

Inaction Costs: Understanding Metropolitan Governmental System Reform Dynamics in Toronto

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Abstract

'Transaction costs' are widely used to explain why rational governments often do not implement their preferred policy options. According to this idea, governments weigh the benefits of new policies against the costs associated with defending these changes to legislative opponents, political supporters, agents and voters. Flipping the transaction costs framework, this article uses 'inaction costs' to explain why governments sometimes, and seemingly irrationally, implement non-preferred policy options. It suggests senior governments implement non-preferred policies only when inaction costs surpass the benefits of their preferred policy coupled with avoided transaction costs. This hypothesis is tested by using content analysis to examine metropolitan governmental system change dynamics in the Toronto Census Metropolitan Area.

Introductionⁱ

This article uses a rational choice framework to explain why senior governments responsible for municipal matters choose to reform or maintain their metropolitan governmental systems. Here senior governments are portrayed as a collection of vote-maximizing politicians seeking re-election (Downs, 1957; Huber and Shipan, 2000), endowed with unlimited constitutional authority to alter the form and function of their municipal governments. As institutional rules affect policy outcomes (Weaver and Rockman, 1993), senior governmental politicians are expected to alter municipal institutions in ways which will best facilitate their own policy preferences (Cortell and Peterson, 1999). After explaining the importance of metropolitan governmental systems, different system types and associated traits, the article evaluates how well a proposed 'inaction costs' theory serves to explain why Ontario provincial governments have made various metropolitan system configuration choices in the Toronto Census Metropolitan Area since 1901.


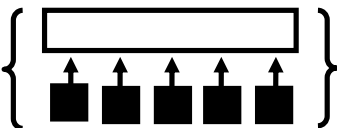


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Metropolitan Governmental Systems: Types and Traits

Modern concern with metropolitan area governmental structureⁱⁱ can perhaps be traced to the 1835 United Kingdom Royal Commission on Municipal Corporations which considered placing a unified London metropolitan municipality under central government jurisdiction (Magnusson 1981: 558, fn 4). Similar conclusions were drawn for US cities in Chester Maxey’s 1922 article “The Political Integration of Metropolitan Communities” (Stephens and Wikstrom, 2000: 33). However many contemporary ‘new regionalism’ scholars have abandoned this attention to formal institutions, describing the ‘old regionalist’ (Sancton, 2001) focus on government structure as “doomed” (Downs, 1994: 170) because of a perceived lack of metropolitan system change in the United States (Zimmerman, 1970; Stephens and Wikstrom, 2000; Norris, 2001; Harrigan and Vogel, 2003). This article asserts that structural changes are still important to understand as they have occurred in almost a dozen major US urban centres (Downs, 1994: 170), and in world cities such as London, Bologna, Stuttgart, Hanover, Copenhagen (Brenner, 2003) and Montreal (Collin and Robertson, 2005).

For the purposes of this article, ‘metropolitan governmental systems’ are any combination of upper-tier and lower-tier municipal governments within a single metropolitan region to which senior governments delegate authority. ‘Upper-tier’ governments are appointed or elected municipal bodies spanning the *entire* metropolis, including those with comprehensive powers or special purposes such as water or sewage provision. ‘Lower-tier’ governments are the smallest urban entities such as villages, towns or cities. ‘Senior governments’ are national governments in unitary states or provincial/state governments in federal states possessing the constitutional authority to alter local government arrangements and to delegate both vertical and horizontal authority to upper- and lower-tier municipal governments. ‘Vertical’ authority is the total responsibility decentralized by senior governments to the collection of local governments within a region. ‘Horizontal’ authority is the extent to which these total decentralized powers are concentrated or diffused among metropolitan area governments (De Vries, 2000; Hamilton, Miller and Paytas, 2004). While both types of authority are important, the horizontal dimension is explored in most detail as this article seeks to explain why senior governments do or do not change local government constellations within metropolitan areas.

Table 1: Four Metropolitan Governmental Systems and Related Traits

System Type	Illustration	Metropolitan Policy Coordination	Senior Government Control
A Lower-Tier Only		1	4
B Two-Tier Indirect		2	3
C Two-Tier Direct		3	2
D Upper-Tier Only		4	1

A) Lower-Tier Only Systems: are a collection of lower-tier municipalities with no formal structure through which to make region-wide decisions. Thus these systems tend to be the least able to facilitate effective solutions to regional policy problems and the easiest for senior governments to control.

B) Two-Tier Indirect Systems: feature lower-tier municipal governments and various types of region-wide upper-tier coordinating bodies, including general negotiating forums or task-specific bodies (i.e. water-use, land-use planning, environment, transport, etc.). Upper-tier members are not directly elected, although lower-tier elected members may be appointed to upper-tier bodies. Two-tier Indirect systems can be expected to better facilitate region-wide policy development than Lower-Tier Only systems as collective action difficulties are somewhat reduced by coordinative bodies. The increased levels of cooperation among lower-tier governments also moderately impede senior government ability to divide and conquer local councils.

C) Two-Tier Direct Systems: resemble Two-Tier Indirect systems with the exception that citizens directly elect both lower- and upper-tier municipal government representatives. Some fragmentation still exists within the region, but electing upper-tier officials increases the ability of municipal governments to coordinate region-wide policy. Where senior-level governments can still play one lower-tier municipality against another, metropolitan-level elected officials can potentially counter this control by redistributing resources and providing another municipal voice to offset provincial demands.

D) Upper-Tier Only Systems: a single body makes policy decisions for the entire metropolitan region. Upper-tier Only systems are best able to promote region-wide policy as such initiatives are their main business. However, being the sole municipal voice for the region renders them the most difficult for senior-governments to control as there are no other municipalities to pit against them.

Table 1 arranges four archetypal metropolitan governmental systems according to the degree to which decentralized municipal power is dispersed among municipal governments within a single metropolitan area. The table suggests senior governments have four basic choices as to how to arrange local governments within a metropolitan region with 'Lower-Tier Only' metropolitan governmental systems being the most horizontally fragmented and 'Upper-Tier Only' systems being the least. Fragmentation plays out in at least two key areas of concern to senior governments including the degree to which: 1) the metropolitan governmental system facilitates region-wide policy development and, 2) the system enhances senior governmental ability to control municipal government policy priorities. Discussion of how governmental structure affects the ability of local governments to solve region-wide policy problems has been around for decades (see Jones, 1942; Jacobs, 1969) and still occupies much of the contemporary scholarship (Stephens and Wikstrom, 2000). The tension between senior-governmental commitment to local autonomy and top-down control of local government policy has been around as long as local government itself (Rhodes, 1999), and is an inescapable consideration even for the most innovative senior government (Lowndes and Wilson, 2003).

