2002

Sectors, Cities, and Social Capital: Social Democratic and Neo-Liberal Innovation Strategies in Ontario, 1990-2000

Neil Bradford

The Innovation Systems Research Series

Innovation, Institutions and Territory: Regional Innovation Systems in Canada, J. Adam Holbrook and David A. Wolfe, editors

Knowledge, Clusters and Regional Innovation: Economic Development in Canada, J. Adam Holbrook and David A. Wolfe, editors

Knowledge, Clusters and Regional Innovation

Economic Development in Canada

Edited by J. Adam Holbrook and David A. Wolfe

Published for the School of Policy Studies, Queen's University
by McGill-Queen's University Press
Montreal & Kingston • London • Ithaca

9

Sectors, Cities and Social Capital: Social Democratic and Neo-Liberal Innovation Strategies in Ontario, 1990–2000

Neil Bradford

Introduction

This chapter explores the political economy of "innovation policy" in Ontario in the turbulent decade of the 1990s, a decade divided at mid-point by a sharp partisan turn in the province's governing coalition and operative policy discourse. It argues that the social democratic New Democratic Party (NDP) governing in the first half of the decade, and the neo-liberal Progressive Conservative Party (PCs) in the last half, both launched bold projects to move Ontario toward the model of the learning economy, driven by knowledge-based production and competitive success in high value-added activities. Comparing the two governments, the chapter describes significant differences in policy formulation, policy substance, and governance arrangements for policy implementation. Whereas the NDP championed social partnerships forged through sectoral institutions devolving extensive public policy responsibilities to diverse social interests, the PCs have used the provincial state's authority to restrict social dialogue, free the market, and shift the economic development focus downward from meso-level cooperation to local level competition between "city-regions." Thus, both governments shared the goal of restructuring the provincial economy toward knowledge-based production, but followed very different courses for its realization.

To interpret this divergence, the analysis proceeds in three stages. First, we propose that the conceptual underpinnings of Ontario's two models of economic innovation reside in pioneering contributions about the nature of knowledge in capitalist economies from three prominent mid-twentieth-century political economists, Joseph Schumpeter, Karl Polanyi, and Frederick Hayek. Second, the chapter provides case studies of the two Ontario economic strategies, unpacking their respective political logics, and tracking their institutional dynamics in key innovation fields such as industrial and labour market policies. Third, the chapter assesses the results of the policy experiments, highlighting the various obstacles to full implementation of both.

In making these arguments, the chapter also seeks a more robust analysis of the political dimension of innovation processes than is evident in much of the scholarly writing on the learning economy and regional innovation systems. That is, we try to "bring politics back in" to what has increasingly become a field dominated by rather consensual and technocratic images of competitive strategies in the so-called new economy (Keating 1999). The recent Ontario experience reveals the influence of ideology, and indeed conflicting values between governing political parties, in conceptualizing "strategic knowledge" and constructing innovation systems. From a theoretical perspective, our case studies demonstrate both the scope for, and the limits of, "political agency" in altering the developmental path of regions. While the architects of the NDP and PC projects struggled with institutional and cultural constraints on their designs, they nonetheless introduced changes of real consequence conforming to distinctive partisan world-views.

THE KNOWLEDGE ECONOMY AND THE LEARNING REGION

It is now a truism that contemporary economic restructuring, defined by globalizing markets, technological change, and shorter product life cycles, is forcing all industrialized economies to compete through generation and diffusion of cutting-edge information and communications technologies. Traditional economic strategies based on low-cost, mass production of standardized goods or natural resource exploitation hold little promise for creating quality jobs and sustaining living standards. In this new competitive environment, firms confront complex organizational challenges in mobilizing for knowledge-based production based on science and research, and technological innovations harnessed to the skills of knowledge-workers. In the face of these profound shifts,

it is not surprising that there has been renewed interest in Joseph Schumpeter's pathbreaking critique of neo-classical economics (Cooke and Morgan 1998, pp. 10-13; Schumpeter 1952). Against the static equilibrium orientation of the mainstream school, Schumpeter's historical analysis of capitalism demonstrated the gales of creative destruction that periodically transform the terms of competition among producers. The normal routine of price or cost competition is disrupted by the introduction of new technologies, production processes, or commodities that demand organizational innovations to match new standards of quality and service. Success, even survival, depends on a firm's ability to create knowledge and apply it strategically in all aspects of production and marketing, in other words, to behave as a "learning organization." For Schumpeter, capitalism's creative change agent was the "charismatic" entrepreneur, bringing major innovations to the marketplace and launching his or her enterprise along a growth trajectory (Rosenberg 2000, p. 62).

Schumpeter's early and clear appreciation of the dynamically disruptive role of knowledge and innovation in competition certainly justifies the rediscovery of his work by analysts of the new economy. However, as Philip Cooke and Kevin Morgan argue, these analysts also depart from Schumpeter. They see economic innovation as resulting more from a collective process of interaction among firms than from any sudden breakthroughs made by agents working in isolation, whether a gifted entrepreneur or a bureaucratized corporation. As such, innovative responses to the current round of economic restructuring flow more or less continuously from the ongoing relations, formal and informal, that link the insights of diverse holders of value-adding knowledge. For firms, the collaborative imperative is rooted in the cost and complexity of knowledge-based production. The cognitive and organizational limits of any single firm's learning capacity, however globally connected, means that it cannot on its own stay abreast of all the relevant strategic information about technologies, products, and markets. Moreover, the innovation process is not linear or predictable, but iterative and creative placing a premium on diverse learning methods and timely access to multiple channels of information that facilitate progressive improvements on initial inventions. The point is not simply the accessing of information but the "building of new competencies and acquisition of new skills," requiring ongoing interaction between technology users and producers (Wolfe and Gertler 2001, pp. 3-4). Further, the risky investments required for successful innovation make resource-pooling not just rational but necessary.

Another factor diminishing the contemporary relevance of Schumpeter's "firm-centred, heroic entrepreneur" perspective on economic innovation concerns the basic insight that much strategic knowledge in the new economy is "tacit" rather than codified or formal (Patel and Pavitt 1994; Polanyi 1966). If the latter is amenable to imitation and electronic transfer, then the former is not since it derives from intangible, face-to-face contact among, for example, different producers in the supply chain or labour and management in an industry. Tacit knowledge — "those things we know but cannot tell" — flows among firms and workers through intensive forms of networking or associational activity. Transmission of such intangible and inherently scarce knowledge is argued to be the key to deriving maximum return from "hard" investments in the research infrastructure and human capital. The result, according to Charles Sabel, Michael Storper, and many other innovation theorists, is a more productive and adaptable economy (Sabel 1992; Storper 1997).

The attention paid to tacit knowledge as a critical source of competitive advantage has led to a related concern with "social capital," the shared norms and common values that can facilitate coordination and collaboration to the mutual advantage of all members of an economic community (Fukuyama 1995; Putnam 1993). A high degree of trust and familiarity enables actors to commit to collective goals and refrain from opportunistic behaviour. Societies endowed with social capital are distinguished by a robust non-state associational life where producer groups, voluntary associations, and community leaders exhibit intensive patterns of horizontal interaction and information exchange. Such civil societies nurture understanding across classes and among firms, thereby positioning their economies for competitive success, not only enabling transfer of tacit and codified knowledge, but also building the capacity to adjust rapidly and cohesively to the external shocks that are a fact of life under globalization (Maskell *et al.* 1998).

If learning is an interactive, informal, and iterative process, then it follows that innovation outcomes are shaped by the specific cultural and institutional contexts that are constitutive of firm organization and rationality. Far from witnessing the end of territory or "place," the local or regional setting becomes especially relevant to the search for competitive advantage (Braczyk, Cooke and Heidenreich 1998; Saxenian 1994). The social capital necessary for knowledge generation and transfer is likely to accumulate at subnational geographic scales where the production and personal networks are the densest

and most embedded. The argument here is not just the familiar one about the hollowing-out of national state policy capacity. Rather the point is that learning and innovation are geographically anchored processes, dependent on accessing the advantages of spatial proximity (Florida 1995). In these terms, it is the regional authorities who are best able to design and deliver strategic supports for their industry based on their own access to tacit knowledge through "on the ground" participation in various learning networks. The centralized, remote bureaucracy of the Keynesian era, intervening to redistribute wealth on the demand side or pick winners on the supply side, is overtaken by a regional state facilitating continuous learning by the innovative actors themselves: firms, venture capitalists, universities and research laboratories, trade unions, training organizations, technology transfer agencies, or producer associations.

