

Metropolitanization, globalization and governance – new regionalism, old regionalism or no regionalism in Israel

- Preliminary draft -

Eran Razin

Department of Geography, The Hebrew University, Jerusalem 91905, Israel

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Introduction

A major theme in the local government literature concerns the shift from government to governance, associated with diminishing focus on formal hierarchical administrative-territorial structures and growing emphasis on networks of governance. It is assumed that metropolitanization processes in an era of globalization and pressures on the welfare state lead to 'new regionalism' forms of governance. These include complex horizontal networks, partnerships, ad-hoc coalitions and modes of cooperation in a competitive economy. Such forms of metropolitan governance replace 'old regionalism', focusing on reforming formal hierarchical administrative-territorial structures, or situations characterized by 'no regionalism' at all. These latter forms either conform 'public choice' principles of competition within a fragmented pattern, or centralization associated with the prominence of upper levels of government, diminishing the significance of debates over local and metropolitan governance.

However, in recent years, some reservations have been raised on this assumed change. It can be argued that a move 'from government to governance' – partnerships, cooperation and networks – does not imply a diminishing role of the central state and of territorial hierarchical structures, but rather a more pluralist mode of decision making – changing "rules of the game". The central state could practically back-off from fulfilling some of its responsibilities, but does not cede its legal powers. Moreover, seemingly 'new regionalism' attributes of governance can in fact serve as tools of central control, in an environment of a neo-liberal move towards privatization associated with centralization.

My aim is to assess the link between metropolitanization processes in Israel and shifts in metropolitan governance, in the context of globalization and erosion of the Israeli welfare state. I aim to demonstrate that new regionalism evolved in Israel only to a limited extent, 'old regionalism-type' reforms hardly ever took-off. Thus, the main direction of change has apparently been from a centralized version of 'no regionalism' to a slightly more decentralized version of 'no regionalism' with some components that can be regarded as new regionalism.

Following a discussion of these processes at the global context, and a description of major political and economic transformations in Israel, this paper refers to findings of three separate studies. The first concerns urban entrepreneurialism associated with

competition over the location of institutes of higher education in Israel (Rosen and Razin). The second deals with joint planning commissions (Dachoach-Halevi and Razin, 2007) and the third with joint industrial areas and tax base sharing (Razin and Hazan, 2006). I argue that boundaries and structures are of prime importance in Israel – religious and ethno-national divides also adding to their significance. There is a move from government to governance (public-private partnerships and alike), but as the central state weakens, the major attributes of this move are the emergence of the courts as an arena for societal conflicts, and the act of a weaker central state as several stakeholders, rather than exiting spheres of local and metropolitan decision making. The experience of inter-municipal cooperation mechanisms in Israel indicates that practically imposed from above mechanisms and networks of cooperation can in fact serve also as tools of control, and do not exactly conform with new regionalism ideals. The neoliberal move has been in the direction of centralization and privatization, not decentralization and formation of complex local governance networks.

The global context

The crisis of the welfare state

The expansion of the welfare state in post-World War II decades was associated with increasing influence of Keynesian economics, being a reaction to the traumatic consequences of the economic downturns of the 1920s and 1930s. Pressures on the welfare state first surfaced with the global economic slowdown of the 1970s. Stagflation made it difficult to pursue Keynesian expansionary policies, thus financing generous welfare state mechanisms became a burden on government budgets. The ability of governments to "steer" modern societies – especially markets – by regulatory law and financial incentives or sanctions was questioned. Neoliberal ideologies explicitly justified the need to scale-down welfare state mechanisms that interfere with markets and detract from the efficiency and competitiveness of national and local economies. Such ideologies became particularly influential in the Anglo-Saxon world during the 1980s. However, Democrat/Labor governments that came after neo-conservative ones did not reverse the substantial reforms that eroded the welfare state, and in some cases even pursued further reforms of privatization and cuts in universally provided social services. In continental Europe – in countries such as Germany and France – welfare state values have remained a broad societal consensus (Mahs 2001), but political decision-makers, even from social-democratic and green parties, increasingly find themselves compelled to engage in attempts to scale-down welfare state mechanisms.

