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REGIONAL DEVELOPMENT IN CANADA

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REGIONAL DEVELOPMENT IN CANADA*

ISSUE DEFINITION

Almost from the beginning of Confederation, the federal government has implemented programs that affected some regions more profoundly than others. Such programs were never part of a federal regional development policy, however, until the 1960s, when federal politicians became aware of differences in the levels of regional prosperity and accepted the responsibility for eliminating them.

The Rowell-Sirois and Gordon Royal Commissions and the advent of a serious recession in the late 1950s focused attention on the persistent regional disparities. Until that time, authorities had believed that government policies aimed at stimulating national economic growth would ensure that all regions benefited. While this was true during periods of growth, the disparities did not disappear and improvements were achieved only at the cost of severe social dislocations.

Federal efforts to formulate development policies and to implement programs aimed at reducing regional disparities led to the creation of the Department of Regional Economic Expansion (DREE) in 1969. Later, this department would be amalgamated with the Department of Industry, Trade and Commerce to become the Department of Regional Industrial Expansion (DRIE), which assumed responsibility for both regional and industrial development in Canada. In 1987 DRIE was disbanded and federal regional development efforts were entrusted to regionally based development agencies.

This paper reviews federal regional development policy since World War II, a period in which both the federal and provincial governments have expended considerable resources in trying to narrow regional disparities in Canada.

BACKGROUND AND ANALYSIS

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* The original version of this Current Issue Review was published in November 1988; the paper has been regularly updated since that time.

A. An Emerging Issue

Though regional disparities have existed in Canada since Confederation, this was not at first perceived as a problem separate from that of achieving steady national economic growth. During the Great Depression, however, the differences in the unemployment rates between the provinces became too pronounced to ignore. The subsequent deterioration of provincial fiscal capacities led to the establishment of the Rowell-Sirois Commission, which examined the devastating impact of the depression on the finances of the provinces and in its 1940 report recommended a massive restructuring of federal-provincial fiscal arrangements. The Commission found that, as the provinces had different capacities for providing services, Canadians could not expect the same levels of service from each province at uniform national tax rates. It was suggested that the fiscal capacity of Canadian provinces be equalized through the transfer of funds from the richer regions to the poorer regions. Implementation of the Commission's recommendations had to be delayed until after the end of the war, when the federal and provincial governments met in a series of conferences which addressed the problems of sharing the fiscal base in Canada. The result was the now familiar system of equalization payments which are made to the disadvantaged provinces.

The Royal Commission on Canada's Economic Prospects (the Gordon Commission) of 1957 explicitly recognized the existence of regional disparity in Canada. It gradually became evident that differences existed not only in fiscal capacities but also in opportunities for growth. The Gordon Commission defined the regional problem as a difference or gap between a province's level of income, or unemployment, or other such key variable, and that of another province or that of the national average. These economic differences between provinces became known as disparity gaps. It also became evident at this time that, regardless of the national level of prosperity, the gaps did not disappear. They might narrow or widen in line with changes in the national rate of economic growth but the relative differences between the rich and poorer provinces seemed to persist over time. If regional disparities were to be eliminated, it could no longer be considered sufficient for less developed areas to grow at the same rate as the more prosperous regions of the country; they would have to grow at much faster rates. This view of the problem was to have a profound effect on subsequent thinking about regional policies.

