the problems of the metropolitan area.

The metropolitan government should discuss its activities and policies with the citizens and respond to their questions. The question of who should take on responsibility, however, has different answers depending on the specific case. In metropolitan areas without metropolitan government, thus lacking governance instruments, this question is irrelevant. In metropolitan areas with some form of governance, the issue of responsibility can be approached utilizing certain instruments, such as mandatory public hearings. Finally, in metropolitan areas with formal instruments of government, such as an urban authority, the means for taking responsibility discussed earlier may not be sufficient, either because there are more responsibilities handled by the government or because a new political level of decision making exists. When the councils of metropolitan authorities are not chosen directly, voters should at least be able to elect decision-making agents. Additionally, councils made up of directly interested agents and representatives of the community must be created to monitor the metropolitan authority.

The question of legitimacy has a functional as well as a political dimension. In metropolitan areas that lack urban governments, legitimacy takes on a functional character. In those with some form of metropolitan government, functional legitimacy requires the transformation of sectoral institutional arrangements into “plurisectoral” structures, or better, the spatial expansion of the jurisdiction of the government bodies of “inframetropolitan” rank. In urban areas with formal instruments of government, functional legitimacy must be satisfied through existing metropolitan institutional arrangements. Nevertheless, this functional legitimacy can be increased by the state, when converting these areas into territories of reference to set up policies and carry out administrative and technical reorganizations.

Finally, it is important to remember that many of the proposed recommendations require that the state become involved, taking on a significant role in establishing and reinforcing metropolitan governance; however, most central governments in Latin America still have centralist attitudes with respect to local governments, considering them as obstacles for urban governance. Consequently, governmental administrative and technical authorities should be encouraged to address metropolitan issues with a less centralized outlook.

In most Latin American countries, the decentralization processes have been centered in the municipalities rather than in the regions or greater metropolitan areas. This decentralized model has complicated the recognition of metropolitan areas as political organizations, as local governments have a significant amount to lose acknowledging the metropolitan phenomenon. If decentralization is necessary, it should be based on the subsidiary principle, making sure the authority is given to the political structures most capable of taking action.

In sum, metropolitan areas gain the status of political entities, with sufficient authority and resources, resulting from a political process. The initiation and development of this process should be the responsibility of the political elites, particularly those in the metropolitan areas. They can be successful if they manage to promote the metropolis as a new place of social regulation, demonstrating the capacity to exercise governmental capabilities in this context. Nevertheless, this process is highly conflictive, thus its success depends on the political elites obtaining support from other actors—the state, directly inter-

ested parties, and the population—for three reasons. First, only the state can give legitimacy to this political process and overcome the barriers imposed by the political force of the municipalities. Second, the collective policies and measures can no longer be promoted only by the public sector; rather they require the support of the social and economic interests. Third, in contemporary democratic systems, institutional arrangements cannot last without the population's support and sense of belonging.

## **What Recommendations or Solutions Are Appropriate for the Fiscal Dilemmas of the Metropolitan Areas?**

Governance is essentially linked to viable solutions to the fiscal problems of the large metropolises, and vice versa. As Richard Bird and Enid Slack point out in the fifth chapter, possible answers to the question above should have direct correspondence with the “model” of effective governance in each metropolitan area. This model ends up largely conditioning the possible degree of fiscal autonomy, as well as the options to implement it.

In approaching this question, it is evident that no generalized solutions exist because metropolitan government structures are neither identical nor homogeneous; thus the authors' analysis of the fiscal problem takes into consideration, at least, four models of metropolitan government: one-tier models, two-tier models, voluntary cooperation between neighboring municipalities (including intermunicipal agreements), and special purpose districts.

Their analysis does not lead to a single solution, but to a variety of cases. Some suggest that a fragmented system of small government units (within an extensive metropolitan area) is the most adequate solution to services delivery problems (as well as expense allocation), whereas others insinuate that large, consolidated government units would work better. Yet, from this analysis a “specific model to serve all” does not arise because, as common in institutional design issues, although the subjects under analysis seem universal, the answers are invariably specific to their unique context.