Still with table 1, each of the system configurations is rated from a low of 1 to a high of 4 according to the degree to which the system aids senior governmental control of their local governments and the extent to which local government policy coordination is effectively facilitated within the metropolitan area. Regarding metropolitan policy coordination, few contest that municipalities within more fragmented regions are less able to coordinate purely municipally-driven, region-wide policy solutions. As Downs (1994: 170) states, 'the best way to effectively counteract the adverse effects of fragmentation is to adopt region-wide governmental structures' (see also Rusk, 1993).

More fragmented regions are easier for senior governments to control as municipalities tend to compete against neighbouring municipalities and this competition reduces municipal governments' capacity to act collectively and resist senior government forays into their legislated jurisdictions (Tiebout, 1956; Downs, 1994; Dowding, John and Biggs, 1994; Boyne, 1996; Dowding and John 1996). Thus, out of the four possible metropolitan governmental configurations, senior governments will always prefer a Lower-Tier Only system (i.e. the most fragmented) as it affords the most control over their local governments. In other words, Lower-Tier Only systems allow the senior government 'principals' the most ability to manipulate their municipal 'agents'. This assumption suggests that the natural inclination of senior governments is to either maintain a Lower-Tier Only system, or shift toward this configuration and its control benefits if a different system is inherited from a past senior government.

Why Metropolitan Governmental Systems Do or Do Not Change

This article seeks to explain why senior governments reform their metropolitan governmental systems, the dichotomous dependent variable being the decision to change or maintain an existing system. The more complex independent variable employed in this study is a combination of three interacting factors: metropolitan governmental system type, transaction costs and inaction costs. It is proposed that senior governments reform metropolitan governmental systems in ways which facilitate increased metropolitan policy coordination among municipalities only when inaction costs exceed the combination of transaction costs and the control benefits of a more fractured system. In more general terms, senior governments act against their own preferred policies when the pressure to change outweighs the benefits of maintaining the status quo plus the transaction costs associated with change.

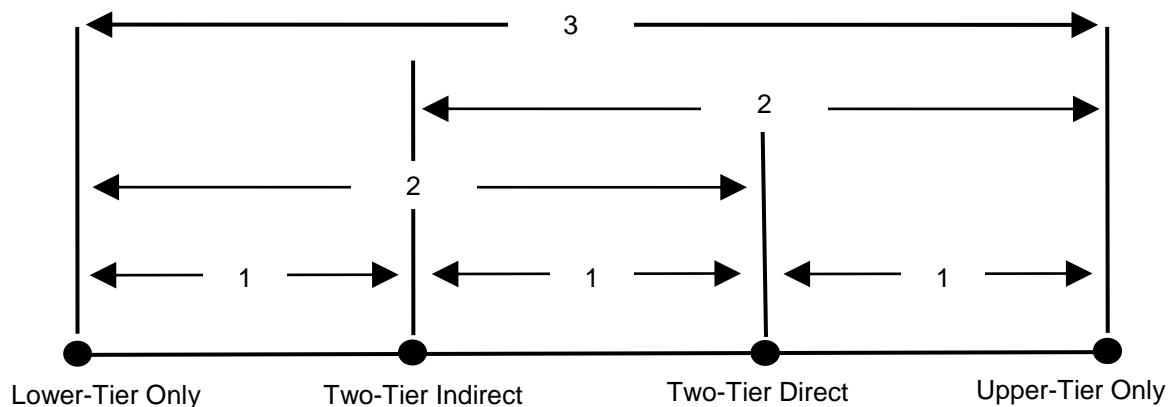
Transaction Costs Defined

Borrowed from economists, transaction costs theory is used by political scientists to explain why rational governments sometimes seemingly behave irrationally by not pursuing preferred policy goals. "Irrational" behaviour is often explained away by subtracting the hidden costs of doing business from the perceived benefits of undertaking action (Dunleavy and Margetts, 1995; Elgie, 2006; Horn, 1995; Huber and Shipan, 2000; North, 1990). Horn (1995) describes four types of general transaction costs governments face refined here to fit the specific context of this article. 1) *Legislative transaction costs* describe the time and effort expended by passing bills through the legislature. In terms of metropolitan governmental system reform, such costs are incurred when senior governments pass laws abolishing or creating new local governmental bodies. 2) *Commitment transaction costs* are resources spent convincing traditional supporters of the benefits of change, incurred when traditional supporters question the benefits of, for example, shifting municipal boundaries, service delivery responsibility, or taxation authority. 3) *Agency transaction costs* refer to the time and effort spent prompting non-

cooperative government agents into action, sustained in the municipal context when local elected or appointed officials resist system change. 4) *Uncertainty transaction costs* come from reassuring risk-averse voters that change, such as amalgamating or de-amalgamating regional municipalities, is necessary.

Figure 1 uses the four archetypal metropolitan governmental system configurations to illustrate the level of transaction costs senior governments incur when undertaking reform. Here one step along the scale in any direction can be expected to generate fewer transactions than two, and two steps fewer than three. For example, senior governments moving from a Lower-Tier Only to a Two-Tier Indirect system (or visa versa) incur the lowest possible transaction costs as all that is required is to add (or subtract) one or more appointed regional bodies to the existing set of lower-tier municipalities. Moving from Lower-Tier Only to a Two-Tier Direct system (or visa versa) adds more Legislative, Commitment, Agency and Uncertainty transaction costs (2). Lower-Tier Only to Upper-Tier Only shifts (or visa versa) generate the most costs (3).

Figure 1: Transaction Costs of Regional Governance Structural Reform



Inaction Costs Defined

Where transaction costs help explain why senior governments might be reluctant to change relevant metropolitan governmental systems, there are numerous examples where seemingly rational senior governments alter metropolitan governmental systems in ways which appear to be *against* their interests. That is, not only do senior governments expend their scarce resources to overcome transaction costs to change a metropolitan governmental system, they sometimes do so in ways which *reduce* their ability to control municipal policy by moving away from Lower-Tier Only system configurations. These actions are indeed confounding as it seems counterintuitive for vote-maximizing politicians to undermine their own best interests, which in this case is maximizing their ability to control their municipalities.