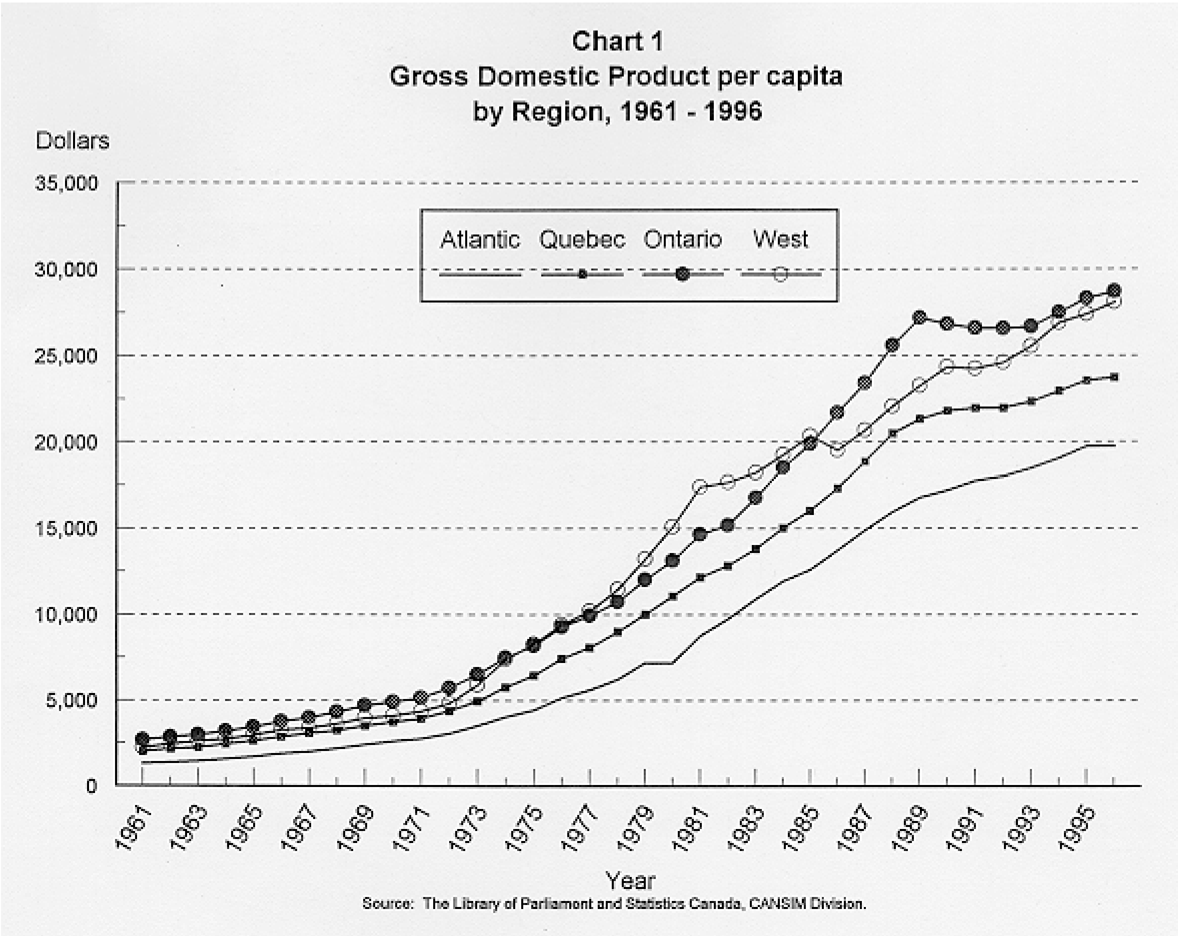
Chart 1
Gross Domestic Product per capita
by Region, 1961 - 1996
Dollars
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
Atlantic
Quebec
Ontario
West
1961
1963
1965
1967
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
Year
Source: The Library of Parliament and Statistics Canada, CANSIM Division.

Three specific problems are associated with these definitions of the regional development issue. First, to designate provinces as the areas of discussion is generally believed to have been inappropriate because economic regions do not necessarily conform to political boundaries. Over the years, federal regional development policies have attempted to define the optimum areas in Canada in which to implement policy. No universally acceptable definition has yet been accepted, however, though some sub-regions (such as Cape Breton Island) have readily been identified. For the most part, provinces remain the basic geographic unit because most data are available at that level of aggregation and because of the importance of the provincial governments in the overall process of economic development.

The second major problem with this early work was the notion of a disparity gap. The disparity gap, an easily identifiable phenomenon, has on many occasions been mistaken for the regional development problem itself. Defining the problem in terms of a disparity gap in provincial employment levels for instance, has led to a formulation of policies that concentrate on employment; that is, policies that mask the symptoms but do not eliminate the problem. In fact, the existence of a gap in unemployment rates, or in productivity, or in income levels, may be explained by a host of factors acting alone or together on the local economy. Each factor responsible for a disparity gap will often require a different policy solution.

