

**FROM DROUGHT ASSISTANCE TO MEGAPROJECTS:
FIFTY YEARS OF REGIONAL THEORY
AND POLICY IN CANADA***

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Introduction

Regional issues are particularly important in Canada. This has been true since almost the beginnings of settlement in New France, when prosperity of the fledgling "empire of the St. Lawrence" rested on expanding commercial ties with its vast, fur-rich hinterland [19]. Confederation was achieved through a contentious balancing of regional interests between the Canadas, New Brunswick and Nova Scotia. And in 1871, regional economic considerations clearly lay at the heart of British Columbia's choice to join the Dominion [67;82]. Over the last hundred years, questions of railway construction, resource exploitation, freight rates, differential tariffs, and the provincial impact of federal decisions have made up the meat of Canadian politics.

In response to the growth of populism on the Prairies, and following international precedent, the drought and depression of the 1930s were countered by Ottawa with explicit regional policies concerning land rehabilitation, intergovernmental fiscal transfers and farm income insurance. Although federal Equilization Payments to the Province have continued into the 1980s (\$3.5 billion in

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1981), the efficacy of these crisis measures was never really tested. War engulfed the industrial world and provided a mighty stimulus in North America for economic production and - amongst most Canadians at least - national solidarity. Despite fears of many economists, the post-war administrations of Mackenzie King and St. Laurent were faced mainly with problems of economic expansion.

By 1960 the bloom of catch-up consumption had wilted, however, and Canada, like France, Britain and the United States, found itself confronted with agricultural dislocations, massive rural/urban migration and industrial recession.¹ The Prairies and the Atlantic provinces, once again, were the centres of public attention. For 20 years, 1961-1981, development planning, based in part on the vocabulary and allusions of regional science, formed an integral part of Canadian federal and provincial policy.

The impact of these policies, though, if taken at face value, was hardly impressive or encouraging. In its *Fifth Annual Review* (1968) the Economic Council of Canada frankly concluded, "the stark fact remains that the historical mix of forces and public policy has not resulted in any significant narrowing of regional income disparities" [25:177]. Almost a decade later, the Economic Council again reached similar conclusions, that despite a more coordinated assault on the problem by the Department of Regional Economic Expansion (DREE), "disparities in Canada are surprisingly large; certainly larger than many of us expected and larger than they need to be or ought to be" [26:211]. Up to the January 1982 announcement of sweeping changes in the content and institutional structure of federal regional policy, a wide range of analyses and evaluations tended to reinforce the Council's findings [87;7;112;81;60;113;116].

Considering both the importance of regional disparities for national unity in Canada and the new departures in regional development policy looming over the horizon, a critical review of past ideas and experience would seem to be in order. In this article we will provide the outline for such an examination. First, the origins of Canadian and dominant international regional theories will be discussed. Next, we will review the salient features of Canadian regional policy over the last several decades, with emphasis on the post-war period. And finally, recent changes in regional development thinking will be compared with the apparent trajectory of new federal policy initiatives.

Theories of Regional Development: Domestic and Imported

Probably the earliest modern concern for "regional development"

¹For a discussion of the evolving character of regional development and planning in France, Britain and the United States during this period, see Weaver [109].

can be found among the arguments of libertarian socialists in Europe during the late 19th century. Direct linkages existed between the writings of anarchist theorists such as Pierre-Joseph Proudhon and Peter Kropotkin and the ideas of French "regionalists," British civic reformers and American "regional planners" [109: Ch. 3]. The closest Canadian contact with such thinking seems to have come via Thomas Adams, early secretary of Ebenezer Howard's Garden City Association (1901), first manager of Letchworth (1903-6), founder of the British Town Planning Institute (1914) and staff director for the *Regional Plan for New York and Its Environs* (1929-31). Writing for the Commission of Conservation in 1917, Adams laid out a scheme for *Rural Planning and Development in Canada* which incorporated many of the conservation, "new town" and balanced growth concepts that also inspired Lewis Mumford and the Regional Planning Association of America. Although there can be little question of Adams' influence on the institutionalization of town planning in Canada [3;45], the impact of his ideas about rural conditions and problems on later depression-era policies appears to have been rather tenuous. The Prairie Farm Rehabilitation Act (PFRA) of 1935 and fiscal transfers to poorer provinces growing out of the 1940 Rowell-Sirois Commission Report [95] are probably best viewed as practical responses to immediate socioeconomic and political problems.

Coming from an entirely different tradition, an indigenous Canadian theory of national and regional development grew out of the seminal work of economic historian Harold Innis [50;51;53]. Highly suspicious of any thinking which proclaimed universal applicability, Innis argued that appropriate theory could only be developed on the basis of a thorough analysis of each unique situation. After all, how could theories developed abroad have much relevance for Canada, with its singular geographic, political and social makeup?

After exhaustive study, Innis and his disciples gradually formulated a perspective on economic development which came to be called the *staple theory*. As both Drache [24] and Watkins [105] have pointed out, there are several versions of this staple concept. For Queen's economist W. A. Mackintosh [68;69], staple theory was a model of economic growth similar to the influential export-led *economic base* approach later espoused by Douglass North in the United States, which we discuss below. Writing in the 1920s and '30s, Mackintosh showed how the external demand for Canadian resources stimulated economic expansion. He argued that this occurred by development of *backward linkages* through production of inputs such as machinery and equipment needed to extract the resource; *forward linkages* which involved processing the resources prior to export; and *final demand linkages* in the production of consumer goods required by workers in staple industries. Mackintosh was

relatively optimistic that this staple-led growth would eventually create a healthy, diversified economy.

For Innis, the staple theory was not just an explanation of economic growth. It was, instead, a framework for analyzing the entire political, social and economic history of Canadian development [102;106;24]. Innis' major contribution was to show how Canadian history was shaped by the export of a succession of staples from the hinterland of Canada to the heartlands in Europe and the United States. His work anticipated more recent "core/periphery" formulations, illustrating how each staple had unique impacts and how the transition from one staple to another produced profound problems of adjustment and disequilibrium. In Innis' words:

Concentration on the production of staples for exports to more highly industrialised areas in Europe and later in the United States had broad implications for the Canadian economic, political and social structure. Each staple in its turn left its stamp, and the shift to new staples invariably produced periods of crisis in which adjustments in the old structures were painfully made and a new pattern created in relation to a new staple [50:358].

Innis' analysis demonstrated how staple production subordinated Canada to the interests of the imperial nations. The imperial core area selected the staples, controlled the terms of trade, and captured much of the surplus or rent associated with staple development. The periphery, meanwhile, was forced to commit large sums of capital to fixed overhead investments such as railways, which were necessary to extract the staple, and thus became highly vulnerable to changes in external demand controlled by the imperial power. Further, the commitment of resources to staple production could entail significant "opportunity costs," inhibiting the growth of manufacturing industries which would be necessary to reduce Canada's excessive reliance on a narrow export base. As Innis concluded:

The economic history of Canada has been dominated by the discrepancy between the centre and the margin of western civilization. Energy has been directed toward the exploitation of staple products and the tendency has been cumulative. Agriculture, industry, transportation, trade, finance, and governmental activities tend to become subordinate to the production of the staple for a more highly specialized manufacturing community [52:4-5].