The global-regional nexus is thus widely viewed as a critical connection in the knowledge-based economy. Yet, there are still some contentious issues awaiting further analysis. For example, what is the optimal subnational regional scale for the collaboration leading to economic innovation? What is the role of the state and public policy in stimulating and supporting adaptive behaviour by firms, workers, researchers, and so on? Put differently, what form of state-economy relations at which geographic scale will best foster knowledge-based competitiveness?

We suggest below that there are two major intellectual-political traditions addressing these questions. Each tradition recognizes the importance of tacit knowledge, the limits of centralized bureaucratic structures, and the related benefits for the innovative economy provided by learning among non-state actors. Beyond these shared conceptual reference points, however, the traditions part ways to build their own views of the appropriate geographic scale and institutional arrangements for organizing the innovation process. A neoliberal model draws inspiration from Frederick Hayek's interpretation of economic knowledge and emphasis on "markets as a discovery process, the constant search for new methods, new needs and new sources of supply" (Gamble 1994, p. 58). An alternative social democratic approach builds on Karl Polanyi's critique of the "fiction" of the "self-regulating market" and his call for the "discovery of society" to bound markets and steer the economy (Polanyi 1957, ch. 10). For both theorists, knowledge about the economy was tacit, decentralized, and imperfect; but they differed on the political meaning and policy implications of this insight. For Hayek it signaled the impossibility of

social engineering, while for Polanyi it pointed to the necessity of just such conscious collaboration to improve conditions.

KNOWLEDGE PRODUCTION: ALTERNATIVE SCHUMPETERIAN LEGACIES

Karl Polanyi and Social Democracy

In the Great Transformation Karl Polanyi made the case for a mode of social organization that was neither statist nor market-driven. He wrote about the "threat of bureaucracy as a source of abuse of power," and of course, with greater vigor he argued against the unfettered market (Polanyi 1957, p. 225). But it was not the market mechanism per se that Polanyi rejected; on the contrary, he held that markets were important allocative institutions in complex economies: "the end of market society means in no way the absence of markets." It was faith in the "economic self-regulation" that Polanyi dismissed (ibid., p. 252). An economy "dis-embedded" from social relations and political regulation led to disastrous consequences for workers and the natural environment exposed to the ravages of unbounded competition.

Polanyi's social democratic alternative to free market capitalism called for political creation of participative institutions establishing the boundaries on exchange and competition. The precise nature of these boundaries would be decided through dialogue and negotiation among representatives of civil society. The range of voices recognized would be broad, extending beyond business and the state to include various popular movements resisting market forces (Baum 1996, pp. 53-62). Strategic knowledge about the economy and its innovative potential was inherently a social product, driven by people seeking a fuller picture of their economic environment and building common understandings of desirable action that was beyond their own individual or organizational perspectives. In this form of social learning "what role accrues to trade unions, state and other public bodies," Polanyi wrote, "depends not only on the character of these institutions but also on the actual organization of the management of production" (Polanyi 1957, p. 251).

Thus, Polanyi emphasized the capacity of citizens to consciously organize for cooperation and, in turn, for design of governance structures or networking institutions that would radically improve the workings of the market. Such institutions would be constructed between the state and the economy,

and managed on principles different from both bureaucratic "command and control" and depersonalized market price signals. Rather the decision mechanism would be horizontal negotiation facilitated by high trust relationships among members of diverse groups who develop shared institutional norms and acquire the authority to make decisions in the public interest and implement necessary adjustments.

In all of this, the state had a vital role to play in promoting the kind of productive associational activity necessary to balance social justice and economic innovation. While Polanyi did not specifically elaborate on issues of institutional design in embedding the economy, it is apparent that social partnerships were a logical implementation strategy for the double movement (Baum 1996, p. 60). Given Polanyi's fear of both centralized bureaucracies and free markets, the decentralized system of pluralistic interest representation and social partnership defining "associative governance" held much promise. The state would create bodies above the scale of the individual firm, ideally at the meso-level of industrial sectors, and invite all relevant interests to discover through dialogue solutions to common problems of economic, social, and ecological management. The preconditions for this model were clear: a network of secondary associations in civil society able and willing to assume public policy functions, and a state capable of facilitating negotiation and decision-making among representatives. Over time, the solidarity and unity of purpose growing from participation in these associations, networks, and institutions situated between state and market would accumulate social capital.

Frederick Hayek and Neo-Liberalism

In his essay "The Use of Knowledge in Society," Frederick Hayek took issue with the prevailing neo-classical view of economic knowledge (Hayek 1948). Specifically, he disputed the idea that all knowledge about the economy could be codified in laws of behaviour based on statistical regularities. In place of this emphasis on readily accessible and transferable "data," Hayek stressed the significance of tacit knowledge, which he believed the neo-classical tradition disregarded.

The particular form of tacit knowledge Hayek valued was that of the entrepreneur competing in the marketplace. He emphasized the individual nature of economic knowledge and the central role of the market in coordinating

exchange (Gamble 1996, pp. 67-74). The market's significance arose from Hayek's belief that the knowledge of individuals was partial, resistant to codification, and certainly not sufficient to anticipate the full consequences of intended action. The rationalist assumptions about "perfect information" shared by both state planners and neo-classical model builders ignored the tacit and fallible nature of knowledge held by entrepreneurs in the "real economy." The free market worked best in allocating resources because "it tapped into the dispersed and fragmented knowledge that was available only to individuals in their particular local circumstances". (Gamble 1994, p. 58). "Competition" Hayek wrote, "must be seen as a process in which people acquire and communicate knowledge; to treat it as if all this knowledge were available to any one person at the outset is to make nonsense of it" (Hayek 1979, p. 68). Indeed, the market itself was a learning process leading to the "use of more skill and knowledge than any other known procedure" (ibid., pp. 68-69). In its impersonality, the market, Hayek argued, neither favoured nor discriminated against any individual, nurturing the trust and crucial moral qualities for an innovative economy and society: the willingness to take risks, and the habits of self-discipline and thrift (Wainwright 1994, p. 55). It was the best mechanism of social organization because it emerged spontaneously, the product of practical experience not deliberate human design or institutional engineering.

Hayek reduced governance questions to a zero-sum choice between dictatorial bureaucracies and competitive markets. His model left no space for the middle ground of politically orchestrated associational economic governance based on social cooperation among representative organizations. He wrote contemptuously of "the half-way house between (state and market), about which many people talk but which few like when they see it ... the delegation of planning to organized industries, or in other words, monopolies" (Hayek 1948, p. 79). Such institutionalized networks would delay necessary economic adjustments and "lock-in" crude public subsidy regimes that eliminated the failure necessary for innovation. In fact, it was only the "weak individual" who would "derive comfort from the knowledge that he is a member of an organized group comprising individuals with common aims" (Hayek 1979, p. 90).

In sum, Hayek concluded that it was a "fatal conceit" to imagine that the central state could improve on market outcomes either through administrative planning or facilitation of associative governance in civil society. His response to the limits of centralized knowledge about the economy and the related impossibility of social engineering was to replace politics with a

decentralized state equipped to safeguard entrepreneurial liberties. In Andrew Gamble's memorable phrase, Hayek sought a state strong enough to free the market from the bureaucratic planners and the organized interests.

IN SEARCH OF THE LEARNING REGION: ONTARIO MOVES (TWICE)

In the 1990s Ontario has witnessed two ambitious political projects for economic restructuring and innovation, one conforming broadly to the ideas of Polanyi and the other to those of Hayek. Both of these innovation projects implied a substantial break with Ontario's Keynesian history of rather centralized, bureaucratic economic management, with little policy attention paid to the emerging tasks of technological change, labour force development, and industrial upgrading. Ontario's structural adjustment problems were pronounced because the prevailing complex of institutions and attitudes was at odds with what was increasingly viewed as necessary for success in a globalized knowledge economy. The challenge was urgent, as there was no desire to relinquish the province's high-wage labour market, relatively generous social transfers, and quality health and educational infrastructure. The critical questions were straightforward even if the answers were not. Could Ontario transform its traditional political economy, with an excessive degree of foreign ownership and over-reliance on natural resource exploitation, to one competitive in knowledge-based production? Did the province contain the trust relations and social capital deemed necessary for effective economic restructuring through technological and organizational innovation? Could such value-adding relationships be created or fostered through "purpose-built" institutions as Polanyi's analysis of economic transformations implied, or were they more likely to emerge as the spontaneous by-product of a return to Hayek's free market?

