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## New Challenges for Local and Community Governance and Regional Economic Performance in British Columbia

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**Abstract:** This paper is an introduction to a series of four research papers on the topic of new challenges for local and community governance and regional economic performance in British Columbia. It provides an overview of the changing local governance landscape in the context of the New Community Charter and, more specifically, the political economy of local government in Canada. In doing so, the paper addresses the three questions of (1) whether the economic and political environment is germane to those changes; (2) how the Community Charter reforms affect the interplay of market and local - provincial relations and; (3) what impact these changes have on the capacity of municipalities and other local governments to mediate economic changes.

Apart from this introduction, the working paper series on regional economic performance in British Columbia includes the following papers:

1. Economic Performance and Economic Regions in the New Economy: Foundations, Strategy and Governance (Ben Brunnen, MPA Candidate);
2. Regions and Economic Development Policies: A Comparative Perspective (Scott Coe, MPA Candidate);
3. Cooperation and Competition in Region-Building: The Role of Incentives (Sam Broadbent, MPA Candidate); and
4. Water Management and Local Government Institutions: A Comparative Perspective (Scott Mathers, MPA Candidate).

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## ***Introduction***

With the adoption of the Community Charter, the local governance landscape in British Columbia has shifted. Municipalities have gained powers and have less incentive to engage with each other or with the provincial government. Such changes will make the relationships between the Ministry of Community Services (the Ministry) and local communities more complex. There is less scope for the Ministry to rely on traditional prescription and regulation to influence local governance and policy choices. Strategic leadership will be based on developing and sharing knowledge, monitoring developments in local communities, and fostering the communication of best practices within British Columbia and with other jurisdictions.

The new Community Charter gives municipalities fewer incentives to engage with the provincial government, and the latter has given up tools to intervene in how local governments work. However, an important factor contributing to strong and vibrant local communities is the quality of vertical intergovernmental relations with the provincial and the federal governments. As governance becomes more asymmetrical and complex, such vertical relations become even more important.

These changes also require that, depending on the issue, Ministry staff work across traditional boundaries of the BC public service, with local, federal and First Nations governments, and other stakeholders. Keeping abreast of leading edge knowledge and developments in other jurisdictions will be central to the conduct of effective inter-governmental relations. To move towards a knowledge-based ministry, it needs to foster professional development and opportunities to facilitate learning with colleagues elsewhere in the BC public service and outside as required.

Together, these observations have important implications for the Ministry. (1) It must find new ways to monitor and secure information about local government and community developments across BC. (2) The Ministry must find ways to foster learning and build expertise in local governments, and promote the exchange of best practices across local

government boundaries. (3) Its staff must work assiduously across ministry boundaries to understand the full impact of BC government policies on local communities. And (4) the Ministry must ensure that current and new staff are well-informed, prepared to work horizontally within the BC public service, and able to reach out effectively to key stakeholders on local and community governance issues.

The BC Local Government Knowledge Partnership addresses these challenges. It seeks to foster professional development, strategic learning, and stakeholder engagement by bringing together Ministry staff, scholars and other professionals from inside and outside the BC public service to explore complex policy and governance issues, and to identify new knowledge and best practices. These events could also lead to opportunities for the Minister to engage key stakeholders involved in local governance issues.

The following is an introduction to our Local Government Knowledge Partnership on *New Challenges for Local and Community Governance and Regional Economic Performance*. It frames the New Community charter reforms and overall changing governance environment of British Columbia in the larger context of the political economy of local government in Canada, in order to inform three questions:

- (1) Is the economic and political environment germane to those changes?
  
- (2) How do those reforms affect the interplay of market and local – provincial relations, and specifically what is the impact of those changes on the capacity of municipalities and other local governments to mediate economic changes?

### ***Market Forces, Territory and Government Jurisdiction***

The global economy, as many scholars have noted, modifies the politics of state relations in the intergovernmental arenas.<sup>1</sup> New technologies of information and communication also change the global economy and affect states: free trade integrates the economies of Europe and North America; free trade regimes pressure governments to ease regulations and to open new markets<sup>2</sup> and, furthermore, seem to enhance sub-national entities as economic players.<sup>3</sup> The North American Free Trade Agreement regime promotes free trade and, some argue, also enhances sub-national entities as independent economic players.<sup>4</sup> The global economy, new technologies, and free trade transform the relations of states and other government tiers with market forces and make governing much more complex.