It is important to understand the causes of regional disparities in order to prescribe the correct policy approach. While these causes are numerous, they may be classified in five broad categories. First, there are illusory differences, for example those in such variables as per capita income, which do not reflect actual differences between regions. In such instances, policy actions are not required at all. Second, there are differences in the natural endowments of local economies, such as the existence of a desirable geographical feature. Again, this may not require any specific policy response. A third cause of regional inequality may be certain federal or provincial actions, which, once identified, can simply be eliminated. Regional disparity may also "market imperfections," such as monopolies or unionization. Depending on policy objectives and the precise nature of the imperfection a number of policy options could be considered. A final

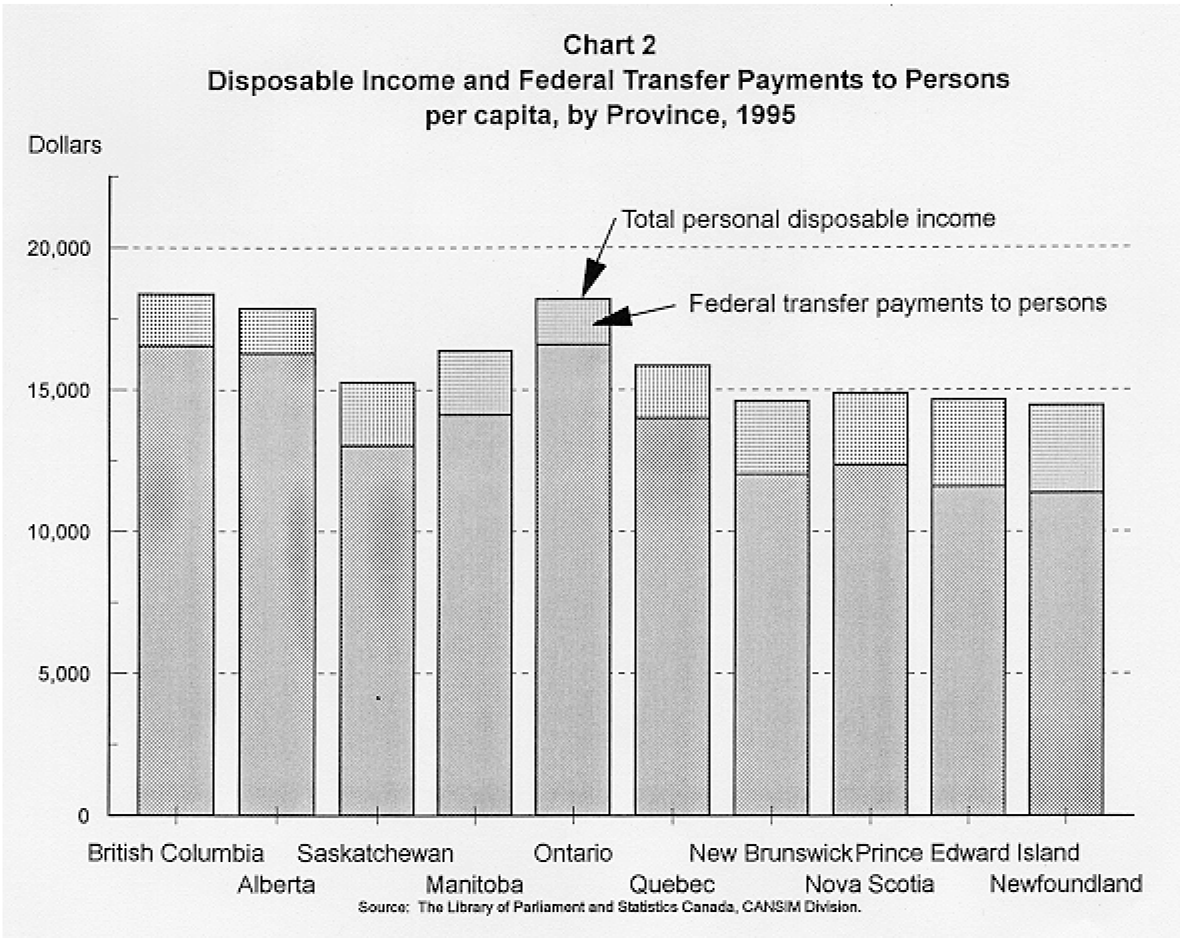
Chart 2
Disposable Income and Federal Transfer Payments to Persons
per capita, by Province, 1995
Dollars
Total personal disposable income
Federal transfer payments to persons
20,000
15,000
10,000
5,000
0
British Columbia
Alberta
Saskatchewan
Manitoba
Ontario
Quebec
New Brunswick
Nova Scotia
Prince Edward Island
Newfoundland
Source: The Library of Parliament and Statistics Canada, CANSIM Division.