Canadian development theory, in the hands of Innis, emphasized factors such as discrepancies in power between metropolis and hinterland, the consequences of external control, the problem of leakages of capital, institutional blockages to economic diversification, and the frequent occurrence of disequilibrium and crisis; ideas which did not gain currency in international circles until the 1970s. Because of its accurate reflection of hinterland experience, such

thinking might have provided an enlightening prognosis for decision makers in many parts of the world periphery. As has been so often the case, however, dominant core-area doctrines were to displace the practical wisdom of experience.

Internationally, regional development theory and regional policy, for most of the post-war period, have been informed by a mainstream synthesis of ideas originating in the United States and western Europe. Like all macro-scale social theories, universalizing development theory was less notable for its empirical substantiation than its underlying ideological assumptions and its reflection of the dominant *esprit du temps*. Probably the most fundamental aspect of this mind set was the idea of *progress*, an almost teleological belief that everyone everywhere could achieve modernity and share in a better future. The unilinear path to be trod was best described by writers like Lewis [64] and Rostow [94]: the end result a romanticized vision of consumer society à la the United States in 1958.

Metaphysical suppositions are always open to criticism, most especially when they are no longer in vogue. Looking back from the early 1980s, Horatio Alger models of economic growth and development would seem to have three particularly glaring flaws. First, they paid insufficient attention to the specific resource endowment and economic history of particular countries and regions, assuming that all roads eventually led to Rome, or New York, as it were. Second, every place was treated more or less like a clean slate, as though there were not already a thriving world industrial economy in which nations must compete successfully. And third, the possibility that resources might be exploited and economic growth occur without general, long-term improvement in living standards was not seriously considered.² In other words, few aspects of real life were allowed to cloud the picture. Canada in 1961, with its 18 million people bunched along the American border, living from the sale of primary products, could follow in the footsteps of the United States or industrialized northwestern Europe.

Another keynote of international thinking was *integration*. Like Mackintosh's version of the staple theory, this meant entering the route to progress through *specialization* in those activities for which a region was specially suited. Such a geographic division of labour would provide the initial ante for new areas to start the game, leading in time to economic diversification and increasing prosperity. The most celebrated author writing in this vein was Douglass North [78] at the University of Washington. Drawing on an interpretation of Canadian arguments, North's *export base* theory set out

²More detailed criticisms of the modern theory of economic development are outline in Friedmann [35], Friedmann and Weaver [37:ch. 4] and Weaver [108].

similar propositions about core-area demand drawing favoured parts of the periphery into national and global trading systems.³ In time this was to create a balanced regional economy, founded on export-led expansion, linkages to local service or residentiary activities, and the local accumulation and reinvestment of capital.

North's ideas served as the theoretical underpinning for Perloff *et al.*'s classic empirical investigation of *Regions, Resources and Economic Growth* [84], showing that new parts of the United States were integrated into the general national prosperity by responding to initially narrow exogenous demands for resources. Boom/bust cycles and ghost-townism were mentioned as possibilities, but brushed over rather quickly. The tone was distinctly upbeat.

In more precise terms, Isard [54], borrowing basically from Lösch [66], described how integration of the space economy would take place inevitably because of the logic of locational decision making. And Berry [4], building on Christaller [14], set up a complementary argument for the national urban hierarchy, treating it as a close-knit system of flows and linkages characterized as beneficial to all the component parts. The only advantage for early starters was bigness, and most places were getting bigger all the time. Those that were not being integrated into the sphere of some larger urban centre and the end result was the same.

This all led, either naturally or with a little help from the planners, to a state of *equilibrium*. The centrality of this conservative world view, stressing imminent stability, balance and equality at the root of change, cannot be overemphasized. It was the bottom line and moral justification of international development doctrine. As already noted, North and Perloff followed Mackintosh, arguing that over time resource exportation would create a vital urban-industrial economy. Others elaborated on this logic, seeing a natural equilibrium created as *trickle-down* overcame *polarization* effects [47] and factor markets eventually created a world of regions endowed with homogenous productive forces [6;115].

The regional development policies growing out of such theories, best exemplified perhaps by Klaassen's work [56], might be categorized as "blaming the victim." After all, in a space economy tending always towards homeostasis, aberrations were either short-lived or the result of some inexplicable intrinsic failing. If national political considerations required government to get entangled in regional problems, probably the most appropriate strategy was to subsidize people to move away [57].

Others, less sanguine about the beneficence of the hidden hand,

³North, like Innis, attempted to use the economic-base idea as a model for understanding North American history [79;80] but actually he drew his main inspiration from Mackintosh [70].

nevertheless believed that transcendent equilibrium could be achieved by a little tinkering around the margins of market forces. François Perroux's [85;86] fecund idea of *growth poles* suggested that the structural mechanics of industrial growth could be understood and taken advantage of. Propulsive industries could pull other sectors along with them. Myrdal's [76] examination of the geographic dimensions of polarized development reinforced the notion of purposely stepping down the dynamism of the core to new *growth centres* in peripheral regions, salvaging equilibrium from the grips of *cumulative causation*. John Friedmann [32;33;36] generalized the idea of guiding polarized growth into a general strategy of regional development, meant to create equilibrium within the national space economy through planned integration of the country's urban-economic system. Growth pole and growth centre strategies for contriving geographic equilibrium became the international leit-motif of regional planning into the decade of the 1970s [20;46;58;59;75]. Canada, however, always plagued with regional problems, was slower than many other countries to respond to such thinking: demonstrating either a healthy scepticism or an inexplicable slow-mindedness in Ottawa.

Canadian Regional Policy, 1961-1981

The persistence of regional protest movements in Canada forced the Canadian government to take notice of the regional problem. But it was not until the 1960s that Ottawa finally accepted that strong national economic growth and transfer payments from rich to poor regions of Canada would not adequately deal with regional disparities [12]. More specific measures would have to be taken to promote development in the lagging areas of the country.

The first effort to formulate such a policy emanated from the work of the Senate Committee on Land Use [96;8;9;12]. In its report, the Senate Committee perceived the regional problem as being primarily a problem of agricultural poverty caused by poor soil and water management and small farm size. On the basis of this analysis, in 1961 the federal government passed the Agricultural Rehabilitation and Development Act (ARDA) which provided joint federal-provincial funding for soil and water conservation projects and land consolidation schemes designed to increase the productivity of farms. Although several amendments were made to this legislation, which expanded the program's coverage to deal more broadly with rural poverty instead of just farm problems, these programs were, in large part, simply a continuation of the PFRA programs developed during the depression.⁴

⁴The most important of these took place in 1965, when the name of the act was

Along with ARDA were four other major initiatives launched by the federal government during the early 1960s [9;12]. One was the Area Development Act (ADA) created in 1963 to provide tax concessions to firms located in areas of high unemployment. The second initiative was the Atlantic Development Board (ADB) which was set up in 1962 to provide economic development advice to the Maritimes. In 1963 its role was extended to funding the provision of social and economic infrastructure in Atlantic Canada. Third was the creation in 1965 of manpower training and mobility programs designed to upgrade the quality of labour, especially in slow growth regions, and to encourage the migration of labour from areas of high unemployment to areas of low unemployment. Last was the introduction in 1966 of FRED, the Fund for Rural Economic Development. This program encouraged the preparation of comprehensive regional plans to coordinate public investment decisions, and provided funding for a number of activities including manpower training, infrastructure investment, industrial expansion and research. It was an attempt to go beyond the rather limited and ad hoc project-by-project funding approach that characterized ARDA and ADA.