In addition, for the last 20 years, scholars have increasingly questioned the relationship between market forces and territories. The traditional views that focused on territorial competitive advantage and infrastructures have progressively given way to new ideas that now point to the social construction of a territorial economy. For instance, the European debate on the nature of different capitalisms<sup>5</sup> and the rediscovery of regional economies, the “Italian industrial districts,” both suggest that modes of production are culturally embedded and take different forms in different times and places.<sup>6</sup>

The social construction of a territorial economy suggests that modes of production and economic performance are culturally embedded and take different forms in different times and places, which also suggests that it is the articulation (institutionalization) of culture and individual choices that make a difference in the global market place. Thus institutional arrangements, in particular, become critical to the capacity of every local community to compete in the market economy.

Federal and unitary states adapt and mediate these international market and governance changes with varying difficulties.<sup>7</sup> Focusing on the impact that globalization has on states, Saskia Sassen explains that new legal regimes “un-bundle sovereignties” and

“denationalise territories,”<sup>8</sup> a process that also reconfigures the links between rights and territories and so has “disturbing repercussions for distributive justice and equity.”<sup>9</sup> Keating, focusing on multination states in Europe, finds that along with constitutional reforms, an asymmetry of right develops which further differentiates local and regional constituencies in a process where federal and centralized states seem to progressively resemble each other.<sup>10</sup> When looking at economic development policies in the Spanish regions of Catalonia and Galicia, he finds it is not culture or leadership that are key here; instead, different forms of institution building are central to understanding variances in development and policies.

This literature suggests that decentralizing, devolving, or constitutional reforms and/or statutory prerogatives have implications for institutional structures and allocation of functions, particularly for the governing capacity of lower level governments. Central governments are also less able to regulate, organize fiscal equalization, and reduce inter-regional or provincial competition. In some instances central governments actually encourage intergovernmental competition at lower government levels. In Canada, the constitution places local governments under the authority of provincial governments, which to a certain extent shelters local governments from those forces.<sup>11</sup> Free trade and increasing market competition, however, are undermining the capacity of provincial governments to shelter lower level governments as capital mobility and intergovernmental competition increase.

These changes in territorial and constituency politics are best described as tendencies towards greater legal, institutional, and functional complexity and an asymmetry of rights, while institutional capacity, as well as functional allocation, increasingly characterizes disparate and decentralized politics.<sup>12</sup> These issues about size, form, and functions of governments across all government tiers are neither uniquely Canadian nor do they signal a new trend. Throughout Europe, for instance, in Germany, the Netherlands, the United Kingdom or even France, central governments have attempted to merge local governments.<sup>13</sup>

The size, i.e. the territorial scope of government, and the form of government, whether centralized, decentralized, or multilevel, may be informed by local culture and history. It is also informed by trends. For instance, at the turn of the last century, amalgamation or annexations were viewed as the best methods to expand services in urban regions.<sup>14</sup> During the 1960s and 1970s—a new period of vast expansion—there was also a trend to consolidation of local governments or upper-tier reforms. The basic assumption at that time was that centralization and consolidation of non-central government institutions to encompass large territories into metropolitan would lead to economies of scale and, thus, more efficient governments. It was assumed that efficiency required larger units for the delivery of services and that economies of scale would bring costs down but also to allow services to be extended from urban to rural areas alike. At the time, senior government encouraged local governments to spend more to complete the development of the welfare state; for instance, planners suggested that cities and their rural hinterlands should be planned together. Planners conceived large and coherent regional units that would encompass most economic and social activities—the living, work, recreation, and shopping patterns—of the population of those regions. Infrastructures were needed for these regions, and plans had to coordinate current and future development of services, including schools in relation to housing, housing in relation to the workplace, and the workplace in relation to shopping.

A number of structural and ideological transformations that occurred in the 1980s shed new light on these trends towards consolidation. First, there was a growing disenchantment, among academics as well as public officials, with the economy-of-scale argument; instead, arguments that upheld the efficiency of smaller units gained ascendancy. Second, the economic crises of the 1970s taught that planning in an unpredictable world was a difficult, if not impossible, activity. Third, public-choice scholars, reflecting neo-liberal ideologies, asserted that competing local governments better served democracy, efficiency, and consumer choice. Finally, problems had arisen out of the design of upper-tier governments, in particular, with their modes of election and their powers. Higher-level governments feared directly elected upper-tier governments might become too powerful, to the point where they became assemblies of

municipalities fighting for their own interests, rather than for the good of a region, a province, or state. Thus, the 1980s was a period of upper-tier reform during which central governments reversed decisions they had taken in the 1950-70s. A prime example is British Prime Minister Margaret Thatcher's decision to abolish metropolitan councils, including the Greater London Council. Other similar examples were the dismantling of the regional authorities in Spain (Barcelona) and the Netherlands (Randstad). These changes were all symptomatic of key ideological shifts in which the emphasis was not on service delivery or economies of scale, but rather on economic development and planning in the global economy.