Thus, pressures to erode welfare state mechanisms are not limited to governments committed to neoliberal ideologies. Escalating costs, associated with demographic changes, technological advances in health care and increasing exploitation (and abuse?) of welfare benefits, strain public budgets and compel governments to act. Globalization, leading to intensified competition, precludes the ability to shield high costs of financing of generous welfare benefits from lower cost international competitors. Furthermore, one could argue that greater socioethnic diversity in most western societies could reduce social solidarity embedded in the welfare state, a phenomenon frequently attributed to the weakness of the welfare state in the USA.

Implications on local/metropolitan governance

Local governments have served to varying extents as a service delivery arm of the welfare state (Razin 2000). Fiscal austerity and the erosion of the welfare state exerted pressures on local authorities that had to adjust to reduced central grants, and sometimes also to the downloading of tasks by debt ridden upper-level governments. Local authorities have been expected to become more entrepreneurial and competitive, in order to generate economic growth, or to give a boost to the local tax base (Jessop & Sum 2000; Stoker 2004). They have been expected to privatize functions, engage in public-private partnerships, enable communities to solve their problems autonomously (Haus & Heinelt 2005) and employ new public management approaches (Hood 1991), engaging less in direct service provision and more in 'steering' privatized services.

Pressures on the welfare state have been frequently linked to a shift from government to governance. This shift has been associated with a diminishing focus on formal hierarchical political-territorial structures and on attempts to reform these structures (Barlow 1991; Razin 1996; Kubler & Heinelt 2005). Instead, there has been a growing emphasis on entrepreneurialism and horizontal networks – on processes rather than on structures – all emphasized in the local governance, urban entrepreneurialism, urban regime and new regionalism literature. These horizontal networks consist of partnerships of governmental agencies at different levels with the private and nonprofit sectors: on modes of cooperation in a competitive globalizing economy. Imposed territorial reforms, such as consolidations and establishment of metropolitan governments, have been viewed as phenomena of the past – of the Fordist, welfare state, Keynesian era. In the case of metropolitan areas, public choice perspectives have become influential, emphasizing the options of people and corporations to “vote with their feet”, i.e. choosing the desired combination of services and taxes among competing municipalities (Tiebout 1956). Thus, support for amalgamation and consolidated metropolitan *government*, with its Weberian trust in rationality and planning capacity of large public bureaucracies, eroded. The new regionalism perspective (Savitch & Vogel 2000) conveys the notion that effective metropolitan governance does not necessarily require institutional consolidation. A complex array of cooperative arrangements can administer efficiently metropolitan affairs without large scale institutional decision making and hierarchical structure of public organizations engaged with local and metropolitan governance.

However, in recent years, reservations have been raised on the assumed shift from government to governance, so much emphasized in American urban regime and new regionalism literature (Friskin & Norris 2001). Major territorial reforms took place in Canada, the USA, Greece, Japan, Denmark and South Africa (Sancton 2001; Savitch & Vogel 2004; Cameron 2004). The progressive conservative premier of Ontario, Canada – Mike Harris – apparently was not aware of the growing urban governance literature and took action in Toronto, Ottawa and other metropolitan areas very much in line with old regionalism approaches of imposed amalgamations. The Province of Quebec followed soon with a rather similar (un-French) step of imposed territorial amalgamations. The outcome in Montreal is more complex and still not entirely clear, but a very strong emphasis on old fashioned fiscal equity was maintained, even when limited de-mergers were permitted. Halifax, Nova Scotia was also consolidated, but it is not only Canada: a city-county consolidation took place in 2003 in Louisville,

Kentucky, broad amalgamation reforms in Greece, Japan, Denmark, not to mention South Africa. Somehow, quite a few political decision makers did not get the message that the age of large-scale territorial-administrative reforms is over, although unlike traditional reforms, such moves are driven not by equity and coordination considerations (except for the South African reform), but by efficiency and cost savings, particularly the desire to reduce the size of the public sector.

Moreover, recent studies have become increasingly critical on the neglect of the crucial role of the central state in the urban regime, urban entrepreneurialism and new regionalism literature that emphasized local agents acting in a context of global processes (Brenner 2004). Traditional networks in southern Europe (and in Israel), for example, were heavily based on instrumental contacts of local agents with the central state, although diversification has been observed (Genieys *et al.* 2004). Scholars such as Neil Brenner came up with this criticism when studying European metropolitan areas, but the State is not exactly a negligible agent in metropolitan affairs also in the United States.

