Royal Commission on Renewing and Strengthening Our Place in Canada

Reviewing Canada's Regional Development Efforts

By:
Donald J. Savoie

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

ABSTRACT

Federal regional development efforts have been subjected to sharp twists and turns ever since they were first introduced in the early 1960s. They were initially designed to benefit have-less provinces, but we argue in this paper that they lost their way when they were enlisted to contribute to national unity. The paper identifies seminal moments in federal regional development policy. It also reviews recent developments in the regional development field and new thinking in Ottawa about the sector. It considers suggestions, increasingly being heard, that we should redefine Canada's regional development problem into an urban-rural one rather than a regional or provincial one.

The paper draws conclusions on federal regional development efforts to date and presents broad recommendations for policy makers in Newfoundland and Labrador to consider. It argues that the lack of strong success in Ottawa's regional development efforts in the province has a great deal to do with the inability of national political institutions to accommodate regional interests. The paper suggests that, unless these institutions are reformed, federal regional development efforts will continue to work at the margin.

This Page Should Be Blank

Contents

This Page Should Be Blank

Reviewing Canada's
Regional Development Efforts

Canadian regional development policy and programs have had several important twists and turns since their beginning in the early 1960s. The federal government has ever since sought to promote regional balance in the national economy through a variety of programs. Some of these programs have been overhauled, others have been scrapped and new ones have been launched over the years as the government adjusted its policy and programming to reflect changing economic circumstances. The purpose of this exercise is to review the evolution of Canada's regional development efforts and the objective is to shed new light on Canada's regional development policy to see if it should be adjusted and, if so, how. We do this from the perspective of Newfoundland and Labrador. More specifically, it:

- reviews past and present regional policy initiatives;
- identifies seminal moments in the development of Canada's regional development policy;
- reviews and analyses the «needs» and «opportunities» debate that has shaped regional development efforts;
- provides recommendations on possible directions for future regional development initiatives; and
- provides recommendations to policy makers in Newfoundland and Labrador as they ponder the place of their province in Canada.

This Page Should Be Blank

Looking Back

The history of Canada's regional development has been well documented elsewhere and there is no need to do it again in any detail here.[1] Suffice to report briefly on the more important developments and identify the seminal moments that have shaped Canada's regional policy.

As a backdrop to this review, we need to underline two points: Canada's regional nature and the importance of federal-provincial relations. It is often said that while some countries have too much history, Canada has too much geography. Indeed, it is hardly possible to overstate the importance of regionalism to Canada's political life. The fact that the country's national political institutions, notably the Senate, have not been particularly adroit at accommodating the regional factor has placed added stress on the executive to deal with regional concerns and grievances. This has been particularly true with departments, agencies and programs in the regional development field.

Federal-provincial relations have played a central role in federal regional development programs from their very beginning. The federal government's responsibility for economic development involves the advancement of the country as a whole, just as that of a provincial government is the advancement of the province. The responsibilities of both governments invariably overlap, as do their activities, which flow into one another. The result is that no one questions the importance of federal-provincial relations. It is important, however, not to equate federal-provincial cooperation with federal-provincial programs. It is possible to have one without the other and there is evidence of this throughout the history of federal regional development programs. This is not to suggest that this makes for easy federal-provincial relations but it is possible.

Looking back to history, we know that from 1867 to the mid-1950s, the Canadian government had no explicit policy of regional development. It directed its economic policy essentially toward the development of the national economy. The widely held view was that a strong national economy, based on east-west trade and tariffs, would benefit all regions. History now reveals that this view was wrong.

Only after the Second World War did the federal government show greater concern for a regional balance in economic activity, perhaps because regional differences became much more apparent in these years. What brought the federal government to recognize regional economic imbalances was the fiscal weakness of the poorer provinces. In a very harsh manner, the Depression years had revealed this weakness. The Rowell-Sirois Commission had been established in 1937 to re-examine «the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last 70 years.» Essentially pessimistic about the capacity of governments to work together efficiently in joint activities, the Commission had favoured a clear delimitation of power. It had concluded that the Canadian fiscal system should enable every province to provide an acceptable standard of services, without having to impose a heavier-than-average tax burden. It had recommended a strengthening of the federal government's economic powers and a series of national grants to the poorer provinces so that they could offer public services broadly equivalent to those in the richer provinces.

Two decades later, in 1957, the federal government set up the fiscal equalization program. It was intended to reduce disparities in terms of public services between regions, to achieve a national standard in public services, and at the same time to equalize provincial government revenues. Ottawa thus undertook to ensure that all provinces would have revenues sufficient to offer an acceptable level of public services. The payments help poorer provinces provide services, but do not necessarily assist them in integrating their economies more successfully into the national economy and in supporting regional growth from within.

Equalization payments have had a substantial impact on smaller have-less provinces. In his review of the Smallwood legacy, Ralph Matthews documents the impact of federal transfer payments on the Newfoundland and Labrador economy. He writes that «developments in education, in transportation, and in communication were the cornerstone of Smallwood's development policy.»[2] Federal government transfers enabled Smallwood to focus his government's effort in these areas and in 1969 to boast that on the day he became Premier there were "84 schools with indoor toilets. Today, 838 schools have indoor toilets."[3] However, though clearly desirable from a socio-economic perspective and for the provision of public services, the emphasis on providing a higher level of public services "left little for resources exploitation or industrial development."[4]

Another royal commission at the national level was to come forward with suggestions about establishing special economic development plans. The Royal Commission on Canada's Economic Prospects (the Gordon Commission) reported in 1957 that «a bold and comprehensive and coordinated approach» was needed to resolve the underlying problems of the Atlantic region, which required special measures to improve its economic framework. As with the Rowell-Sirois Commission, the Gordon Commission's recommendations were to play an important role several years after being made public.

Table 1 - Evolution of Canadian Regional Development Programming

Year	Program	Regional Application
1960	Tax incentives	Regions with high unemployment and slow economic growth
1960	Agriculture Rehabilitation and Development Act (ARDA)	Economically-depressed rural areas
1962	Atlantic Development Board	Atlantic Canada
1963	Area Development Agency and new tax incentives	Economically-depressed areas
1965	Revisions made to the 1963 changes to make them more generous	Economically-depressed areas
1966	ARDA renamed Agricultural and Rural Development Act	Alleviating rural poverty and non-agricultural measures
1966	Fund for Rural Economic Development (FRED)	Selected regions with low income and major economic problems
1969	Department of Regional Economic Expansion (DREE) and two new programmes, Special Areas (Growth Poles) and Regional Industrial Incentives Act (RDIA)	Focus on Atlantic Canada and Eastern Quebec
1973 -74	Introduction of General Development Agreements (GDAs) and revisions to RDIA. GDAs subsequently renamed Economic and Regional Development Agreements (ERDAs) and later still Cooperation Agreements	Focus became more national in scope
1982	DREE abolished. Ministry of State for Economic and Regional Development (MSERD) and Department of Regional Industrial Expansion (DRIE) established. A new program, Industrial and Regional Development Program (IRDP) based on a “development index” was also introduced	National and a shift away from “need” to “opportunity.” The development index covered all of Canada.
1984	MSERD abolished	
1988	DRIE abolished and a new Department of Industry, Science and Technology established. Three new regional agencies established (ACOA, WD, FEDNOR) and a special fund established for Quebec	National
1991	A regional agency established for Quebec (FORD-Q) and renamed Canada Economic Development Quebec (1998)	
1993	Department of Industry, Science and Technology (DIST) renamed Department of Industry	

The 1960 budget speech unveiled the first of many measures Ottawa has developed to combat regional disparities. The budget permitted firms to obtain double the normal rate of capital-cost allowances on most of the assets they acquired to produce new products — if they located in designated regions (with high unemployment and slow economic growth).

Shortly after this measure was introduced, Parliament passed the Agricultural Rehabilitation and Development Act (ARDA). It was an attempt to rebuild the depressed rural economy and represented Ottawa's first «regional» development program. ARDA began as a federal-provincial effort to stimulate agricultural development in order to increase income in rural areas. It aimed to increase small farmers' output and productivity by providing assistance for alternative use of marginal land, creating work opportunities in rural areas, developing water and soil resources, and setting up projects designed to benefit people engaged in natural-resource industries other than agriculture, such as fisheries. Later, in 1966, the program was renamed the Agriculture and Rural Development Act, and its objectives were adjusted. It could now support non-agricultural measures to promote growth in economically depressed rural areas. Reducing rural poverty became ARDA's overriding objective. Notwithstanding these adjustments, however, some Ottawa decision-makers believed that ARDA still had one serious drawback: it lacked an appropriate geographical focus. In brief, it was «all over the Canadian map.»[5]

The Fund for Rural Economic Development (FRED), introduced in 1966, would deal with this concern. The program could be applied only in designated regions, with widespread low incomes and major problems of economic adjustment. In the end, five regions were identified under FRED: the Interlake region of Manitoba, the Gaspé peninsula in Quebec, the Mactaquac and northeastern regions of New Brunswick, and all of Prince Edward Island. Separate «comprehensive development plans» were then formulated for those five regions to develop infrastructure and industry. The focus of FRED programs was clearly on regional needs and its scope was limited to a handful of regions.