Today, in British Columbia and elsewhere around the world, the debate on the ability of these reforms to institute either democratic or efficient local government institutions continues. Democracy as it is presented in the literature may vary with local government size, specifically, according to the size of electoral constituencies. Democracy is also influenced by the electoral mechanisms that organize direct or indirect representation of the electorate or citizen participation in policy making. The issue of efficiency is found in the economic literature favouring inter-urban, market-like competition, as well as in the literature favouring consolidation. One argument is that the market regulates cost-efficient services to the best level; the other argument is that economies of scale are possible in larger local governments.

### ***Territory and Functions: Regional Economic Development and Performance***

A considerable body of literature suggests that local/regional governments should do nothing about the economy. The central argument promoted by this view is that they cannot influence market forces; all they can do is be as competitive as possible in a highly constraining economic environment. Peterson's public choice approach makes a strong case by identifying the influence of market-economy mechanisms on the offer of public goods.<sup>15</sup> He suggests that fragmented, overlapping, and competing jurisdictions may permit more efficient provision of services. Based on the assumption that the

provision of competitive services is in the interest of consumer-voters, he proposes that the ultimate economic development policy is to lower taxes.

However, other scholars hold a different view, pointing to the influence of political entrepreneurship, which links economic performance and democratic choice.<sup>16</sup> Clarke and Gaile, for instance, in *The Works of Cities*, challenge public-choice approaches arguing that it is the articulation and alignment of local groups with local economic issues that is central to regional economic development successes. Their research shows that since the 1970s urban regions have shifted economic development policies away from locational strategies to providing strategies that facilitate a climate of growth. Governments have withdrawn from specific policy sustaining specific sectors or even firms to providing strategies that facilitate economic performance. This shift has brought the creation of local/regional institutions / infrastructures that bridge market needs with local democratic values and priorities.

The above shift in approaching the question of economic development and performance reflects the legal, economic and social features of each community/constituency, of their own perception in the global world. Each community / constituency may choose “contextually specific paths in responding to globalization,”<sup>17</sup> which means that focusing on performance and innovation results in policies that are different from programs serving other interests and values. What remains essential for our purpose is that those policy initiatives are about linking localities to global markets, and critical investment in human capital and new information technologies.

Clarke and Gail conclude that *unsuccessful* strategies result from community fractures. They insist that it is the articulation and alignment of local groups with local and global economic issues that is central to regional economic development successes. Their work demonstrates that *successes* do not depend on private or public strategies, but rather are grounded in community-based consultation and decision-making processes. They also maintain that it is the creation of institutional processes of policy decision-making that are fundamental to economic development policy successes, and regional economic performance.

In conclusion, there is a large literature on globalization and the interplay of governments and market forces, which clearly underlines important governance changes, and point to the fundamental role of social capital in matter of regional economic performance, and particularly to mechanisms that bridge local with global interests. In British Columbia, the New Community Charter is a reform that affects the interplay of market and local – provincial relations. Finally, the literature on economic development also underlines the importance and strategic strength of local/regional decisions.

In the province of British Columbia, which is comprised of strikingly diverse regions with different geographical assets, economic foundations, communities, challenges, and needs, governments have always sought to strike the right balance between centralization and decentralization of public services. As underlined above, recent research suggests successful economic competition in continental and global contexts is driven by effective governance systems that require the adroit combinations of public policy making mechanisms. This is something the New Community Charter legislation addresses when it legislates on local – provincial relationships and consultation, and it is at the core of the policy question on regional economic performance and performance addressed in this introduction and following four papers.

Indeed, British Columbia is also facing increasing complexity of governance and policymaking. Policy makers are confronted with vertical and horizontal policy networks involving a multiplicity of actors from the public and private sectors. The new environment of multi-level governance policy making also involves citizen groups, experts, and local, provincial, and federal government departments and agencies. This has different implications for elected officials and managers at each government tier. To address such complex governance issues, these officials need distinct regional policy making mechanisms, skills, knowledge, and processes, to work effectively with one another, to work across government boundaries, and to engage citizen. And there may be a leadership role for the government of British Columbia in working with those local/regional policy makers to develop B.C. specific mechanisms of regional economic development and policy making/cooperation that would enhance economic performance.

