Review Essay/Note de Lecture

Economic Change and the Regional Question*

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Regional Economic Development: Canada's Search for Solutions.

Canada recently entered a new phase in its policy response to problems of regional economic development. For thirty years, through several changes of governing party, this country has actively attempted to decrease regional economic disparities by means of a variety of subsidy programs administered by a sequence of ministries fulfilling the regional portfolio in federal cabinet. The specific details of the regional development mandate have changed as administrative reorganizations have been implemented in Ottawa; in particular, these revisions have allowed assistance for regional economic development to become a more cooperative venture between the federal and provincial governments. Nevertheless, in the spring of 1987 this cabinet portfolio was eliminated, apparently not because regional problems have become less important but because of a complex of reasons, one of which appears to be the lack of significant impact of Canada's past policy initiatives on regional economic development. There have been several reviews of Canada's regional development programs (see Economic Council of Canada 1977), and the three most recent statements (Nielsen Report 1986; Lithwick 1986; and Savoie 1986) all support this negative assessment.

Debate is still occurring on the form and powers that will characterize new regional bodies created to encourage economic develop-

*Editor's Note: For a more detailed treatment of certain of the points raised in this review, see the author's Policy Comment in this issue.
ment; therefore, many regional scientists, economic geographers, and planners may wish to reflect on the value of the efforts of the past three decades when they begin to consider how regional economic policy might be developed and implemented in the future.

In considering these issues, this essay uses *Regional Economic Development: Canada's Search for Solutions* by Donald J. Savoie as a point of departure. In this work, Savoie gives an account of earlier changes in the organization of the federal government and its programs concerned with regional disparities; in particular, he assesses the political contexts in which previous versions of regional policy operated and were revised. Savoie, however, combines two agendas. Although the one dealing with the pressure of federal-provincial relationships on regional policy is the main concern, he also pursues an economic agenda, “An Assessment”, which is the less well developed part of *Regional Economic Development*. This review is particularly concerned with the latter issue. It outlines some of the questions that policy planners would wish to consider in the case of Canadian regional economic development policy. Some of these questions are touched on by Savoie, but he has not chosen to explore their implications or logic.

It is useful to clarify at the outset that, as a policy goal, regional economic development aims to achieve something more than reductions of regional income disparities or regional unemployment rates. These objectives are of great political-economic significance, but in practice the lines of action that are available—income equalization by means of intergovernmental transfers and the attraction of businesses from other regions by incentive payments—are both expensive and, on their own, offer little hope that they will ever require lower funding. Regional economic development has as its ultimate goal the reduced need for this type of policy and implies the existence of a process of improvement of a region’s economic base by means of new enterprise generation, evolution in a region’s sectoral and industrial mix, job creation, increased intersectoral and interindustry ties within a region, and new investment. The policy task, therefore, is to stimulate this regional economic development process by whatever means possible, bearing in mind that policies are going to take time—maybe a generation—to produce their impacts. Immediately the policy problem is clear: these developmental goals pale beside current social and political issues of unemployment and low incomes. Thus, regional economic development programs always run the danger of being too small to have much aggregate effect even though they contribute to national economic development. It is important, therefore, to evaluate within this context both Canada’s progress in regional economic development and alternative designs for policy and policy implementation.

By the late 1950s Canada had begun to recognize the severity of the regional problem. A federal-provincial tax sharing arrangement had been introduced that provided for revenue transfers to peripheral provinces, and in other ways Ottawa attempted to offset the collective impact of low per capita incomes, high unemployment, and little positive change in economic structure that had come to characterize Atlantic Canada and Canada’s “other peripheral” regions. In 1969, however, the plethora of uncoordinated agencies and regional development programs was rationalized in the Department of Regional Economic Expansion (DREE). DREE’s task was to encourage industrialization in lagging regions by two major policy thrusts. First, a Special Areas Program funded infrastructural developments to facilitate business investment in twenty-two centres (growth points); and second, a Regional Development Incentives Program (RDIP) provided discretionary grants or loans to firms that had the potential to create employment by making new investments in secondary manufacturing or in processing in designated special regions.

A significant modification of the mandate of DREE, made in 1973, was its decentralization to provincial “field offices” in order to service federal-provincial General Development Agreements (GDAs). These were cost-sharing arrangements defined to suit each province and to involve all sectors and avenues of public expenditure, and were a response to political pressure to spread federal expenditures to more locations. Thus a “growth centre/point” concept gave way to the support of “developmental opportunities” wherever they might occur; the RDIP continued, but its mandate to focus incentives on specific locations was fundamentally weakened.