In order to illustrate the diverse models that connect the “institutional” solution to governance with the fiscal problem, Bird and Slack contribute in-

interesting evidence and emphasize basic characteristics in models adopted by metropolitan areas such as Toronto (characterized by a metropolitan government and six lower-level municipalities); London (where the responsibilities of the Greater London Authority and the functions assigned to the lower-level municipalities are different, such as those pertaining to education, housing, social services, cleaning, garbage collection, streets, local planning and many services related to recreation, culture and the arts); Vancouver (an example of voluntary cooperation within a two-tier model); Mexico (with its Valley of Mexico Metropolitan Zone, ZMVM); and other areas such as Singapore, Bologna, and some French and North American cities.

Notably, this analysis does not disqualify any of the four great institutional solutions described, although it indicates some preference for a more decentralized solution, based mainly on cooperation. Moreover, if it were necessary to identify one main point made by the authors, it would be that all the models are adaptable and viable, considering the traditions of each country (with greater or smaller degrees of general decentralization, and with a given tradition of participation and cooperation on the part of the citizens and social agents).

Nevertheless, the municipal sources of financing offer less freedom. The fifth chapter points out the advantages and disadvantages of possible income sources, from charges for services delivery (considered absolutely necessary, although varying depending on the service), to diverse types of taxes (property tax, income tax, vehicles and fuel tax, sales tax and business tax), and by all means intergovernmental transfers (which should not be the dominant source of income, although in many cases they are). Also the authors discuss the financing of new infrastructures, which is often one of the most significant problems in large metropolitan areas, requiring borrowing, or other formulas of financing, in collaboration with private promoters and various public-private partnerships.

The fifth chapter offers an array of suggestions for income sources, which we will not recapitulate here; the text itself constitutes a synthesis of conclusions and dominant ideas. Regardless, it is important to point out two salient ideas drawn from the chapter: first, metropolitan areas should not depend on “transferences” from higher-tier governments, generally the national government; and second, cooperation between different municipalities, as well as between the public and private sectors, leads to successful formulas. In regards

to Latin American metropolitan areas, Bird and Slack maintain that the crucial dilemma they must face in terms of financing is not how much is needed, rather which governmental activity should be financed, and who is capable of taking on the responsibility for this funding.

The Latin American experiences reveal cases illustrative of most governance typologies mentioned, which help in understanding fiscal issues (income and expenses). Thus, it is pertinent to discuss one-tier models such as Quito, Caracas, and Bogotá; and two-tier models, like Santiago, Chile, and models where one- or two-tier structures are combined with voluntary cooperation (although limited), such as São Paulo and Buenos Aires. In general, there is a predominance of formulas favoring centralization that are considered excessive, either due to the heavy influence of the central metropolitan city or the strong presence and guardianship exerted by the central government over large and small metropolises. In addition, many Latin American metropolitan regions/areas are too fragmented for efficient financing and for the provision of effective and equitable services.

At this point, it seems reasonable to ask which basic model for Latin America would be the most promising, and what tools should be implemented in the metropolises to improve governance and the provision of services, with its corresponding financial resources. Yet, lamentably for those who expect simple answers, as Bird and Slack indicate, the experience has proven that neither the “best answer” nor “best practice” exists; in other words, there is no unique system that can adjust to all the cases, nor a progressive path in one direction that is considered necessary or inevitable. In certain cases, a viable solution could be a “fusion” of the municipalities in the given area (which has happened in some cases), allowing for an integrated approach to the problems, and then a search for formulas that do not discriminate between the particular territorial units within the metropolitan area. In other cases, when a certain degree of centralization has taken place, the solutions lie in a different direction, for example in the development of several regional districts.