### ***Four Papers***

The authors of the following four papers set their research-work in four overlapping questions that further explore those issues as they are relevant to British Columbia. The first paper is an in depth discussion of institutional, social and geographic variables and their effect on regional economic performance. The second paper provides an overview of regional economic networks and patterns of cooperation in comparable jurisdictions. The third paper addresses the extent to which incentives like revenue sharing can successfully be used to encourage innovative local government thinking and decision-making. The fourth and final paper investigates issues of water treatment and distribution for BC's regions and communities.

These first four papers thus address issues of regional performance and the governance issues associated with social and economic performance. In "*Enhancing Regional Economic Performance in British Columbia: Determinants, Strategies and Governance Arrangements*," Ben Brunnen argues that an ideal economic development governance arrangement should structure functional economic regions. These economic regions should group current Regional District on a voluntary basis but also include representatives from business, academic and community sectors. A strong incentive system would have to bring those partners together to encourage them and local governments to develop sustainable regional economic development strategies. His views branch out onto the work of Scott Coe on functional regions and governance, and on the work of Sam Broadbent on regional networking, cooperation and competition and the role incentives may have to enhance those linkages. Scott Coe in "*Regional Economic Development, Collaboration and Functional Governance*" argues that increasingly regional economic development is viewed as a matter of functional governance. A comparative analysis of specific B.C. regions with case studies in Washington State, U.S., New Zealand and Ontario, Canada, follows a brief review of the literature. Sam Broadbent in "*Cooperation and Competition in Region Building, The Role of Incentives*" reviews ten different incentives mechanisms to explain how the appropriate incentive system leads to regional cooperation and regional economic performance. The last paper

is a specific case study of the water management system in British Columbia. Scott Mathers in “*Water Management and Local Government Institutions: A Comparative Perspective*” reviews the B.C. water management system, suggests specific managerial regions and compares them to similar water management regions in New Zealand, the Seattle region, Black-River and London, Ontario.

This project would not have been possible without the support of the B.C. Ministry of Community Services and the University of Victoria Centre for Public Sector Studies. Furthermore, as co-editor of these four papers, I would like to thank my co-editor David Good, and also Thea Vakil for their invaluable and generous comments on each paper and this introduction.

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<sup>1</sup> See, for instance: Ivo Duchacek, Perforated Sovereignties and International Relations: Trans Sovereign Contacts of Subnational Governments (Greenwood Press, 1988); Earl Fry, States and Provinces in the International Economy (1998); Thomas Courchene, From Heartland to North American Regions State (University of Toronto Press, 1999); Richard Balme, Les Politiques du NeoRegionalism (Paris: Economica, 1998); Michael Keating, The New Regionalism in Western Europe: Territorial Restructuring and Political Change (Edward Elgard Publishing, 1998); and Robert Young, Stretching the Federalism (Institute of Intergovernmental Relations, Queens University, Kingston, ON, 1999).

<sup>2</sup> Robert Keohane and Helen Milner, Internationalization and Domestic Politics (Cambridge, 1996).

<sup>3</sup> Kenishi Ohmae, The Borderless World (Harpers Business Books, 1991).

<sup>4</sup> Thomas Courchene, From Heartland to North American Region State: The Social, Fiscal and Federal Evolution of Ontario (University of Toronto Press, 1998). Thesis work on competitive advantage... citation

<sup>5</sup> Michel Albert, Capitalisme Contre Capitalisme (Seuil: Paris, 1991).

<sup>6</sup> The works of Piore, Sable or Porter are central to those views: Michael Piore and Charles Sable, The Second Industrial Divide: Possibilities for Prosperity (Basic Books: New York, 1984); Michael Porter, The Competitive Advantage of Nations (MacMillan: London, 1990).

<sup>7</sup> See Robert Young, Stretching the Federation (Queen’s McGill University Press, 1999); Saskia Sassen, Losing Control (Columbia University Press, 1996); Trevor Salmon and Michael Keating, The Dynamics of Decentralization (School of Public Policy, Queen’s University Press, 1999).