The case studies below track Ontario's successive social democratic and neo-liberal economic innovation projects across the legislation-implementation divide, revealing the partial truths contained in each of the agency-centred and path-dependent theoretical perspectives. That is, both governments legislated bold departures only to encounter obstacles in implementation large enough to call into question the viability of the reforms. Each used their electoral mandates to legislate significant alterations in provincial economic governance, deploying a range of policy supports, disciplines, and incentives to advance their conceptions of the desirable learning region. Major institutional

reorganizations were set in motion: the NDP launched new associative arrangements to forge social partnerships in economic sectors; the PCs abolished that particular networking infrastructure and legislated in its place a "new localism" where city-regions would house economic clusters (Clarke and Gaile 1998). Both governments thus attempted, on their own ideological terms, to decentralize economic governance through empowering actors in civil society, as befits the image of the dynamic learning region. The Ontario record shows that governing parties can legislate change but its durability demands a high degree of statecraft in the implementation stage.

THE FACILITATIVE STATE AND INNOVATION POLICY: THE POLITICS OF SOCIAL PARTNERSHIPS, 1990–1995

In 1985, the 40-year governing reign of Ontario's Progressive Conservatives came to an end. The arrival of a Liberal minority government supported by the New Democrats marked a change not simply in partisan terms but equally in public policy (Wolfe 1997). The new government moved in a number of unfamiliar directions both in its relations with the federal government, and in its approach to provincial economic management. On the intergovernmental front, it publicly opposed much of the federal government's economic strategy, criticizing the free trade agreement with the United States, the zero-inflation stance of the Bank of Canada, and the social transfer cutbacks to the provinces that were central to Ottawa's deficit-reduction efforts. Ontario officials complained loudly that each of these federal trade, monetary, and fiscal policies intensified the pressures on the province's aging industrial structure at the same time that they reduced the resources available to respond. Confronting what it perceived as either federal policy indifference or worse, outright hostility, the Ontario government began to explore ways to develop its own "regional system of innovation." Under the Canadian constitution, provinces commanded legislative authority in matters central to economic development such as industrial assistance, worker training, and education. To capitalize on the constitutional power, however, the government required new ideas about economic strategy.

To this end, the Liberal-NDP minority government created a novel institution for policy formulation outside the confines of the regular bureaucracy. The Premier's Council began in 1986 as a 28-member advisory body comprised of business, labour, educational, and community leaders, and government

officials mandated to "steer Ontario into the forefront of economic leadership and technological innovation" (Bradford 1998). Chaired by the premier, the Council was to produce consensual policy frameworks that would identify long-term priorities for the government and recommend any institutional changes that might be necessary for their implementation. In effect, it was a vehicle for mobilizing and merging various kinds of knowledge about success in the "new economy."

In 1988, the Premier's Council issued its first blueprint, *Competing in the New Global Economy*, which concentrated on industrial policies for moving corporate strategy toward knowledge-based production. It recommended targeted public policy supports to "indigenous threshold firms" in high-growth technology products and services, while also aiming to "encourage all industries to move to competitive higher value-added per employee activities." With this business and technology focus, the report downplayed the role of labour market policy and workers in the transition to the new economy. Indeed, union leaders on the Council expressed concern about the marginalization of their agenda. In response, the premier invited labour to take the lead in producing a second report to complement and balance the initial corporate orientation. In 1990, *People and Skills in the New Global Economy* was published, following three months of drafting and negotiation among the Council's diverse membership to produce a version all could live with. Its premise was that the productivity of labour was no less important than that of capital for the province's economic renewal. Reforms to education, training, and worker adjustment programs were critical components of an "aggressive labour market policy" that could "play a significant role in assisting Ontario's companies and workers to move to higher value-added products and markets" (Ontario. Premier's Council 1998, 1990).

The Premier's Council was a significant innovation in Ontario policy-making not just for the high value-added productivity paradigm it introduced, but equally for the process it engaged. It carried out its deliberations and decision-making through associative dialogue that involved trade-offs and concessions to maintain broad-based commitment. While not conforming to a pure corporatist model of associative governance, the Council, as one labour participant reflected, engaged "a degree of" social bargaining among different interests hitherto unknown in Ontario public policy (Martin 1995, pp. 100-02). Indeed, the negotiated approach to restructuring and innovation found expression in the Council's management of public expenditures in a new provincial

Technology Fund, and in its bold recommendation to transfer policy authority in labour market programming from the state to a bi-partite business-labour agency empowered to design and deliver worker training and adjustment at the sectoral level (Ontario. Premier's Council 1990, pp. 137-39). Social partnership, then, was a central theme animating the process and products of the Premier's Council under the leadership of Liberal Premier David Peterson.

This theme became even more pronounced with the election of an NDP majority in 1990. Premier Bob Rae was committed to a modernized, social democratic ideology with social partnership constituting both an electoral coalition formula and a power-sharing administrative approach. The intent was to overcome the dilemma associated with Keynesian-derived social democracy: a centralized policy process delivering adjustment-retarding policy content. At his party's first convention after winning the election, Rae underscored the need for integrative, inclusive approaches: "This government recognizes the fact that there must be a marriage and an understanding between those who are involved in the creation of wealth and those who are preoccupied with issues of social justice" (Rae 1991*a*, p. 4). In re-launching the Premier's Council, Rae called for a major cultural change in the provincial economy and society: "We have to create a new culture, a new sense of shared values. The notion of creating a shared value is difficult to do, but it is critical." He encouraged the Council's members to lead the change from a "low-trust" economic culture "to one of high trust"(Rae 1991*b*). He declared that the future of the Council resided not principally in providing further expert advice to government but in members engaging one another in dialogue about common challenges and action strategies. In other words, the Council would be a provincewide focal point for building trust and social capital. Accordingly, Rae greatly expanded the membership beyond the original 28 leaders, and organized its activity through multipartite task forces in strategic themes such as life-long learning, work organization, and the innovative economy.

The government's first budget further elaborated its public philosophy in a background paper promoting "equitable and sustainable" economic change. Proclaiming a "clear distinction between federal policies on competitiveness and the alternative approach supported by the Ontario government," *Budget Paper E* concluded:

> Competitive success now depends not only upon each firm taking the initiative in the workplace and marketplace, but equally on the surrounding networks of social and economic partnership. By shifting the focus of the competitiveness challenge, the nature of the solutions also changes ... On this basis, an effective response to the competitive challenge may ultimately depend upon the relationships which exist between, within, and around firms (Ontario. Ministry of Treasury and Economics 1991, p. 88).

This strategy, labelled by many as "progressive competitiveness" aimed to move toward a knowledge-based, export-oriented economy while advancing the interests of groups that were politically aligned in varying degrees with the NDP: labour and social equity groups such as women, visible minorities, and anti-poverty and environmental activists. The government's role was to be "facilitator of structural change, not only to minimize the costs of transition and distribute them more fairly, but actively to promote the development of high value-added, high-wage jobs through strategic partnerships" (ibid., p. 87). A number of assumptions about economic governance followed: an insistence that competition and cooperation between firms were complementary, recognition of the importance of environmental issues in economic development and the "conviction that sustainable prosperity is achieved on the basis of increased equity and cooperation."

To implement progressive competitiveness, influential NDP policy advisors such as David Wolfe and Peter Warrian recommended development of an associative infrastructure for negotiated policy design and delivery at the level or scale of industrial sectors. Wolfe drew lessons from the writings of Michael Best and other European-based scholars who had reported the details of successful sectoral strategies while Warrian referenced his own direct experience in a sectoral council to manage restructuring in the Canadian steel industry. The findings from this blend of research and practical knowledge were highly suggestive to Ontario's first social democratic government: in public policy terms, they promised better strategic intelligence rooted in the expressed needs of the "stakeholders"; from an economic innovation perspective, they proposed shared financing in the supply of leading-edge skills and technology; in cultural terms, they signalled greater cooperation among interests as the focus of interaction reached beyond the adversarial collective bargaining cycle to yield new "productive solidarities"; and from a democratic perspective, there was the prospect of institutionalized social partner dialogue that levelled the decision-making field by empowering interests historically lacking policy voice in the bureaucracy, and material resources in the market. The

sector strategy presumed, as Karl Polanyi had, that economic knowledge was a social product, not the spontaneous and haphazard outcome of entrepreneurial competition. The state's role in the innovative economy was not to pick winning firms or rescue losing firms, but to act as the catalyst for social learning by organizing sectoral institutions and orchestrating multipartite decision-making (Wolfe 1997, pp. 232-33).