It should be noted that crisis conditions that disrupt established systems and practices lead not only to no-choice reactions and adjustments, but can create a window of opportunity for reforms that either do not have sufficient support in non-crisis conditions or develop in response to the new conditions (Polsby 1984).

In sum, I argue that the rise of the post-welfare state can lead metropolitan governance in diverse paths. It can encourage decentralization, entrepreneurialism and complex networks of governance. It can lead to privatization and concentration of power in the hands of central government agencies (Bennett 1997), and to the imposition of reforms on local government. These different outcomes depend on specificities of the institutional setting (especially regarding the distribution of power and competencies between different territorial levels of government) and political culture.

Erosion of the welfare state and the crisis of (local) democracy

A crisis in local democracy, sometimes termed legitimacy crisis, reflected by declining turnout in local elections, fragmented elected council and limited participation in civil society is a frequent theme in recent years (Borraz & John 2004; Hoffmann-Martinot *et al.* 1996; Frandsen 2002). Such a crisis can influence negatively the functioning of local governments, increasing the influence of particularistic pressure groups and the propensity for corruption. Moreover, weak local democracy can have a negative impact on democratic values of society in a broader sense, thus potentially weakening the democratic foundations of the political order.

Evaluations of local democracy distinguish between majoritarian and consensus forms of political decisions – a distinction that implies on the consequences of phenomena such as declining voter turnout, changes in the role of parties and party fragmentation, and changes in formal attributes of the local government electoral system (Vetter 2000). New regionalism, being partly an outcome of post-welfare state realities, can influence local democracy in contrasting ways (Kubler & Heinelt 2005). According to a pessimistic view, its emphasis on efficiency and effectiveness comes at the expense

of the influence of citizens' interests through voting and systems of territorial representation. An optimistic view, however, argues that in the complex non-hierarchical nature of new regionalism, majority decisions are unlikely and decisions are more likely to be reached after negotiation or through consensus after deliberation, thus the deliberative qualities of metropolitan policy-making are enhanced. Complex networks associated with new regionalism also promote pluralism and civic culture. Thus, the crisis of the welfare state could be expected to influence local democracy, but the nature of this influence could take many forms.

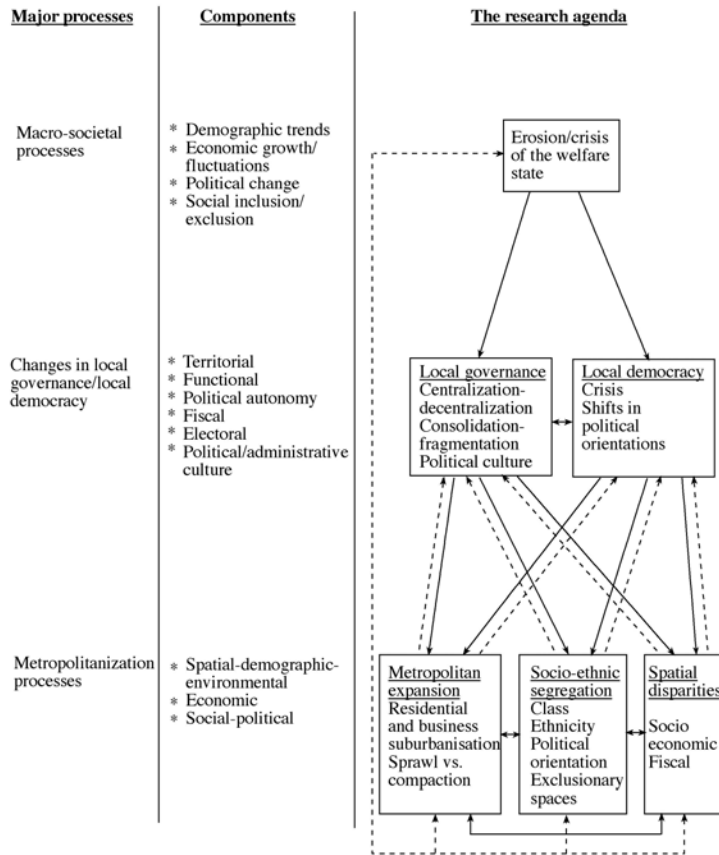
Metropolitan implications

The research framework presented in Figure 1 suggests three major metropolitan implications of the erosion of the welfare state. The first refers to spatial form, particularly suburban sprawl and the spatial deconcentration of economic land uses (such as big box retail and office parks adjacent to major motorways) that challenge public policies that promote compact patterns of development (Nivola 1999). Political decentralization and lack of central planning lead to prototypical forms of sprawl in the USA. Intermediate patterns can be observed in countries such as Britain (Schiller 2001) and Israel, whereas countries such as Germany, the Netherlands and Denmark have been relatively strict in policies that control urban expansion. However, the emergence of new forms of retail and the weakening of the interventionist welfare state could exert substantial pressures on means to control sprawl.