By the end of the 1970s it was evident that DREE had lost its spatial economic focus, and Canadian regional fortunes became linked to “mega projects,” mainly in the energy sector, whose feasibility was attached to the rise in oil prices. The end of DREE came in a reorganization of federal departments, which replaced the notion of a single regional department in favour of all departments taking a more active role in regional development (Figure 1). The reorganization was accomplished by the Ministry of State for Economic and Regional Development—MSERD, 1978-1984; Economic and Regional Development Agreements (ERDAs) replaced GDAs and incorporated spending from all relevant federal portfolios. In 1984 the Department of Regional Industrial Expansion (DRIE) took over DREE’s regional programs and industry programs from the disbanded Department of Industry, Trade, and Commerce. DRIE’s initial function was to administer an Industrial and Regional Development Program (IRDP) provid-
ing subsidies to businesses undertaking a variety of development projects. Assistance was allocated to projects according to the “need” assessed for each of 260 Census Districts classified into four “tiers” of areas. Federal programs concerned with regional development thus retained some locational focus, even if this applied only to business incentives. DRIE added MSERD’s functions in 1984, which meant that ERDAs became a DRIE responsibility.

### Program Components

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#### Federal Department

- DREE
- DRIE
- MSERD
- DREE/DRIE

Figure 1

**Restructuring of Canada’s Regional Economic Development Measures**

Savoie’s review focuses on the administrative changes that have affected regional policy, and his central interest is the way federal-provincial relations were involved in and shaped the program changes in this area of policy. The first and largest part of *Regional Economic Development* provides a reconstruction of the politics of administrative change as different governments, influential groups, and particular individuals entered the sequence of events. This yields a unique and valuable chronological description of administrative change presented in terms of the revolving list of personalities, emergent political pressures involving the provinces and the federal government, and changes in the cabinet’s perspective on regional development. This part of the book, however, is not thematically organized and does not search for generic insights. Consequently Savoie’s contributions are difficult to integrate into more theoretically structured examinations of regional development.

### Policy Evaluation

The second question faced by *Regional Economic Development* is the impact of government action on regional disparities in economic development. By comparison with the history of DREE, MSERD and DRIE, other development, adjustment, and transfer programs maintained by the federal government are of much less interest to Savoie, although they are bigger budget items. Nevertheless, economic indicators are examined for the period 1961-81, and it is found that although Ontario’s performance has converged on the provincial average, greater disparities in provincial GDP per capita have occurred over time because of the increases experienced by Alberta, British Columbia and Saskatchewan. Unemployment still exhibits great geographical variations, and although the book describes how Canada has always supported regional adjustment programs that try to take work to locations of surplus labour, it neglects to deal adequately with outmigration. Migration is, of course, politically unacceptable as a policy option. Nevertheless, Termote (1987), for example, outlines the high net out-movement of population from Atlantic Canada, and this long-term regional response suggests that this avenue of adjustment is operative even though Courchene (1986, 25) argues that “the current pattern of transfers is serving to rigidify . . . disparities.” Despite the dampening effect on economic adjustment that may derive from transfers to governments and to individuals, other factors have an important retarding influence on outmigration—a higher home ownership rate in Atlantic Canada, for example (p. 140), given the high average house price in industrial cities in central Canada, is an effective impediment to family outmigration. The level of technical education and industrial work experience is another negative influence, while a demographic upper limit to the scale of migration is related to the proportion of young people in the population.

### Scale of Programs

Why have the various regional development programs had limited success? Has enough been spent to make an impact? Savoie states that *cumulatively a substantial sum of public money has been spent in the name of regional economic development* (p. 107), but he also provides evidence that *annual* expenditures have been small! Regional programs have been a limited expenditure item in the federal budget each year, and accumulating these sums over time does not give them greater significance. Lithwick (1986), evaluating federal spending on regional development over the period 1968-83, found a steady decline in the proportion of federal-provincial transfers attributable to expenditures on regional development programs: from 9.9 percent in 1963-68 to 3.7 percent in 1981-83. Similarly, DREE’s proportion declined from 5.9 to 2.5 percent of federal expenditures, although its budget was the largest regionally directed program in an array that has included a relocation program for government offices, and labour adjustment programs...
targeted by area and by industry. Even when an explicitly regional department existed, regional development was accorded a low priority throughout the 1970s and into the 1980s (see also, Government of Canada 1987). It is, nevertheless, important to remember that other federal initiatives move substantial funds in the same direction as explicitly regional programs (Simmons 1984).