The showcase policy fields for the NDP's associative approach were industrial policy and labour market policy with major partnership structures launched early in the government's mandate. In 1991, a multipartite labour market agency, the Ontario Training and Adjustment Board (OTAB), was announced, followed a year later by an Industrial Policy Framework that featured sectoral planning by key stakeholders in the industry. In addition, these institutional innovations were flanked by an equally novel and ambitious change to labour relations legislation designed to confirm the place of unions as social partners. Union organization was made easier, and labour's input into broader corporate strategy in technological change and work organization was to be facilitated by formation of a bipartite Work Organization and Partnership Development Service.

The partnership agenda proved difficult for the government to implement. The Work Organization and Partnership Development Service was never established, as business and labour representatives squared off to defeat or defend, respectively, the NDP's labour relations legislation. The cases of OTAB and the Sector Partnership fund (SPF) proved more complex (Bradford 1998; Klassen 2000; Wolfe 2002). With the OTAB, the NDP's version departed in certain significant aspects from the original training board blueprint of the Premier's Council. Each of the modifications was consistent with the social democratic ideals articulated by Premier Rae and formalized in *Budget Paper E* emphasizing the necessary integration of economic and social policy concerns and constituencies. First, the agency's mandate would extend beyond sectoral training for employed or recently displaced workers to include the full range of people in labour market difficulty — new entrants, the disabled, social assistance recipients, and visible minorities. Second, the government transferred the existing public service workers from the bureaucracy to the new independent agency, implying a much larger organization than envisioned by the Council. Third, the governance structure was expanded from the Council's business-labour bipartisanship to become multipartite, including

representatives of the disabled, visible minorities, women, educators, and francophones.

With this model on the table, the government began public consultations to finalize the details, confirm support from the social partners, and assist them in assuming their new public policy responsibilities. With the exception of organized labour the represented groups had little history of working collectively, much less experience with delegated public policy responsibility. A special project team of civil servants worked with the various representatives to help each cope with the dual demands of constituency accountability and consensual public policy decision-making. With some groups, the state's support took a financial form as with equity communities that had limited resources for policy participation. With business, efforts focused more on building a coherent organizational body. As the process of enabling the social partners dragged-on, the officials reminded Ontarians that "never before in North America has any government shared so much responsibility for the policy and direction of programs with the community it serves" (OTAB1994, p. 3).

However, it soon became apparent that the associative experiment was in trouble. Each of the social partners invited to sit on OTAB came with their own understanding of the basic purposes of labour market policy. Business used a discourse of competitiveness and knowledge that emphasized narrow, competency-based skills training for employed workers and enhanced employer flexibility in meeting restructuring challenges. Business feared that OTAB might have "a more important social than economic focus" relegating their competitiveness concerns to a "secondary status." Labour had its own "worker-driven vision" of training that was "not just a question of productivity and/or profit for the company." In these terms, union leaders approached the associative process with a view that "we will have to fight to make sure that OTAB meets our needs." For their part, social equity representatives "all welcomed the integration of social and economic policy in the OTAB legislation" and insisted that "employment equity must be linked to the entire labour adjustment and training system ... that promotes social justice as well as economic objectives" (Bradford 1998, pp. 553-56).

These fundamental differences among the social partners surfaced throughout the consultations to establish OTAB, threatening to derail the initiative entirely. Specific questions about the agency's mandate, the rules for decision-making, the instruments for financing training, the place of

unorganized workers, all became mired in drawn-out controversy lasting more than a year. Business with its fragmented representational structure never really developed its own agenda to permit negotiation with other partners. In contrast, the Ontario Federation of Labour brought to the table a coherent five-point policy strategy to frame debates and negotiate deals with other partners (Klassen 2000, p. 96). Predictably, relations among each of the groups, and between them and the government, became strained. One business group exited the dialogue and others threatened the same, complaining of "top-down directives" from government. Ironically, labour spokespersons chastised the government for not mandating a training tax on employers and wondered whether the government should not have simply "put someone in charge to just do it" (Steed 1993, p. 23).

In regards to generating trust and social capital the process was discouraging. As one observer of successful associative governance summarized, "it is essential for the participants to understand and build on the distinctive decision-making competencies that each party brings to the council" (Cutcher-Gershenfeld 1998, p. 201). Instead, at OTAB, the various stakeholder groups "caucused" separately before board meetings, indicating the absence of any inter-group solidarity and perhaps a disinterest in finding such common ground (Klassen 2000, p. 123) Indeed, there were at least three separate organizational cultures evident in OTAB: the business style of hierarchical, often unilateral decision-making; the labour movement's more politicized orientation emphasizing collective adherence to movement goals; and the participatory, horizontal dialogue characterizing relations among the various equity groups. In the midst of these disputes and following a roundtable meeting among all interests to obtain consensus, the government introduced legislation for OTAB, with a large budget and broad authority to revamp provincial labour market programming. Before this policy reform could begin, OTAB's social partners and its civil servant secretariat had to sort through further implementation issues, principally setting up the sectoral councils and local boards that were integral to the program design and delivery.

By almost any policy performance standard, the NDP's initial foray into social democratic associative governance was a disappointment. Consensus among stakeholders proved elusive, despite considerable up-front investment by the government in representational supports to the partners. Frustrated by the slowness of progress, but aware of the complexity of the issues at play, and with much political capital invested in the partnership model, government

officials were uncertain about how best to facilitate progress. Bureaucrats were accused by business of pushing stakeholders too far, too fast in a "forced march" rather than a "carefully thought out plan" (Bradford 1998, p. 556). Labour and equity groups criticized Cabinet ministers for allowing controversy and uncertainty to persist on issues as basic as the scope of the new institution's governance structure and operational mandate. In short, the state never found a formula for resolving disputes among the partners or at least closing down unproductive debate on what were irresolvable "metapolicy" questions. Ideological differences and organizational rivalries at the provincewide level obscured and overwhelmed the potential for constructive policy planning and program action at the sectoral level.

In its second major partnership experiment, this time in industrial and technology policy, the NDP scaled back its associative ambitions to more manageable proportions (Bradford 1998; Wolfe 2001). With the Sector Partnership Fund, the government maintained a directive role in the partnership process, defining the characteristics of an eligible sectoral network, detailing the terms for a joint planning process, and establishing clear criteria under which public funding could be secured for specific innovation activities or projects. As such the issues "open for deliberation" were circumscribed: fundamental questions about the mandate of the SPF or the larger purposes of industrial policy were not brought to the sectoral tables for debate.

The SPF was conceived as "an attempt to alter the business culture of the province in the direction of creating socially organized, firm-based systems for learning, collaboration, cooperation and regulation" (Wolfe 2002). Its specific goals were threefold: to increase private sector investment in infrastructure projects that were beyond the means of any single firm but would upgrade the competitiveness of all firms in a sector; to provide a channel for tailoring all government industrial expenditures to the particular product, market, and organizational conditions prevailing in different sectors; and to introduce a kind of market test into government supports by confining the public commitment to "creating capabilities and promoting winning activities — the competitive fundamentals — rather than trying to pick the winning companies or sectors of the future" (Ontario. Ministry of Industry, Trade and Technology 1992, pp. 12-18). Under its rubric, the government would elicit from sectoral stakeholders action plans that diagnosed strengths and weaknesses, identified common challenges and concrete initiatives to meet those challenges. Relevant initiatives suggested by the government included plans

for collaborative pre-competitive research in new products and processes, development of sector-wide training standards, inter-firm networks for knowledge-sharing and technological diffusion, and sector promotion and marketing in a global context.

The SPF was available to all sectors in the economy, with priority given to sectors that "self-identified," that is, independently organized and conveyed an interest in working with the government. Letting the proposals develop externally, the government believed would improve the quality of submissions and the long-term prospect of increasing private not public monies. Each sector required a forum or council that included representation of business, and, where they existed, trade unions and other relevant interests, for example, technology researchers. Here, as with OTAB, government money was available to help the sector partners organize themselves for associative action, to create or strengthen their collaborative organizations, to conduct the initial diagnosis of sector capabilities or retain expert consultants to assist in developing a common action plan. To qualify for provincial support the sector plans had to reflect a consensus among all stakeholders, not overlap or duplicate other areas of government programming, and constitute an incremental addition to the activities of the sector that would not be possible without the fund's existence. The Ministry of Economic Development and Trade was responsible for scrutinizing the plans, including an evaluation framework. If a strategy was approved the government was prepared to contribute up to one-half of the cost of the project. The intent was clear: provide initial monies to engage firms and labour market partners in a planning process; lever sufficient private sector investment to ensure implementation; and over time allow market forces to determine their viability.