The federal government introduced in 1962 yet another development initiative — the Atlantic Development Board (ADB). Unlike other regional development programs, this board would be active only in the four Atlantic provinces, as its name implied. Shortly after its creation, the board was given an Atlantic Development Fund to administer. By and large, the fund was employed to assist in the provision or improvement of the region's basic economic infrastructure. Over half of the fund, which totalled $186 million, was spent on highway construction and water and sewerage systems. Some money was spent on electrical generating and transmission facilities and in servicing new industrial parks at various locations throughout the region.

The federal government introduced still other measures to promote regional development in the form of the Area Development Incentives Act (ADIA) and the Area Development Agency (ADA) within the Department of Industry. Legislation establishing ADIA was passed in 1963. The central purpose behind these initiatives was to turn to the private sector to stimulate growth in economically depressed regions. This was to be done by enriching existing tax incentives and by introducing capital grants in designated areas.[6]

Regions of high unemployment and slow growth were the target of these measures. Only regions reporting unemployment rates above a specified threshold level would become eligible. Manufacturing and processing firms were then invited to locate or expand operations in these regions. Three kinds of tax incentives were applied sequentially: accelerated capital-cost allowances, a three-year income-tax exemption, and higher capital-cost allowances. In 1965, a new program of cash grants was introduced over and above the capital-cost allowances.

Assistance was provided automatically on a formula basis and it was applied in a non-discretionary manner to areas chosen solely on the basis of unemployment levels. The formula was applauded by have-less regions but it was not without problems and critics. The formula worked fine in terms of allocating resources, but often the areas designated had limited potential for economic development. The result is that on occasions there were too much public funds chasing too few viable economic development initiatives. This speaks to a fundamental problem in establishing funding levels for regional development resources that has yet to be resolved. That is, how does one draw the line between economic needs and economic potential or economic opportunities?

For a brief period, at least, it was felt that the puzzle had been solved. Trudeau established a new Department of Regional Economic Expansion (DREE) and declared «If the underdevelopment of the Atlantic provinces is not corrected, not by charity or subsidy, but by helping them become areas of economic growth, then the unity of the country is almost as surely destroyed as it would be by English-French confrontation.»[7] It will also be recalled that the mid- and late 1960s saw strong but uneven growth in the national economy and, relatively speaking, a burgeoning federal treasury. The federal government moved toward explicit redistributive priorities, as seen in the Canada Pension Plan, the Medical Care Act (Medicare), and the Canada Assistance Plan.

Marchand, the first DREE Minister, and his Deputy Minister Tom Kent decided to focus their efforts on economic development «needs» but with an important caveat. It would focus on slow-growth regions, but look to growth areas within these regions to promote economic development. For this reason, DREE embraced the «growth pole» concept. Marchand explained that the objective was to give Atlantic Canadians the option of staying in the Atlantic provinces. Marchand and Kent believed that the main difference between Ontario and the Atlantic provinces was that Ontario had major urban centres with vigorous economic growth to which people from Northern Ontario could move. The Atlantic region had few cities capable of strong growth and of providing employment; consequently, many people remained in economically depressed rural areas or left the region. The growth-pole concept, it was believed, could create new opportunities at selected urban centres. Accordingly, economic growth would take place through movement and change within regions, rather than between regions.[8]

The federal government would implement the growth-pole concept through two new programs: the Special Areas program and the Regional Development Incentives Act (RDIA). The two shared the same objective: to encourage manufacturing and processing industry in the slow-growth regions. Industrial centres with the potential for attracting manufacturing and processing firms would be chosen. A Special Area agreement with the relevant provincial government would then be signed. This would provide for construction or improvement of the infrastructure — roads, water and sewer systems, and schools — within which industrial growth could occur.

What about the regional application of these two programs? The federal government decided to stand firm on the number of regions designated with Marchand insisting that «the more you extend it — special areas — the more you weaken it. We have to stick to our guns.» In the end, the federal government was able to limit the number of designated Special Areas to about what it had initially envisaged — 23. The regions designated for the RDIA program included all the Atlantic provinces, eastern and northern Quebec, parts of northern Ontario, and the northernmost regions of the four western provinces. Thus, regions were designated in all 10 provinces. Parts of Ontario, Alberta, and British Columbia were designated more as a gesture to ensure that these provinces would not feel completely left out of a federal government program. The thinking was that these provinces, given their relatively strong fiscal positions, might establish their own incentives programs, thereby greatly inhibiting the new federal initiative. In any event, the regional incentives program would be complementary to the larger, more expensive Special Areas program. With the benefits of these two programs combined, it was felt, industrialists would dismiss smaller communities out of hand and opt for the growth-pole areas in slow-growth regions to locate new plants. Certainly, viewed with the benefit of hindsight, regional designation of DREE's industrial incentives program in 1969 was highly restrictive.

All of the above make the case that in DREE's early years, federal regional development efforts sought to take into account both «needs» and «opportunities» in establishing spending patterns. The focus was on «needs» because the most of the efforts and resources were concentrated in slow-growth regions. On this point, DREE's first Minister, Jean Marchand, would often argue that if the bulk of federal government spending (i.e., 80 per cent) for regional development was not spent east of Trois-Rivières, then Ottawa's regional development efforts would fail. The focus was also on «opportunities» because the strategy was built around the growth centre concept or on communities within slow-growth regions that showed strong prospects for economic growth. This last point is significant because it would shift federal regional development policy away from a reliance on regional «needs» to guide its spending. In the case of Newfoundland and Labrador, St. John's was designated to realize substantially faster industrial growth. In addition, the Burin Peninsula, Gander-Stephenville, Hawke's Bay, Come-by-Chance and Goose Bay (Happy Valley) were designated in order to make them more attractive as «receiving centres» under the Newfoundland Resettlement Program.[9]

But the growth pole strategy soon ran into difficulties. In the early 1970s, it became clear that Montreal's growth performance rate was not keeping pace with expectations. The city's unemployment rate stood at 7.0 per cent in 1972, compared with 4.6 per cent for Toronto. Further, Quebec's economic strength, it was argued time and again, was directly linked to Montreal, and, unless new employment opportunities were created there, little hope was held for the province's peripheral areas. Montreal required special measures, it was argued, to return to a reasonable rate of growth. Added to this were the growing concerns about Quebec's place in Canada and national unity.

The federal government decided to designate Montreal as a Special Region in the early 1970s. The new Special Region included Montreal, southwestern Quebec, including Hull, and three counties of eastern Ontario. The Region was designated for a two-year period only which, it was assumed, would be sufficient to help Montreal return to a reasonable rate of growth. It was also assumed that designating Montreal for federal regional development assistance would demonstrate to Quebec that Canadian federalism could be made to work.

But the Montreal designation became a seminal moment in federal regional development programming. If Montreal could be designated then why not Winnipeg, Vancouver, Windsor, or even Toronto? If Montreal, then why not slow-growth communities in slow-growth regions? Regions not designated as Special Areas were arguing more and more that they too could use federal financing for economic development. To many in the non-designated regions, it seemed that the federal government was, in effect, saying that only selected regions should grow. If only Ottawa could see its way into designating their communities, then economic growth would be sure to follow.

The federal government, it will be recalled, decided to overhaul its regional development policy (circa 1972-74). DREE was decentralized, the Special Areas program was scrapped and the bulk of regional development programming would in future be made under highly flexible federal-provincial agreements (first through General Development Agreements — GDA, then subsequently, Economic and Regional Development Agreement and Cooperation Agreements). These agreements provided funding to provincial governments to pursue economic development initiatives and they were particularly responsive to their priorities. The regional industrial incentive was also extended both in its regional and sectoral applications. The result is that more projects and more communities became eligible for federal regional development assistance.

The federal government would again overhaul its approach to regional development in 1982. DREE was disbanded, a new central agency, the Ministry of State for Economic and Regional Development (MSERD), was created, and a new line department, the Department of Regional Industrial Expansion (DRIE) was also established. MSERD would look after federal-provincial agreements and DRIE, the federal-regional industrial incentive program. Underpinning the 1982 policy review was the belief that Canada's economic reality was being transformed. The 1981 budget speech declared Canada's regional economic balance was changing as a result of buoyancy in the West, optimism in the East, and unprecedented softness in key economic sectors in Central Canada. Underpinning this view were the economic prospects associated with resource-based megaprojects. In brief, Ottawa concluded that the Atlantic region would enjoy a decade of solid growth while Western Canada would capture over half of the investment in major projects. Ontario and Quebec would face serious problems of industrial adjustment because of growing international competition. The federal government decided to refocus its efforts to concentrate more and more on Ontario and Quebec.

The above led the first DRIE Minister to declare that «combating regional disparities is difficult even in good times. It is much more difficult in a period when Canada's traditional industries are suffering from soft markets and stiff international competition.» He argued that any new regional development program would have to be one that he could recommend to the business community and to the Canadian public. He declared that he had come up with such a program, one that he could recommend to every member of the House of Commons since «whatever riding any Member represents, his or her constituents will be eligible for assistance.»[10] The program would also be highly flexible since it could accommodate a variety of needs, including investment in infrastructure for industrial diversification, for the establishment of new plants, and for the launching of new product lines.

An important distinguishing characteristic of the new Industrial and Regional Development Program (IRDP) was the «development index.» The index was designed to establish the needs of individual regions, as far down as a single census district. All regions were arranged in four tiers of need. The first, for the most developed 50 per cent of the population, covered districts with a need for industrial restructuring. In this tier, financial assistance was available for up to 25 per cent of the cost of modernization and expansion. At the other end of the spectrum was the fourth tier, which included the five per cent of the population living in areas of greatest need (based on level of employment, personal income, and provincial fiscal capacity). In this tier, financial assistance was available for up to 70 per cent of the cost of establishing new plants.