In formulating these policies, government advisors could have drawn on either of the two versions of the staple tradition, which had just been restated and elaborated on by Watkins [102], or the dominant growth pole theories emerging in the United States and Europe. But despite the growing interest in both of these traditions, Canadian advisors implemented an impromptu set of programs, inconsistent with the policy conclusions implicit in either paradigm. In direct conflict with Watkin's analysis of the staple theory, the government developed an "export mentality" by concentrating much of its development effort on subsidizing declining staple industries such as agriculture and forestry. Watkin's emphasis on the necessity of avoiding the "staple trap" by reducing external control of staples and capturing resource rents, directing them into linked industries and domestic manufacturing, was ignored. And in direct conflict with international theory's emphasis on the need for concentrating resources in "propulsive industries" located in selected growth centres, the government distributed its industrial incentives to almost any manufacturing firm regardless of whether it was propulsive or not. Also, these subsidies were dispensed indiscriminately to slow growth regions instead of being spatially concentrated so as to realize economies of agglomeration [25;26;22;62;9].

By 1968, there was a growing concern that these initiatives handled by different government departments with different objectives were far from satisfactory. The Economic Council of Canada

changed to the Agricultural and Rural Development Act, changing the law's focus but preserving the acronym.

was especially critical of existing policy and urged the government to adopt a new approach [25]. But despite the revival of staple theory by Watkins in 1963, the Economic Council rejected this more relevant Canadian political economy tradition in favour of dominant international ideas. Canadian, it seemed, increasingly viewed themselves as a miniature replica of the United States, and as such aspired to create a Canadian version of the American dream by adopting American policies emphasizing the role of unrestricted markets, private enterprise and free trade [103].

Echoing conventional American development theory, the Council maintained that the persistence of regional disparities in Canada was not caused by market forces, but instead was caused by factors which inhibited the ability of market forces to work properly. The policy implications were clear. Following Klaassen, measures should be taken to encourage the mobility of labour from areas of high unemployment to ones of low unemployment, to upgrade labour skills, to publicly finance social and economic overhead capital, and to encourage the concentration of development in growth centres in order to realize agglomeration economies. As the Council concluded, "these guidelines suggest that public policy should reinforce the market process of efficient resource allocation and make it work more powerfully and smoothly" [25:140].

The Council was also concerned that:

... a definite pyramiding of mere subsidies to the lower income regions, made possible only at the cost of retarded growth in the higher income regions, would be clearly inconsistent with both sound regional development and high and substantial rates of national growth [25:140].

The major shift to a new regional policy based on the dominant international paradigm began occurring with creation of the Department of Regional Economic Expansion in 1969 [9;12;26]. In an effort to provide coordination the federal government gave DREE responsibility for existing programs including ARDA, FRED, ADA, ADB, DFRA and MMRA (Maritimes Marshlands Rehabilitation Act). While DREE was somewhat restricted by existing commitments under these programs, it soon altered directions. Instead of continuing the "worst first" emphasis of the existing programs, providing assistance to weak industries in poor regions, DREE began to support stronger sectors of the economy in areas with growth potential. Areas eligible for the industrial incentives program were expanded by 1971 to include 50 percent of the Canadian population, opposed to only 18 percent eligible under the previous policy. Regions such as Montreal were now eligible. Also, 23 growth centres were designated for special financial assistance for social and

economic infrastructure, manpower training programs, and industrial development [12;26;29]. Decision-making power became highly centralized in Ottawa, and DREE concentrated increasingly on quantifiable objectives such as job creation which were amenable to new management techniques such as cost effectiveness analysis and PPBS [12]. Regional policy had moved away from the comprehensive regional development approach evolving under FRED to project funding subject to efficiency measures such as jobs created per dollar expended.

Complaints from the provinces concerning the strong centralization of power occurring under DREE forced a modification. In 1974, DREE eliminated the "special areas program" which had been concentrating funds on growth centres in a manner determined almost unilaterally by Ottawa [12]. In place of this program, DREE adopted a more decentralized approach involving the negotiation of general development agreements (GDAs) between each province and the federal government [22]. These development agreements, which were expected to outline a broad development strategy for each province, were complemented by a series of more specific subsidiary agreements which described how the development opportunities identified in the GDAs could be achieved. As of April 1, 1980, there were 108 subsidiary agreements signed, committing the federal government to \$2.3 billion of spending and the provinces to \$1.4 billion. The summary of these agreements provided in Table 1 reveals that while there was still a strong emphasis on concentrating development in growth centres such as Halifax, Montreal and Saint John, there was also a return to subsidizing the expansion of staple industries in rural regions.

Along with GDA program DREE also administered the Regional Development Incentives Act (RDIA), ARDA and a special ARDA program providing assistance to native people. But as Figure 1 shows, the GDA program was the major instrument of DREE policy, and despite administrative changes, regional policy did not change significantly during the 1970s. Although DREE was unable to dramatically reduce the funding for weak staple industries in rural areas, it did maintain a concurrent emphasis on directing funding to viable growth centres.

Recent Trends in International Theory

Ironically perhaps, just as the Economic Council and DREE were adopting dominant international models as a basis for regional policy, conventional theory was being challenged by new, more critical interpretations of the development process. It is impossible to summarize adequately these new paradigms here, but their salient features will be identified. Those interested in a more detailed