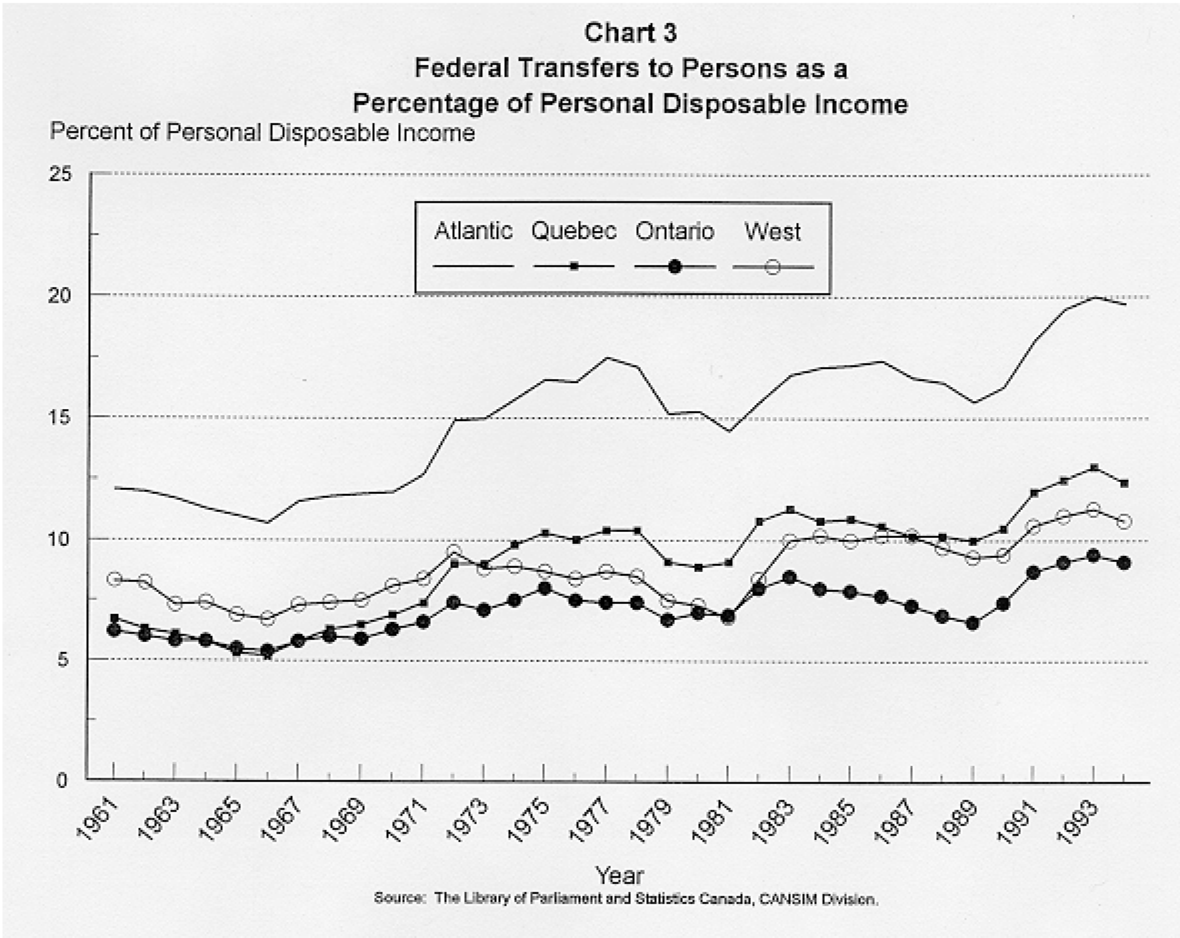
Chart 3
Federal Transfers to Persons as a
Percentage of Personal Disposable Income
Percent of Personal Disposable Income
25
20
15
10
5
0
Atlantic
Quebec
Ontario
West
1961
1963
1965
1967
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
Year
Source: The Library of Parliament and Statistics Canada, CANSIM Division.