This article proposes that along with weighing the benefits of changing to a new system and associated transaction costs, senior governments also consider the costs of *not taking action*. The reverse of transaction costs, here it is proposed that *'inaction costs'* are the price paid for *not* acting on demands made by political opponents, supporters, agents and voters. Table 2 uses the four established transaction costs categories to construct four inaction costs types, further explained using metropolitan

governmental context examples. 1) *Legislative inaction costs* are incurred defending the status quo in the legislature, such as when metropolitan system reform is consistently raised by legislative opponents but not acted upon by senior government. 2) *Commitment inaction costs* occur when politicians are forced to reassure traditional supporters of the benefits of staying the course, as must senior governments when persuading supporters that future gains experienced under the current municipal boundaries and authority distribution will eventually counter immediate losses. 3) *Agency inaction costs* stem from senior governments countering the actions of reform-minded civil servants or other government officials, including local councillors or mayors. 4) *Uncertainty inaction costs* result from governments spending resources reassuring utility-maximizing voters, including local voters, of status quo benefits.

Table 2: Transaction and Inaction Costs: Types, Opponents, and Cost Traits

Type	Opponent	Transaction Costs	Inaction Costs
Legislative	Opposition	Defending new acts in legislature	Defending status quo in legislature
Commitment	Supporters	Promoting reform	Promoting the status quo
Agency	Govn't Agents	Prompting obstreperous officials	Countering aggressive officials
Uncertainty	Voters	Reducing future anxiety	Reducing current anxiety

It is also important to consider that inaction costs will vary according to *demand nature* and *demand intensity*. In terms of demand nature, the more radical an opponent's demands, that is the further away the demand is from the status quo, the greater the inaction costs. Likewise, the more intense the demand, that is the more often or fervently it is made, the greater the inaction costs. To provide an example, occasional calls by the legislative opposition for a one step move from a Two-Tier Indirect to Two-Tier Direct system pale in comparison to the inaction costs incurred from thousands of people from across a region marching on the legislature to demand a Upper-Tier Only system be de-amalgamated and transformed into a Lower-Tier Only system.

Calculating the Impacts of Inaction Costs

As explained, this article suggests senior governments considering changes to their metropolitan governmental system weigh system types, transaction costs and inaction costs. Change will occur only if inaction costs overcome the combination of system type preference of the senior government and transaction costs associated with change. To develop more concrete hypotheses as to how these variables interact, numeric values are assigned to various costs in table 3 to calculate the decision making process of senior governments on this issue. While these values are subjective, they should help the reader more clearly understand what is proposed and guide the interpretation of evidence in the next section regarding system change in the Toronto Census Metropolitan Area (CMA).

Table 3: Conditions for Metropolitan Governmental System Change

Inaction Costs			Change Threshold Score – Inaction Costs Score			Predicted Result
Intensity	Demand	Score	1 Step (4)	2 Step (8)	3 Step (12)	
Low (1)	1 step	1 x 1 = 1	3	7	11	Status Quo
	2 step	1 x 2 = 2	2	6	10	Status Quo
	3 step	1 x 3 = 3	1	5	9	Status Quo
Med (2)	1 step	2 x 1 = 2	2	6	10	Status Quo
	2 step	2 x 2 = 4	0	4	8	Status Quo
	3 step	2 x 3 = 6	(-2)*	2	6	1 step change
High (3)	1 step	3 x 1 = 3	1	5	9	Status Quo
	2 step	3 x 2 = 6	(-2)*	1	6	1 step change
	3 step	3 x 3 = 9	(-5)*	(-1)*	3	2 step change

Note: The change threshold score is calculated by multiplying the constant senior government preference for Lower-Tier Only systems (scored as 4) by the level of transaction costs associated with change (1 point for one step, 2 points for two steps, 3 points for three steps). Thus the threshold score for a one-step change is 4 (1 x 4), a two step change is 8, and a three step score 12. Change is predicted when Inactions Costs scores surpass Change Threshold scores (*).

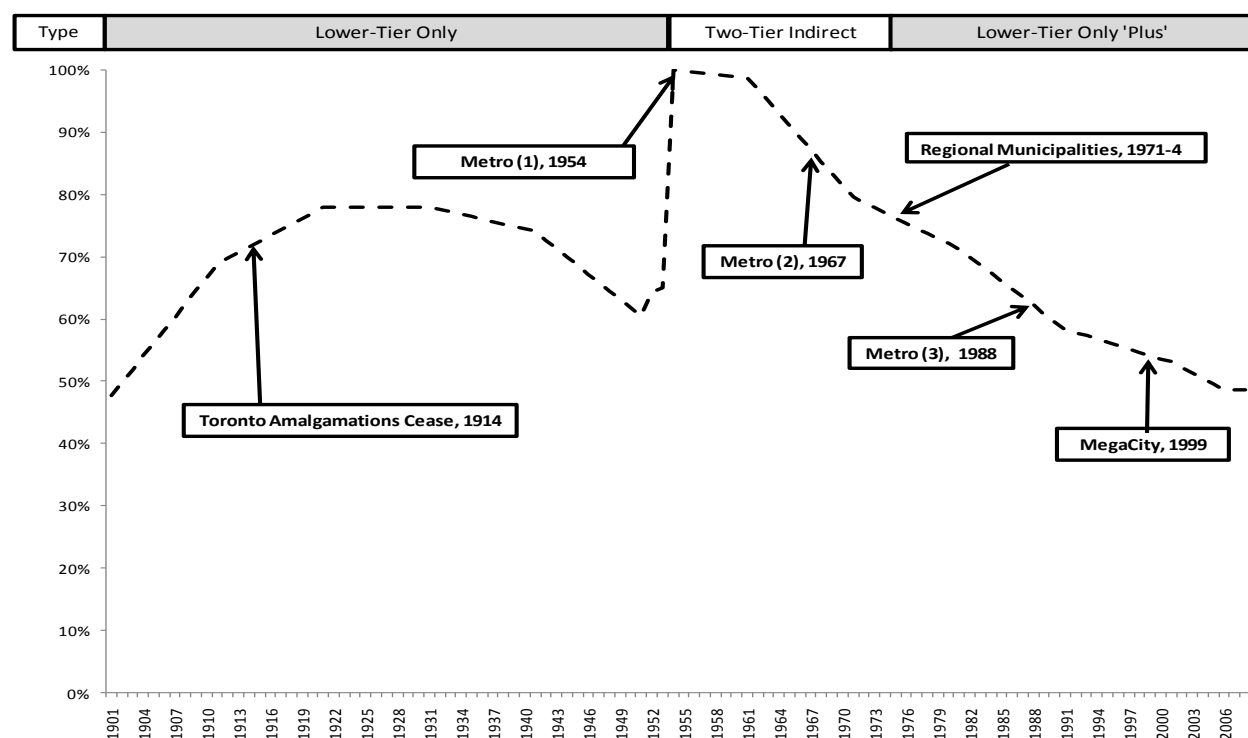
Moving from left to right in table 3, *Inaction Costs scores* are constructed by combining demand nature and demand intensity valuations. Low intensity demands for one-step system change (i.e. from Lower-Tier Only to Two-Tier Indirect) receive a 1 score (1 intensity point x 1 demand point). On the other extreme, intense demands for radical change (i.e. from Lower-Tier Only to Upper-Tier Only) earns a score of 9 (3 intensity points x 3 demand points). *Change thresholds scores* are calculated by multiplying senior government system preferences with transaction costs. At the core of these change threshold scores is the assumption that all senior governments always prefer Lower-Tier Only systems to all others (represented through a base score of 4). This constant base level score is then multiplied by transaction costs associated with the degree to which the system is to be changed. Thus a one step change (i.e. from Lower-Tier Only to Two-Tier Indirect) establishes a change threshold score of 4 (4 base level points x 1 system change point) whereas a three step change (i.e. from Lower-Tier Only to Upper-Tier Only) generates a threshold score of 12 (4 base level points x 3 system change points). Subtracting Inaction Costs scores from Change Threshold Scores produces the final column of predicted results. These calculations not only indicate metropolitan governmental system reform will be seldom achieved, but also that two-step reform will only be obtained in reaction to the most intense and radical inaction costs.