Table 1

SUBSIDIARY AGREEMENTS ACTIVE AS OF APRIL 1, 1980 MAXIMUM FINANCIAL PROVISIONS

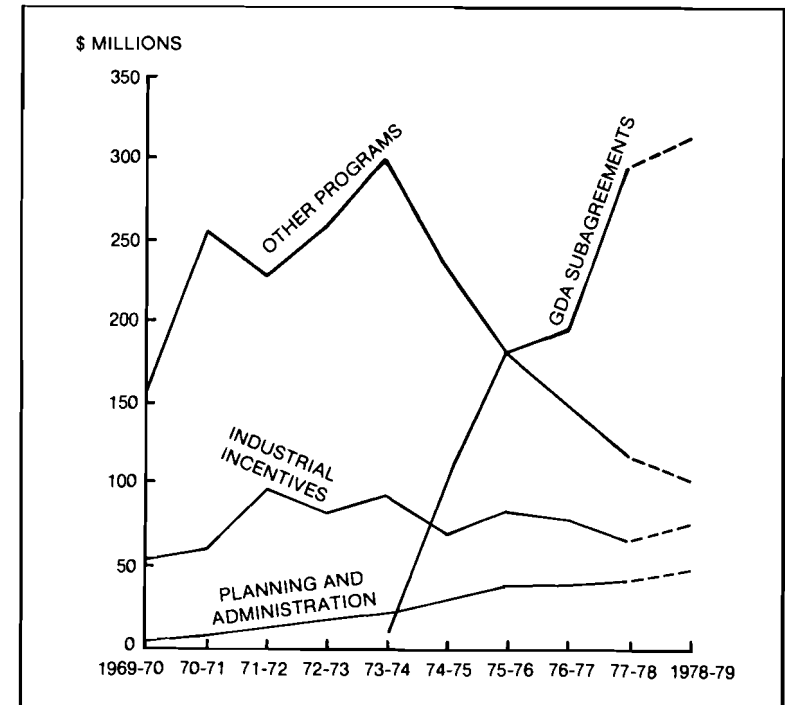
	Total	Federal Share	Provincial Share	Other
NEWFOUNDLAND				
Forestry	\$ 66,522,155	\$ 58,178,500	\$ 8,343,655	
Gros Morne	22,935,200	20,641,680	2,293,520	
Highways 1976-81	101,435,556	88,244,000	13,191,556	
Planning	6,385,000	4,000,000	2,385,000	
Inshore Fisheries	11,761,000	10,584,900	1,176,100	
Labrador Interim	22,097,000	19,662,300	2,434,700	
Mineral	12,458,000	11,212,200	1,245,800	
Tourism	13,264,600	11,938,140	1,326,460	
Agriculture	16,341,300	14,707,170	1,634,130	
Rural	14,580,000	13,122,000	1,458,000	
Stephenville	15,000,000	13,500,000	1,500,000	
Industrial	26,650,000	23,985,000	2,665,000	
NOVA SCOTIA				
Halifax-Dartmouth	109,648,700	79,997,000	29,651,700	
Canso	26,009,500	19,265,000	6,744,500	
Agriculture	48,217,000	29,980,000	18,237,000	
Industrial	23,789,000	19,031,200	4,757,800	
Planning	5,000,000	2,500,000	2,500,000	
Forestry	57,776,000	36,142,000	21,634,000	
Tourism	13,750,000	11,000,000	2,750,000	
Energy Conservation	24,875,000	19,000,000	5,875,000	
Panamax Dry Dock	43,500,000	34,800,000	8,700,000	
NEW BRUNSWICK				
Forestry	74,228,500	58,902,800	15,325,700	
Kent Region	7,751,000	6,200,800	1,550,200	
Saint John and Moncton	51,200,000	35,840,000	15,360,000	
Planning	4,875,000	2,437,500	2,437,500	
Minerals and Fuels	11,313,125	9,050,500	2,262,625	
Highways 1977-81	56,000,000	42,000,000	14,000,000	
Northeast	95,500,000	65,175,000	28,325,000	
Agricultural Resources	34,622,500	27,698,000	6,924,500	
Developing Regions	26,274,000	20,401,500	5,872,500	
QUEBEC				
Key Highways Networks	448,775,000	205,505,000	243,270,000	
Forestry	322,333,000	193,400,000	128,933,000	
Industrial Infrastructure	137,670,000	82,602,000	55,068,000	
Agriculture	103,266,000	61,960,000	41,306,000	
Mineral	28,600,000	17,160,000	11,440,000	
PICA	13,292,000	7,975,200	5,316,800	
Water Treatment	200,000,000	120,000,000	80,000,000	
Tourism	76,000,000	45,600,000	30,400,000	
Public Infrastructure	34,876,000	23,261,000	11,615,000	
Pulp and Paper	150,000,000	90,000,000	60,000,000	

	Total	Federal Share	Provincial Share	Other
ONTARIO				
Northeastern	29,920,000	14,960,000	14,960,000	
Single Industry	19,800,000	10,205,000	9,595,000	
Community and Rural	9,456,650	4,728,325	4,728,325	
Forest	82,236,500	41,118,250	41,118,250	
Pulp and Paper	150,000,000	50,000,000	100,000,000	
Eastern	50,350,000	25,175,000	25,175,000	
MANITOBA				
Northlands	155,416,000	106,009,000	49,407,000	
Industrial	44,000,000	26,400,000	17,600,000	
Value-Added Crops	18,500,000	11,100,000	7,400,000	
Tourism	20,000,000	12,000,000	8,000,000	
SASKATCHEWAN				
Qu'Appelle	33,700,000	17,960,000	15,740,000	
Northlands	127,000,000	87,000,000	40,000,000	
Forestry	24,000,000	12,000,000	12,000,000	
Agriculture	15,320,000	7,660,000	7,660,000	
Interim Water	15,250,000	7,900,000	7,350,000	
Planning	1,500,000	750,000	750,000	
ALBERTA				
Nutritive Processing	17,000,000	8,500,000	8,500,000	
North	55,000,000	32,500,000	22,500,000	
BRITISH COLUMBIA				
Northeast Coal	10,000,000	5,000,000	5,000,000	
Industrial	70,000,000	35,000,000	35,000,000	
Agricultural	86,750,000	30,000,000	30,000,000	\$26,750,000
Travel Industry	50,000,000	25,000,000	25,000,000	
Intensive Forest	50,000,000	25,000,000	25,000,000	
NORTHWEST TERRITORIES				
Interim Community	3,833,000	2,460,000	1,373,000	
YUKON				
Renewable Resource	6,600,000	4,520,000	2,080,000	
Interim Tourism	6,000,000	5,100,000	900,000	
TOTAL	\$3,710,203,286	\$2,266,705,965	\$1,416,747,321	\$26,750,000

Source: DREE. *Summaries of the Federal-provincial General Development Agreements*. Ottawa: Supply and Services, 1980, 171-2.
622.4

analysis should consult Friedmann and Weaver [37], Stöhr and Taylor [97], and Weaver [109].

To regional scientists educated in the global core but working in the periphery, the trinity of progress, integration, and equilibrium seemed increasingly a false idol by the late 1960s. A United Nations Development Decade had come and gone with little tangible evidence of "progress" or "equilibrium," even if economic integration



Source: O.E.C.D. (1980), *Regional Policies in Canada*. Organization for Economic Co-operation and Development, Paris, p. 61.

Figure 1

DREE EXPENDITURES ACTUAL AND FORECAST BY ACTIVITY

went ahead full-tilt. Indeed, as we will see in greater detail below, some Canadians were beginning to reflect more seriously once again on the Innis thesis in its full form. Internationally, however, the stimulus for rethinking the regional question came from elsewhere.