A second major implication concerns socio-ethnic segregation that could intensify where governments become less involved in the housing market. Immigrant minorities add a new dimension to older patterns of segregation. Segregation can create a clear spatial pattern of political orientation, distinguishing for example between social-democrat/labor oriented central cities and conservative suburbs. Whereas varying degrees of segregation are not new at the metropolitan scene, a theme of growing significance concerns exclusionary spaces in the post-welfare state metropolis. The increasing abundance of exclusionary spaces, such as gated communities, controlled access public parks, toll roads and even shopping malls that replace traditional street retail could be a product of two processes. The first concerns increasing socioeconomic disparities and ethnic diversity that drives exclusion, justified by social tensions, crime and security considerations. The second is related to the neoliberal shift and the erosion of the welfare state, associated with growing privatization of space (Sorkin 1992; Zukin 1995; Grant *et al.* 2005).

A third, related, implication refers to growing spatial disparities: socioeconomic disparities between different localities and between different neighborhoods, and fiscal disparities between local authorities. Fiscal disparities are greatly influenced by the specific characteristics of local government finance (grants versus self-generated revenues, the significance of property, value added and income taxes) and by the division of space into local governments. In general, erosion of central transfers is likely to lead to growing disparities, with their implications on service levels and development patterns (Razin 2000).

Figure 1: The general framework of the study



A fourth implication, not included in Figure 1, concerns the structure of the metropolitan economy. Recent transformations in metropolitan economies have been extensively studied, frequently in the context of globalization and competition among world cities (for example: Felsenstein *et al.* 2002).

Figure 1 hints that most relationships are not unidirectional. Metropolitanization processes have counter-influences on governance, democratic life and macro-societal processes. For example, suburbanization has been argued to be associated with greater political conservatism, reflected in a tendency to vote for right-wing parties, inclined to represent better suburban interests (Walks 2004). Suburbanization associated with movement from large cities to small municipalities can also lead to increased voter turnout (Frandsen 2002; Hoffmann-Martinot, 1992).

The Israeli context

Israel of the last 20 years presents an extreme case of cycles of growth and recession that have influenced profoundly metropolitan governance and development. The economic slowdown of the 1970s and 1980s encouraged municipal entrepreneurialism. Despite a centralized legal basis, local authorities in Israel have gained substantial informal autonomy. Increasing competition among local authorities focused on manufacturing, tourism, shopping centers and other ratable land uses (Razin 1990; 1998). The move from council elected mayors towards directly elected ones, in 1978, gave further boost to local initiative, contributing to the evolution of

strong mayoral leadership in local development (Razin 2004). Rapid demographic and economic growth, between 1990 and 1996, associated with mass-immigration that gave Israeli economy a Keynesian expansionary shock and with progress in the peace process, further increased the significance of local governance, also because central government action in many fields suffered from lack of coherence and effectiveness.

Israel plunged into unprecedented recession in the early 2000s, associated with renewed Israeli-Palestinian violence. Unlike the slowdown of the 1980s, which encouraged municipal entrepreneurialism, this crisis was 'big' on local authorities. Facing reduced transfers and seemingly never ending budget cuts, many local authorities barely struggled to survive, facing also internal political difficulties: declining voter turnout and fragmentation of councils. At the background of the severe crisis, the Israeli government initiated in 2003-2004 unprecedented changes in Israel's local government system. These included amalgamation of local authorities; amendments to the local government laws that gave the Minister of Interior new options to expropriate powers from elected local leaders in deficit-ridden municipalities, and to transfer powers from the elected mayor and council to the bureaucracy; and a large cut in central government transfers to local authorities (Razin & Hazan, forthcoming).

