

## REGIONAL POLICY IN CANADA: AN URBAN SYSTEM PERSPECTIVE

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Regional policy in Canada, or what is more appropriately described as regional development policy, has largely been a response to the existence of geographical disparities in income and economic well-being. These disparities have persisted, although in varying degrees and forms, at least since confederation. They have also been of sufficient magnitude to generate public awareness, political concern, and considerable government expenditure. The coincidence between the map of regional disparities and the map of political boundaries, notably those of the provinces, has served not only to intensify the political pressures for more extensive regional policy initiatives, but also to ensure their ultimate failure.

These brief comments will initially attempt to outline some of the background factors and geographical imperatives that have shaped regional policy in Canada and then explore some of the weaknesses of the current philosophies in light of the recent and dramatic reordering of urban and regional growth in Canada. It is argued here that to be most effective regional policy in Canada, as elsewhere, must be framed in relation to the organization of the nation's urban and regional systems and the changing structure of the *space economy*. It is suggested that one useful approach to devising a framework for influencing the changing geography of the space economy in Canada is that based on the notion of an urban system, set within an increasingly turbulent and unpredictable environment.

### Background

The post-war evolution of the strategies and instruments of regional policy in Canada has followed traditional routes paralleling

those in the United States, but with some rather unusual twists. As the historical details are adequately covered elsewhere, including papers by members of this panel, my comments can be relatively brief. Regional policy in Canada has tended to chase fluctuations in regional economic performance, as mirrored in industrial output, unemployment statistics, and net migration flows. It has tended to focus on the provision of support for lagging industries, particularly the larger firms, and on subsidies, both direct and indirect, for physical infrastructure and services. Essentially it can be characterized as a combination of a "mopping-up" exercise, designed (if at all) to pick up the litter left by the overwhelmingly powerful forces of the private market, and a "relocation" exercise, acting to move firms and jobs from one place or region to another.

Any specific discussion and evaluation of regional problems and policies in Canada will vary depending on whether one views the country as:

- a) one region, surviving in splendid northern isolation;
- or b) several (3, 5, or 10) distinct and often competing regions, with only weak linkages between them and characterized by increasing interregional barriers to trade and factor mobility;
- or c) a subregion of the North American economy dominated by forces arising and decisions made outside the country (e.g., in the United States and overseas);
- or d) all of the above.

These seemingly trivial differences in definition and perspective translate into very real differences in the approach and policy instruments chosen. The first view is essentially that expressed from the national capital, which is understandable, given the primary responsibility of the federal government in defining the boundary conditions of the economic system. The second is more commonly the view from the provincial capitals, although there is little agreement among them on the nature of regional policy or the components of regional problems. The third is most vividly expressed in the continentalist position emphasizing lower tariffs or free trade and a continent-wide sharing of resources.

The debate on regional policy in Canada has been largely a contest among those who take the first, second, or third of the above views; that is, it is seen primarily as a macroregional or interprovincial policy, or as a subset of possible continental strategies. The result is that we have twelve governments involved in regional policy in various degrees, with the twelfth being the Territories or the United States, depending on one's position in this debate. Some

of their policies are coordinated and complementary; most are unrelated, and indeed some are contradictory.

One other major difficulty in evaluating regional policy in Canada, as in the United States, is that neither federal government has been particularly serious about regional issues. Unlike Britain, Sweden, or most other European countries, neither Canada nor the United States has invested heavily in regional development programs. Indeed, both countries may be characterized in terms of their overt actions as noncommittal on most regional issues. Their regional policies have traditionally shown a lack of clear objectives, in combination with an inadequate range of policy instruments and inconsistent applications of those instruments over time and between regions.

### Some Geographical Imperatives

The traditional regional policy analyst has tended to overlook or underplay a number of basic geographical parameters which shape Canadian economic/social development. First is the intense specialization of regional economies in Canada, which means that the *differential* spatial effects of macroeconomic and social changes tend to be: a) immense, b) geographically specific, and c) highly volatile over both space and time. The first two points suggest why regional questions are so politically important in Canada; politicians do represent specific slices of territory and therefore have a clear commitment to regional problems, whether they are real or not. The third suggests that some of our regional problems are transitory, or at least subject to rapid transformation, while others are not.