The most direct assault on regional science orthodoxy came from within the guild itself, at the hands of development planners working in Latin America. Friedmann for one, a major advocate of polarized development strategies, had begun to reflect upon his own theoretical arguments, in light of further professional experience as director of the Ford Foundation mission to Chile, under the Frei government.⁵ His "General Theory of Polarized Development" [34],

⁵For a little-known critique of Friedmann's work in Chile, see Ramirez [91]. A Canadian planner, working towards his doctorate in Scotland, has recently written an interesting resume of Friedmann's changing interpretation of polarization and the development process, see Wight [114].

which began circulating as a working paper in 1967, laid out a terse restatement of the development problem in a dense series of numbered propositions. Jumping the traditional economic boundaries of regional science arguments, like Innis, Friedmann attempted to portray an historical process in its political, social and economic complexity. He concluded that polarized development could lead to integration of the national space economy in a variety of ways; progressive equilibrium was a possibility, but so was continued concentration of all the attributes of modernity. Under this latter "Myrdal" scenario, which Friedmann seemed to hint was the most likely one, the periphery would go on being exploited by the core, until political alienation brought about a violent challenge to core-dominated state sovereignty.

Friedmann's "general theory" was less influential at the time than it might have been, not only because it flew in the face of accepted doctrine, but also because a more charismatic version of the cumulative causation hypothesis appeared concurrently, undermining its appeal among emerging radical elements in the regional science community. Created by American-educated Latinos, like Frank [30;31], Sunkel [99;100;101] and Coraggio [16;17], *underdevelopment/dependency theory* (UDT) began its career as what might be described as a conspiracy theory. With a sprinkling of Marxist vocabulary, UDT represented conventional development theory as an ideological dimension of American world hegemony. Rediscovering Innis' basic concerns, its most iconoclastic assertions were that (1) *underdevelopment* was a *process* rather than a primitive state-of-being, and (2) the necessary result of some places developing would be that others were underdeveloped into a state of increasing dependency. Development strategies such as growth centres policy were a doctrine in the service of the exploiters.

Figure 2 shows the main lines of the UDT thesis in graphic form; not unlike mainstream ideas, it has been applied indiscriminately to relations within both the national and international economies. The arrow at the top suggests that various public and quasi-public institutions in the core directly influence the periphery. These are predominantly political activities. At the national level, economic doctrines and national consciousness are passed on through the schools and mass media. (Regional development theory and policies would be a special component of this.) Economic aid takes the form of transfers, like Equalization Payments and regional policy expenditures; while military authority is exercised as a normal function of sovereignty. The point here is that power originates in the core and is applied to the periphery.

The bottom arrow shows the same kind of dominance/dependency relationships in the sphere of interregional trade in commodities and production inputs. As in the more critical version of the

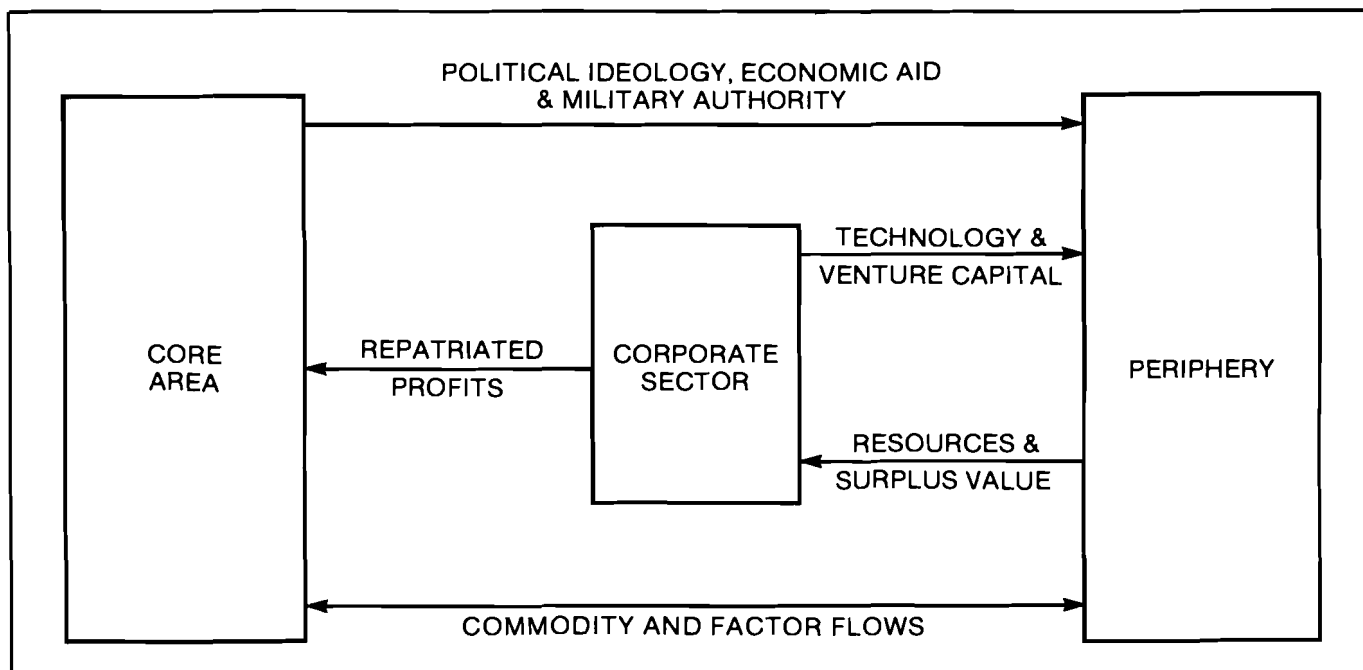


Figure 2
THE STRUCTURAL RELATIONS OF UNDERDEVELOPMENT

staple theory, regional specialization and the terms of trade are set by the core, making the periphery structurally dependent on core area activities and decisions, while denying parity through unequal exchange [27;1].

The main actor in the UDT scenario, however, is the corporate sector, shown in the middle of Figure 2, which is dominated today by multinational firms that internalize much of the production process within their own institutional boundaries. Resembling SPECTRE in an Ian Fleming novel, the multinationals furtively roam the world looking for opportunities to exploit cheap labour and resources. Their most potent weapons are privatized technology and investment funds. These they use to entrap the periphery into doing their bidding: peripheral areas need the capital, and the know-how is available nowhere else. In return for investments which may be recouped in three to five years, and carefully segmented production skills of little general utility, the corporate sector takes resources and surplus value from the host regions. These then are eventually transformed into exchange value and repatriated to the core area in the form of profits. Canada, of course, has experienced much of this in the international context, which Ottawa has attempted to counter with such measures as FIRA and the National Energy Policy.

Over the decade of the 1970s underdevelopment/dependency theory came to be applied to "first world" as well as third world situations, first in peripheral Europe and then in North America. As this process of dissemination continued, the ideas and interpretations became more sophisticated, drawing increasingly on Marxist economic theory to provide a logical framework of analysis. Of particular relevance to Canada, perhaps, is the work of British M. P. and economist Stuart Holland [48;49].

Holland has argued that conventional regional theory, which assumes the ability of unregulated markets to allocate resources efficiently and reduce regional disparities, is based on the unrealistic assumptions of perfect competition. Such theories, according to Holland, are conceptually flawed and inconsistent with the evidence. He concludes that market forces will actually tend to increase disparities, because of the bias of high growth firms to expand in high growth regions, where they are already located, as well as the failure of labour to migrate quickly enough in response to interregional wage incentives.