These moves have not only been a consequence of economic crisis, but can be viewed as utilizing a window of opportunity created by the emergency situation for the implementation of reforms promoted unsuccessfully by the Ministry of Finance for years. The moves are based on the assumption that local government is part of the bloated and inefficient public sector that should be reduced and bypassed through privatization, rather than a local actor capable of assuming responsibilities that the central government no longer performs. The assumption has been that public bureaucracies have a real incentive to become more efficient only when "starved". The Minister of Finance – Netanyahu – has apparently been influenced by American neo-conservative ideologies, but with Israel's political culture and ideological foundations so different than those of the United States, one can argue that implementation largely followed the much more centralized Thatcherian legacy. Steps did not aim to decentralize functions, but rather to recentralize in the name of efficiency – privatization that bypasses local government.

I argue that the Israeli response to pressures on the welfare state did not fully conform to generalizations of recent "from government to governance" literature. There has been a trend of change towards horizontal networks, public-private partnerships and alike, but the major shift concerned two aspects: (1) The emergence of the courts as an arena for societal conflicts, including issues of land policy, municipal boundaries and (to a lesser extent) land use planning (Razin & Hazan, 2001). (2) The act of the central state as several stakeholders, each with its own public agenda, rather than exiting spheres of local and metropolitan decision making. The regulatory regime has changed but regulation has not diminished.

In the three case studies below, I aim to demonstrate the relationship between macro-societal processes and local/metropolitan governance. Nevertheless, these cases have clear implications on processes of metropolitan change and could be linked also to aspects of local democracy.

Local entrepreneurialism in higher education: diminishing or changing role of central intervention (Rosen and Razin)

Planning, development and public finance of higher education have been regarded as a monopoly of the central government in Israel. Israel's higher education system is considered to be highly regulated, due to the substantial role of the state in financing higher education institutions and the planning and regulation functions performed by the government-appointed Council of Higher Education, established in 1958. The Council is authorized to license new HEI (subject to government approval) and to approve academic programs and the right to grant academic degrees. A 1972 law gave the Council additional powers to plan and finance higher education. In order to assure coordinated planning and development, the Planning and Budgeting Committee of the Council of Higher Education was given a monopoly on the allocation of public grants to higher education institutions, thus other public agents such as local governments were forbidden to financially support these institutions.

However, pressures for change and expansion accumulated during the 1980s, in a context of growing political decentralization. The major breakthrough occurred in 1990, when particularly powerful pressures to enable more students to study law led to the passage of a law that permitted the establishment of not-publicly-funded ("private") colleges of law. Developing an extensive network of colleges, while limiting the growth of the major research universities, has subsequently become a declared policy of the Council of Higher Education. The number of higher education institutions accredited by the Council increased from 16 in 1980 to 30 in 1990 and to 61 in 2003. Another feature of decentralization and competition in higher education was the proliferation of branches of foreign universities. Thus, higher education in Israel has been radically transformed since 1990, in a context of neo-liberal post-welfare state ideologies and policies.

The structural change in higher education has opened a window of opportunity for local governments to compete over higher education institutions. Higher education has become an arena of competition between local authorities in Israel since the 1990s, despite the long-range and indirect nature of benefits. This strategic decision of local government to compete over higher education institutions and to encourage their development, despite not being formally assigned a role in higher education, has represented entrepreneurialism that is far beyond routine administration of local development.

Local authorities entered a field far more regulated than the traditional domains of inter-municipal competition: business land uses that enhance the local tax base and school quality that attracts affluent population and provides electoral rewards. They entered a field formally regarded as an exclusive public policy domain of central government agencies, identifying the window of opportunity that enabled for a limited time the establishment of numerous accredited higher education institutions. Local authorities thus focused efforts on attracting new institutions or gaining accreditation for existing ones, applying at times means at the 'gray side', particularly in order to secure an appropriate site in time to influence location decisions. They have practically supported higher education institutions through the provision of land, infrastructure and sometimes even modest financial incentives. Mayors have also used their contacts with members of the Council of Higher Education, which seems to have

become a quasi-political organization in which members represent a variety of interests, such as those of particular segments of the higher education system.

Decentralization, however, has not necessarily implied a diminishing role of central state regulation. The regulative powers of the Council of Higher Education should not be underestimated, and deviation from its declared policies is in no way a common practice. The central regulatory agencies have remained powerful, although their decisions now reflect greater pluralism, becoming more exposed to external pressures. These political pressures represent not only market-oriented initiatives, but come also from lower demand peripheral locations that press for the development of publicly supported institutions, thus producing complex outcomes that do not merely reflect market processes.