Secondly, we clearly do not know enough about the spatial structure and operation of either national or regional economies to devise effective and cost efficient regional policies. We do not, for example, have adequate knowledge of how the space economy is integrated between public and private sectors, or of how the private sectors are linked together as a national system and as a set of subsystems. Nor do we know very much about the role of interregional linkages in redistributing growth and change from one location or one region to another, although we recognize the importance of those linkages. How, for example, does a major investment, in infrastructure or social services, or a direct subsidy given to an industry in a depressed region, spread throughout the national economy? How much of a one million dollar expenditure in northern New Brunswick subsequently ends up in Halifax, Montreal, or Toronto through the network of interregional linkages? Is it 10 percent, 50 percent, or 90 percent? How does this percentage vary

by economic sector or type of industry, by type of policy instrument used, and by region? How do shifts among economic sectors influence and adjust to changes in the demographic structure? Without such knowledge specific regional policy incentives can be a roundabout and very expensive way of stimulating growth in areas where it is not needed (e.g., in the most favoured regions).

Thirdly, there has been a consistent lack of appreciation of the sharp structural and compositional differences within sectors of the regional economies in Canada. These regions differ in terms of their capital-labour needs, occupational structures, level of technology, degree of foreign ownership and extent of import penetration. They also differ widely in their vulnerability to cyclical swings in the economy and to exogenous or international events such as new price cartels or trade restrictions. Thus, they also respond very differently to any given set of national policy initiatives. These individual characteristics are of course not specific to Canada or its regions, but in combination they are unique.

There is also a widespread assumption in Canada, as in most other countries, that the *regional problem can be isolated* from the operation of the space economy as a whole. Seldom do we see regional policy statements framed in a context of ongoing changes in the national economy. Seldom do these statements derive from a systematic assessment of regional weaknesses in that economy.

It is also generally assumed that the focus of regional policy is a "spatial" problem, and that the policy response can be framed in terms of neat and contiguous spatial units. What is frequently overlooked is that regional problems may be expressed at very different spatial scales, and in discontinuous patterns, and that these scales and patterns themselves change over time. Some problems are contained largely within discrete regional units. Most, however, are not. Increasingly, the most difficult problems are arising within regions, often *localized* in peripheral resource-based communities and older industrial towns, or within the larger cities. In the latter case, the combined effects of higher unemployment, industrial decline, and fiscal constraints, with a relatively high-cost living environment, have impacted most severely on particular social groups.

### Implicit and Explicit Policies

At this point it is worth reiterating that regional policy is itself a misleading term. In Canada, as in all other countries, there are at least two different types of regional policy:

- 1) direct (or intentional) regional policies:

- 2) indirect (or unintentional) impacts on regions of other types of policies.

The former include traditionally labelled policies which have explicit regional objectives. The latter refer to the combined regional effects of policies such as those in transportation, taxation, trade and industry, social welfare, and energy and resources, all of which have other (and primarily) non-regional objectives. The effects of the latter are considerably greater than those of the former and they are growing in importance in line with the increasing proportion of GNP which is transmitted from place to place through the public sector. Regional and urban growth in Canada is largely shaped by decisions regarding transportation network infrastructure and regulation, by decisions on resource pricing and trade agreements, and by decisions on transfer payments to governments and individuals.

The problem facing researchers and policy analysts has been to identify and measure the effects of these non-spatial policies. This is a tall order, but a worthwhile one. There are a number of examples in the United States and Canada which have demonstrated the differential effects of these policies. For example, research by my colleagues at the Centre for Urban and Community Studies on the effects of government expenditures on the Canadian urban system has illustrated the strength, diversity, and direction of some of these impacts. The activities of the different levels of government and of each agency of the public sector clearly impact in different ways on the space economy and on the pattern of urban and regional growth. Some actions tend to dampen the variance in regional growth rates over time (stabilization) or from place to place (redistribution), others seek to integrate or to equalize services, while yet others attempt to stimulate economic growth or to ameliorate the consequences of decline in specific locations.

The point is that we need to know about both the origin and spread of these impacts if we are to devise explicit regional policies which make sense within the context of all public sector activities. We need to know more about the precise role of government in general in shaping regional and urban growth. Government employment, investment, and procurement policies have become substantial vehicles for redesigning regional growth, but in an uncoordinated and often unintended fashion.