The rest of this article tests why senior Ontario governments might act against their own best interests when considering metropolitan governmental system reform. The dichotomous dependent variable is the metropolitan governmental system configuration within the Toronto CMA, tracked since 1901 and assessed as either “change” or “status quo maintenance”.ⁱⁱⁱ The independent variable is inaction costs levels, assessed according to demand nature and demand intensity. Using the hypotheses generated in table 3, it is proposed that Ontario governments will only move away from their preferred Lower-Tier Only system if inactions costs are intense and radical. These hypotheses are assessed through content analysis of articles and editorials from the Toronto-based *Globe and Mail* as presented in the “Canada’s Heritage from 1844” database, the most extensive online historic newspaper archive in Canada. For brevity, only agency and commitment inaction costs are assessed in this initial test.

Metropolitan Governmental System Change in Toronto

Before assessing inaction costs pressures, it is essential to understand the evolution of the Toronto CMA metropolitan governmental system. The dashed black line in figure 2 demonstrates the proportion of the CMA population located within the boundaries of the first City of Toronto (1901-1953), then Metro (1954-1998), and the now (mega) City of Toronto (1999-present). In 1901, only 50 percent of the CMA population lived in the City of Toronto, with this percentage growing to nearly 80 percent by the end of World War I. During the Depression, the city's proportion of the CMA population began to decline, dropping to 60 percent by 1951 due to increased suburbanization. The boundary adjustment associated with the 1954 creation of Metro Toronto dramatically increased the proportion of the CMA population located within the Metro area to almost 100 per cent. Since 1954, the proportion of the CMA population living within the old Metro area (now the City of Toronto) has dwindled to below that of the pre-Metro era (49 per cent in 2006) as CMA population growth continues to disproportionately increase outside the (former) core.

Figure 2: Toronto Census Metropolitan Area Population within City of Toronto/Metro Toronto (%)



City Population Numerator: City of Toronto (1901-1951), Metropolitan Toronto (1955-1996), City of Toronto (2001-2006). Denominator Population: Toronto Census Metropolitan Area. Sources: Coats (1923); City of Toronto Archives (2007); Statistics Canada (2007b)

These population trends in part determine the metropolitan governmental system designation used as the dependent variable in this study. As shown in the top row in figure 2 (labelled "Type"), Toronto's first metropolitan governmental system era falls between 1901 and 1953 when the CMA had a Lower-Tier Only System. The Two-Tier Indirect 'Metro' era occurred between 1954 and 1974, and the third Lower-Tier Only 'Plus' era since 1974. With almost all of the CMA's post-1953 population located within

the new Metro boundaries, the metropolitan system could truly be considered Two-Tier Indirect. However as the proportion of the CMA population located within Metro declined, the CMA, sometime after the 1967 reforms, returned to Lower-Tier Only Status. This return to Lower-Tier Only status resulted from the CMA's lack of an overarching upper-tier governmental body, or if we consider the regional governments in Peel, Durham, Halton and York as constituting a partial upper-tier government, a Lower-Tier Only 'Plus' configuration.

Figure 2 demonstrates that Toronto's metropolitan governmental system has been substantively altered only twice since 1901: first in 1953 with the creation of Two-Tier Indirect 'Metro Toronto', and then during a gradual and continuing shift back toward a Lower-Tier Only 'Plus' system. In terms of the dependent variable used in this study, the 1953 change marks the only instance when an Ontario government "irrationally" acted against its own interests and lessened its control over its local governments by shifting away from the cherished Lower-Tier Only system.

Independent Variables: Agency and Commitment Inaction Costs

This section traces agency and commitment inaction costs as they have occurred in the Toronto CMA since the turn of the twentieth century. Newspaper reports and secondary literature is used to track agency costs through the earlier indicated metropolitan governmental system periods: 1901-1953, 1954-1974 and 1975-2008. These accounts establish the governmental system configuration preferences of the major municipal player (i.e. the main municipal agent) during these periods (thus establishing the demand nature score needed to calculate overall inaction costs) and the extent to which this main player pressured the provincial government to make desired system changes (thus establishing the demand intensity score). Slightly easier to assess, commitment inaction costs are explored in a similar way at the end of this section.

Agency Inaction Costs in the Lower-Tier Only System (1901-1953)

As shown in the appendix figures, when incorporated in 1834, the City of Toronto was bounded by Lake Ontario, Queen Street, Dufferin Street and the Don River. In these early years the City was the most populous municipality in the Toronto CMA. Throughout the nineteenth and early twentieth centuries, when significant development occurred outside the original city boundaries, the growing areas would simply be added to the city through annexation.^{iv} At this stage in the City's development, these annexations were accepted (and often prompted) by adjacent area residents. For example, when asked if they wanted to be annexed to the City of Toronto, the rate-payers association of St. Alban's Park unanimously endorsed the motion (Globe, 1886). The 1905 Rosedale annexation was initiated by a delegation of local residents who desired to bring their properties into the City (Globe, 1904). The City offered no opposition to these requests "so long as no special conditions were sought and they naturally and properly made the necessary application for an order and a proclamation" (Globe, 1905).