It would not be long, however, before this approach would also come under heavy criticism. For example, MSERD was disbanded because it was argued that the federal government had become overly «bureaucratic.» Meanwhile, the four Atlantic premiers met with the Prime Minister and urged him to disband DRIE. Best, they argued to have nothing than DRIE since DRIE was increasing regional disparities rather than contributing to their alleviation. The resource megaprojects, they insisted, were still years away at least in Atlantic Canada and there was little reason to be optimistic about the future of the Atlantic's economy. The unprecedented softness in traditional industries in Central Canada was short lived. Yet, DRIE was continuing to focus on Ontario and Quebec. The four Atlantic premiers told the Prime Minister that over 70 per cent of DRIE's spending under its new regional program was going to Ontario and Quebec. By contrast, DRIE's predecessor DREE earmarked about 40 per cent of its budget to Atlantic Canada, even in its last years when its focus became much more national.

The federal government decided to disband DRIE in 1987. New regional development agencies were established first in Atlantic Canada — the Atlantic Canada Opportunities Agency (ACOA) shortly after in Western Canada — Western Development (WD), and then in Northern Ontario — Federal Economic Development Northern Ontario (FEDNOR).

ACOA was given $1.05 billion in new money over five years and part of the «A» base of DRIE and federal-provincial agreements, totalling nearly $1 billion over five years was also transferred to the new agency. WD, meanwhile, was given $1.2 billion of new money and, like its sister agency, the agency would assume responsibility for part of DRIE's A-base and existing federal-provincial agreements in Western Canada. FEDNOR was given $55 million over five years and two years later was given another $14 million in «top up» funds to meet new commitments. New funding was also subsequently made available to FEDNOR for a Resource and Technology Development Program.[11]

A new department — the Department of Industry, Science and Technology (DIST) was established and it would concentrate its efforts on southern Ontario and southern Quebec. The department quickly discarded the tier system and introduced a series of new measures designed to strengthen Canada's competitive trading position. The federal government also allocated about $1 billion (1988 and 1989) to regional development measures in the province of Quebec. The money was allocated to a federal-provincial agreement which, in turn, divided the province into two parts — the central regions and the peripheral or resource regions.

There have been some adjustments since the approach was introduced. DIST has been turned into a Department of Industry. Quebec now has its own federal economic development agency and important adjustments have been made on the spending side because of the program review exercise. That said, new money was subsequently added because of the infrastructure program. A Federal Office of Regional Development — Quebec (FORD-Q) was established in 1991 and it was later (1998) renamed Canada Economic Development for Quebec Regions. Still, the broad outline of the 1987 reforms in federal regional development policy remains clearly visible to this day. The one important difference is that the regional agencies now operate as part of the Department of Industry, a kind of regional operation operating within a large government department traditionally concerned mostly with the economic circumstances and opportunities of southern Ontario and Quebec.[12]

Looking back on federal regional development efforts, it is obvious that regional spending patterns have witnessed substantial changes over the years. When they were first introduced, there was no question that «need» was the guiding principle and that the objective was to alleviate regional disparities. Today, things are no longer as clear and we are far from Marchand's goal of spending 80 per cent of Ottawa's regional development budget east of Trois-Rivières. The 2001-02 expenditure estimates, for example, provide for the following funding to regional development agencies.

Table 2 - Federal Spending on Regional Development, 2001-02

	2001-02 Estimates
ACOA and Enterprise Cape Breton	390.4
CED-Q	357.3
WD	293.8
FEDNOR	95.3
Total	1,136.8

Source: Atlantic Canada Opportunities Agency, December 2002.

This Page Should Be Blank

Identifying Seminal Moments

There have been several seminal developments in Canada's regional development efforts and the above reports on them. In brief, they include: The 1957 Royal Commission on Canada's Economic Prospects which urged a bold, comprehensive and coordinated approach to resolving the underlying economic problems of Atlantic Canada; the establishment of ARDA (1960) and the Atlantic Development Board (1963); the establishment of the Department of Regional Economic Expansion (1969); the introduction of the General Development Agreements (1973); and the establishment of regional development agencies (1988). Table 1 on page 5 provides a summary of important developments in Canada's regional development policy.

There have been other developments that are not directly identified with regional development policy, but which have had far reaching implications for regional development efforts. Ottawa's difficult fiscal position and the need to repair its balance sheet meant that the federal government had to introduce important cuts to its expenditure budget. Like the great majority of other federal government departments, regional development agencies saw their budgets substantially reduced during the program review exercise. In addition, cash grants designed to encourage private sector firms to locate new economic activities in slow-growth regions were abolished and new measures in the form of repayable assistance were introduced.

The rise of the neo-conservative school also had an impact on regional development policy throughout much of the Western world and Canada is no exception. The role of government in society came under attack. The Canadian Minister of Finance summed up the views of many inside and outside government in the mid-1990s when he observed: «Government has promised more than it could deliver and delivered more than it could afford.»[13]

There have been still other developments which are redefining the relationship various regions in Canada have with one another. Globalization, including trade patterns arising under the North American Free Trade Agreement (NAFTA) is one such force. The «National Policy» that was always at the core of every government's economic program in Canada for over a century until the mid-1980s, no longer resonates with Canadians and it is fast losing relevance. It is no exaggeration to suggest that this policy will soon belong to history books.

The national policy, as is well known, sought to create and strengthen east-west trade ties. It also became widely accepted that the policy largely favoured the economies of southern Ontario and Quebec and that its impact on the rest of the country was discriminatory. A series of transfer payments were introduced to compensate peripheral regions as Canada's industrial heartland was taking shape. As Serge Coulombe argued in a paper prepared for the Department of Industry, interregional transfer payments have never stemmed from «an interregional altruism intrinsic to Canadian culture.»[14]

As Ontario adjusts to the NAFTA and the requirements of global economy, it is hanging question marks alongside programs designed to maintain Canada's east-west links, whether in the form of transfer payments to individuals or of federal regional development programs. What is important for Ontario is putting in place measures to undercut Michigan's cost structure and introducing levers to promote Ontario's competitiveness with its major trading partners rather than securing east-west links. The same can be said about Atlantic Canada. There is evidence, both anecdotal and in emerging trade patterns, that parts of Atlantic Canada at least are increasingly looking to New England and the Eastern Seaboard of the United States to fuel future economic growth (see Tables 3 and 4). The two Tables make it clear that Atlantic Canada is rediscovering its trading partner to the south. One can only conclude that, as Canada's regions become inserted differently into the global economy, their links with the outside world will become more important relative to their economic linkages within Canada. It only takes a moment's reflection to appreciate the potential impact on Canada's regional development efforts. On the one hand, the economic ties that link Canadian regions to one another will become weaker and, on the other hand, the global economy will enable regions to promote better their comparative advantages and also attract more investments.

Table 3 - Atlantic Canada, Top 5 Export Sectors by Various Destinations, 1992, 1995, 1998, 2001

1992			1995			1998			2001		
#	$'000	%	#	$'000	%	#	$'000	%	#	$'000	%
Total Exports											
322	2 060 599	29,96	322	3 282 902	28,77	322	2 784 342	22,80	324	4 595 283	25,79
311	1 296 416	18,85	324	1 664 239	14,59	311	2 084 635	17,07	322	3 027 178	16,99
324	962 422	13,99	311	1 657 845	14,53	324	1 588 896	13,01	311	2 751 782	15,44
212	626 085	9,10	212	1 104 418	9,68	212	1 182 737	9,69	211	1 430 905	8,03
326	506 393	7,36	326	779 400	6,83	326	836 485	6,85	321	1 220 320	6,85
Exports to the United States											
322	1 025 740	23,75	322	1 774 070	23,36	322	1 831 064	19,83	324	4 367 281	29,71
324	848 829	19,66	324	1 508 523	19,86	324	1 484 559	16,08	322	2 110 207	14,36
311	733 035	16,97	311	760 494	10,01	311	1 390 133	15,06	311	1 938 100	13,19
326	475 791	11,02	326	756 511	9,96	321	990 175	10,72	211	1 430 905	9,73
114	288 563	6,68	211	632 514	8,33	326	795 181	8,61	321	1 159 538	7,89
Exports to North-eastern United States											
324	704 595	22,99	322	1 066 129	21,39	311	1 173 492	20,65	324	2 929 208	30,73
322	700 602	22,86	324	965 112	19,36	322	1 064 233	18,73	311	1 547 545	16,24
311	646 726	21,10	311	653 883	13,12	324	894 376	15,74	211	1 281 336	13,44
114	280 754	9,16	211	581 016	11,65	321	612 705	10,78	322	1 113 813	11,69
321	142 483	4,65	114	355 734	7,14	114	377 360	6,64	321	780 418	8,19
Exports to Western Europe											
322	644 254	42,06	322	645 418	39,63	212	516 365	34,79	212	403 855	25,38
212	343 060	22,40	212	467 866	28,73	322	458 012	30,86	322	367 954	23,12
311	281 854	18,40	311	199 418	12,24	311	205 797	13,86	311	303 195	19,05
324	77 325	5,05	114	69 177	4,25	114	78 396	5,28	324	225 688	14,18
114	54 839	3,58	336	46 395	2,85	211	41 752	2,81	114	59 440	3,74
Exports to Japan											
311	178 721	50,25	311	487 550	61,52	311	251 247	57,68	311	224 793	59,24
322	122 537	34,45	322	216 121	27,27	322	111 928	25,69	322	73 143	19,27
114	21 638	6,08	212	48 665	6,14	212	38 780	8,90	212	31 521	8,31
212	21 361	6,01	114	36 627	4,62	114	23 001	5,28	114	20 535	5,41
326	8 174	2,30	339	682	0,09	326	3 986	0,92	321	18 478	4,87
Exports to Mexico											
322	24 622	35,79	324	13 288	47,71	331	4 293	44,09	322	34 321	49,00
331	23 586	34,28	331	4 262	35,29	212	2 143	22,01	326	22 290	31,83
212	18 992	27,61	212	1 496	5,37	311	1 910	19,62	311	6 654	9,50
311	551	0,80	311	1 333	4,79	325	931	9,56	212	1 905	2,72
313	314	0,46	322	986	3,54	313	173	1,78	114	1 582	2,26