### An Urban System Perspective

A highly urbanized society, subject to rapid change internally and to an uncertain international environment, calls for a very different theoretical perspective on the nature of the spatial economy from that on which regional policies are typically based. One such pers-

pective is that of an urban system, which essentially views the spatial economy, and its constituent regions, as organized around a network of interdependent urban centres. In the Canadian case the settled portion of the country has been subdivided into 125 regions, each centred on a metropolitan area or smaller centre but linked together as a spatial system and organized in a hierarchical arrangement. The urban centres in this system act as control points in the economy, sending out and receiving goods, capital, labour, and information. The mix of these components represents the particular chemistry of growth and change in any modern economy. Local centres provide goods and services to their local area, but also exchange those with higher order centres. These larger centres, in turn, interact primarily with each other and with centres outside the country. The dynamics of any such system are represented in the networks of linkages and interactions which translate aggregate national growth (or decline) into differential rates of urban and regional growth. The approach also involves an explicit recognition of the importance of stochastic events in shaping the pattern of regional growth.

A focus on the urban system does not, however, imply a reduced status for regional policy; nor does it suggest a secondary role in that policy for the primary sector. Indeed, the reverse is the case. An urban systems perspective is basically an approach which stresses the functional organization of regional economies and the interdependence in the space economy. Its units of analysis are urban-centred regions rather than regions of homogeneous economic activity and land use. Intermetropolitan linkages become the principal mechanisms for change. In this context, urban areas act to redesign the regions, rather than the reverse. Agriculture and other primary sectors then become "internalized," as integral components of an urbanized economy, rather than separate and often isolated sectors.

This model also contains a hierarchical ordering of regions, each level of which nests within the functionally-dependent or tributary areas of the next higher level. Growth impulses tend to move upward in the hierarchy so that the smaller centres show high variability over time while the larger centres exhibit relatively more regular economic performances. This approach allows for the identification and treatment of problems at the very different spatial, as well as temporal, scales at which they are expressed. Quebec, for instance, has recognized the crucial role of Montreal in shaping the space economy of the province and has sought to use that role as an explicit instrument of regional development policy.

### Conclusions and Future Prospects

In Canada, the question still remains unanswered as to exactly what regional unit is the most appropriate basis for regional policy. In most instances, as is widely appreciated, the provinces are particularly unsuitable for purposes of analysis and for the implementation of regional policy. In most instances, provincial boundaries do not correspond to the boundaries of functional economic regions nor to the complex intermetropolitan and hierarchical organization of an urbanized economy.

The actual form of future growth in the regions and urban areas in Canada will continue to be shaped primarily by a combination of market forces - often external and unpredictable forces - and by the more predictable but largely inadvertent actions of governments at all levels. Those actions and forces will sweep back and forth across the country, transported by the network of linkages among urban-centred regions described earlier, but in ways subject to very high levels of uncertainty.

Nevertheless, regional policy, as traditionally and narrowly conceived, will continue to exist in Canada simply because it is politically essential, particularly to maintain a provincial focus in federal programs. The scale of recent sectoral shifts in the economy also provides the potential for substantial increases in social inequalities between growing and declining regions. Substantially more funding is not probable, although increased support for the seriously sagging economies of Quebec and the Atlantic region, and perhaps of industrial Ontario, are likely. There will be increased pressures for greater coordination between federal and provincial policies, but their success to date has been limited by the differing objectives of the two levels of government. Policies will continue to subsidize areas or industries in place, since it is politically much more difficult to plan for economic contraction and population decline or to subsidize out-migration on a substantial scale from a depressed region. Thus the effect will be to maintain the *status quo*, as a form of regional conservatism. That is, pressures will increase to hold the geography of economic activity in its present form (e.g., to preserve the present territorial distribution of people and wealth), rather than to design a new regional structure.

The major public investments in regional development in the decade ahead will clearly have to be more modest in their goals, use more precise and sensitive instruments, and be more closely targeted to specific problems in particular locations. They should also be framed in a context which recognizes the integrating mechanisms acting on the spatial structure of the Canadian economy and which preferably is based on the network of urban-centred regions that we have defined here as the urban system. Finally, they must

take into account the unique attributes of regional economic development in Canada (e.g., foreign ownership, openness to external influence, temporal volatility, and regional specialization) and the relatively large role of public sector enterprises (e.g., crown corporations), within the context of an international environment which will continue to be highly unstable and unpredictable.