Another aspect of the changing nature of central intervention seems to be the growing politicization of the process. Intervention of central state politicians seems to be growing, and the power and autonomy of professional bureaucrats at the Council of Higher education seems to have eroded, although this assertion is based on qualitative observations and needs closer verification.

In contrast to American urban regime literature that tends to overlook the role of the central state in local development strategies, in Israel it is the role of local public agents that tends to be underestimated. However, the case of higher education in Israel demonstrates Brenner's (2004) argument on the continued key role of the state in urban policy initiatives, even as the primacy of the national scale of political-economic life is decentered. Central state regulation of higher education has remained a key factor in a period of growing local government entrepreneurialism, although more exposed to market pressures and local political initiatives. In this more pluralist mode of decision-making, the central state indeed frequently acts as several opposing stakeholders, its decisions are increasingly subject to court intervention, but it does not cede powers to lower levels of government or to the market.

An issue that concerns outcomes is the substantial risk of oversupply of higher education institutions and the regional rather than local scope of effects that can put a question mark on the wisdom of the very low propensity of adjacent local authorities to cooperate when it comes to higher education. Replication of growth strategies that result in zero-sum forms of interlocality competition has been identified as an outcome of regulatory deficit of urban locational policies (Brenner, 2004). If local policy shifts from competing over the location of accredited institutions to maximizing the development impact of existing ones, the need to move from local entrepreneurialism to competitive regionalism could be highlighted.

Joint planning commissions: coordination, cost savings or central control
(Dachoach-Halevi and Razin, 2007)

Local planning commissions are the lower level in the three-tier structure of Israel's statutory planning system. Whereas the district commission and the national planning council are practically controlled by the central state, operated by the Ministry of Interior, the local planning commissions are formally part of the local government system. In large and medium-sized local authorities, the elected council of the local authority serves as the local planning commission. However, most small local

authorities and several medium-sized ones are included in joint planning commissions. The evolution of this institutional framework dates back to the 1950s. Although affiliation to a joint planning commission is not voluntary, but practically imposed by the Ministry of Interior, these commissions could be promoted as a framework in line with principles of new regionalism and horizontal networks of cooperation. These commissions are frequently viewed as a tool to promote coordinated land use planning within parts of metropolitan areas, and as a first step, or a substitute, to the amalgamation of small local authorities, offering both economies of scale and an institutional framework to achieve more rational coordinated planning.

However, our study reveals a somewhat different reality. Joint planning commissions are practically an institutional framework imposed by the central government. Prevailing coordination and cooperation within these commissions tend to follow the rule: "don't meddle in my affairs and I will not meddle in yours". Economies of scale are not necessarily achieved, because such joint planning commission employ their own labor and occupy their own offices, whereas the activities of other local planning commissions is largely absorbed in the existing infrastructure of the local authority, relying on employees of the local planning department. Economies of scale are thus likely only in the case of very small local authorities. (perhaps up to a size of 10,000 inhabitants or even less).

Joint planning commissions have been more effective in increasing the ability of the central state to intervene at the local level. Whereas such intervention in local planning decisions (particularly of Arab local authorities) has gradually become less effective in recent decades, the salaried position of the commission's chair – an appointee of the Ministry of Interior – still provides lucrative opportunities for the Minister to impose appointments according to his/her will, frequently causing friction with the local authorities included in these commissions. A formal procedure activated by the Ministry of Interior following an appeal to the High Court of Justice makes it more difficult to appoint unqualified political affiliates to these positions, but appointment are still imposed at times on the local authorities, sometimes providing the Ministry opportunities to move bureaucrats from other positions or to reward affiliates that do possess the required qualifications.

Joint industrial areas and tax base sharing: a local initiative transformed by the central state (Razin and Hazan, 2006)

Sharing or redistributing local government revenues from taxes and levies on non-residential land uses first emerged on the Israeli public agenda in the late 1980s and early 1990s, as a result of a major shift in local government finance that occurred in the mid 1980s. The shift consisted of an increase in the share of self-generated revenues from about one third to 60-65 percent of the total local government revenues in the current budget. Property taxes on non-residential land uses increased at a particularly high rate, intensifying the competition of local authorities over industrial, commercial and other non-residential land uses that are a major source for local government profits, because the cost of servicing these properties tends to be much lower than the local taxes paid by them. Redistributing municipal wealth attained an even higher position on the public agenda in the early 2000s, when political and economic crisis led to most substantial cuts in central grants and transfers to local authorities and to unprecedented fiscal crises among weak local authorities. The non-

residential local property tax (Arnona) has been acknowledged to form a major source for fiscal disparities.