**Cyclical Factors**

Embedded in the structural problems of Canada's poorer regions is the obtrusive influence of cyclical factors related to seasonal production possibilities and to boom-and-bust cycles that operate unremittingly in most resource industries. The seasonal influence on labour markets, as in fishing, for example, is so strong that most analyses of unemployment statistically de-seasonalize data series, and income series are usually subjected to multi-year averaging to eliminate the effect of annual fluctuations in agricultural incomes. Yet these variations in employment and income are not only a social problem but also the origin of constraints on economic development: first, in the sense that consumption variability reduces market potential for regional enterprises; and second, because the uncertainty in economic growth is an even more serious problem (Simmons 1984). The longer term cyclical behaviour of markets for a variety of resource outputs and industrial goods, together with their regional lead or lag effects, are explored by Marchand (1982) and Norcliffe (1987) but not by Savoie.

Specialized local, provincial, and regional economies are vulnerable to violent swings in purchasing power that limit economic diversification. The opportunity for regional initiatives to dampen these seasonal, annual and other economic swings is therefore large, but the most significant actions that have been taken are unemployment insurance (with provincially adjusted eligibility criteria) and welfare at the family level. These stabilize community income levels, although at a low level, and therefore they directly maintain consumption, jobs, and enterprises dependent on local demand.

**Income Disparities**

As noted earlier, other federal transfers to provinces aim at income equalization; they operate through payments to provincial governments and allow the maintenance of public, especially social, services at comparable levels in all provinces, thus offsetting the fact that the quality of life of Canadian communities cannot be funded at an acceptable level in some provinces on the basis of local tax revenue. Some of these transfers, in the long run, assist regional economic development (universities, for example), although most support current basic social services that Canada is committed to ensuring are available in all areas. The transfer policy generates a variety of jobs that have income and employment multiplier effects, and these increase stability in activities such as wholesale and retail trade.

Savoie evaluates the pattern of income disparities over the 1961-81 period and finds that in terms of earned income per capita the gap between the highest and lowest provinces has shrunk slightly, although this is more the result of Ontario's income reduction, rather than improvements in peripheral regions. Income per capita, including transfer payments, however, produced a reduction in the gap, particularly to 1970, and Savoie indicates that these transfers, by increasing the capacity to spend, have "served to narrow regional disparities over a number of fronts". But the level of annual transfer payments also provides a measure of the task that confronts regional economic development; the income gap measured by personal transfers as a share of personal income for provinces remains at more-or-less the magnitude it was two decades ago (Government of Canada 1987).

**Corporate Organization**

Regional programs in Canada have always recognized the importance of large corporate size when targeting incentives to assist slow growth areas, and the short-run leverage of incentives to create jobs has been greatest when negotiating with a branch of a multilocational (even multinational) firm to locate in a needy area. Seen from this vantage point, it is understandable how "windfall gains" might accrue to corporations that did not require incentive payments to take advantage of low factor costs in poorly industrialized regions (Springate 1973). Other research examines the later disappearance of firms that benefited from locational incentives (Cannon 1980).

Canada has imposed no restrictions on the entry of foreign direct investment, except for one decade starting in the mid-1970s. Consequently, Canada has branches of many international companies, especially branches of U.S. corporations. This pattern of investment has had particular consequences for regional economic development that, surprisingly, are not explored in Regional Economic Development; while there is a localization of foreign investment and employment in secondary manufacturing and services in Toronto and southern Ontario, only limited development advantage has been created for this region. Foreign manufacturers, especially those from the U.S., are known to have strong backward linkages with parents and other U.S. suppliers (Britton 1985) and the high import propensity of those firms has been recognized as generating a truncated form of industrialization (Britton and Gilmour 1978). Nevertheless, this investment is vulnerable to corporate rationalization, as firms are reorganized and relocated in res-
response to international competition, regional cost differences, and trade barriers, creating particular problems for policy initiatives such as IRDP. As international capital has become more mobile (Bluestone and Harrison 1982) regional policy has been caught in a trap; very large amounts of capital are required to anchor large industrial units in central Canada in competition with locations in the U.S. or in newly industrializing countries. This call on capital from the regional development envelope of the federal budget demonstrates national economic priorities—in particular, it reflects the direct and indirect importance of auto assembly plants—but it gives up attempts to reduce regional disparities in order to attain employment stabilization in the developed regions.