Further, Holland maintains that efforts to redirect development from high growth areas actually increase national economic growth, by using underutilized infrastructure and labour in the lagging regions and reducing the high social costs of accommodating expansion in the fast growth regions, costs which private firms externalize. Also, Holland has suggested that changing technology has allowed firms to become footloose. In this light, agglomeration

arguments justifying polarized development are much less convincing.

The policy conclusions which Holland has drawn from his analysis are that leading firms must be nationalized if their investments are to be redirected to lagging regions. Nationalized firms then perform the role of propulsive industries around which development can be planned. Passive approaches such as providing infrastructure, or giving grants to firms locating in designated regions, have little impact because propulsive firms are not attracted by such subsidies. Firms that are sensitive to subsidies tend to be slow growth, mature industries which have few local multiplier effects in the region. In summary:

The provision of infrastructure and aids, whether dispersed or concentrated in growth poles, fails to pull sufficient investment by leading firms in the meso-economic sector away from metropolitan areas or slow their migration abroad. Indicative planning, and sophisticated techniques such as input-output or industrial-complex analysis simply disguise the nakedness of the liberal capitalist policies with econometric trimmings. To change this imbalance between public and private power, the state itself must, at a minimum, ensure through its own entrepreneurship that direct investment in high-income and employment sectors is brought to problem regions [49:147].

A less avowedly radical approach has been advocated by Allen Pred [89]. Based on exhaustive empirical work, Pred has concluded that traditional regional policies such as those followed in Canada are based on invalid theory. In an argument similar to Holland's, Pred has reasoned that regional convergence will not occur. Because firms do limited research and much of their production is "footloose," they have a bias for investing in the regions where they are presently located, even though other regions may be more suitable. This locational inertia means that growth is self-reinforcing. The plants that do relocate to lagging regions are mature firms producing older, established products. These firms pay low wages, grow slowly, have few local multiplier effects, and have short life expectancies. Therefore, these types of industry, which have been subsidized in the past by agencies such as DREE, are incapable of providing the basis for sustained growth.

Pred concluded that instead of concentrating on slow-growth manufacturing enterprises, policy should concentrate on relocating quaternary sector employment such as head office and research and development functions which are faster growing, have stronger local multiplier effects, are higher paying, and have a longer life expectancy than mature manufacturing. Because of the tendency of management to locate new product development characterized by high profits and fast growth close to management and research

facilities, the location of these latter facilities in lagging regions could set the foundations for sustained growth.

Although there are many different themes running through the new regional development literature, this cursory examination reveals that there is a consensus emerging that market forces will not result in regional convergence, let alone efficient allocation of resources. The central argument is that functional economic power, removed from the control of territorial authority, will likely exacerbate the social and geographical inequities inherent in polarized development. Transnational capital, working partly through local elites, will create an ever increasing dependency on outside economic interests. For dependent countries and regions, labour, resources and capital will be exploited by unequal terms of trade. The hypothesized spread effects of economic growth will be captured by faraway industries and financial institutions. So unless regions regain control of their basic economic institutions, the rich will become richer and the poor even poorer.

New Developments in Canadian Theory

Canadian development theory has been reaching similar conclusions. By building both on the Canadian staple tradition, which policy makers ignored when formulating earlier regional policies, and on recent developments abroad, Canadians are gradually formulating a new paradigm, at odds with the conventional theories on which much recent Canadian policy has been based.⁶ Although there are many differences within this new Canadian literature, there is one dominant theme that can be identified: economic and political power wielded by foreign-owned multinational firms has inhibited Canadian economic development. Needless to say, this flies in the face of simple equations of *integration with progress and equilibrium*.

The dynamics of this process are complex and varied. We can summarize them briefly as follows: external control of staples has meant that resource rents have not been available for indigenous capital formation [104;55;44]. Instead they have been leaked from the various regional economies in the form of dividends to owners or retained earnings used by the firm to finance investments outside the regions. Externally-controlled firms have a bias for locating forward linkages outside the staple-supplying regions, because such

linkages are typically already established, frequently within the corporate structure of the firm itself [10;104;41;18]. As considerable research has demonstrated, dynamic firms prefer to expand at their present location unless there are compelling reasons to relocate certain stages of production [89;93;48]. Staple-supply regions, in this calculus, are usually only attractive to lower order weight-losing processing activities which are relatively insignificant compared to footloose and market-oriented manufacturing [89;93;48]. In addition to losing potential forward linkages, the staple-exporting region also misses out on hypothetical backward linkages because of the preference of externally-controlled firms to purchase inputs from external suppliers [41;10;18]. Loss of potential forward and backward linkages also reduces final demand because of the smaller size of "domestic" markets.

This process reinforces underdevelopment in the staple-exporting region, as portrayed in Figure 3. Because staple regions lack high-order tertiary and quaternary functions, such as R & D and top management, they are prevented from participating in the new high-growth industries characterized by high wages and profits. The employment that does expand in such regions is low-order processing or mature manufacturing industries serving local markets. These industries are fragmented, inefficient and static [10]. Local entrepreneurship fails to develop because of the various barriers to entry, such as lack of access to capital, predatory competition from larger externally-owned firms and inability to secure contracts from multinational firms who prefer external suppliers. Local entrepreneurship, then, remains weak because it never has the opportunity of "learning by doing." The government, meanwhile, has difficulty reducing this external dependence because it has little bargaining leverage with the multinationals. Since these firms control savings, levels of employment and production, technology and investment, the government must either accept the terms offered or suffer the political consequences of an investment strike [88;55].

In sum, the externally-controlled staple economy is locked into a staple trap. As Watkins concludes:

At the root of our problem lies foreign ownership. In the resource industries it means the export of staples in unprocessed form and the outward drain of surplus. In the manufacturing industries, it means truncated, branch-plant structure with a high propensity to import parts and a demonstrated incapacity to export finished products, or even to hold the Canadian market without tariff protection. The combination is deadly [104:15].

Although these problems of external control have implications for the Canadian economy as a whole, they have even greater implications for Canada's lagging regions, which are not only in a

⁶See for example: Marchak [72], Watkins [105], Levitt [63], Kierans [55], Naylor [77], Government of Canada [41], Laxer [60;61], Privy Council [90], Britton and Gilmour [10], Pratt and Richards [88], and Cordell [18].