When the practice of annexation ceased in 1914, area population increases predictably spilled out of the City into the surrounding area. While calls by the City of Toronto for a return to pre-1914 annexation policies surfaced through the 1920s and 1930s, the requests were ignored by the province (Plunkett, 1961). However, the Ontario government did begin to incorporate surrounding areas which in turn developed their own political cultures and identities (Magnusson, 1983). While the war years and Depression distracted all levels of government from domestic issues including municipal organization,

the post-war period refocused governmental attention on the patchwork of Toronto area municipalities (Friskin, 2001: 516-17). In reaction to growth pressures, the City of Toronto's planning board issued a 1949 report recommending amalgamating the city with its 13 adjacent municipalities (Plunkett, 1961). This report marks the first major call for amalgamation by the City of Toronto and clearly indicates the radical nature of their demands. Another report with similar demands written by the City's Civic Advisory Council followed in 1949. In 1950, the City increased demand intensity by formally applying to the Ontario Municipal Board (OMB) to proceed with their amalgamation plan.

Although the city had maintained its past preference of amalgamating neighbouring municipalities with growing populations, attitudes of the surrounding municipalities toward this expansion method had changed. For example, in expressing his opposition to the 1950 amalgamation proposal, Reeve Sinclair of the Etobicoke township called for a local referendum: "Don't let us be pushed into it....Let the people say if they want to be as they have been for the past 100 years or become part of Toronto." Scarborough Township (now Scarborough) described the city's proposal as "disastrous" (Globe and Mail, 1950). In the end, the OMB rejected the city's application. According to Magnusson (1983: 107), "[t]he imperialistic designs (of the city) were ultimately defeated by the province..."

In response to the pressure from City of Toronto officials and other interested parties, the OMB issued a report on the issue, written by its chair, and later Ontario Municipal Affairs deputy minister, Lorne Cumming. In January 1953, Cumming called for the creation of a Two-Tier Indirect metropolitan governmental system. Reaction from the City of Toronto was initially mixed. Mayor 'Lampy' Lampport "with certain reservations liked the report and without qualification promised to cooperate with the province in the event of legislation." On the other hand, Leslie Saunders, Toronto councilor and vice-chair of the board of controllers and civic budget director, said "he would fight the board's proposals, if necessary to his political death" (Hamilton, 1953). Toronto City Council soon reunited around its long-held goal of amalgamation (Cole, 1953), which it continued to promote for the next 20 years. Despite these somewhat intense calls for radical change by the City, on April 15, 1953 the province enacted the vast majority of Cumming's report by passing the *Municipality of Metropolitan Toronto Act* which took effect January 1, 1954.

Agency Inaction Costs Two-Tier Indirect System (1953-1974)

The new 'Metro' Toronto consisted of an upper-tier regional government as well as 13 various-sized lower-tier bodies - ranging from the tiny Village of Swansea to the much bigger City of Toronto (Filion, 1999: 428). Of the 25 Metro council seats, the City of Toronto held 12, the other 12 suburban municipalities held one each, with a provincially appointed chair overseeing metropolitan-wide policy development. Metro was responsible for major physical infrastructure and property assessment with the municipal councils maintaining control of basic infrastructure, local parks, social welfare, public health, fire protection, libraries and property tax collection (Friskin, 2001: 518). Land-use planning was a shared responsibility which continued to be a source of tension between the two-levels of municipal government.

While Metro was initially heralded as "the new dawn in the age of municipal affairs" (Hamilton, 1954), problems soon started to emerge. As explained by James Milner (1961), three major problems faced Toronto: unequal representation on council, with small suburban municipalities having the same level of representation as large suburban municipalities; the distribution of powers between the two

governmental tiers, including planning; and, most pressing, the geographical expansion of Metro once the population began to again spill past Metro's borders.

As to what to do about the above three problems, once again the City of Toronto called for total amalgamation of the metro area (Schrag, 1957). In 1956, the City of Toronto Mayor Phillips attacked the current Metro arrangements stating that "the Metro government was foisted upon the taxpayers of (the City of) Toronto by the Ontario Government" (Globe and Mail, 1956). By 1960, the mayor laid out a plan for "progressive amalgamation" within Metro. While extolling the virtues of the current Two-Tier Indirect System, an exasperated Metro Chair Gardiner called for a review of Metro by 1964 if things had not improved (Globe and Mail, 1960).

Things did not improve and the provincial government responded by appointing Carl Goldenberg as a one-man Metro review commission in 1963. Concluding his research and public hearings in 1964, Goldenberg rejected the City of Toronto's calls for amalgamation. Instead his final report, delivered to the province in 1965, recommended that the 13 municipalities be reduced to four while selecting Metro-wide councilors through direct election (Baker, 1965). The provincial government broadly followed the Goldenberg recommendations in 1967, but reduced the 13 original Metro municipalities to six (instead of the proposed four) and left the upper-tier council as an indirectly elected body.^v

The City of Toronto did not react well to these changes and continued to pursue the bid for amalgamation. In 1968, a Metro Council motion to include a plebiscite on amalgamation during upcoming elections in all Metro municipalities was rejected during a very heated Metro meeting, despite being championed by Toronto Mayor William Dennison (Baker, 1968). The City of Toronto later unanimously voted to hold their own plebiscite in conjunction with the 1969 municipal elections asking voters "Are you in favour of the City of Toronto applying to the Province of Ontario for legislation to provide for the amalgamation of the City of Toronto with the Boroughs of Scarborough, East York, North York and Etobicoke under a single municipal council for the amalgamated municipality?" (Globe and Mail, 1969a). Over 80 per cent of those casting ballots voted in support of the motion (Globe and Mail, 1969b).

Although the City of Toronto continued to push for a Metro area amalgamation into the mid-1970s (Baker, 1971), the 1969 plebiscite perhaps marked the last, and somewhat desperate action as the province's main municipal agent and inflictor of inaction costs. New players had risen to challenge the City's position as the primary municipal agent, including the Metropolitan Council and four new neighbouring Metro-like regional governments created in the early 1970s by the provincial government in York, Halton, Peel and Durham (Wolfson and Frisken, 2000). Magnusson's (1983: 110-111) assessment of this era confirms these findings:

Toronto city council continued to press for full amalgamation of the area municipalities – i.e. for the dissolution of the metropolitan government and incorporation of the suburbs into the city. This became less and less a likely prospect as Metro established itself as a separate government and the suburbs gained in population and financial strength.... The result was to diminish even further the city's role in metropolitan government.