Despite IRDP expenditures being dominated by a limited number of large grants, many small contributions have been made to, presumably, smaller enterprises. This might seem in accord with the policy thrust that has been experienced in all OECD countries to support small- and medium-sized enterprises (SMEs) but there is only a brief reference to this type of policy in Regional Economic Development. There have been attempts in the past to establish clusters of small firms, but few evaluations of these initiatives in Canada. Similarly, there is need to relate Canadian regional development programs to the results of investigations of regional patterns of the birth and death of firms, the need versus supply of venture capital, and the success of regional incubation schemes. Comparisons with investigations of European programs would surely be a useful way of assessing the implications of small firms policies for regional development, but Savoie does not pursue this line of enquiry.

It is important to have explicit reviews of the effectiveness of regional policy. Savoie is sensitive to this, but he cannot resolve the question—on the one hand “fewer than 10 percent of approved projects were discontinued or were not in commercial production three years after the initial grant payment was made” (p. 122), but over a four year period virtually all firms (mainly from the U.S.) had failed in Cape Breton (p. 158). Was success/failure locationally dependent? Unfortunately, the evidence that is assembled on the way incentive programs have worked indicates a surprising dearth of interest in the problem and difficulties in collecting the evidence and devising an appropriate analysis. Still, Yeates and Lloyd (1963), Cannon (1980) and Miller (1984) have made useful attempts to capture program impacts, and it is puzzling that these have been given no place in Savoie’s “assessment.”

**Other Policy Options**

In addition to infrastructural investments and industrial incentives, two work mobility options have been open to Canadian programs. Operating divisions of government have been transferred successfully out of the Ottawa region, and Savoie makes a brief but pertinent reference to this and the way the relocation program was enmired in political opposition. Federal government procurement, however, has never been harnessed to development goals in a consistent and cumulative fashion. Major contracts have always had a regional political dimension to them, but choices in those cases are made between proficient alternatives. The opportunity to build production capability in new locations has not been exploited.

The lack of consistent use of these two options indicates the weak managerial orientation of regional economic development programs. A similar assessment can be made about the use of tax expenditures. The $30 billion in 1979 was the equivalent of another 50 percent of federal expenditures. The bulk of tax concessions went to oil and gas exploration expenses, and to manufacturing and processing industries. Virtually none of these expenditures were incurred explicitly for regional development; in fact, the highest per capita expenditures occurred in Alberta, which in 1979 was in one of its boom years induced by the re-pricing of oil.

**Theory and Regional Development Initiatives**

In accounting for the failure of regional development policy Savoie attaches particular significance to the fact that programs had no locationally selective focus. On first reading, his argument seems to be that a sound theoretical foundation to regional programs was denied when Canada’s growth point policy gave way to political pressure for a broader program structure, implying that many parts of the country perceive themselves as having development problems. On reflection, however, it seems quite wrong to focus on growth centre theory in Canada, because it was simply a facade for indistinct and confused objectives. George (1970), for one, has made this quite clear, as have two DREE officials:

> The special area concept, although it draws in part on the growth point idea, does not imply that the areas themselves are all growth points . . . the general strategy of the present federal regional development policy does not rest entirely on the growth point concept, rather it is an effort to reinforce market forces (Francis and Pillai 1976, 139).
This is economic doublespeak, of course, since it is market forces that produce the regional economic situations that are regarded as economic, social, or political problems.

One of the difficulties encountered in formulating policy was that, without a theory of regional development historically validated and prescriptive in format, Canada had only "a set of hypotheses to explain the spatial dispersion of economic activity" (Francis and Pillai 1976, 42). Largely, too, what Canada had adopted was an emasculated form of "growth" ideas, as developed by scholars in the field. The notion of a growth point was derived from the growth pole model of Perroux (1955), the core idea being that industrial growth is an unbalanced process, whether viewed sectorally or in terms of firms. Boudeville (1966), however, attempted to clarify the idea that the economic relationships of an industry (or firm), which identify a "pole", could be localized in space in the form of a growth centre or growth point. This style of thinking managed to relate elements of industrial and regional economic theory.