cause could be structural differences such as "factor endowments" and consumer preferences. Such differences are usually best overcome by allowing market forces to work; this implies labour mobility. Alternatively, political considerations may suggest a policy that involves the subsidization of production. Of course, the regional disparities in Canada may be caused by a mixture of these factors and this will make it more difficult to identify the correct policy response. More importantly, it is highly likely that the source of regional inequality will differ from one part of the country to the next and that this will reduce the effectiveness of any policy that seeks a universal solution through one national program.

A third problem with the Gordon Commission's study of regional disparity was its view of resource development and industrial development. Since Canada's central provinces had a highly developed manufacturing sector, it became conventional practice until very recently to associate development with increased manufacturing employment. This ignored the fact that the best opportunities for developing a region may well be in the resource sector.

In spite of these flaws, the apparent successes of stabilization policies in the post-war period led to a widely accepted notion that it was no longer sufficient for governments to compensate the victims of economic circumstances; rather, governments could and should eliminate the causes of these hardships. Therefore, when the problem of regional disparity was identified, it seemed natural to suggest, as the Gordon Commission did, that the federal government ought to solve it.

However, the prosperity of the Canadian economy during the first decade after World War II did not foster any sense of urgency in government to deal with the problem. In fact, because economic growth was rapid, and since all regions shared in this prosperity, the regional problem did not surface as a priority item on the government agenda until much later. Though a province might have accepted a slower growth rate during periods of prosperity, it was seldom prepared to accept differences in unemployment rates during a recession.

B. Early Policy -- 1958-1968

The recession of the late 1950s forced the federal government to take action to alleviate regional disparities. One initiative was the Winter Works Programs of 1958-59 and 1959-60. Designed as a short-term expedient, they represented an innovative approach to solving local unemployment problems through shared cost programs and they demonstrated that locally targeted programs were feasible.

Though faced with short-term cyclical problems, however, most initiatives of this period tended to focus on correcting long-term structural aspects of regional economies. There was, for instance, an attempt to upgrade human capital with the introduction of the Technical and Vocational Training Assistance Program, which provided funds on a cost-shared basis to the province for the training of the provincial labour force. This was followed later by the *Occupational Training Act*, which included both manpower and mobility measures designed to deal with structural unemployment.

Other major initiatives of this period were: the Agricultural Rehabilitation and Development Program (ARDA), whose purpose was to improve the standard of living of farmers on marginal land; the Fund for Rural Economic Development (FRED), which was designed to provide federal-provincial rural development programs in designated areas; the Atlantic Development Board, which administered the Atlantic Development Fund for financing development projects in Atlantic Canada; and the Area Development Agency (ADA), which promoted economic development in high unemployment areas through financial incentives for manufacturing enterprises.

The federal government programs of the 1960s were designed and implemented to deal with specific problems. These early attempts at correcting regional disparities enjoyed only moderate success because of the absence of an overall strategy for development and of coordination among the various federal government departments responsible for their administration. Each program addressed specific problems of economic development and each was planned and administered by a separate government department. Furthermore, line departments made their own arrangements with their provincial counterparts so that the federal government might have several unrelated development plans in a single province. Under such conditions, the federal and provincial governments might not pursue common goals and could not work out strategies for economic development. By the end of the 1960s, there was a clear need for a centralized federal agency that could coordinate the federal regional development effort and enter into cooperative agreements with the provinces.