Source: http://www.strategis.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

311: food manufacturing
312: beverage and tobacco product
322: paper manufacturing
324: petroleum and coal products manufacturing
326: plastics and rubber products manufacturing

Table 4 - Newfoundland and Labrador, Top 5 Export Sectors by Various Destinations, 1992, 1995, 1998, 2001

1992			1995			1998			2001		
#	$'000	%	#	$'000	%	#	$'000	%	#	$'000	%
Total Exports											
322	449 109	37,00	322	591 660	30,89	212	777 569	29,57	324	1 237 311	36,81
311	314 182	25,89	212	569 686	29,74	322	532 040	20,23	311	686 811	20,43
324	304 068	25,05	311	371 976	19,42	324	506 291	19,25	322	611 665	18,20
212	114 031	9,39	324	294 408	15,37	311	486 265	18,49	212	500 843	14,90
114	18 020	1,48	114	27 825	1,45	211	232 309	8,83	211	226 335	6,73
Exports to the United States											
324	255 351	42,21	324	293 213	31,39	324	498 047	29,17	324	1 011 033	46,21
311	197 313	32,61	212	269 004	28,80	322	314 652	18,43	311	454 530	20,77
322	124 938	20,65	322	231 508	24,79	212	299 249	17,53	322	346 649	15,84
114	16 301	2,69	311	102 943	11,02	311	288 590	16,90	211	226 335	10,34
212	4 267	0,71	114	26 830	2,87	211	232 309	13,61	212	85 724	3,92
Exports to North-eastern United States											
324	198 624	43,33	212	203 061	36,60	311	257 406	27,55	324	823 833	55,49
311	187 755	40,96	324	144 666	26,07	211	199 879	21,40	311	347 253	23,39
322	49 469	10,79	311	94 340	17,00	322	158 091	16,92	322	165 308	11,13
114	15 736	3,43	322	83 097	14,98	212	154 400	16,53	211	94 341	6,35
212	3 804	0,83	114	26 383	4,75	324	140 619	15,05	212	20 999	1,41
Exports to Western Europe											
322	176 552	44,62	212	230 898	47,10	212	336 806	61,21	212	283 900	35,83
212	101 897	25,75	322	160 261	32,69	322	118 379	21,51	324	225 569	28,47
311	72 620	18,35	311	61 412	12,53	311	71 564	13,00	322	156 035	19,69
324	41 468	10,48	332	15 811	3,23	324	8 245	1,50	311	99 604	12,57
333	1 153	0,29	333	10 799	2,20	336	5 726	1,04	333	17 825	2,25
Exports to Japan											
311	31 105	64,13	311	150 460	74,71	311	73 526	73,25	311	24 775	54,68
322	13 168	27,15	212	26 537	13,18	212	22 710	22,63	212	20 093	44,34
212	3 056	6,30	322	23 931	11,88	322	3 381	3,37	114	146	0,32
114	1 042	2,15	114	272	0,13	114	312	0,31	322	116	0,26
334	82	0,17	321	72	0,04	112	271	0,27	312	62	0,14
Exports to Mexico											
322	17 771	100,0	333	43	75,52	333	15	100,0	212	1 866	100,0
			311	14	24,48						

Source: http://www.strategis.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

114: fishing, hunting and trapping
212: mining (except oil and gas)

Needs Versus Opportunities Debate

The needs versus opportunities debate has been present in Canada's regional development efforts for the past 30 years. Initially, however, there was no debate — if only because there was a widely held consensus that regional development efforts should be tied to «needs.» No one, for example, challenged Jean Marchand, DREE's first Minister, when he declared that if the bulk of federal government spending (i.e., 80 per cent) for regional development was not spent east of Trois-Rivières, then Ottawa's regional development efforts would fail. But as we saw earlier in this report, by the 1970s the «needs» perspective was being challenged by the «opportunities» perspective. By the early 1980s, it had become very difficult to identify the «needs» perspective in Canadian regional development programming. The development index designed to guide regional development program spending spoke to this new reality.

The debate is still evident in certain quarters today. Slow-growth provinces and regions continue to advocate a «needs» perspective. They remain convinced that something went wrong in the 1970s and early 1980s and that there is now an urgent need to make things right. For their part, economically strong regions and their representatives insist that we need to focus on our strengths and on our capacity to compete in a highly competitive global economy.

We need not spend a great deal of time identifying regions that promote a «needs» perspective and those that promote an «opportunities» perspective. There has been some movement in alleviating regional disparities and in meeting the expectations of the advocates of the «needs» perspective, but it appears to the satisfaction of very few observers. The United States has been much more successful in promoting regional balance in its national economy.[15] To be sure, there are reasons for this and they are not related to government programs. As is well known, frontier development in Canada followed an almost straight line from east to west, reflecting a conscious decision to bind the country on a east-west track. In the United States, the whole vast subcontinent was eventually settled, industrialized, urbanized and modernized. The fact that the Mississippi runs north-south and the Great Lakes and the St. Lawrence system runs east-west contributed to this difference in the pattern of regional development. Canada has no equivalent of the great cities of Chicago, Kansas City, Dallas, Houston, New Orleans, Atlanta and Los Angeles. Each of them served effectively as a development pole, long before the term was invented by François Perroux. Regional policy in Canada has been cast in terms of provinces more than regional policy in the United States has been cast in terms of states. The fact that each state has two senators and that the Senate play an important policy and decision-making role has had an important impact in national policy making. The fact that the Canadian Senate has never been able to establish itself as a credible institution speaking to the interests of the regions is no less significant.

Still, some progress — albeit modest — has been made in alleviating regional disparities and one could point to federal government spending as one of the reasons. There are, however, still important differences among the regions when it comes to finding and keeping a job, the risk of losing a job, and duration of unemployment. These differences have also remained somewhat stable over time. Looking back over the past 40 years or so, one sees that unemployment rates and the time distribution of unemployment indicate that the probability of finding employment is much lower in Atlantic Canada than in Ontario or Alberta. In addition, history also reveals that when unemployment increases at the national level, the impact is different in the regions.

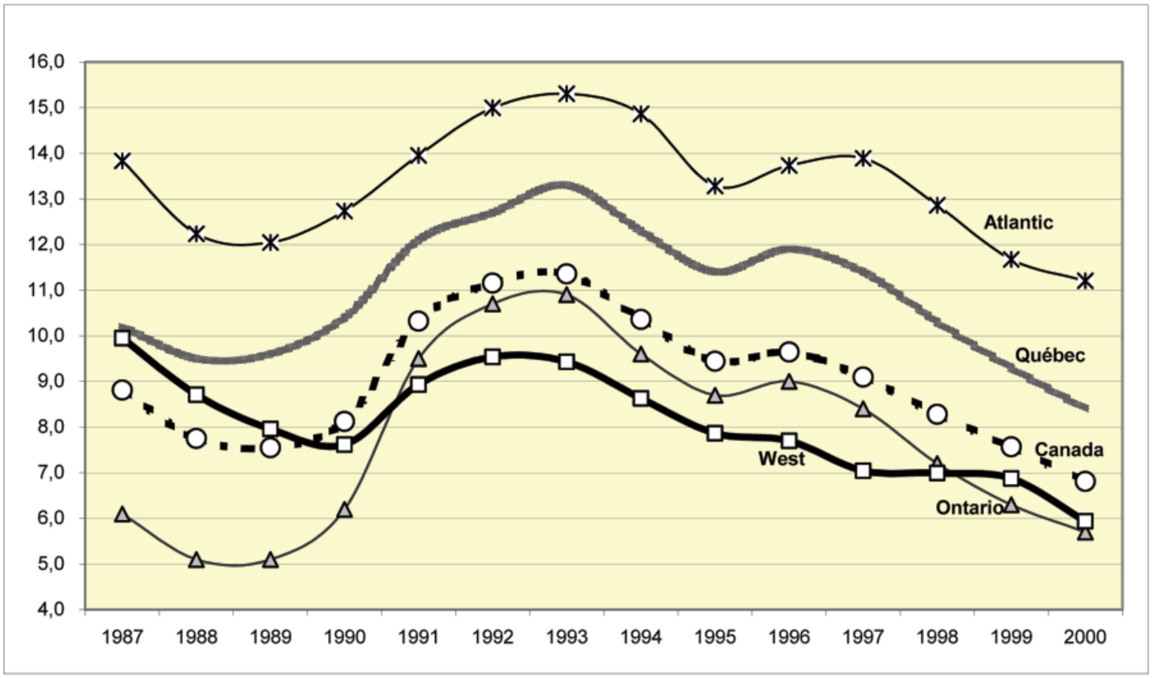
A 2.0 per cent increase in the Canadian unemployment rate has often translated in the past into an increase of over 3.5 per cent in Atlantic Canada, 1.3 per cent in Ontario, slightly less than 2.0 per cent in Western Canada and about 2.5 per cent in Quebec. Table 5 provides a provincial breakdown of Canada's unemployment rates from 1961 to 2000. Figure 1 provides a regional breakdown from 1987 to 2000, but on a yearly basis.