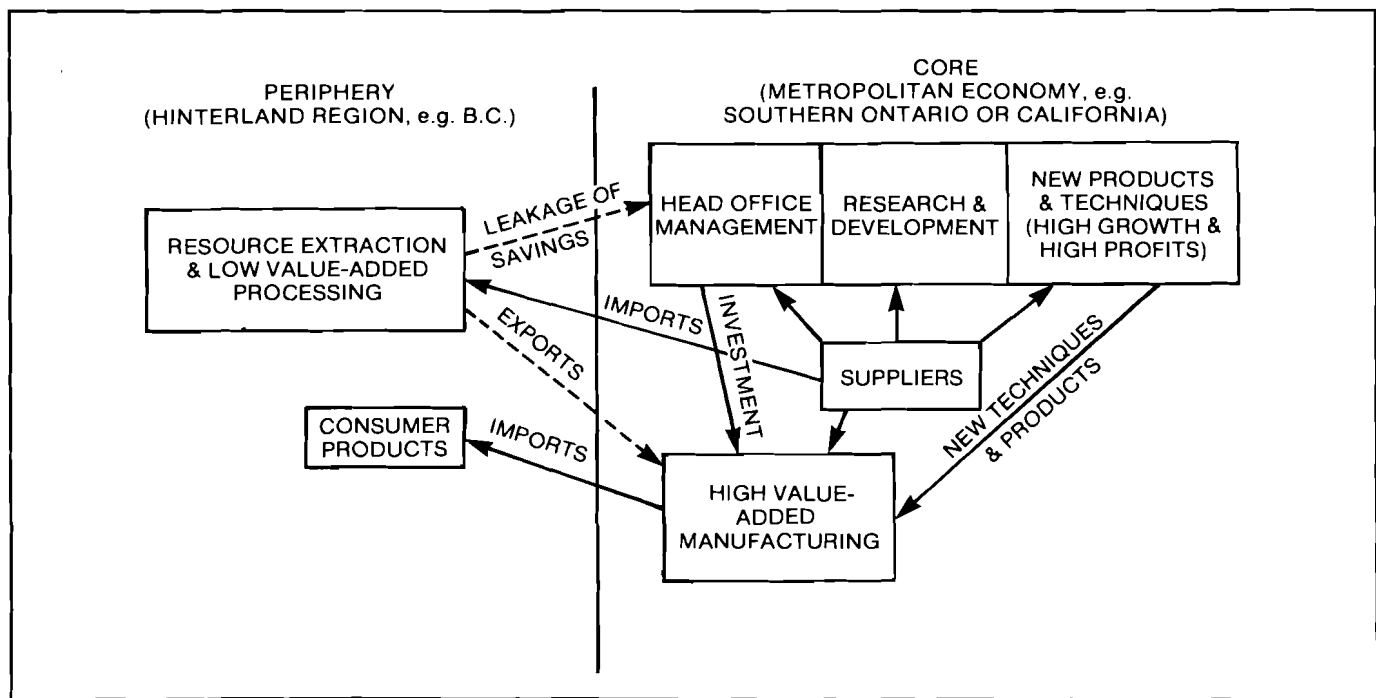


Figure 3
STAPLE DEPENDENCE AND EXTERNAL CONTROL

weak bargaining position vis-à-vis externally-controlled firms, but are also in a weak bargaining position vis-à-vis the metropolitan centres of Canada [104]. Consequently, what concessions are obtained by Canadians from externally-controlled firms are more likely to accrue to the stronger regions in Canada. In fact, as Table 2 reveals, the locational bias of recent DREE policies towards Atlantic Canada is countered by the bias of other programs towards the central regions. (Bailout grants to the automobile industry are a prime example.) Also, as Ray has shown, multinational firms have a distinct bias for locating in central Canada [92]. This locational bias of foreign-owned firms has caused a 20 percent loss of existing employment in Atlantic Canada.

This reversal in professional opinion in both Canada and abroad has not yet fully penetrated the Canadian literature, although several recent studies have confirmed a number of its principal tenets. The Economic Council, for example, has concluded that between 32 and 61 percent of DREE's subsidies to industries have no effect on location decisions [26]. They are simply public gifts to corporations. The Council also concluded that migration was incapable of having any substantial effect on disparities. In another study it noted a tendency for DREE spending to transfer resources from low-income people in rich regions to high-income people in poor regions [39]. Yet another detailed study of one major DREE project in Alberta confirmed that many of the benefits of development accrued to the already well-off and in-migrants, and that the project did not provide a foundation for sustained growth [111]. Additional studies are appearing showing that much regional development spending continues to subsidize unecomonic staple development or provide unwarranted grants to large private corporations [65]. Kierans [55], Gunton [44] and Pratt and Richards [88] have documented the leakage of resource rents out of Manitoba, British Columbia and Saskatchewan, respectively. And several other recent studies on regional policies have incorporated many of the new development ideas [73;87].

Policy Implications of the New Development Theories

What are the implications of this new development theory for regional policy? First, the new development literature suggests that regions must retain the surplus rents from staple extraction for regional capital formation [55;88;102;104]. Royalties and competitive bidding are two useful techniques for doing this [38;74;55;44]. However, multinational firms are able to circumvent these measures through intra-company transfer pricing and by using their economic control over investment and production to force govern-

Table 2
GRANTS, CONTRIBUTIONS, AND SUBSIDIES TO BUSINESS,
CANADA, BY REGION, 1974-75
(dollars per capita)

	Atlantic Provinces	Quebec	Ontario	Prairie Provinces	British Columbia	Canada	Total Assistance (millions)
IT & C industrial assistance	8	6	9	1	11	7	158.7
DREE	8	6	1	3	-	3	69.7
Agriculture	3	19	12	35	3	16	357.1
M & I industry training programs	3	2	1	1	2	2	36.9
TOTAL	22	33	23	40	16	28	622.4

Source: [26:170].

ments to loosen their grip [55:88;83;13;28;15]. Therefore, there is a growing consensus that the collection of rents requires some degree of public ownership in staple industries as a means of acquiring the data necessary for setting appropriate royalties and providing the regions with sufficient bargaining power to enforce their rent collecting regimes. As Pratt and Richards conclude in their recent book analyzing the vitality of the Albertan and Saskatchewan economies:

A sine qua non for a government to capture rent and other benefits is that its leaders be ideologically oriented to take entrepreneurial risks and be prepared to reject a low level of rent available with certainty and bargain for a higher level which may prompt prospective industries to retaliate, be prepared to invest public funds if the price of private investment is too high, be prepared to sacrifice immediate for probable but uncertain future benefits [88:327].

Once these staple industries are placed under regional control they can be used as a basis for securing more diversified development. Export levies, procurement programs, planning agreements, as well as direct public entrepreneurship can all be used to aggressively pursue the forward, backward and final demand linkages related to staple development. It is important to note that here, in opposition to earlier formulations of staple theory, the explicit emphasis is upon the strategic use of resource exports to promote a more general economic restructuring, through active public entrepreneurship.

The urgency of this view is confirmed by recent shifts in government policy at both the national and provincial levels. After decades of experience with the passive role of providing infrastructure and subsidies, imposing taxes and venturing into public entrepreneurship only to salvage bankrupt pilot firms, governments have learned they must be active, aggressive entrepreneurs in leading sectors of the regional economy. Experiments with more aggressive public entrepreneurship have been undertaken by all types of governments, of varying political persuasions. Examples include the Canadian Development Corporation and the National Energy Program of the federal Liberals, the British Columbia Resources Investment Corporation set up by the B.C. Social Credit government, the Alberta Energy Corporation set up by the Alberta Conservatives, the nationalization of potash by the NDP in Saskatchewan and the current efforts to nationalize asbestos by the Parti Québécois. As former federal cabinet minister and president of the Montreal Stock Exchange Eric Kierans concludes: "it is not a question of capitalism or socialism. It is simply searching for the better way" [55:37].