In contrast to OTAB, the SPF was "up and running" within a year of its announcement, and most observers have judged it to be a mixed success (Wolfe 2002). Its budgetary allocation was consistently underspent, confirming perhaps the reality of Ontario's meagre private sector interest in such formalized, state-facilitated collaboration. Nonetheless, and more positively, in its first two years the planning process engaged a broad swath of provincial economic actors: 2,000 participants from 28 sectors, involving 22 unions, 93 industry associations, and 28 colleges and universities (Ontario. Ministry of Economic Development and Trade 1995). Strategies were approved in 15 sectors cutting across any divide between Ontario's old and new economies. The sectors included telecommunications, computing, aerospace, auto parts, food processing, environmental, cultural, furniture, and plastics industries. Moreover, only two sector strategies were rejected, one because the group wanted to use the process for old-fashioned government lobbying and the other due to differences between business and labour.

In terms of the type of initiatives funded, the SPF mostly contributed to sector-based technology and business resource centres to coordinate assistance with research, training, marketing, technology transfer, access to capital, and work reorganization. From this perspective, the SPF's most notable achievement resided in the incentive it provided for many managers, union leaders, and scientific researchers to come together for the first time to address longer term, cross-cutting productivity challenges. A network of associational structures took shape that could have altered the province's economic culture along more cooperative lines. Learning from its difficulties with OTAB, the NDP designed the SPF to limit opportunities for ideological conflict and defection. The result was two years of implementation of modest, but consensual stakeholder-led projects.

In closing, the NDP struggled to put into practice the associative model that it launched immediately after winning office. No new provincial collective identity or regional development coalition was in sight to carry the process forward as the party faced the electorate again in 1995. By that time, the obstacles to associative sectoral strategies were clear. Most obviously, a deepening recession greatly reduced the financial resources available to facilitate the process and eventually led to a major rupture between the NDP and its allies in the labour and equity movements. A supportive macroeconomic environment may be a key prerequisite for social partnerships on the economy's supply side, and Ontario in the first half of the 1990s was reeling from the combination of the worst economic downturn since the 1930s and a deflationary federal monetary and fiscal policy.

Less obvious but no less important was the fact that Ontario's economic interests were unable or unwilling to assume the role of social partners, at least on the terms set by the NDP. Business never embraced the sectoral process, partly for organizational reasons but also on more political grounds. The social democratic sectoral model involved a degree of power-sharing with non-business stakeholders that threatened managerial prerogatives and confidentiality in investment decisions, especially with the prospect of a labour-social equity alignment on crucial issues. As such, in the case of OTAB, business wanted the social partners to gain only advisory powers. When the NDP

legislated otherwise, business basically reverted to the stance that training questions were human resource management questions best addressed by individual firms accessing government subsidies. It came as no surprise in 1995 when business delivered an ultimatum along these lines calling for a transfer of much policy authority back to the bureaucracy and for greater local rather than sectoral program delivery. By contrast, labour and equity groups valued delegated public-policy authority and the sectoral tables since they potentially offered these groups a "voice" in economic and organizational matters where they were excluded by conventional market-based or bureaucratic decision-making. As D'arcy Martin, a labour representative active in the Premier's Council and OTAB, put it, "by linking arms with other firms in the same economic sector" local unions gained "technical support and clout with government funders and educational providers as well as with head offices in other countries"(Martin 1995, p.105). In light of these stakeholder differences, the relative "associational success" of the SPF may simply relate to the fact that there was a clear financial reward for corporate participation (a possible doubling of initial private investment), and a tighter focus on business conceptions of competitiveness that limited encroachments on management discretion.

Bob Rae believed that his government was "right to put bankers and brokers and social workers and union leaders in the same room and ask them to work to a common goal ... and a respect for partnership" (Rae 1996, p. 286). Yet, if the NDP's sectoral strategy was to survive its multi-faceted "institutional growing pains" then more time for social learning on behalf of all the partners was a minimum requirement. However, the political window of opportunity slammed shut in 1995 with the election of the Progressive Conservative government drawing very different lessons from Ontario's associative experiment. The new government's neo-liberalism insisted that the provincial state should divest itself of any partnership obligations to "special interests," abolish the politically fabricated sectoral institutions, and free the market.

THE STRONG STATE AND INNOVATION POLICY: THE POLITICS OF CITY-REGIONS, 1995–2000

The "Common Sense Revolution" platform on which the Progressive Conservative Party and Premier Mike Harris were elected with a majority government was a neo-liberal manifesto for change in public policy and economic

governance. According to Thomas Courchene, Ontario since 1995 has been "in the throes of a series of internal socio-economic revolutions that have no sub-national parallel anywhere in the world and, arguably, may even compare with the revolutions in Thatcher's UK and in New Zealand" (Courchene 1999, p. 12).

Courchene's comparison to Thatcher's brand of Conservatism is well-chosen. In their approach to governing and the content of their policy reforms, the Harris PCs have conformed to the model of the "strong state" that Andrew Gamble applied to interpret Thatcherism. Tracing its roots to Hayek's theory of legitimate political power in capitalism, contemporary neo-liberalism countenances the "use of force ... to defeat and contain those interests that threaten the survival of the free economy, either by flouting its rules or resisting the outcomes that flow from market exchanges" (Gamble 1994, p. 39). The state had to be strengthened to drive a restoration of the rules, institutions, and culture of decentralized market competition by unwinding "the coils of social democracy and welfarism that had fastened around the free economy" (ibid., p. 40). At the same time, the discretion of the strong state to intervene beyond such market-reinforcing domains would be restricted through legislative mechanisms such as balanced budget requirements and voter approval before any tax increases. Neo-liberalism rejected both the policy paradigm of social democracy — the commitment to full employment and a high social wage — and the related theory of representation and policy development whereby the state facilitated a dense network of interest groups and drew on their collective knowledge to merge economic and social goals.

In these terms, Courchene identified two fundamental, interlinked components in the neo-liberal revolution led by the Ontario PCs. The first component was *fiscal retrenchment*, taking the form of a rapid and large shrinking of the public sector forced by a 30 percent cut in the personal income tax rate. In its campaign manifesto, the PCs proclaimed that these fiscal-institutional changes would significantly reduce the number of bureaucrats and politicians, the former by 15 percent and the latter by 25 percent. The second component was an *institutional-municipal restructuring*, expressed first in an abolition of the social partnership infrastructure built by the NDP, and second through a sweeping realignment of roles and responsibilities between the provincial state and municipal governments. Integral to both elements of the revolution, was reduction of interest group political influence. This goal was addressed in three principal ways. First, legislative amendments were made to NDP provisions in labour

relations, employment equity, and social assistance that had empowered unions, social movements, and anti-poverty activists. Second, as noted above, the Premier's Council, the SPF, and OTAB, which institutionalized a policy voice for popular groups, all disappeared within the government's first year. The only partnership remnants were the business-university-based technology Centres of Excellence, reduced in number and in budget; and in training policy, the local boards of OTAB survived with limited resources and a vague advisory mandate. In 1996–97, the overall provincial training budget was reduced by 17 percent and all policy responsibility was transferred back to the education and training ministry (Klassen 2000, p. 140). Third, in the broader field of education, full policy and financial control was centralized in government, a move widely seen as part of the PC's political strategy to "defeat" public sector unions.

The dismantling of the social democratic legacy was swift and without consultation. The contrast with the painstakingly inclusive dialogue that went into its formation was striking. When unions and social movements protested through a series of "days of action" the premier repeated that "no special interest group or lobby will stop us." He declared that such strong "legislation was required to undo the disastrous damage of the last ten years that has left us with an overburgeoning bureaucracy and $10 billion a year in deficits" (Harden Davison 1999, p. 178). In welfare policy, benefits to social assistance recipients were cut by 21 percent and made conditional on participation by the unemployed in "workfare." The cost-savings strategy was equally applied to economic development policy where the budget of the Ministry of Economic Development and Trade was dramatically cut back, consistent with the across-the-board-style termination of industrial support programs, whether of the sectoral or firm-specific nature, that occurred in 1995 and 1996. Abolishing the meso-level associative networks that combined policy formulation and program delivery, the PC government devised a new division of labour for the two functions. Policy control was concentrated in the political executive of Cabinet while implementation (and much financial) responsibility was decentralized to the level of municipal governments, where community leaders and voluntary organizations were apparently expected to cope with the consequences of provincially imposed change.