Table 5 - Provincial Unemployment Rates Relative to the National Average (per cent) (first year of decade, and most recent available year)

	1961	1971	1981	1991	2000
Newfoundland and Labrador	275	135	186	179	246
Prince Edward Island	--	--	150	163	176
Nova Scotia	114	113	134	117	134
New Brunswick	148	98	154	123	147
Quebec	130	118	137	116	124
Ontario	77	87	87	93	84
Manitoba	70	92	79	85	72
Saskatchewan	58	56	61	72	76
Alberta	66	92	50	80	74
British Columbia	120	116	88	96	106

Note: This Table indicates what each province's unemployment rate was in relation to the national average level for the specified years. For instance, if a province has a score of «175,» this would indicate that its unemployment rate was 1.75 times the rate of Canada as a whole.
Source: Donald J. Savoie, *Regional Economic Development*, 2nd ed. (Toronto: University of Toronto Press, 1992); updated with data from Statistics Canada, *Canada Year Book*, *1994* (Ottawa: Statistics Canada, 1993), 617, and Statistics Canada, «Canadian Statistics: Labour force, employed and unemployed.» Web site: www.statcan.ca/...ish/Pgdb/People/Labour/labor07.a.ht.

Figure 1 - Unemployment Rate by Region, 1987-2000



Source: Statistics Canada

As is well known, published unemployment figures do not tell the whole story of a region's economic health or, for that matter, represent a reliable indicator of the desire to find work. A low participation rate in the work force can well indicate that some people have simply given up on finding a job. Conversely, a high participation rate speaks to the economic strengths of a region, to the employment opportunities it offers, and more generally to a region's economic vitality. Atlantic Canada's participation rates have consistently been lower than the Canadian average at least since the 1950s. Canada's participation rate has fluctuated between 62 and 66 per cent since 1977. Meanwhile, Atlantic Canada's participation, for example, has ranged in percentage terms from the mid-50s to the low-60s from 1977 to today.

This Page Should Be Blank

Per Capita Income

Per capita income has also often been employed to establish the economic health of a region and data has been available on a regional basis since 1926. It is important to note, however, that per capita income data overstates regional disparities. For one thing, progressive income taxes take a larger share of the income of wealthier regions. Accordingly, regional disparities in disposable income are not as great as differences in personal income. In addition, per capita income overlooks the fact that the cost of living differs from region to region. Table 6 charts the progress made since 1987 to 1997 from a regional perspective. The Table reveals that Newfoundland and Labrador has consistently trailed the national average. However, it is important to note that the province has made some progress between 1987 and 1997.

Table 6 - Personal Income Per Capita, by Province and Territories, Selected Years 1961-97: Relationship to National Average (Canada = 100)

	1987	1992	1996	1997
Canada	100.0	100.0	10.0	100.0
Newfoundland and Labrador	70.7	74.2	76.1	75.3
Prince Edward Island	72.5	81.2	83.6	81.5
Nova Scotia	83.4	86.2	84.2	84.3
New Brunswick	77.4	81.7	83.9	84.4
Quebec	94.8	91.8	92.2	92.5
Ontario	111.8	110.1	107.5	107.6
Manitoba	88.8	90.8	94.0	93.3
Saskatchewan	83.4	81.4	90.0	85.2
Alberta	101.8	102.1	103.9	105.0
British Columbia	99.6	104.1	105.0	104.3
Yukon Territories	102.5	116.9	122.6	121.4
Northwest Territories	87.3	97.8	104.6	105.0

Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue 13-201.

Most economists insist that earned income per capita is a much better indicator of a region's economic health than per capita income. Earned income per capita excludes relative gains from interregional transfer payments. According to this measurement, regional disparities or regional economic needs are somewhat more pronounced but, again, Newfoundland and Labrador has consistently trailed the national average.

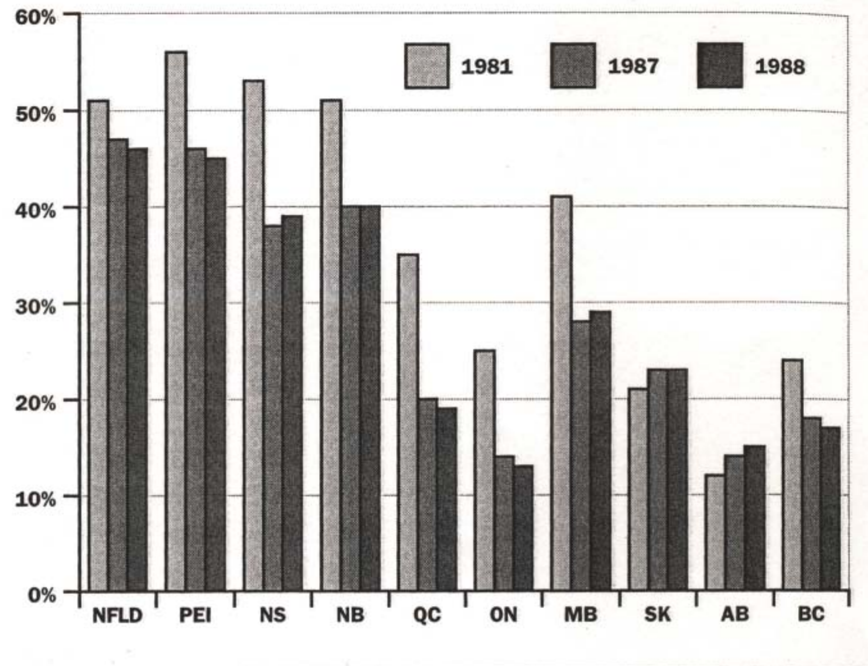
Table 7 - Earned Per Capita Income, 1987-1997

	1987	1992	1996	1997
Canada	100.0	100.0	100.0	100.0
Newfoundland and Labrador	65.4	68.2	70.0	68.9
Prince Edward Island	64.4	68.9	71.6	66.9
Nova Scotia	81.0	82.3	78.5	78.3
New Brunswick	74.3	79.4	81.5	81.8
Quebec	93.8	91.7	91.5	91.3
Ontario	115.3	110.8	108.3	108.4
Manitoba	86.7	87.0	89.2	88.8
Saskatchewan	72.0	74.2	78.3	79.1
Alberta	101.2	105.9	109.8	111.7
British Columbia	96.0	104.6	106.5	105.1
Yukon Territories	114.8	127.8	130.5	129.0
Northwest Territories	103.6	116.8	120.5	119.4

Source: Statistics Canada

Though slow-growth regions have became less dependent on federal transfer payments in recent years, they remain, relatively-speaking, highly dependent on federal payments to support their expenditure budget. A dependence on federal government departments, beyond the national average, reveals that the provincial economy is not sufficiently strong to support the level of services the Provincial Government is providing to its citizens. Figure 2 below reports on federal transfers as a percentage of provincial revenues from 1981 to 1997. Newfoundland and Labrador relies on federal transfer payments to a greater degree than the other provinces.

Figure 2 - Federal Transfers as a Percentage of Provincial Revenues 1981, 1987, 1997



Source: Department of Finance Canada, *Fiscal Reference Tables*, 2000.

Individuals, no less than provincial governments, can become dependent on transfer payments and many have. Individuals in slow-growth provinces have reinforced their region's cycle of dependency by relying on such federal government programs as the unemployment/employment insurance program far more than the Canadian average. Table 8 provides a provincial breakdown over a 10-year period. Here, we see that with the exception of Prince Edward Island, residents of Newfoundland and Labrador relied on Employment Insurance benefits to a greater degree than residents of the other provinces.

Table 8 - Unemployment Insurance/Employment Insurance Benefits Per Capita, Dollars

	1987	1992	1995	1996	1997
Canada	391	654	430	407	347
Newfoundland and Labrador	1,121	1,825	1,114	1,121	1,052
Prince Edward Island	946	1,603	1,218	1,153	1,155
Nova Scotia	552	897	661	615	551
New Brunswick	766	1,148	920	861	754
Quebec	458	792	554	523	446
Ontario	245	528	314	301	259
Manitoba	299	439	303	293	235
Saskatchewan	275	391	261	252	192
Alberta	387	499	336	295	212
British Columbia	476	611	397	377	328
Yukon Territory	769	967	806	750	776
Northwest Territories	357	571	433	478	600

Source: Statistics Canada, *Provincial Economic Accounts*, cat. 13-213.

All of the above make the case that Newfoundland and Labrador remains the province most in «need» of federal economic help to promote development. Indeed, if the federal government were still to be guided by the goal of alleviating regional economic disparities in its allocations for regional development funding, then it would still have to tilt its expenditure budget more towards Newfoundland and Labrador, the other three Atlantic provinces and Quebec, east of Trois-Rivières.