<sup>8</sup> Saskia Sassen, Losing Control (Columbia University Press, 1996), 28

<sup>9</sup> Saskia Sassen, Losing Control (Columbia University Press, 1996), 29-30.

<sup>10</sup> Michael Keating, “Asymmetrical Government: Multinational States in an Integrating Europe,” Publius 29 (1) (Winter 1999): 71-86; “Les nationalites minoritaires d’Espagne face a l’Europe” Etudes Internationales 30 (4) (1999): 729-743. Trevor Salmon and Michael Keating, The Dynamics of Decentralization – Canadian Federalism and British Devolution (School of Policy Studies, Queens University, Kingston, ON, 1999).

<sup>11</sup> See particularly Michael Goldberg and John Mercer, The Myth of the North American City: Continentalism Challenged (University of British Columbia Press, 1986); Donald Rothblatt and Andrew Sancton, Metropolitan Governance Revisited (IGS Berkeley Press, 1998); and Michael Keating, “Challenges to Federalism, Territory, Function and Power in a Globalizing World” (pp. 8-27) in Robert Young, Stretching the Federation: The Art of the State in Canada (Institute of Intergovernmental Relations, Queens University Press, 1999).

<sup>12</sup> This is Michael Keating’s argument in Michael Keating, “Challenges to Federalism, Territory, Function and Power in a Globalizing World” (pp. 8-27), in Robert Young, Stretching the Federation: The Art of the

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State in Canada (Institute of Intergovernmental Relations, Queens University Press, 1999). An argument is also found in Salmon and Keating, The Dynamics of Decentralization (1999).

<sup>13</sup>In Belgium: [http://www.cor.eu.int/resolutions/down/studies/decentralisation/bel/Belgique\\_EN.pdf](http://www.cor.eu.int/resolutions/down/studies/decentralisation/bel/Belgique_EN.pdf);  
in Germany: [http://www.cor.eu.int/resolutions/down/studies/decentralisation/de/allemanne\\_en.pdf](http://www.cor.eu.int/resolutions/down/studies/decentralisation/de/allemanne_en.pdf);  
in the Netherlands: [http://www.cor.eu.int/resolutions/down/studies/decentralisation/de/allemanne\\_en.pdf](http://www.cor.eu.int/resolutions/down/studies/decentralisation/de/allemanne_en.pdf);  
and in France: [http://www.cor.eu.int/resolutions/down/studies/decentralisation/fr/france\\_en.pdf](http://www.cor.eu.int/resolutions/down/studies/decentralisation/fr/france_en.pdf). In all four countries executive powers have been devolved progressively to local governments. In some instances, this devolution of executive powers includes some legislative authority or mandatory consultation in legislative matters, as well.

<sup>14</sup>See, for instance, the first three chapters of Andrew Sancton, Merger Mania (Queen's-McGill University Press, 2001).

<sup>15</sup>On the limited capacity of cities: Peterson, Paul, City Limits (University of Chicago Press, 1981), particularly Chapter 7; Michael Peter Smith, City, State and Market (1988); Schneider, M. , The Competitive City (University of Pittsburgh Press, 1989); King, D., Fiscal Tiers, The Economics of Multi-Level Government (London: Allen and Unwin, 1984).

<sup>16</sup>On economic development intervention: Logan, J. and Molotch, H., 1987, "Urban Fortunes", University of California Press. Stone, C. (1989) Regime Politics, Kansas University Press. Stone and Sanders in The Study of Politics of Urban Development (1987); Stone, C., Regime Politics - Governing Atlanta (Lawrence: University of Kansas Press, 1989). Reese, Laura, and Rosenfeld, Raymond, The Civic Culture of Local Economic Development (Sage Publications, 2001) and Reese, Laura, Local Economic Development Policy: The United States and Canada, Garland Reference Library of Social Science, Vol. 1109 (1997); Sbragia, Alberta, The Debt Wish (University of Pittsburgh Press, 1996); Clarke and Gaile, The Works of Cities (University of Minnesota Press, 1998). On the redistributive role of local government, see: Michael Keating, Comparative Urban Politics (Edward Elgar, 1991), particularly Chapter 6; Ladd and Yinger, America's Ailing Cities (John Hopkins University Press, 1989); Maioni, Antonia, "Decentralization in Health Policy: Comments on the Access Proposals," in Young, Robert, Stretching the Federation, Queens University Press: Kingston.

<sup>17</sup> Susan Clarke and Garry Gaile(1998) The Works of Cities, University of Minnesota Press.