In fact, provincial-municipal restructuring, involving a hugely complex and volatile mix of service realignment, financial downloading, and jurisdictional amalgamation, became the project bridging the fiscal and institutional

revolutions, and a centrepiece of the government's economic development agenda. In its "common sense" approach to government, the PCs believed that Canadians "were the most overgoverned people in the world" (Progressive Conservative Party of Ontario 1995, p. 17). There were too many layers of government and elected officials, particularly at the local and regional levels. The result according to the PCs was the duplication of service provision, excessive taxation, and inefficient, overlapping bureaucracies. As part of its fiscal agenda, the government in 1996 reduced provincial transfers by $657 billion for municipally run services such as water, sewage, roads, and public transportation. To help municipalities adjust, the government promised legislation that would allow local officials to experiment with various revenue-raising or cost-saving tools such as user fees and privatizing utilities, although not property tax increases. Consistent with the government's macroeconomic agenda, municipalities were included in the legislative requirement for referenda prior to the introduction of new taxes or increased rates.

The granting of these new tools to municipalities was presented in the November 1995 *Savings and Restructuring Act*, a massive package of amendments encompassing nearly 50 pieces of provincial legislation (Graham and Phillips 1998). In this Act the government also gave itself the unilateral power to reduce the number of local politicians through municipal amalgamation and abolition of school boards. The legislation, labelled by critics as the "bully bill" was a clear expression of the strong state strategy, designed in scope to overwhelm the opposition and in speed of passage to prevent its counter-mobilization (Ibbitson 1997, ch. 6). At the same time, this strategy raised the critical question as to whether the province's fiscal-institutional revolution was setting parameters for local self-managed change or coercively setting the stage for a top-down version of local efficiency.

The answer soon came in the form of an unprecedented set of "local reforms from above" unveiled in a "mega-week" of announcements made by Cabinet ministers responsible for education, social services, municipal affairs, and finance. Three major policy innovations were tabled: the consolidation of existing family benefits and social assistance programs into workfare; the centralization of education policy and financing, complemented by the elimination of many local school boards; and the amalgamation of Toronto's six local municipalities into one "mega-city." Accompanying these changes and facilitating their implementation was a plan for rearranging revenues and services between local governments and the province. Once the province decided to upload the

education system it was pressed to find savings elsewhere given its large tax-cuts. At this point, the province presented a "solution" that contradicted almost all known principles of public finance, not to mention the considered judgements of two expert panels investigating new provincial-local governance arrangements (Graham and Phillips 1998). The province proposed to download financial responsibility for so-called "soft" human services and social housing (along with some "hard" services such as roads, transit, water, and sewers) to municipalities.

This move was advertised as "revenue neutral" in its impact, but most observers argued otherwise. It was forecast that the transfer could bankrupt local governments in the event of an economic downturn, accelerating inequities within localities as governments cut back social services, and between them given differences in fiscal capacity across city-regions. While more affluent citizens residing in the PC's electoral base in the so-called "905 suburban beltway" had little to fear from the fiscal and service realignment, long-time municipal activist David Crombie articulated the views of many when he declared that the transfer was "wrong in principle and devastating in practice" (Slack 2000, p. 59). Amidst a storm of protest the province eventually conceded to a more balanced package, although not one that allayed the concerns about the consequences of downloading.

Clearly, the PC government's approach to the new localism was not motivated by any democratic notions of creating more responsive, community-based forms of governance. On the contrary, the aim was to create stronger local authorities, with fewer politicians and fewer access points for popular input. These bodies would be better able to absorb the costs of provincial financial downloading and competently administer provincial mandates in complex programs such as workfare. The parallel drawn by Courchene to Thatcher's Britain is again on target. A decade earlier the British Conservative Party had completed a similar institutional restructuring to make local governments strong enough "to do what the center wanted, to undertake planning and service provision without continued detailed supervision, yet according to centrally determined policies" (Tindal and Nobes Tindal 2000, p. 223)

Alongside the primarily fiscal motivation, however, the PCs increasingly linked municipal amalgamations to their economic development agenda. In his authoritative account of the emergence of the Common Sense Revolution, John Ibbitson reported that Premier Harris, through global trade visits in his first year in office, "had stumbled into the modern world of city-states, of

economic zones dominated less by national government — and far less by provincial or state administrations — than by conurbations, a world economy realized through great urban hubs" (Ibbitson 1997, pp. 241-42). The premier "discovered the importance of large powerful cities as engines of the late twentieth century economy." From this perspective, the government began to explore the synergy between its political plans for municipal amalgamations beyond Toronto and the economic model of "clusters." An economic cluster is a geographically agglomerated, "inter-linked set of private sector industries and public sector institutions, whose final production reaches markets outside the region" (ICF Consulting 2000, p. 7). The policy consultants retained to assist the new Toronto mega-city in developing its cluster strategy identified a number of key aspects:

> Although competitive clusters are central to the prosperity of a metropolitan region, defined politically, contemporary clusters are rarely contained within political or administrative boundaries ... The cross-municipal character of clusters essentially means that the economic region will succeed or fail as a single unit, irrespective of differences that exist within the region. This fact has several consequences for economic strategies.... it means that competitiveness strategies need to be developed and implemented in a regional context, and overcome ... institutional weaknesses (ICF Consulting 2000, p. 8).

The city-region is the appropriate geographic scale for clusters and public policy should be focused on this space between the provincewide and the purely local. For the PCs, a further rationale was thus provided for their provincial-local restructuring: municipal amalgamation was justified not simply to create strong authorities to absorb downloading but equally to create large jurisdictions corresponding to the spatial dynamics of economic clusters.

This orientation was supported further by a growing body of cluster theory drawn from experiences in the United States and Europe. A central theme is that city-regions as opposed to nation-states or provinces were relatively well endowed in the interpersonal trust and social capital necessary for knowledge-based economic innovation. In the European Union it was argued that this was "the basic level at which there is a natural solidarity and where relations are easily forged" (Cooke and Morgan 1998, p. 214). Transposed to Ontario this line of argument was not without merit, given the evident lack of any cohesive provincial identity, or as the NDP discovered, any collaborative policy economic culture bonding economic actors. Simply put, community

solidarity rooted in close personal, professional, even family contacts allowed a form of competition that avoided opportunistic free-riding and allowed productive collaboration (Perry 1999, chs. 3,4). The risk of ostracism in communities for those who breached shared expectations became an operative sanction on rogue behaviour (Fukuyama 1995). The result is a local economic culture organized around the principle of loyalty through voice rather than exit. Tod Rutherford has captured this point in his analysis of Ontario's local training boards. Rutherford quotes a participant in the local process reflecting on the absence of conflict there in contrast to the divisions that paralyzed the sectoral and provincewide processes:

> The pressure to do well by the community is very strong and that pressure attenuates some of the conflict and potential conflict between constituencies and the representation of those constituency interests versus other interests which was strongly present at OTAB.... The fact that people sit on these boards for the community really makes them much more willing to reach a compromise with others on the board. You can't live in a community and behave the way some OTAB directors behaved (Rutherford 2000, p. 25).

A lesson to be drawn was that in Ontario networking proclivities among economic interests were strongest at the local level where community bonds could efface the class differences, organizational rivalries, and ideological disputes surfacing at wider geographic scales and higher institutional levels.

Indeed, the cultural case in favour of city-regions for social capital has been extended to include institutional factors (Henton, Melville and Walesh 1997; *Opportunities 2000*; Pierre 1998). That is, cultural affinities are reinforced through local intermediary organizations that actively "convene the marketplace" to confront competitive challenges and develop strategy. In the United States, the federal government has assisted in the formalization of protocol of cluster development in city-regions encompassing four stages: mobilization, diagnosis, collaboration, and implementation (United States. Department of Commerce 1997). Movement through the stages is led by "civic entrepreneurs" who emerge from among the range of local actors: firms, trade associations, research bodies, universities, and public officials. They become network brokers within the city-region and between its clusters and key external parties such as senior orders of government, corporate investors, or financiers. Two leading institutional forms of brokers or coordinators are economic development corporations and venture capitalists. The former are

typically funded locally through various forms of government-business private partnerships and perform a variety of information brokerage and network support functions for firms (London Economic Development Corporation 1998). The latter provide critical start-up funds and entrepreneurial guidance to idea-based innovators. Further, as studies of the famous Silicon Valley cluster demonstrate, network relations extend to the labour market, facilitating inter-firm flow of workers and formation of spin-off enterprises that contribute to knowledge diffusion and innovation (Cohen and Fields 1999; Saxenian 1994).