Agency Inaction Costs in the Lower-Tier Only System 'Plus' (1974-2006)

After creating the four new regional municipalities, Ontario provincial governments largely ceased pursuing region-wide governmental system reform in the Toronto CMA. As Frances Frisken (2001: 528) states, the provincial government "...abandoned some of its more controversial policies and left it up to municipal or regional governments to decide how to implement others." However the ever increasing population and sprawl meant that failure to enlarge Metro's boundaries also meant casting aside the idea that a single upper-tier body should coordinate policy across the entire CMA. Three quarters of the CMA population lived in Metro in the mid-1970s, 70 per cent by 1981, and under 60 per cent by 1991.

Population growth continued to present planning challenges, as did the indirectly elected council which was unable to make significant regional planning decisions or develop an official plan even within Metro's boundaries. These failures prompted charges that the indirectly elected Metro officials were only concerned with the interests of local voters. In response, the province (eventually) used the findings of the second legislated review of Metropolitan Toronto, the *Royal [Robarts] Commission on Metropolitan Toronto*, to further empower Metro and replaced indirectly-elected officials with a directly-elected council in 1988 (Gooderham and Fine, 1987). While this move more fully empowered Metro politicians, Metro boundaries were left untouched. As such, these changes should *not* be seen as a move from a Two-Tier Indirect to a Two-Tier Direct governmental system, but rather a minor tinkering of Lower-Tier Only 'Plus' System arrangements by the province.

Predictably the problems of growth and planning in the Toronto CMA continued after 1988. But metropolitan governmental system reforms were ignored by provincial governments of all political stripes as they became fixated on macro-economic issues during the late 1980s and early 1990s. Of elected municipal officials in the CMA, only the City continued to push for change with Mayor Art Eggleton calling for the creation of a new and larger regional council (Polanyi, 1990). Metro continually supported the status quo. For example, when asked to comment on the Eggleton proposal, Metro Council Chair Alan Tonks stated a Greater Toronto Council would "just create more bureaucracy and government" and he "preferred the current approach of creating special purpose bodies to deal with regional issues such as garbage" (Polanyi, 1990).

The first hint that Metro Toronto reforms, as opposed to those across the now sprawling CMA area, were in the works came just prior to the June 8, 1995 Ontario Provincial Election. On January 5, the Conservative Party of Ontario announced a boldly titled, but largely empty, exercise to produce the "Mike Harris Task Force on Bringing Common Sense to Metro"; a process Andrew Sancton (2000: 143) thinks "might have had more to do with preparing for the election than with preparing for government." A few days later, then-NDP premier Bob Rae announced his own Greater Toronto Area Task Force, appointing Anne Golden on April 1, 1995 to head a five-person 'Task Force on the Future of Greater Toronto'. The task force was also seen by some as a mere election ploy (Moloney, 1995).

Of importance to this study, in a presentation to the Golden Task Force, Metro Toronto Council submitted a request for a new Two-Tier Direct Metropolitan System, proposing the 21 municipalities and five regional governments in the Greater Toronto Area be reduced to 15 municipalities and one elected regional council – in other words, a Two-Tier Direct system for the CMA (Taylor, 1995: SC1). While this represented a dramatic change from their previous stance where Metro largely supported the Lower-Tier Only "Plus" status quo, this last minute proposal to a last minute commission hardly compares to the aggressive and consistent past calls for amalgamation by the City of Toronto.

Before Golden could officially release her report, Mike Harris and his Conservative Party replaced Rae's New Democratic government, bringing with them their own ideas as to what should be done in the Toronto region. Golden did report in January 1996, recommending a Two-Tier Indirect governmental system, with the five regional governments merged into a indirectly-elected Greater Toronto Area regional government and a reduced number of lower-tier municipalities (Golden, 1999). But Harris was not about to follow the advice of a Rae appointee. Instead he appointed his own "Who Does What" Task Force headed by former Toronto mayor David Crombie in April, 1996.

Before Crombie could deliver his full report, Harris merged the six lower-tier municipalities and the Metro into a single lower-tier CMA municipal government by enacting *The City of Toronto Act, 1997*. These efforts gained the support of the business community and other important allies including the Metropolitan Board of Trade, the Urban Development Institute the Greater Toronto Homebuilders Association and, most importantly, Metro Council Chair Tonks (Stewart, 2006). The merger generated significant opposition including a one-day 'Metro Days of Action' strike. Also, the six lower-tier municipalities organized a series of plebiscites where 70 per cent of those casting ballots answered 'No' to the question "Are you in favour of eliminating [Area Municipality] and all other existing municipalities in Metropolitan Toronto and amalgamating them into a Mega-city?" (Boudreau, 1999). But the efforts were for naught. Currently the Toronto CMA contains 22 lower-tier municipal governments – including the unified City of Toronto – and four regional governments. Most importantly, the CMA does not have an upper-tier governmental body.^{vi}