The breakthrough in the formulation of agreements for inter-municipal cooperation to develop and manage industrial parks, including sharing tax revenues from these industrial parks, occurred in 1992, with the establishment of the Z.H.R. municipal cooperation. This corporation, jointly owned by three local authorities –Zefat, Rosh Pinah and Hazor HaGelilit – was the local initiative of the mayor of Zefat who convinced the other two mayors to cooperate in the development of a joint industrial park within the jurisdictional area of Rosh Pinah. Attitude of the Ministry of Interior towards the initiative was supportive. The ministry provided for some consultation services and was particularly instrumental in resolving severe conflicts that erupted following the departure from office in late 1993 of the two mayors that initiated the agreement.

Dozens of agreements for joint management of new industrial parks and sharing tax revenues from these parks were signed since 1992. Among them was an agreement between the town of Qiryat Gat and two adjacent regional councils – an agreement that enabled the transfer of land from the regional councils to the town, for the establishment of a new industrial park managed by a joint municipal corporation. This agreement was remarkable in its immediate implementation and in the amount of tax revenues distributed to the three partners soon afterwards, particularly taxes paid by Intel's large semiconductor plant (FAB18) established in the industrial park. However, this agreement also demonstrated weaknesses and risks of cooperation. In 2004, when the new mayor of debt-ridden Qiryat Gat decided not to honor the agreement, halting the transfer of property tax revenues to the regional councils and to the joint municipal corporation, and demanding to cancel the agreement. The outcomes of prolonged legal battles and possible political intervention being uncertain, the regional councils chose to accept a new agreement, less favorable in its terms from their point of view.

The above agreements were initially a result of local initiative, backed to some extent by the Ministry of Interior. The Ministry of Industry and Trade became involved in encouraging joint industrial parks located in national priority zones (Israel's periphery) in 1997, when the Ministry of Finance decided to demand revenues from marketing land in these industrial parks as a precondition for the transfer of public funds for the development of infrastructure in industrial parks located in national priority zones. The Ministry of Industry and Trade had substantial leverage to practically impose inter-municipal cooperation and tax sharing in peripheral national priority zones, based on its role in financing infrastructure in these parks, and also in partly funding the joint municipal corporations. Inter-municipal cooperation from the point of view of the Ministry was intended to serve as a tool to rationalize public investment in infrastructure and to improve marketing of land in these industrial park, essential for securing additional funding from the Ministry of Finance.

The transfer of tax revenues from one local authority to another was not sufficiently backed by existing legislation. A 2000 amendment to the local government law thus enabled the Minister of Interior to approve agreements for sharing non-residential property taxes and betterment levies. This amendment practically assured the legal basis for the transfer of tax revenues from one local authority to another.

During the early 2000s, the Ministry of Interior attempted three times to impose revenue redistribution among local authorities, based on the recommendations of municipal boundary commissions. The first was an attempt to compel the Tamar regional council to share some of its tax revenues from the mineral-extracting industrial complex at Mishor Rotem with the adjacent impoverished towns of Dimona and Arad. The second was an attempt to impose sharing revenues from a small industrial/commercial park transferred from the Derom HaSharon regional council to the Kohav Yair-Tsur Yigal amalgamated local council. The third was an attempt to impose the transfer of the oil refineries complex at the Haifa Bay from an unincorporated area to the jurisdictional area of the city of Haifa. Responsibilities and tax revenues were to be shared by Haifa and three additional local authorities bordering the complex. Outcomes so far demonstrate the immense difficulties in imposing revenue sharing – unwilling sides do whatever they can to avoid or at least delay the implementation of cooperation mechanisms through court appeals, lack of cooperation with the Ministry of Interior and endless disputes with their neighbors. The Minister of Interior can indirectly impose such revenue sharing agreements by warning to otherwise use the Minister's authority to transfer the land in question to neighboring municipalities, but such steps are slow and difficult to implement.