In short, dynamic clusters build institutional capital that complements the existing stock of social capital and contributes to its further accumulation. Such is the optimism in the potential of the cluster approach to economic development that its leading advocates in Ontario recommend that in new city-regions: "the outcome of such a collaborative, cluster-by-cluster process *should then dictate the exact form* that economic development policy will take in the future" and further that this "also holds true for co-ordination of City economic development policies with similar Provincial and Federal programs" (ICF Consulting 2000, p. 60) (emphasis added).

That this economic development strategy focused on market dynamics supplemented by local technology networks has become central to the provincial government's thinking was clarified in a major agenda-setting exercise undertaken in 1999. The Ontario Jobs and Investment Board (OJIB) was charged by the premier to develop an economic vision and action plan for the province into the twenty-first century (OJIB 1999). While sharing the basic purposes of the disbanded Premier's Council, the OJIB's deliberations were directed more from the "political centre" than by dialogue among groups in civil society. The premier's closest political advisor and one of the key architects of the Common Sense Revolution, David Lindsay, was appointed to the position of president and CEO of the board. Rather than using stakeholder-led task forces to conduct its work as the NDP's council had done, the OJIB held a series of regional input or feedback sessions to three discussion papers, each conforming broadly to the neo-liberal economic ideas of the government (OJIB 1998). The volume of feedback in the regional meetings was impressive with representations from 2,500 people and 300 organizations. Yet, the feedback, while large in size, was narrow in breadth. Business and education groups dominated with little or no labour or equity group participation, an imbalance reflecting the degree to which the PC's neo-liberal policies had polarized political opinion in the province. Essentially, the OJIB process represented a

conventional form of public consultation on directions already set by government.

Nonetheless, the OJIB exercise produced an influential policy blueprint, *A Roadmap to Prosperity*, identifying a series of longer term destinations for the provincial economy and society. Much of the policy substance rehashed themes from the Common Sense Revolution, extolling the virtues of low taxation, removing barriers to business investment, public expenditure restraint, balanced budget laws, and the use of referenda for approval of any new or increased taxation. However, the roadmap explored new policy ground in its economic development recommendations where it declared that "municipalities are key in implementing the philosophy central to Ontario's economic success: Think Globally, Act Locally." It exhorted the province to "develop through local leadership groups, urban-centered, globally-competitive regional economic development approaches" based on the realization that "around the world, cities are focal points for creativity, innovation, production and the supporting infrastructure" and that " Ontario's seven largest urban areas account for 70 percent of all the jobs in the province, and will continue to be central in all economic development strategies." The report elaborated further:

> Many municipal governments are already teaming up with local business, community and education leaders, to realize the power of local approaches to economic development. Municipalities also have a role to play in working with each other to provide cost-effective, region-wide administration, planning and service delivery, and in developing regionally-based economic development solutions (OJIB 1999, p. 42).

The report then identified the role of the provincial government as provision of "more effective local governance arrangements to support local economic development leadership." The rationale was straightforward: "Local governments need the right flexibility, scale and tools to support the growth and competitiveness of businesses, economic clusters and industry sectors in their communities and region — and to be competitive with other cities and regions around the world." A number of specific provincial actions were recommended to facilitate "greater inter-municipal and region-wide collaboration," such as further amalgamations and a streamlined municipal Act that gave greater discretion to municipalities in organizing economic clusters and business-government partnerships in infrastructure financing and service delivery. Here, the report underscored that the provincial state's role should be minimal since

"the leadership and initiatives for urban regional economic development in Ontario should originate primarily from business, community and educational leaders in the cities and surrounding areas" (OJIB 1999, pp. 32-40).

Following the release of the report, OJIB President David Lindsay reflected on what he understood to be the Board's most significant policy achievement (Lindsay 1999). He argued that OJIB had forged a "new paradigm for regional economic development in Ontario," promoting "relatively new terms to Ontario's economic development lexicon — terms like the Toronto city-region, urban centered economic development leadership, and economic clusters." Since the report's completion, Lindsay has moved on to head the provincial government's key economic development instrument, the Superbuild Corporation mandated to lever private investments in economic infrastructure. As such he now occupies a pivotal position in determining provincial economic development strategy. His views are worth quoting at length:

> Clusters are the key to regional economic growth and success because they enhance productivity, foster innovation and spur new business formation. Their strength comes from the proximity of and synergies between like competing firms; interconnected buyers, suppliers and workforces; and anchor institutions such as a university, college or research institution.... The new approach should be locally led — not necessarily by local mayors or local bureaucrats, but by top executives and entrepreneurs from the region's fast-growing firms, by presidents of the region's universities or community colleges, or by other community leaders.... Regional economic development strategies should eschew local municipal boundaries, and instead correspond with the region's cluster activity and network area.... In this bottom-up approach, if you will, the provincial and federal governments would increasingly base their policy and investment decisions on locally identified economic development priorities that will help grow the various clusters (Lindsay 1999).

OJIB's city-region economic cluster recommendations have informed the government's most recent innovation policies. A new office dedicated to Urban Economic Development was established in the Ministry of Economic Development and Trade, recognizing "the importance of urban-centred regional economies as key economic growth engines and centres of innovation in Ontario," claiming that these city-regions "share many of the same economic development priorities as the provincial government" (Ontario. Ministry of Economic Development and Trade 2000). The office provides a range of

information brokerage and facilitative services for the province's seven largest urban centres. Through these soft policy instruments, the office aims to support city-regions in developing their own cluster strategies, that is, to help "build key relationships, assist in capacity building and identify economic development opportunities." This urban and regionally oriented economic development office effectively replaces the sectoral policy orientation that had been at the forefront of the ministry's industrial assistance under the NDP. In a related process, the minister of municipal affairs and housing announced after the government's re-election in June 1999 a further series of municipal amalgamations. By the end of their first term, the Tories had reduced the number of municipalities by 28 percent from 815 in 1996 to 586 by 1999 and the number of elected officials by 23 percent from 4,586 in 1996 to 3,527 by 1999 (Sancton 2000, p. 14). Under new legislation called the *Fewer Municipal Politicians Act* "to protect taxpayers ... from the costs of large bureaucracy, increased red tape and inefficient municipal government," the government proposed amalgamations in regional municipalities of Haldimand-Norfolk, Hamilton-Wentworth, Ottawa-Carleton, and Sudbury. In addition, the sponsoring minister proclaimed an intention to give "local governments more autonomy to make their own planning decisions and cut red tape that was hindering their economic development" (Ontario. Ministry of Municipal Affairs and Housing 2000).

Alongside the facilitation services of the Office of Urban Economic Development and further forced municipal amalgamations, the government has started on a modest basis to use expenditures, particularly through conditional tax credits and matched funding programs, to develop the province's knowledge-based economy (Wolfe and Gertler 2001, pp. 23-27). This spending provides incentives to the private sector to invest more in research and development and skills training. Specific programs include the R&D Challenge Fund to promote business-university research collaboration, with incentives to keep and attract world class research scientists in Ontario, and a Strategic Skills Investment program which also leverages private sector financial commitments in linking industry and educational sectors. Most recently, the May 2000 provincial budget announced an urban-focused infrastructure investment program under the rubric of the SuperBuild fund. It promised "a Millennium Partnerships Initiative that will invest $1 billion over five years in public-private partnerships for strategic infrastructure: environmental projects and projects for the economic development of urban centres across Ontario" (Ontario. Ministry of Finance 2000, p. 17). The Office of Urban Economic Development will assist cities to access this infrastructure fund.

What assessment can be made of the nascent PC economic development strategy for innovation through city-regions? The strategy has been commanded by a strong state driving a fiscal and institutional revolution, the combined results of which have been the formation of city-region political structures whose spatial scale is designed to match the economic geography of clusters. The goal appears to be the development of localized forms of social learning that will translate into provincewide economic innovation. To this end, the government has begun to shift partially away from expenditure cuts and across-the-board rollback of existing laws and partnership institutions, toward a form of targeted and conditional economic development spending and a more facilitative style in encouraging business-state financing of clusters. Full assessment of the outcome of the PC's innovation strategy awaits detailed case study research of cluster formation in Ontario's emerging city-regions.