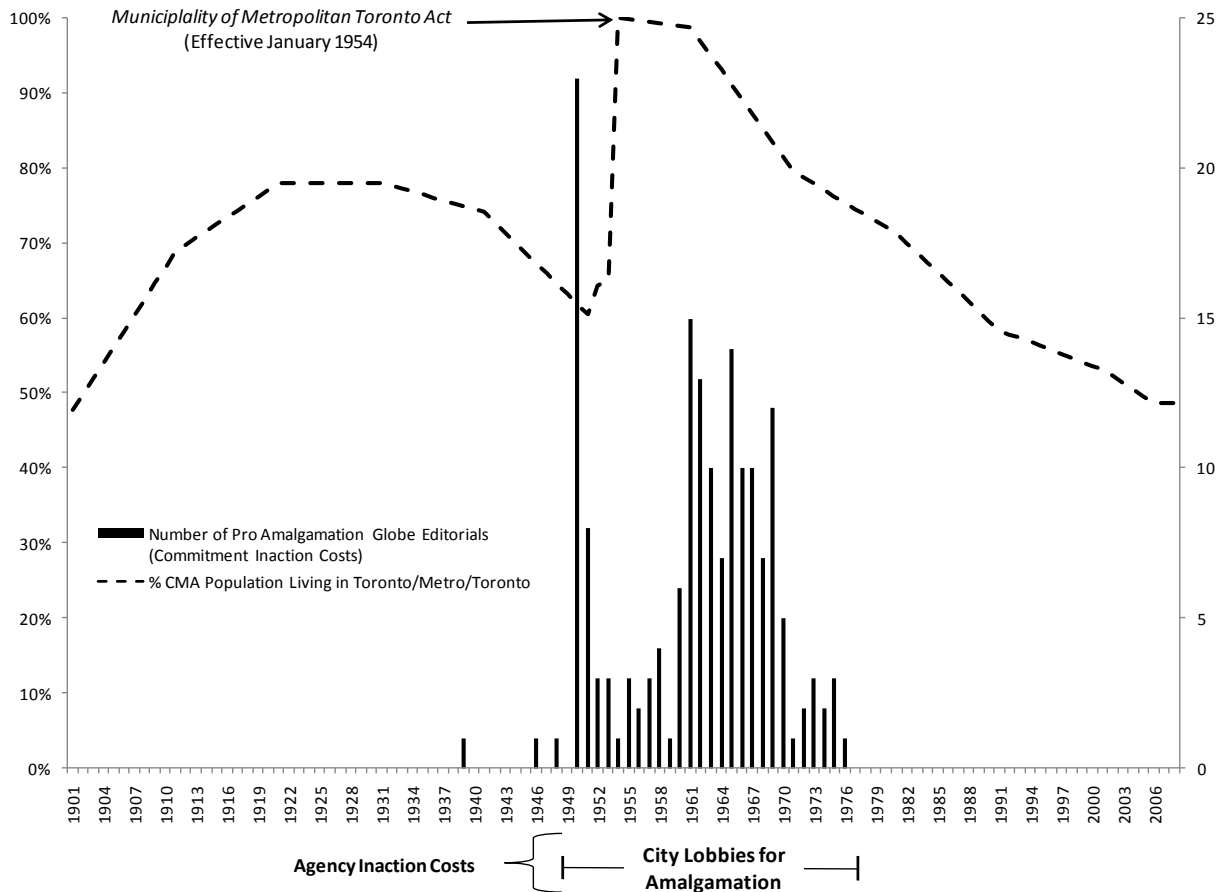
Commitment Inaction Costs

The commitment inaction costs are measured over the study time period by counting the number of pro-amalgamation *Globe and Mail* editorials published since 1901. Like the elected members of Toronto City Council, it is fair to say that the *Globe and Mail* editorial team adamantly supported amalgamation for a good deal of the twentieth century. Between 1901 and 2008 the editors wrote 175 pro-amalgamation editorials. The vast majority of these articles (98 per cent) were written between 1950 and 1976, with the largest number (23) appearing in 1950. All editorials strenuously called for amalgamating all municipalities within the boundaries of what in 1953 was deemed 'Metro Toronto' (now the City of Toronto) into a single municipality. *Globe and Mail* editors have never openly supported amalgamating all Toronto CMA municipalities into a single region-wide body.

Using Inaction Costs to Explain Toronto's Metropolitan System Reform

Figure 3 presents the information described in the preceding sections in order to evaluate the effect agency and commitment costs might have on metropolitan governmental system change. To remind the reader, it is hypothesized that senior governments will only change to a less preferred metropolitan governmental system if inaction costs outstrip the senior governmental preference for a Lower-Tier Only system and transaction costs associated with any possible change. It is also important to remember that the only time an Ontario government of any political stripe acted against its own interests on this matter was when the Two-Tier Indirect system was enacted in 1953.

Figure 3: Agency and Commitment Inaction Costs Effects (1901-2008)



Agency inaction costs are shown at the bottom of figure 3 and illustrate that the City of Toronto’s vigorous calls to amalgamate the CMA municipalities began in 1949 and ended in the late 1970s. While the City of Toronto was the dominant municipal entity in the 1950s, its dominance was slowly replaced by the indirectly, then directly, elected Metro Toronto board. While the City of Toronto continued to hold the attention of the province after the 1953 reform, its status dwindled around the same time as did its calls for amalgamation. Figure 3 also shows that the *Globe and Mail’s* peak period for pro-amalgamation editorials was between 1950 and 1976. The zenith of this proxy for commitment inaction costs occurs just before the 1953 reforms. These often vicious calls for amalgamation dwindled in the 1960s, and ceased in 1976.

This evidence suggests the most intense agency and commitment inaction costs pressure exactly correlates with the 1953 reform, confirming the previously generated hypothesis. To examine this claim in more detail, *demand nature* was the most radical and *demand intensity* greatest just before the 1953 change. Referring back to table 3 calculations, it would seem quite reasonable then to assign these pre-1953 efforts a “medium” (2) score on the inaction costs intensity scale and a 3 on demand score scale, for an overall score of 6. This beats by 2 the combination of the preferred Lower-Tier Only system and associated transaction costs (score of 4), and now shows as rational the Lower-Tier Only to Two-Tier Indirect system change made by the Ontario Provincial government in 1953. While the pressure from newspaper editors and city councillors continued from 1954 until the mid-1970s, the provincial government refused to enact further region-wide reform. This lack of action also follows the table 3

hypotheses in that the 1953 reforms served to reduce the impact of inaction costs. As the post-1953 system is closer to an amalgamated city than the pre-1953 system, post-1953 editorials and City of Toronto Council were rendered less radical by the 1953 reforms, which in turn result in lower demand nature inaction costs scores.

The current lack of agency and commitment inactions costs open the door for the Ontario government to move the Toronto CMA back to a full Lower-Tier Only system. At present, Toronto Mayor David Miller (2003: 49), supports “fiscal regionalism” or, “the fiscal equivalent of a regional government without the government”, where municipalities supposedly adopt a “set of cooperative strategies that recognize the governmental structure of the existing configuration of local governments, but create regional funding mechanisms...”. While touted as a new approach, Miller’s vision is merely a Lower-Tier Only, or perhaps a Lower-Tier Only “Plus”, system. Far from increasing inaction costs for the provincial government, this moderate and low intensity demand will not prompt regional reform. The lessons provided in this paper suggest metropolitan governmental system change will only occur in Toronto if the mayor and other political heavyweights radically increase inaction costs by aggressively demanding the province amalgamate all CMA municipal bodies into a single municipal unit. While the mayor would not be rewarded with an Upper-Tier Only metropolitan governmental system, chances are the province would at least enact a Two-Tier Indirect, or perhaps even a Two-Tier Direct, system for the Toronto CMA.