C. The Creation of DREE

In order to provide greater cohesion to its regional development efforts, the federal government created the Department of Regional Economic Expansion (DREE) in 1969, with the aim of promoting economic expansion and social adjustment in the disadvantaged regions of Canada. Former federal programs were either replaced by new DREE programs or incorporated directly into the new department. DREE was to focus its efforts on 23 areas of the country (growth poles) from which further development would spin off into the regions. At these growth poles, DREE offered assistance for improving infrastructure, for implementing social adjustment measures, and for helping private investment in a designated area. The efforts of the new department would be focused on eastern Canada, with as much as 80% of DREE's expenditure to be spent east of Trois-Rivières. Even these expenditures were to be concentrated into the selected growth poles in the belief that this would create new opportunities for economic growth in Eastern Canada's urban centres.

Growth pole theory assumes that economic development tends to occur around certain focal points or poles and that growth does not proceed equally in all places at the same intensity because different areas offer different opportunities. Regional development efforts, therefore, were to be aimed at these focal points in slow growth regions in order to start the process of self-sustaining growth. The benefits, it was assumed, would then radiate outward into the surrounding areas.

While the establishment of DREE addressed the need for a coordinated and rationalized federal effort, it did not deal adequately with the problems of regional disparity. A major policy review undertaken in 1972 concluded that:

- Regional disparities were too complex to be dealt with effectively by one government department alone; a comprehensive approach was required whereby the collectivity of government policies was made more aware of and sensitive to regional development objectives.

- Nationally applied programs were not sufficient and should be complemented by selective and flexible measures to take advantage of identified development opportunities and to overcome identified development constraints.

- The policy concern should not be regional disparities *per se* but rather encouraging each region of Canada to realize its potential for economic and social development. This change in perspective was important, as it indicated a greater emphasis on potential for development rather than on area problems.

This review led to a complete alteration in the federal approach to regional development. While DREE remained the lead federal agent, the "growth poles" approach was abandoned in favour of a more flexible multi-dimensional approach involving increasing cooperation between the federal and provincial governments as well as among the federal departments.

This increasing cooperation resulted in a set of federal-provincial economic agreements known at first as the General Development Agreements (GDA), and after 1984 as the Economic and Regional Development Agreements (ERDA). In this framework, the provinces have a more pronounced role to play in the formulation and implementation of regional development programs. Central to each ERDA, are criteria which spell out the framework within which the two levels of government can work together for the promotion of regional or industrial growth. The specifics of each ERDA reflect the priorities and concerns of individual provinces. When joint undertakings are identified, they are implemented through subsidiary agreements which usually provide for: i) concrete initiatives to be taken; ii) the level of financial assistance available; iii) a mechanism of consultation and coordination; and iv) information sharing between the two levels of government. Greater flexibility in the design and adoption of subsidiary agreements is achieved by having federal line departments participate directly at the subsidiary level.

D. The Creation of DRIE

In 1982, DREE was replaced by the Department of Regional Industrial Expansion (DRIE), which amalgamated the programs of DREE and the Department of Industry, Trade and Commerce (also disbanded in that year). Federal industrial and regional incentives were available in one new program -- the Industrial and Regional Development Program (IRDP), which provided financial assistance to manufacturing, processing and service industries. While all areas of the country qualified for assistance, the level of support varied by region and by type of investment activity.

A 1987 review of IRDP and ERDA programs by the House of Commons Standing Committee on Regional Industrial Expansion revealed a consensus in the regions on several aspects of the operations of DRIE Canada. First, there were complaints that the programs did not respond to the needs of the regions because these programs were designed, and applications for funding were evaluated, using standards that could not be generally applied. Without local input in the process, it was felt that the wrong kinds of projects were funded and locally worthwhile proposals were ignored.

A second difficulty with the DRIE programs was said to be that they attempted to satisfy two separate objectives: industrial promotion and regional development. To the less-developed regions, it appeared that DRIE sectoral concerns dominated the decision-making process and, hence, more funding and assistance were provided for industrial development than for regional development. The residents of these regions felt that federal assistance should be made available for small scale resource-based projects and that the selection of projects should be carried out by local offices.

E. The 1987 Restructuring

By the mid-1980s it was a general believed, in spite of the variety of initiatives implemented over the preceding decades, that DRIE was not achieving sufficient success in reducing regional disparities. This concern led to a restructuring of regional development policies effective in 1987. The principal feature of the new policy was a decentralization of administrative and policy functions away from Ottawa and towards the regions. Programs and measures were to be developed according to the needs of the region they were intended to assist and would no longer be expected to apply throughout the country. This new approach would involve more direct interaction between local federal agencies and the community in the design and implementation of programs.