Still, it is important to stress once again that some progress has been made on the regional disparities front, a fact that is all too often overlooked. Provincial governments are less dependent on federal funding today than they were 20 years ago. The same can also be said about residents of have-less provinces as Table 8 makes clear. We have also witnessed gains on the part of some have-less regions and provinces in terms of per capita income and earned per capita income. There are urban areas in traditionally slow-growth regions that are showing impressive signs of economic vitality (e.g., St. John's, Halifax, and Moncton). This may suggest that past federal government efforts in alleviating regional disparities, particularly those that had both a clear geographical focus and a clear program purpose, notably the growth centre concept, may well have had a more positive impact than it is generally assumed.

It is, however, impossible to establish a direct link to federal regional development spending because many factors ranging from interest rates and the health of the American economy can influence the pace of regional economic growth. We do know that some evaluations of past federal regional development efforts have been positive, others uncertain about their impact, and still others have been negative.

Observers insist that a comprehensive evaluation of the various federal regional development measures is impossible. DREE, ACOA, FEDNOR, and WD expenditures have not been large enough for us to be able to assess their impact in relation to other economic forces, such as interest rates, the value of the Canadian dollar, and even other federal expenditures, such as transfer payments to provincial governments and individuals.

There is another major stumbling-block in evaluating the efforts of various regional development efforts. The various departments and agencies have not always been very clear about their objectives. They have also often changed their policy framework. At one point, the growth-pole concept held sway. Then DREE sought to tie its efforts to a development-opportunities concept. This in turn was followed by an attempt to assess initiatives in terms of their relevance to a region's natural economic strengths. Toward the end of the department's life, senior DREE officials frequently spoke about local or community development concepts. ACOA talked about promoting entrepreneurship and WD about diversifying the western economy. Today, innovation is in fashion everywhere. Even when a particular approach is in vogue, it seems that it does not prevent the department from sponsoring a variety of initiatives that do not readily fit in with that theory.

With the introduction of the General Development Agreements (GDAs), and subsequently the Economic and Regional Development Agreements (ERDAs) and the Cooperation Agreements (in the case of Atlantic Canada) came an all-embracing and unexceptionable theoretical framework, essentially non-selective and hardly a guide for action. The department essentially had 10 policies — one for each province. Viewed from the regions, DREE, DRIE, ACOA and WD funds represented a «B» budget fund for provincial governments, from which they would seek funding for new economic development. Provincial governments came forward with proposals and, if these prove unacceptable, they simply come back with a new set.

The goals and objectives of federal-provincial agreements were extremely broad and of little benefit even as a checklist against which to assess proposed projects. The Newfoundland and Labrador GDA, for example, enabled DREE to support an extremely wide variety of measures. Within months of its signing, the GDA provided funding for such diverse measures as highway construction, the development of Gros Morne, urban development, inshore fisheries, mineral development and planning. It is important to note that in the early years the federal government agreed to cost share 90 per cent of subsidiary agreements under the Newfoundland and Labrador GDA. This compared with 80 per cent for New Brunswick and Nova Scotia, 60 percent for Quebec, Manitoba and Saskatchewan and 50 per cent for the remaining provinces.

New policies were introduced for a number of reasons, not simply because existing ones were no longer effective. In fact, federal-provincial competition appears to have been largely responsible for at least two of the three major policy reviews. In 1973, the federal government sought to establish closer links with provincial governments by introducing the GDAs. By 1981, Ottawa concluded that it was not getting the credit to which it was entitled and decided to scrap these agreements. New agreements provided for the federal government to directly deliver some of the initiatives. Since the principal motive behind the two last policy reviews was federal-provincial tension and visibility, it may well be more appropriate to assess them from this perspective rather than from one of regional development. Certainly, the 1973 policy review placed the provinces in a favoured position in shaping new regional development initiatives. The 1982 review appears to have made it much more difficult for provinces to do so. The establishment of ACOA, WD and DIST, meanwhile, appears to have resulted from an urgent desire to deal with a crisis of confidence in DRIE, with strong pressure from the Atlantic region and the West to deal with their economies, which were not rebounding from the recession of the early 1980s, and with a strongly held desire to chart a new course in regional development different from that followed by the Trudeau government. Today, it seems there is no appetite left in Ottawa for funding federal-provincial agreements to support regional economic development. Federal politicians have consistently complained of late that they operate at a disadvantage with their provincial counterparts in securing visibility. As a result, regional development, in particular federal-provincial agreements, no longer enjoys the priority status it once did.

But there are other reasons. Globalization, scarce public funds, and changing economic relations between Canada's regions are redefining Canada's economic circumstances. Added to the above is the fact that one can hardly make the case that federal regional development programs have contributed to national unity. One observer of Canadian political economy observed that «the political culture of Canada may be defined as a profound sense of regional grievance married to a discourse of entitlement .... Sixty-four per cent of Canadians feel their province gets back less in federal spending than the taxes sent to Ottawa. Nearly three quarters of Canadians feel that the federal government favours one region of Canada over the others, and very few feel that their region is the one favoured.»[16] Federal regional development spending may well have, if anything, fuelled regional tensions.

Federal regional development programs have, for the most part, been federal-provincial in design and federal-provincial agreements have at least in the past been the instrument of choice to deliver federal regional development measures. Provincial governments could always easily determine who was getting what, how much and what share of Ottawa's regional department budget they could secure compared to other provinces. This, and federal transfer payments, have given rise to a «fair share federalism» debate where the «have» provinces insist that they have been short changed, particularly in recent years. We have now reached the point where representatives of southern Ontario are making the case that the federal government should establish a regional development agency, like ACOA, for their region. Such a request would have been unthinkable in the 1960s and 1970s. Slow growth regions and provinces, meanwhile, look to past spending patterns to make the case that the federal government is less committed today to regional development objectives, as traditionally defined, than it was 20 or 30 years ago.

It is not too much of an exaggeration to suggest that the federal government has lost its way in the regional development field. It is no longer clear what it wishes to accomplish — it has not resolved the needs versus the opportunities debate and it has not of late been able to establish regional development as something different than a transfer of federal funds in support of provincial government initiatives. Regional development policy now has a serious credibility problem both in the national press and in Ottawa. The federal Industry Department can support an initiative in Montreal, Kanata or Toronto and the press hardly takes note. The same does not always apply in the case of ACOA and Atlantic Canada. There is an assumption that national economic development efforts work but that regional ones do not. Regional ones are also regarded as being politically motivated.

In any event, every region, strong or weak, has had its hand in the federal regional development pot. However ridiculous it may appear to some, we have reached the point where federal regional development programs in Atlantic Canada can no longer compete with similar federal government programs in other provinces, notably Ontario and Quebec.[17] Yet, the public perception remains that slow-growth regions are the ones that benefit from federal-regional development efforts.

Key Issues

There are several important issues either at play or emerging that we need to consider. First, the fiscal capacity of provincial governments remains important. This is important because it speaks to the ability of some provincial governments to deliver an acceptable level of public services in such important sectors as education, health care and social services. However, as we know, Canada decided some 40 years ago to deal with this problem through an «equalization program» which was later enshrined in the Constitution. Still, the federal government needs to monitor this situation carefully, at least from an economic development perspective. Have provinces have the fiscal capacity, not only to provide a high level of public services, but also to go at it alone and launch new measures to promote economic development. Slow-growth provinces do not have anywhere near the resources to go head to head and compete with the have provinces to launch new economic development measures. Unless some coherence in provincial fiscal capacity is maintained, the have provinces could well play havoc with national efforts to promote economic development.

There is a view increasingly being heard in Ottawa that Canada's regional development problem needs to be recast into a urban/rural problem. The argument being made is that rural areas trail urban areas employing virtually any economic development indicator.

It is no coincidence that traditional have-less regions are more rural in character than the have regions. Ontario has the most mature urban structure of any region in Canada. Cities such as Ottawa, Hamilton, London, Windsor, St. Catharines, and Kitchener-Waterloo provide an urbanized and highly developed hinterland to support the position of Toronto. The dramatic rise of Alberta's energy-based economy in the late 1970s, coupled with the emergence of Vancouver, Calgary, and Edmonton as important corporate and financial centres, has spurred a «second Canadian economic heartland.» But the 700-mile corridor stretching from Windsor to Quebec City has not lost its economic importance and still accounts for about 70 per cent of Canada's manufacturing employment. The region is also home to most corporate headquarters in the country. Quebec's urban structure is weaker, mainly because Montreal has only Quebec City as an important urban centre from which to draw support.

What then are the challenges confronting rural Canada? There are several, but one of the most important is the loss of population, particularly the younger and more dynamic element. From 1991 to 1996 only rural Alberta and British Columbia saw an increase in its population age 20 to 24. During the same period, rural areas in all provinces registered a loss in the age 15 to 19 population. Many of the service functions in a modern economy, notably financial administration, research and development (R & D) and headquarters' activities take place in cities. In addition, many service functions are now among the fastest-growing sectors of the economy. Universities, notably the more research-oriented universities which have come to play such an important role in the new economy, are all located in relatively large urban centres.

Other socio-economic indicators reporting on the economic health of rural Canada are no more encouraging. Unemployment rates are higher in rural Canada. Earned income is considerably lower in rural Canada, employment is concentrated in slow-growth sectors (e.g., the resource sector), and education levels trail those found in urban regions. Businesses also tend to be smaller in rural areas. This in turn may well explain why new technologies are not adapted as quickly as they are in urban areas.[18]

As already noted, socio-economic indicators reveal that rural Canada is confronting major economic development challenges. Rural regions, for example, have a larger proportion of adults with low literacy skills. Education and training activities are also lower in rural Canada, there is a large urban-rural gap in the use of internet and overall computer in favour of urban areas, rural firms are smaller and less concentrated in innovative industries than urban ones, Canada's rural population is growing, but much more slowly than the urban population and almost 70 per cent of new jobs created since 1992 have been in urban areas.[19] We could add to this list.