Endnotes

i The ideas in this article arose during turn-of-the-century discussions at the London School of Economics, were first presented at the 2002 Canadian Political Science Annual General Meeting and have been further refined in Simon Fraser University’s Graduate Public Policy Program seminars. While many have contributed to what appears here, I am especially grateful to Jeanette Ashe, Rotem Bresler-Gonen, Keith Dowding, Terri Evans, Jon Kesselman, and Paddy Smith. I would also like to thank the anonymous reviewers and journal editors.

ii Note: This paper interchangeably uses ‘institutions’, ‘structure’ and ‘systems’.

iii The Toronto CMA is used as a baseline by which to assess change in the region because of its statistically static nature. Although the Greater Toronto Area (GTA) is perhaps more commonly commented upon, the CMA is only eight per cent smaller (5.11 million inhabitants compared to the GTA’s 5.56 million) and thus should still act as an acceptable surrogate (Statistics Canada, 2007a. See also appendix maps).

iv In this article annexation and amalgamation are treated as synonymous.

v While extensive, it is important to remember that these reforms do not qualify as a major reorganization as the Toronto CMA remained a Two-Tier Indirect system.

vi Some may argue that the Greater Toronto Services Board (GTSB) at least briefly provided the Toronto CMA with a Two-Tier Indirect System. Established in 1999, the GTSB was potentially the first upper-tier government to cover the Greater Toronto Area as seats were provided for indirectly-elected members from every GTA municipality. But the GTSB was a powerless entity which was constantly undermined by board members who feared the emergence of a new regional government. The GTSB’s sole responsibility was to control the regional GO train, but when this responsibility was transferred back to the province in 2001 the GTSB was abolished (Tindal and Tindal, 2004: 111).

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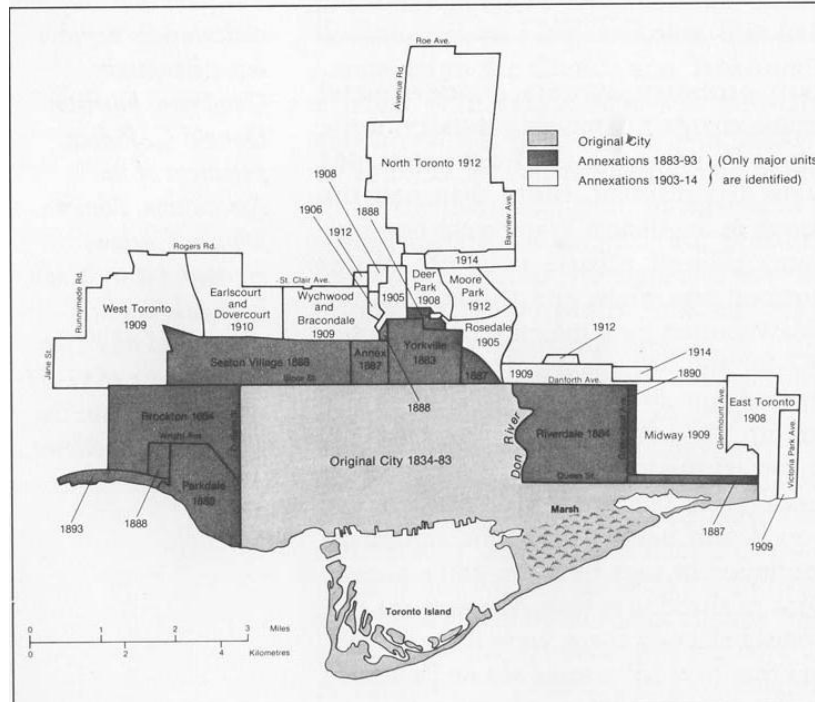
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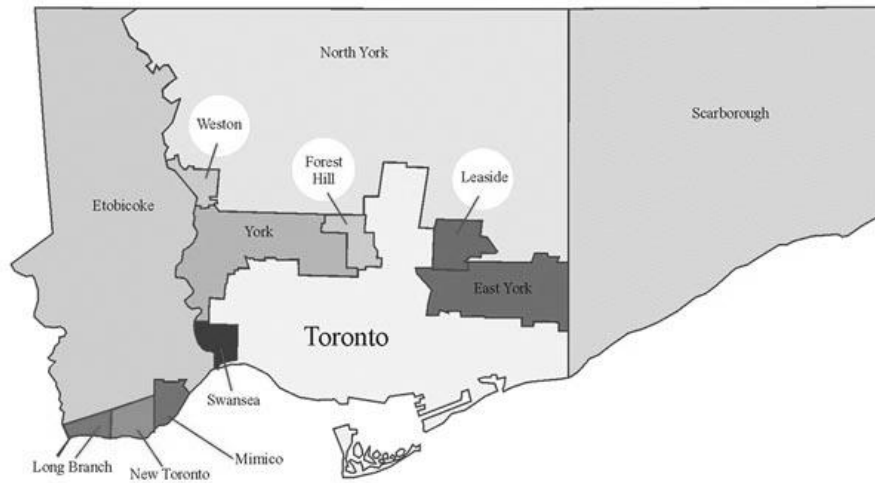
Appendix 1: Toronto Maps

Figure 4: City of Toronto Annexations (1834-1914)



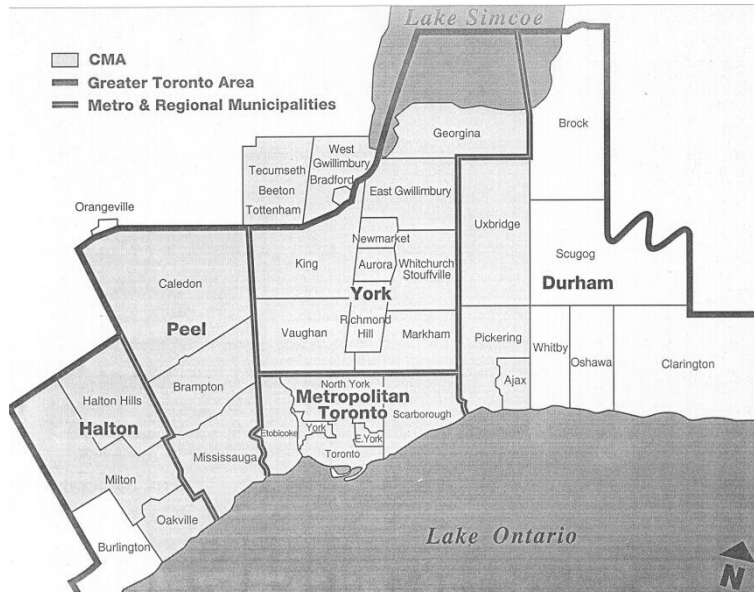
Source: Kennedy, R.L. (2007)

Figure 5: Metropolitan Toronto (1953 Boundaries)



Source: City of Toronto. Culture Division (2005)

Figure 6: Metropolitan Toronto (1967) and Regional Municipality (1974) Boundaries



Source: Ontario. Greater Toronto Area Task Force. (1995), p. 16.

Figure 7: Greater Toronto Area and Census Metropolitan Area Map (1999)



Source: Greater Toronto Urban Observatory (2007)