In the years 2003-2006, the support provided by the Ministry of Industry and Trade to administering joint industrial parks in national priority zones was terminated. This step abolished a major incentive to cooperate and in at least one case (the city of Bet Shemesh and the regional council of Mate Yehuda) the collaboration collapsed. Moreover, in 2004 the State retreated from funding infrastructure in industrial parks located in national priority zones. This unprecedented retreat was imposed by the Ministry of Finance in a period of economic crisis and budget cuts. It was also an outcome of a large deficit in the budget earmarked for development of industrial parks in priority zones – a result of speculative investment in industrial parks in the West Bank in the second half of the 1990s that did not yield any revenues. Thus, the only public incentives available in 2005-2006 for the development of industrial parks in priority zones are provided to promote cooperation between Arab and Jewish local authorities.

In 2004, a commission headed by Y. Gadish was appointed by the General Director of the Ministry of Interior to examine options for the redistribution of non-residential property taxes, in order to reduce disparities among local authorities. The initiative practically came from the Ministry of Finance that was particularly interested in the option of allocating a certain proportion (20%) of non-residential property taxes into a pool redistributed by the Minister of Interior according to a formula (sort of a negative equalization grant). However, the commission did not support such an option that reduces the motivation of local authorities to engage in economic development, and detracts from the autonomy of local authorities, increasing their dependence on government ministries. Such a mechanism is also difficult and expensive to implement and prone to distortions. It requires substantial monitoring over local tax collection, streamlining the numerous rate structures and methods of measurement employed by local authorities at present, dealing with acceptable and unacceptable variations in the gap between tax charges and actual revenues, and all this for a relatively modest sum to be redistributed. Moreover, a major issue that had a decisive impact on the recommendations concerned the mistrust in the Ministry of Finance

itself. The proposal was viewed as an urgent attempt to find a short-term solution to the severe financial crisis of numerous local authorities without backing-off from the substantial cuts in the general equalization grants. Based on past experiences it was assumed that such a tax sharing mechanism would only lead to reduced grants and in the long run, the pool transferred to the Ministry of Interior would be prone to erosion or diversion into other uses. The Gadish commission thus recommended further developing tax sharing agreements at the local level, mainly in new industrial parks that practically attract also retail, logistics, high-tech functions and offices. Sharing revenues paid by large facilities of a national scope was also recommended. Redistribution of a certain proportion of non-residential property taxes paid by government owned facilities at the regional level was also regarded as a possible option.

By the mid 2000s, the mechanism was adopted also by the national Planning Administration. Land use plans can now require inter-municipal cooperation and revenue redistribution as preconditions for the approval of industrial and commercial. This option is indeed integrated in Israel's national outline plan (NOP 35) approved by the government in 2005.

In 2005, the Ministry of Finance submitted an amendment to the local government law that enables the Minister of Interior, with the approval of the Minister of Finance and after considering the recommendations of an inquiry commission appointed by the Minister to examine the matter, to impose redistribution of revenues from non-residential local taxes. Such imposed revenue redistribution was limited by the proposed amendment to adjacent, although not necessarily bordering, local authorities.

In sum, one could view inter-municipal cooperation in developing and administering industrial parks and in sharing tax revenues from non-residential land uses as elements in horizontal networks of governance – partnerships that are in line with new regionalism approaches to local and metropolitan governance. However, such mechanisms of inter-municipal cooperation, particularly when imposed by the central state, are not necessarily in line with new regionalism ideals and can even serve the central state as a tool of control, to achieve its own means. Cooperation and tax sharing associated with the development of industrial parks emerged "from below" in Israel – through local initiative. These initiatives gradually gained the backing and support of central state ministries, then adopted by the central state to impose policies in line with its own agenda. These include attempts to impose redistribution of tax revenues in the name of principles of sustainable planning and "distributive justice", and in order to solve budgetary problems that intensified due to the cuts in central government grants. Thus this case serves as an example of a 'new regionalism' local initiative adopted by the central state to impose policies in line with its own interests, rather than serving as a basis for broader partnerships in a decentralized network-based mode of local governance.

The final outcome – decentralization and empowerment of local government or concentration of power in government ministries depends not only on the ability of the central state to achieve its objectives, but also on the means undertaken: "gentle imposition" applied with restraint and subject to clear checks, attempt to retain an

image of a fair broker, or an arena for bitter conflicts and controversial decisions motivated mainly by a desire to solve budgetary problems of the central state.

Conclusions

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