Although securing regional control of key regional industries is a necessary condition for development, it is far from sufficient.

Indeed, structural imbalances could continue unchanged, and public entrepreneurship may simply result in the replacement of one set of managements with another no more sensitive to regional aspirations of equity, environmental health, balanced development and democratic control. Policies aimed at regional control of basic industry, then, must be complemented by other strategies designed to ensure that regional institutions are subject to democratic control and promote basic structural transformation of the economy.

One set of principles to ensure appropriate "territorial development" of this sort has been proposed by Friedmann and Weaver [37;107;109;110]. These include: job creation through meeting regional needs, recognition of residentiary activities as a key to growth, strong regional institutions and decentralization, small-scale and local cooperative control of production facilities. The achievement of these objectives requires fostering strong regional consciousness, the selective closure of external linkages and very carefully considered development of export industries in sectors where the region has an adequate bargaining position. We contend that:

If regional development is to occur, what is needed is a doctrine of territorial development, negating the bonds of unequal exchange by an explicit theory of willful community action, selective regional closure and strategic regional advantage. Abandoning the determinisms of economic thinking, regional development is above all an ethical-political question [107:407].

There is some evidence that these principles are slowly filtering into the Canadian arena. The Canadian Council on Rural Development has recently completed a study that incorporates many of the features of Friedmann's and Weaver's argument [11]. These concepts have, in part, also influenced the preparation of the PEI development plan [22]. And a more specific plan displaying many of these principles has been prepared for the Slocan Valley in British Columbia. Much has yet to be done, though, to convince Canadians they can create and maintain healthy, balanced regional economies; so even with constitutional repatriation a *fait accompli*, the future of Confederation remains clouded by the regional question.

Regional Theory and Megaprojects

As regional theorists in Canada and elsewhere have argued over the nature of local development, internationally governments have acted decisively to change the emphasis of subnational economic policies. Partially in response to fiscal crisis, stagflation and higher energy costs - partially the result of political polarization - the regional initiatives of the 1960s and '70s have been abandoned.

"Devolution" has become the code word; meaning "voluntarism" for those on the right and "self-management" for the new left. In Britain and the United States, with policy increasingly coloured by the logic of supply-side economics, *enterprise zones* have become the watchword [40;98;2]. The new social democratic government of François Mitterrand in France has opted for nationalization of key branches of industry and the first apparent decentralization of public decision-making powers since the Revolution and Louis XIV [43].

In January 1982 the federal government in Canada announced its own regional policy changes, the only ones of significance since the introduction of General Development Agreements in 1974. Two months earlier, in November 1981, an ad hoc committee of the federal cabinet released a policy document endorsing large-scale natural resource developments - *megaprojects* - as the national economic focus for the 1980s [42]. This was a follow-up to earlier quasi-official evaluations of the increasing importance of energy development and Asian trade and investment to the Canadian economy, especially the West [71;5]. Integration with the Pacific Basin economy, through massive energy projects like Northeast B.C. coal and Beaufort Sea gas and oil, was put at the top of the agenda, and the substance and administrative structure of regional planning have been gun to shift to meet the exigencies of such a policy.

While it is too early to know the full details and significance of these changes, their outlines seem reasonably clear. The Department of Regional Economic Expansion has been combined with the industry side of the Department of Industry, Trade and Commerce to form a new agency, the Department of Regional Industrial Expansion. Existing DREE agreements will be allowed to lapse at the end of their current terms and new, less complex contracts will supposedly be substituted. The Ministry of State for Economic Development has been given new "regional responsibilities," becoming the Ministry of State for Economic and Regional Development. MSERD in particular plans to put senior directors and staff in each province to coordinate development locally and help cut red tape on megaprojects.

Consensus in the media seems to suggest that the Department of External Affairs, becoming a triumvirate directed by three ministers and taking over international trade responsibilities from Industry, Trade and Commerce, is the bureaucratic "loser" in the reorganization. Prime Minister Trudeau has said that the new arrangement:

... will create a very different Department of External Affairs than currently exists. The primary focus of the restructured department will be trade and economic issues. External affairs will undergo a major reorganization and revitalization to enable it to act abroad with

a better appreciation of Canada's economic interests.⁷

The government has argued that the new administrative structure will make regional development priorities

... 'much more important' throughout the federal bureaucracy, ending the situation in which some departments would 'wash their hands' of regional development decisions because they were DREE's responsibility.⁸

Critics have charged, however, "that regional considerations would now be swallowed by the [sic] industry department."⁹ It is our opinion that regional development issues will become more diffused within the governmental structure, that externally-oriented "industrial development" will be the focus of the responsible departments and ministries, and that centrally-orchestrated mega resource projects will be the main vehicle of this policy. According to the new Minister of Economic and Regional Development:¹⁰

'From here on, the national Government will invest its capital in areas of prospective growth in the future We're going to stop propping up mature industries that will never be competitive in this generation, like textiles, clothing, footwear and a number of others.'

Canada is no longer worried about its role of supplying the world with raw resources The preoccupation with 'moving away from being hewers of wood and drawers of water is all behind us.'

'We're not going to process every one of our natural resources into the final product. For one thing, we don't have the people. And there are lots of places in the world where they can manufacture products at a much lower cost.'

While detailed evaluation of such propositions and policies must await the event, it is important to observe that they represent a major departure from the regional science-based thinking of the last decade. Serious consideration of industrial and geographic linkages and multipliers seems to have been abandoned, let alone the concept of economic restructuring. Neither are they informed by the new political economy ideas which have emerged in the Canadian and international literature during the last several years. Like the enterprise zone concept, megaproject development would appear a reversion to simpler formulations, less sophisticated than Mackintosh's

⁷The Vancouver Sun, 13 January 1982.

⁸The Globe and Mail, 13 January 1982.

⁹The Province, 13 January 1982.

¹⁰The Globe and Mail, 13 February 1982.

handling of the staple thesis. Their most important contribution to solution of the regional problem in Canada seems to be short-term political visibility. They will, no doubt, create the impression of activity in face of the worst economic recession in 50 years, as well as providing new revenues for some segments of the business community and government. This, however, is insufficient.

In fifty years of regional policy experience - from drought assistance to megaprojects - the latest strategies announced by Ottawa are without doubt the most ill-advised. At best, they were formulated in an intellectual vacuum, and in our judgement are tantamount to abdication from regional concerns by the federal government. *Massive resource exports do not equal economic development.* Significant numbers of jobs must be created. Useful, general purpose infrastructure must be built. Inwardly strong regional economies must be brought into being, which can provide residents a comfortable, secure living. This means hard work, initiative and reinvestment where the wealth is created. Most of all, it means a long-term commitment by people to their community. In this light, with due regard for the important redistributive functions of national government, perhaps it is time for the provinces to assume responsibility for their own economic development. It is imperative to ask: When the oil, gas and coal are gone, how will the provinces earn their living, and where can the empire of the St. Lawrence turn for its next generation of staple exports?

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