However, there are evident grounds for concern on a number of fronts. Despite the government's claims to revenue neutrality in its service realignment and the realization of $216 million savings from its amalgamations, it is clear that municipalities and the new city-regions face intense financial pressures in meeting their additional social service responsibilities. For example, one estimate of the initial fiscal impact of the realignment projected that "municipalities would collectively face a half-billion-dollar annual shortfall" (Graham and Phillips 1998, p. 198). On matters of economic infrastructure, Joe Berridge has shown that the combined federal and provincial financial commitment to urban infrastructure in Ontario pales in comparison to support for cities from senior governments in the United States (Berridge 2000). Indeed, the 2000 Ontario budget that announced the urban infrastructure fund also allocated no money to pressing city-region needs in the areas of public transit and social housing, and in fact cut the budget of the Ministry of Municipal Affairs and Housing by nearly 5 percent. The result is likely to be further reduction and privatization of municipal services that will deepen already serious problems of homelessness and poverty, problems that the Canadian Council on Social Development has recently documented as being especially severe in cities (Lee 2000). The implications for city-region economic innovation are clear enough: income polarization diminishes the quality of life important to keep and attract knowledge workers, and a fraying social fabric erodes the cohesion of communities to the detriment of trust and social capital (Mayor's

Homelessness Action Task Force 1999). As well, the fiscal pressures can engender among city-regions a competitive and zero-sum form of "smokestack" (or more appropriately in the new economy, "call centre") chasing that is antithetical to cluster development based on longer term investment in indigenous knowledge assets. Rather than growing the new economy the new localism may simply redistribute and recycle the old. It is in this context that a self-government movement is growing in the largest city-region, Toronto, to challenge the province's control over key economic, social, and fiscal policy instruments. Another large gap in the provincial innovation strategy has been the systematic underfunding of postsecondary education, where Ontario expenditures continue to be well below comparable subnational jurisdictions in Canada and the United States (Gertler 2000, p. 47).

In addition, the PCs amalgamation-cluster strategy in relation to Toronto has been criticized for the failure to create a governance structure that actually corresponds to the full spatial scale of the regional economy, crossing as it does, the city-suburban political divide of the Greater Toronto Area (GTA) (Gertler 2000; ICF Consulting 2000; Mendelson 2000). Rather than creating a robust planning mechanism capable of integrating economic development and quality of life issues across the entire regional economy, the PCs delivered only a weak Greater Toronto Service Board with a narrow mandate focused on transportation issues. Apparently motivated to safeguard its suburban electoral base, the government's new mega-city will amplify existing political, fiscal, and cultural differences within the GTA, stifling the emergence of the region-wide "unity of purpose" essential to the learning economy (Dale 1999, pp. 56-57; Gertler 2000, p. 51).

Finally, many observers have stressed the contradictions stemming from the government's "strong state" approach to building the learning economy. As Richard Tindal and Susan Nobes Tindal put it, the concern "is not with amalgamation per se but the way in which it has been used or abused" (Tindal and Nobes Tindal 2000, p. 163). They observe that "too many have concluded that local governments are being reformed to satisfy the fiscal and ideological objectives of the ruling party, with little regard for the wishes of municipal associations or the feelings of local citizens." Other students of the city-region process have made similar negative assessments. In legislating for city-regions, the PCs "cast aside dozens of traditional — and historically revered — community institutions purely on the grounds that we cannot afford them" (Downey and Williams 1998, p. 234). Such an approach precludes "assessment of the municipality as having subjects (those who have obligations), clients (those who have needs), and most importantly citizens (those who have rights)." The polarization of political discourse and the alienation felt by many groups in civil society and communities since 1995 may well undermine the cultivation of social capital and local assets necessary for dynamic economic clusters (Salutin 2000). If the means and ends of PC innovation policy continue to work at cross-purposes, then the dysfunctionalities of the former will compromise the latter.

CONCLUSION

In the decade of the 1990s, both the NDP and the PCs have legislated and attempted to implement ambitious policy projects to position Ontario for competitive success in the knowledge-based global economy. This chapter has described the origins and tracked the progress of these distinctive projects. It has argued that both derive from a common base of "Schumpeterian" ideas about the strategic significance of innovation in the new economy. However, their divergent ideologies led them down different innovation policy paths, in the case of the NDP a social democratic conception paralleling views about economic knowledge pioneered by Karl Polanyi, and in the case of the PCs a neo-liberal orientation to similar issues rooted in the theories of Frederick Hayek.

For all their differences, both of these restructuring projects have been bold political undertakings, inspired by party policy intellectuals bringing their own novel ideas to government. And both were big institutional gambles given postwar Ontario's tradition of centralized, bureaucratic policy-making. The NDP's social democratic associationalism could rely on no vibrant network of societal organizations to share responsibility in sector-based policy planning and implementation. The PC's neo-liberal version of city-region decentralization to incubate clusters could not count on spontaneous economic development leadership from local actors who had little experience and fewer resources. Both governments struggled with the complexities and contradictions of their innovation strategies. Faced with dysfunctional disputes among its putative social partners, the NDP was tentative and unsure about how to move the process forward. In the end, the NDP economic development record was distinguished less by any sectoral innovations and more by use of very traditional labour market and industrial policy approaches: wage subsidies for short-term job creation and bail-outs of individual companies in steel, pulp

Putnam, R. 1993. *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton, NJ: Princeton University Press.

Rae, R. 1991*a*. "Building a Common Sense." Premier's Council Address, 12 June.

—— 1991*b*. *The Ontario Democrat: The Year in Review*. September.

—— 1996. *From Protest to Power: Personal Reflections on a Life in Politics*. Toronto: Viking.

Rosenberg, N. 2000. *Schumpeter and the Endogeneity of Technology: Some American Perspectives*. London: Routledge.

Rutherford, T.D. 2000. "The State of Training: Learning, Institutional Innovation and Local Boards in Ontario." Presented at Innovation Systems Research Network Annual Meeting, Montreal, 11-12 May.

Sabel, C. 1992. "Studied Trust: Building New Forms of Co-Operation in a Volatile Economy," in *Industrial Districts and Local Economic Regeneration*, ed. F. Pyke and W. Sengenberger. Geneva: IILS.

Salutin, R. 2000. "Walkerton and the Great Transformation," *The Globe and Mail*, 9 June.

Sancton, A. 2000. *Merger Mania: The Assault on Local Government*. Westmount, PQ: Price-Patterson Ltd.

Saxenian, A. 1994. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Cambridge, MA: Harvard University Press.

Schumpeter, J. 1952. *Capitalism, Socialism and Democracy*. London: Unwin University Books.

Scott, A.J. *et al.* 1999. "Global City-Regions." Theme Paper prepared for Global City-Regions Conference, Los Angeles, 21-23 October.

Slack, E. 2000. "The Road to Financial Self-Sufficiency for Toronto: What Are the Impediments and How Can They Be Overcome?" in *Toronto: Considering Self-Government*, ed. M.W. Rowe. Toronto: Ginger Press.

Soskice, D. 1999. "Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s," in *Continuity and Change in Contemporary Capitalism*, ed. H. Kitschelt *et al.* Cambridge: Cambridge University Press.

Steed, J. 1993. "No Consensus on Job Training Scheme," *Toronto Star*, 16 July.

Storper, M. 1997. *The Regional World: Territorial Development in a Global Economy*. New York and London: Guilford Press.

Tindal, R.C. and S. Nobes Tindal. 2000. *Local Government in Canada*, 5th ed. Toronto: Nelson.

United States. Department of Commerce. Economic Development Administration. 1997. *Cluster-Based Economic Development: A Key to Regional Competitiveness*. Washington, DC: Government Printing Office.

Wainwright, H. 1994. *Arguments for a New Left: Answering the Free-Market Right*. Oxford: Blackwell.

Wolfe, D.A. 1997. "The Emergence of the Region State," in *The Nation-State in a Global/Information Era: Policy Challenges*, ed. T. Courchene. Kingston: The John Deutsch Institute for the Study of Economic Policy, Queen's University.

—— 2002. "Negotiating Order: Sectoral Policies and Social Learning In Ontario," in *Innovation and Social Learning: Institutional Adaptation in an Era of Technological Change*, ed. M.S. Gertler and D.A. Wolfe. Basingstoke: Palgrave.

Wolfe, D.A. and M.S. Gertler. 2001. "Globalization and Economic Restructuring in Ontario: From Industrial Heartland to Learning Region?" *European Planning Studies* 9 (5):575-92.