Nevertheless, in many cases, Latin American countries would do well in moving towards the development of more effective systems of metropolitan governance. Almost certainly, no Latin American country exists with a government structure that effectively includes an economic metropolitan region; yet the adoption of concrete formulas must consider the context of each country.

The experience of the Valley of Mexico demonstrates the political difficulties that arise from moving too quickly and too far towards a formula that includes the entire metropolitan territory. Any modification of these structures towards an integrated metropolitan management model implies changes in the allocation of power and financing sources, which often requires important legislative and constitutional changes.

One route to progress, which does not necessarily require the implementation of politically difficult solutions, lies in introducing changes that modify financial arrangements before those of governance. In this sense, it is particularly important that the metropolitan regions have a growing self-financing capacity. However, currently, this goal is rather far from reach. Most Latin American metropolitan areas still rely heavily on financial support from the central government, because they have not sought out or experimented with alternative formulas, although, largely, this reliance is perpetuated by the fact that the government is not willing to give up this control over resources. Nonetheless, in the long run, the inhabitants must seek viable solutions for the problems within their metropolis; after all, as the authors of this chapter emphasize, ultimately, the inhabitants must adopt the critical decisions, as they are the ones who must pay for them, as well as face their consequences.

Effective metropolitan governments require, as in any other context, democratically elected mayors and responsible councils who act as transparently as possible, with a considerable degree of organizational independence and complete responsibility in their own financial management. In recent decades, many Latin American countries have significantly progressed in expanding local government accountability to their constituencies; yet only in very few cases has this advance been accompanied by improvements in financial arrangements to assure the constructive use of this new authority. In Latin America, Bird and Slack conclude, it seems necessary to activate first an effective formula of metropolitan government, and then an adequate fiscal arrangement, between the region and the rest of the country, and within the region itself. As the analysis suggests, there are a variety of possible solutions, both in terms of effective governance and fiscal issues.

## Not a Conclusion but a Continuation of the Debate

As pointed out at the beginning of this work, the subjects treated in the different chapters of this book are not only complex, but also open to diverse opinions and proposals. The goal of this chapter was not to offer a synthesis of each of these works, nor to draw “conclusions” accordingly, as all “conclusions” have the role of “ending or completing something.” One of the more accepted meanings of the term “conclude” has to do with the idea of “inferring or deducing a truth from something admitted, demonstrated, or evaluated.” However, it is clear from this analysis that the themes, particularly those related to the governance of the metropolis, should not be considered closed, and even less so, extract truths either admitted by the majority of the authors or demonstrated by the analysis.

Undoubtedly, the chapters within this book represent an ample set of interesting reflections with regards to metropolitan governance and its problems. This chapter aims to contribute elements that enrich the debate on the subject of governance, or more specifically, competitiveness, social models of organization, and fiscality, whose updated analyses have contributed concepts, ideas, and extensive experiences from Latin American and around the world.

Nevertheless, these contributions do not close the debate, rather they incorporate new elements to intensify and enrich it; in other words, this is not a conclusion, but a continuation of the debate. The road towards more efficient metropolitan governance is long and demands rational, serious, and practical exploration.



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## Urban Development

The good governance of metropolitan areas is critical for the economic and social progress of countries. *Governing the Metropolis: Principles and Cases* explores key metropolitan management issues, presents practical principles of good governance as they apply to the metropolis, and unfolds cases of institutional and programmatic arrangements to tackle such issues.

There are no easy solutions or single formulas, as each metropolitan area must find its own path to governance suitable to its current level of development and future evolution, and consistent with its legal and institutional framework. Solutions will always involve some form of compromise among stakeholders reached through an open and democratic debate.

This book will make a contribution to the debate by discussing the principles of good metropolitan governance, analyzing the advantages and limitations of different models, and presenting results of recent experiences in metropolitan areas that have improved metropolitan governance. Based on an analysis of the literature and review of European and South and North American experiences, the book offers specialists, city managers, and elected officials useful insight into institutional reforms geared to improve the management of metropolitan areas.



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