A growth pole was defined as a propulsive firm (or industry) that, if large enough, would have a positive impact through input linkages on a cluster of other firms, thus creating direct and indirect effects on employment, income, and investment. Historically, these impacts take time to become established, and certainly from a planning viewpoint the processes that were envisaged should still be in progress. Policy makers in Canada have never seemed to place much importance on this temporal factor in their earnest concern to lure jobs to disadvantaged locations. Similarly, the propulsive requirement of a growth pole specified that a firm (or industry) must be capable of growth, and this implies that the firm is technologically dynamic. The focus of Canadian regional economic policy on employment rather than development meant that it would inevitably place a priority on short-run results rather than on future production, so that the core concepts of growth poles were ignored.

Canadian growth points might have had some chance of success if they had been few in number and had received careful investment management over a substantial period of time. Federal policy, however, as noted earlier, has never placed any priority on management. The policy was not limited to a small number of centres, and the importance of inducing technological change and increasing the rate of innovation seems to have made no impact on regional planning ideas in Canada. Related weaknesses in policy orientation have meant that support has been directed to manufacturing industry to the exclusion of most service industries, and that, although transport investments, such as the Trans Canada Highway, have been made in the name of infrastructural support for regional economic development, there is still no regional component to telecommunications policy (Lesser 1986).

Summary and Conclusion

The distinctive contribution of Savoie's book is the reconstruction of the sequence of shifts in the administration, program structure, and delivery of assistance for regional development. Savoie treats these changes as the outcome of the political dynamics of federal-provincial relations, and his description and interpretation of this process is particularly valuable as it reflects a knowledge of key players in the changing federal cabinets of the 1970s and early 1980s, and in the federal civil service. This source of strength, however, leaves regional scientists, planners and geographers with the problem of how to generalize from Savoie's very specific insights.

Savoie's review of the impact of federal policy on regional economic development also contributes to an agenda for regional policy analysis, but it gives minimal attention to cyclical market patterns, outmigration from low income regions, and support for industrial innovation and SMEs as part of a regional development program. Yet all of these are significant issues for Canadian regional economic development. Savoie also leaves the reader with an inadequate sense of the small size of Canada's regional development programs, which has placed them out of kilter with public expectations (Government of Canada 1987).

Discussion here has focused on weaknesses of past federal initiatives; for example, the enduring poverty and cyclical sensitivity of many communities and industries in Canada has not been addressed adequately by regional development policies. Rather, a variety of compensatory (Lithwick 1986) programs has been developed, and this has meant that the most substantial regional policies have been concerned with redistributing federal funds to provinces and individuals. Job creation programs have attempted to improve regional unemployment and income levels, but these initiatives have backed away from relocating federal departments (Savoie 1986), and have overlooked similar types of intervention that could deploy government expenditures on goods and services.

After introducing a growth point policy in the early 1970s, the federal government has shifted away from programs that incorporate highly selective locational action in supporting economic activities, and Canada has become increasingly reluctant to sanction any intervention by bureaucrats outside of the "task of assisting market processes." Whether this is related to the conviction/competence of bureaucrats or whether it reflects political processes, or both, is still a matter for
research. The death of the growth point component of the early DREE program did mean that Canada lost an opportunity to initiate a stronger, locationally-based development program, but to be realistic, the weaknesses of the growth point ideas used in Canada must be remembered:

- they only weakly specified the locational basis for selecting projects to be subsidized;
- they failed to specify how developmental choices would respond to dynamic national/international economic criteria; and
- despite their concern with "growth" they did not capture the essence of developmental (that is, long run) change.

These problems signal the existence of general deficiencies in Canada’s approach to regional economic development that have persisted through DREE and DRIE. Canadian policy has never responded adequately to the impact that the openness of the Canadian economy to international trade has on patterns of regional economic development; in particular, it has failed to address, in a positive manner, the increasing influence of technological change as it has reshaped Canada’s international trade over the past thirty years. Furthermore, regional policy in Canada has never shown any understanding of the way the Canadian urban system transmits, across the country and between and within regions, the economic signals of development and obsolescence. These important themes will, however, have to be developed elsewhere.1

References


ECONOMIC CHANGE AND THE REGIONAL QUESTION


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