We also know that the information economy has not lived up to expectations in at least one aspect. Thirty years ago, development economists predicted that technological advancements would reduce the need for travel and that distance to markets would lose some of its relevance in decisions on where to locate new economic activities. We now know that the information revolution has not significantly reduced either the costs or the need for travel. Goods still need to be transported to markets and manufacturers in peripheral regions still have to deal with additional costs in bringing their products to major markets.[20] As is well known, transportation costs are subject to economies of scale and for this reason alone, firms in peripheral regions face higher costs.

Knowledge-intensive industries have and will continue to locate the bulk of their new activities in urban centres. The need for knowledge workers is paramount and knowledge workers prefer working in large communities. They want access to cultural events, research centres, training facilities, laboratories and the like.

If, as it appears, peripheral communities are not able to become full participants in the new economy, then they must rely on traditional sectors for future growth. We have already seen, however, that traditional sectors offer limited employment opportunities. A recent study on the knowledge economy maintains that «employment decline in resource industries is the result of the meeting of two curves — declining manpower needs per unit extracted and constant or declining resources or demand for resources.»[21] There is no need to go over once again the crisis confronting the fishery sector in Newfoundland and Labrador. Things are no better in the agricultural sector. Statistics Canada recently tabled a report which reveals that nearly 30,000 farms went out of business across Canada between 1996 and 2001. All provinces saw the number of farms decline with Atlantic provinces registering some of the sharpest decline. Newfoundland and Labrador lost 99 farms between 1996 and 2001.

Table 9 - Where the Farms Are

	2001	1996	Absolute Change	Per cent Change
Canada	246,923	276,548	-29,625	-10.7 %
Newfoundland and Labrador	643	742	-99	-13.3 %
Prince Edward Island	1,845	2,217	-372	-16.8 %
Nova Scotia	3,923	4,453	-530	-11.9 %
New Brunswick	3,034	3,405	-371	-10.9 %
Quebec	32,139	35,991	-3,852	-10.7 %
Ontario	59,728	67,520	-7,792	-11.5 %
Manitoba	21,071	24,383	-3,312	-13.6 %
Saskatchewan	50,598	56,995	-6,397	-11.2 %
Alberta	53,652	59,007	-5,355	-9.1 %
British Columbia	20,290	21,835	-1,545	-7.15 %

Source: Statistics Canada, Globeandmail.com census page.

Redefining Canada's regional development problem into an urban/rural one holds important advantages for the federal government. For one thing, rural Canada is confronting important economic challenges which require attention. For another, all provinces would benefit from such a definition because they all can point to rural areas experiencing economic difficulties. For yet another, an urban/rural perspective does not promote regional tensions, at least when viewed from an Ottawa perspective. Still, Ontario, followed by Quebec, has the smallest share of people living in predominantly rural areas. As you will see in Table 10, in Newfoundland and Labrador, the rural population is the majority.

Table 10 - Population by Type of Region, Newfoundland and Labrador 1981-2001

	1981	1986	1991	1996	2001
Newfoundland and Labrador	563,755	564,005	563,945	547,165	512,930
Intermediate regions	236,470	243,185	250,280	248,785	242,875
All predominantly rural regions	327,285	320,820	313,665	298,380	270,055
Rural non-metro adjacent regions	270,320	266,270	258,470	246,550	222,100
Rural northern regions	56,965	54,550	55,195	51,830	47,955

Source: Agriculture and Agri-food Canada Publication Number 2138/E.

An urban/rural perspective would leave an important issue unattended. History has told us time and again that national programs are not sufficiently regionally sensitive to deal with regional circumstances. For example, one of the main challenges in southern Ontario is to find qualified personnel to work in the new economy. The same is less true in St. John's. In addition, St. John's is located in a province that does not have the kind of mature urban structure and investment climate (e.g., the number of large firms) that Ontario has. National programs to promote innovation and research and development very often overlook the fact that Newfoundland and Labrador's private sector does not have the depth (e.g., size) and resources that Ontario's private sector has.

There is an urgent need to review the application of national programs from a regional perspective. Such a development would bring greater coherence to national programs to promote economic development. It would also deal head-on with a problem that has inhibited regional development efforts from the very beginning: understanding the effect of national departmental policies and programs on specific regions. Instead of dealing with this issue head-on, we have introduced a veritable alphabet soup of regional development programs and agencies since the 1960s. Looking back, one can assume that Canada's regions would have been better off if national programs had been adjusted to incorporate the regional dimension.

The inability of the federal government to incorporate a regional perspective has been a costly failure to Newfoundland and Labrador and to other Atlantic and Western provinces. Things «national» in Canada invariably refer to the economic interests of Ontario and Quebec, while things regional refer to the economic interests of Western and Atlantic Canada. I was struck, as probably many in Newfoundland and Labrador were by the reactions in the media, when John Manley was moved out of the Industry portfolio. Edward Greenspon praised Manley in *The Globe and Mail* for his ability to think «national» and pointedly asked whether his replacement, Brian Tobin, will «be an Atlantic Minister or a national Minister?»[22] A few days later Campbell Morrison, a columnist, wrote in the Moncton *Times and Transcript* that «If Brian Tobin succeeds at nothing else, at least he has dislodged John Manley from the key Industry portfolio .... [Manley's] primary concern has been the high-tech sector, which by happy coincidence is based largely in Ottawa, and the aerospace sector in Montreal and Toronto.»[23] Manley also practiced the art of *deux poids, deux mesures*. Witness, for example, his failed efforts to come to the rescue of the Ottawa Senators with federal funding. Surely, one would be hard pressed to make the case that a hockey team is part of the new economy while the shipbuilding industry is not.

What the above suggests is that the economic interests of Ontario are invariably considered to be national in scope, but the economic interests of Newfoundland and Labrador, or for that matter, all of Atlantic Canada are merely regional in scope. Senior policy makers in Ottawa and national columnists simply do not get it even if you explained it to them that for Western and Atlantic Canadians, Ontario and Quebec are also regions and that for them an Ontario Minister can be no less (and probably more) parochial than any Atlantic or Western minister. Why should they? Canada's political culture and its historical development have been shaped by a House of Commons and by an executive invariably dominated by central Canada with no voice able to speak to other concerns with political authority.

In recent months, some observers, including Scott Brison, a member of Parliament from Nova Scotia, have suggested that the federal government should abolish ACOA and apply the savings to abolish federal corporate income tax in Atlantic Canada. That, they insist, would promote self-sustaining economic development. What ACOA does in Atlantic Canada is basically what the Department of Industry does in Ontario and Quebec. The difference is that the Industry Department has a much greater staff and a bigger expenditure budget. Yet, I have heard no one suggest that we should abolish the Industry Department and lower the national level corporate income tax: again, *deux poids, deux mesures*. Why would it make economic sense to abolish ACOA but leave the Department of Industry intact?

Ottawa has been looking at the wrong end of the problem, as its never-ending parade of new regional agencies and program acronyms would suggest. Every time a new ARDA, FRED, DREE, MSERD or ACOA is introduced, the Prime Minister of the day will invariably explain that it will succeed where all the previous schemes have failed. But these changes are never the solution. Promoting regional interests is not a matter of the machinery of government or of administration: it is a political matter to be resolved at the political level. Yet, «this» and «that» have been tried with the machinery of government and the public service, all while the workings of our political institutions have been ignored.

The fact that the federal public service is still organized along functional or sectoral lines, with line departments pursuing specific sectoral objectives, not regional ones, is a political matter, not an administrative one. The fact that the great majority of senior public service positions and virtually all officials occupying them are located in Ottawa, not the regions, is a political decision, not an administrative one. The fact that no sustained effort has ever been made to document and understand the effect of departmental policies and programs on specific regions is a political failure, not an administrative one. This, despite firm commitments made by Prime Ministers Trudeau and Mulroney that such investigations would be done. And the fact that Ottawa has abandoned its policy of decentralizing federal government jobs from Ottawa to slow-growth regions was a political decision, not an administrative one. This, despite firm commitments made by Prime Minister Chrétien in St. John's, Newfoundland, while he was a candidate for the leadership of the Liberal party, to relaunch the program if elected to power.

The economic interests of Ontario and Quebec have been particularly well articulated within the federal government because of the nature of our national political institutions. The two provinces hold effective power because they hold the great majority of seats and no political party can aspire to power without support from one or both of these provinces. Canadian Prime Ministers have, for the most part, come from either Ontario or Quebec ever since Canada was born. In addition, since the 1970s, they have, for a host of reasons, «governed from the centre.»[24] That is, political power in Ottawa has been increasingly concentrated in the hands of the Prime Minister and a few advisors. The federal Cabinet, according to a member of the Chrétien Cabinet, "is no longer a decision-making body: it is a focus group for the Prime Minister."[25] But in their attempts to "focus on" and "manage" major political developments, they have made matters worse, at least on the regional front. That is, concentrating effective political power in the hands of a few people has greatly inhibited still further the ability of national political institutions to understand regional forces, let alone accommodate them in policy and decision making.