Restructuring of the federal regional development efforts began in the summer of 1987, when it was announced that DRIE would be disbanded and its industrial support programs amalgamated with those of the Ministry of State for Science and Technology to create the Department of Industry, Science and Technology (IST). The new department would retain responsibility for regional development in southern Ontario and Quebec, while DRIE's other regional development responsibilities would be taken over by three regionally based agencies. The IRDP program was allowed to lapse in June 1988.

The Atlantic Canada Opportunities Agency (ACOA), coordinates all federal activities relating to economic development in Atlantic Canada and provides a regional perspective on the design and application of national policies and programs. Its original budget was set at $1.05 billion over five years. The Agency enjoys considerable freedom to adopt whatever measures it feels may best suit the need of the Atlantic region.

FedNor, an agency within IST, was established to promote economic development in northern Ontario and to provide the federal government with local input and advice on policies, programs and services affecting that region. The agency originally had a budget of $55 million over five years.

The Department of Western Diversification (WD), was established to coordinate, support and encourage the creation of enterprises in the four western provinces of Canada. It also coordinates the activities of other federal agencies and departments active in the West. WD was originally endowed with a $1.2-billion Western Diversification Fund, which was expected to be disbursed over a five-year period.

In 1991, federal regional development efforts in the province of Quebec were decentralized to a new agency, the Federal Office of Regional Development-Quebec (FORD-Q). Provided with a five-year budget of $1.3 billion, the Department's objectives were to: define federal objectives pertaining to regional development in Quebec; negotiate and administer economic development agreements with the provincial government; and administer support programs for appropriate initiatives in each region of Quebec.

In a sense, the creation of ACOA, FORD-Q and WD represents a continuation of the decentralization of Canadian regional development efforts as recommended in the 1972 review of DREE. Along with the ERDA programs, the new structure incorporated a considerable local element into the determination and implementation of regional development programs, which has resulted in the creation of different programs in each region.

F. Summary

Though there have been marginal successes over the years, more often Canada's regional development programs have not reduced disparities. Dissatisfactions with the programs led to periodic reorganizations of federal efforts in this field, many of which reflected the desire of the various administrations to put their own mark on regional development policy. Too often regional development programs have simply sought to create jobs without achieving the necessary changes in the fundamental structure of the local economies that could ensure long-term opportunities for growth. Although the creation of new jobs usually implies that growth has occurred, such growth should not be confused with economic development. Job creation does not signify any alteration in a region's future prospects. Economic development on the other hand, implies a fundamental change in an area's ability to create wealth. Effective regional development policies should result in such greater opportunity for self-sustaining growth.

CHRONOLOGY

1957 - Royal Commission on Canada's Economic Prospects (Gordon Commission) identified regional development as a separate economic issue.

1960-1966 - Several regionally differentiated tax measures and support programs were introduced by the federal government.

1969 - The government created the Department of Regional Economic Expansion (DREE), which implemented a regional development policy based on growth pole theory.

1974 - Decentralization of federal regional development efforts was begun. The General Development Agreements (GDA) were signed with the provinces.

1982-1983 - DREE was amalgamated with the Department of Industry Trade and Commerce to create the Department of Regional Industrial Expansion (DRIE). The GDA system evolved into the Economic and Regional Development Agreements (ERDA). The Industrial and Regional Development Program was created to promote regional development at the same time as industrial expansion.

1987- The federal government announced the creation of regionally based development agencies for Eastern and Western Canada. The Ministry of State for Science and Technology was merged with the industry support component of DRIE to form a new department, the Department of Industry, Science and Technology (IST).

1988- IRDP was allowed to lapse.

1991- The Federal Office of Regional Development-Québec, (FORD-Q) was created to administer federal development initiatives in that province.

1995 - The Department of Industry Act, recognizes the jurisdiction of the Minister of Industry over the three economic development Agencies: ACOA, WD, and FORD-Q.

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