Canadian Prime Ministers live in Ottawa and their principal policy advisors have, for the most part, been born, educated and spent much of their working lives in either Ontario or Quebec. With very rare exceptions, clerks of the Privy Council Office, secretaries to the Cabinet, the heads of the federal public service and the Prime Minister's main advisors have been from either Ontario or Quebec ever since Arnold Heeney expanded the scope of the position during the Second World War. This combined with the fact that the Senate is for the most part of no political consequence, other than serving the Prime Minister as a rich source of partisan political appointments, enables the Prime Minister to concentrate on the vote-rich provinces of Ontario and Quebec which dominate the House of Commons and from which he draws his power and his chances of re-election.

In some ways, Ottawa's actual regional development policy has been remarkably successful over the years. The federal government's national economic policy has consistently been geared to the economic interests of Ontario and Quebec. In this sense, it has worked well. Southern Ontario and, albeit to a lesser extent, southern Quebec, are two of the world's economic hot spots. Surely, the most ardent neo-conservative will recognize that public policy measures, including many defined in Ottawa since the implementation of the National Policy and continuing to this day, have been vitally important to the economic development of southern Ontario and Quebec.

It is all the more surprising why politicians from Atlantic Canada — and excluding a few exceptions — from Newfoundland and Labrador have consistently supported a strong central government. But a strong central government has *never* been in the economic interest of Newfoundland and Labrador. To be sure, federal transfer payments of one kind or another have enabled the Provincial Government to provide a high level of public service, but this came with a price — economic dependency. At the same time, it allowed Ottawa to concentrate its real economic development efforts on vote-rich Ontario and southern Quebec. And now that the modern economic infrastructure has been put in place and that globalization, with all its implications, has arrived, Ontario is much less inclined to continue its implicit part of the bargain: support transfer payments to individuals and provincial governments in slow-growth regions.

What the above suggests, however, is that Newfoundland and Labrador should tell Canada and the national government that either we reform our national political and administrative institutions to reflect the true nature of Canada and accommodate the economic interests of the smaller provinces or, failing that, Newfoundland and Labrador can no longer support a strong role for the federal government. The choice is clear: reform national political and administrative institutions so that smaller provinces can influence national policies and programs as is the case in other federations or the Government of Newfoundland and Labrador should join forces with other provinces like Alberta to push for a decentralization of responsibilities from the federal government to the provinces.

Newfoundland and Labrador could join forces with other Western and Atlantic provinces to push for a triple e-Senate. Indeed, Canada is rare among federations in that it does not have a second house to promote a regional perspective in national policy making. Australia, for example, now has an elected Senate and it has been successful in promoting regional interests within the national government. The cost of not having such a house in Canada has, over the years, cost smaller provinces a great deal, particularly in the economic development field. In addition, much of the federal government's policy-making advisory function is concentrated in Ottawa. There is no reason why Ottawa could not decentralize at least part of this function and re-launch its decentralization program which met with considerable success in the late 1970s and early 1980s.

The choice for Newfoundland and Labrador is clear — movement on the above or the province should, as already suggested, push for a decentralization of responsibilities from the federal government to the provinces. To be sure, this option is not without risk.

The risk for Newfoundland and Labrador is clear — the province still depends on federal transfers to sustain part of its socio-economic infrastructure and the provision of government services. A weaker central government would mean a weaker capacity on the part of Ottawa to provide transfer payments to slow-growth provinces. The risk is worth taking for two reasons: first, because transfer payments are no longer in vogue in Ottawa and they are now transferred reluctantly and accompanied with a message saying that they are not in the economic interest of the recipient province and, second, because history reveals that transfer payments do not contribute to self-sustaining economic development or to a sense of economic accomplishment among either individuals or society. Newfoundland and Labrador needs to break the cycle of dependency and, to be sure, this is not without risk. But the status quo is hardly a solution. In any event, there is considerable evidence to suggest that Ottawa is slowly but surely closing the transfer payment tap. The federal government can help by ensuring for the first time since Confederation that its policies and programs can accommodate regional economic circumstances other than those from Ontario and Quebec. But this is unlikely unless national political and administrative institutions are reformed.

This Page Should Be Blank

Endnotes

1. See, for example, Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1992) and Canada, *Living Together: A Study of Regional Disparities* (Ottawa: Economic Council of Canada, 1977).

2. Ralph Matthews, "The Smallwood Legacy: The Development of Underdevelopment in Newfoundland 1949-1972," *Journal of Canadian Studies*, 3(4), (Winter 1978-79), p. 95.

3. Joseph R. Smallwood, "To You with Affection form Joey," St. John's, Newfoundland, 1969.

4. Matthews, "The Smallwood Legacy," p. 94.

5. See, among others, Anthony Careless, *Initiative and Response: The Adaptation of Canadian Federalism to Regional Economic Development* (Montreal: McGill-Queen's University Press, 1977), chapter 3.

6. See, among others, *Canadian Policies for Rural Adjustment*, Special Study No. 7 of the Economic Council of Canada (Ottawa: Queen's Printer, 1967).

7. Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1992), p. 32.

8. Economic Council of Canada, *Living Together: A Study of Regional Disparities* (Ottawa: Minister of Supply and Services, 1977).

9. Savoie, *Regional Economic Development*, p. 37.

10. Quoted in Savoie, *Regional Economic Development*, p. 95.

11. See, among others, Canada, *Federal Regional Development Policy in Perspective* (Moncton: Atlantic Canada Opportunities Agency, 1990).

12. For a review of federal regional economic efforts during the past 10 years, see Donald J. Savoie, *Rethinking Canada's Regional Development Policy: An Atlantic Perspective* (Moncton: The Canadian Institute for Research on Regional Development, 1997).

13. Quoted in Donald J. Savoie, *Governing from the Centre: The Concentration of Power in Canadian Politics* (Toronto: University of Toronto Press, 1999), p. 202.

14. Serge Coulombe, *Vision Paper: Regional Questions* (Ottawa: Department of Industry, August 1996), p. 43.

15. See, for example, Niles Hansen, Benjamin Higgins and Donald J. Savoie, *Regional Policy in a Changing World* (New York: Plenum Press, 1990), chapters 2 and 5.

16. Richard French, "The Future of Federal-Provincial Relations," paper presented to IPAC, National Capital Region, June 1990, p. 2.

17. See, for example, Donald J. Savoie, *ACOA: Transition to Maturity* (Moncton: Canadian Institute for Research on Regional Development, 1990), p. 47.

[18]. See *Les régions rurales du Canada dans l'économie du savoir* (Ottawa: Department of Industry, undated).

[19]. Based on a presentation by Industry Canada on *Rural Canada in the Knowledge-Based Economy*, undated.

[20]. *The Periphery in the Knowledge Economy* (Montreal and Moncton: INRS and CIRRD, 2002), p. 35.

[21]. Ibid., p. 5.

[22]. "Eastern Canada's new boss of bosses," *The Globe and Mail*, 17 October 2000, p. A19.

[23]. Quoted in Campbell Morrison, *Times and Transcript*, Moncton, 25 October 2000.

[24]. Savoie, *Governing from the Centre*.

[25]. Quoted in ibid., p. 240.

Bibliography

Canada, Atlantic Canada Opportunities Agency, *Federal Regional Development Policy in Perspective*, Moncton, ACOA, 1990).

Canada, Department of Finance, *Background Paper on Federal-Provincial Fiscal Arrangements* (Ottawa, 1980).

_____, *Economic Development for Canada in the 1980s* (Ottawa, November 1981).

Canada, Department of Regional Economic Expansion, *Annual Reports*, various dates from 1969 to 1983.

_____, *Regional Policy in the Canadian Context*, 1978.

Canada, Economic Council of Canada, *Canadian Policies for Rural Adjustment*, Special Study No. 7 of the Economic Council of Canada (Ottawa: Queen's Printer, 1967).

_____, *Living Together: A Study of Regional Disparities* (Ottawa, 1977).

_____, *Newfoundland: From Dependency to Self Reliance* (Ottawa, 1980).

Careless, Anthony, *Initiative and Response: The Adaptation of Canadian Federalism to Regional Economic Development* (Montreal: McGill-Queen's University Press, 1977).

Coulombe, Serge, *Vision Paper: Regional Questions* (Ottawa: Department of Industry, 1996).

French, Richard, «The Future of Federal-Provincial Relations,» paper presented to IPAC, National Capital Region, Ottawa, June 1990.

Hansen, Niles, Benjamin Higgins and Donald J. Svoie, *Regional Policy in a Changing World* (New York: Plenum Press, 1990).

Matthews, Ralph, «The Smallwood Legacy: The Development of Underdevelopment in Newfoundland 1949-1972,» *Journal of Canadian Studies*, vol. 3, no. 4 (Winter 1978-79).

Savoie, Donald J., *ACOA: Transition to Maturity*, report prepared for the Minister and the President of the Atlantic Canada Opportunities Agency (Moncton: The Canadian Institute for Research on Regional Development, 1991).

_____, *Governing from the Centre: The Concentration of Power in Canadian Politics* (Toronto: University of Toronto Press, 1999).

_____, *Regional Economic Expansion: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1992).

_____, *Rethinking Canada's Regional Development Policy: An Atlantic Perspective* (Moncton: The Canadian Institute for Research on Regional Development, 1997).

Smallwood, Joseph R., «To You With Affection from Joey» (St. John's, Newfoundland, 1969).

This Page Should Be Blank