

CANADIAN REGIONAL POLICY: UNDISCIPLINED EXPERIMENTATION

N. H. Lithwick
Department of Economics and
School of Public Administration
Carleton University
Ottawa, Ontario
K1S 5B6

Introduction

Canada, over the decade of the 1970s, has emerged as one of the leading advocates and practitioners of regional policy. An evaluation of its experience to date should be of interest to other countries, and might even suggest possible areas for improvement in Canada's own performance.

The most striking feature of Canadian regional policy has been the volatility of its efforts. Critics view the many twists and turns in the orientation of regional policy, and its multiple institutional forms, as evidence of a lack of clarity regarding both the nature of regional problems in Canada and the appropriate means to deal with them. Supporters argue that such policy flexibility represents imaginative innovation in a policy area that is intrinsically messy.

As is usually the case, the truth lies somewhere in between. Policymakers have failed to assert a clear and tenable conception of the problem. On the other hand, they have demonstrated remarkable openness to institutional changes. A closer marriage of theory to policy or of substance to form would appear to hold out substantial promise for significantly improved region policymaking.

Some Conceptual Issues

There can be no simple statement of "the regional problem". It is viewed differently by different actors at different times. Moreover, there is no single core of theory that permits us to formulate a neat analytical resolution of these controversies.

Nevertheless, there are certain key characteristics that must be agreed upon if any consistent policy is to be pursued. One such characteristic pertains to the temporal context of solutions. Given that regional disparities arise because of differential patterns of development, are they to be dealt with by *compensation* or by *transformation*? Compensation involves transfers (to governments or individuals) to ensure some minimally adequate level of public, and/or private incomes. Transformation entails structural changes to discourage misallocation of resources and to encourage new ways to achieve a region's economic potential. This involves a long-term adjustment process, in contrast to the short-term gains inherent in the compensation approach.

It is clear that some conflict exists between these two types of solution. Compensation approaches tend to create what Courchene has called "transfer dependency" - a reduction in private and public incentives to undertake appropriate transformation policies. And transformation policies impose potential short-term inequities on those who must bear relocation costs or declines in real earnings to reflect lower productivity levels.

If it is essential for regional policy to choose between these alternative temporal orientations, it is also essential to identify the structure of spatial economic relationships. Once again, two conflicting views persist. One sees regions as essentially autonomous, and hence regional policy must emphasize intraregional strategies. The alternative view sees regions as economically interdependent, so that policies for one region must take into account spillovers (linkages, leakages) onto other regions. As a result, interregional strategies become an important element in this conception.

It is useful to summarize these differing views in a simple two-by-two table that gives the various alternative policy approaches:

Regional Structure	Temporal Orientation	
	Compensation	Transformation
Autonomous Regions	I	II
Integrated Regions	III	IV

A review of Canadian history reveals a series of moves between these four approaches. Prior to Confederation, "regional" policy was based on staple development in largely autonomous colonies and corresponded roughly to category II. MacDonald's National Policy involved the use of tariffs and transportation to forge an integrated national economy, and hence shifted the policy approach to category IV. With the 1940 Rowell-Sirois report and the stress on fiscal

equity, the major emphasis shifted to compensation. The emergence of Equalization in the 1950s institutionalized this approach, which corresponds roughly to category III.

The 1960s witnessed two conflicting trends. One was the development of shared cost programs and tax-abatements to the provinces to assist largely in social development policies. They reinforced the political and fiscal powers of provinces, which began to act more and more autonomously, shifting regional policy focus to category I. At the same time, the specific problems of the Maritimes and the Prairies attracted growing attention, no doubt to a great extent as a result of Diefenbaker's success in stirring regional sensibilities. The policy response in Ottawa was a number of specifically targeted programs under the aegis of a variety of agencies such as the Area Development Agency, the Agricultural Rehabilitation and Development Agency, the Fund for Rural Economic Development, and the Prairie Farm Rehabilitation Agency. These efforts fall into category II of our scheme.

The creation of the Department of Regional Economic Expansion in the late 1960s was an attempt, in the first instance, to coordinate these development programs. While there was some rationalization, and a shift in emphasis towards industrial incentives and infrastructure support, the overall concept of regional relationships did not undergo a fundamental change. In the mid-1970s a new instrument was developed, the General Development Agreement (GDA). It served rather well to coordinate federal resources and to cooperate with individual provinces, but again, the intraprovincial focus was sustained and reinforced. This was seen in the proliferation of provincial crown corporations as instruments of provincial development policy, the emphasis on provincial resource exploitation (vs. more integratable sectors) and the intensification of barriers to interprovincial mobility of labour, capital and commodities.

Most recently, the federal government has demonstrated some growing awareness of the fragmenting consequences of its regional policies, and has proposed a structural reorganization. In particular, it has attempted to forge a link between its regional and sectoral policy efforts under the Ministry of State for Economic and Regional Development (MSERD). Whether this will entail a category II or category IV approach is, however, uncertain. The one-sided emphasis on megaprojects as the leading edge of development policy, because of their heavy resource orientation, may actually strengthen the type III strategy, although no longer in close collaboration with the provinces.

It would appear, therefore, that Canadian experience with regional development policy has lacked a clearly articulated frame of reference. The inherent contradictions between the various implicit policy approaches have no doubt restricted the efficacy of each. In

the recent past, when we have simultaneously pursued approaches of both a compensatory and transformational nature, and have shifted between regionally autonomous and regionally integrated efforts, there is reason to believe that our various efforts were simply cancelling each other out.

It is this absence of a clear, consistent approach that gives to Canadian regional policy its "undisciplined" nature.

Institutional Innovations

Despite the lack of a disciplined conception of regional policy, Canada has undertaken a variety of institutional innovations in the field that show great imagination. The three most important are the explicit adoption of fiscal federalism; the General Development Agreement instrument; and, most recently, the integration of spatial with sectoral policy.

The political case for fiscal federalism was formally established in the Rowell-Sirois report, while the theoretical case, based on equity and efficiency criteria, was set out in the key debates between Scott and Buchanan. In 1957, a modified version of federal-provincial revenue sharing in the form of equalization payments was introduced. If these payments failed to meet the stringent requirements of "fiscal equity", they did provide for an equalization of provincial government revenue capacity that constituted a practical, second-best solution. And the evidence suggests that by and large this compensation mechanism has helped achieve some greater degree of equality in the availability of provincially provided goods and services in Canada.

Among the transformational mechanisms perhaps the most innovative Canadian concept has been the General Development Agreement (GDA). This emerged as part of the search by the Department of Regional Economic Expansion for a vehicle to rationalize the various policy thrusts of its inherited welter of agencies (ARDA, ADA, FRED, PFRA) and to develop more effective means of working with and through the provinces.

Three basic problems of institutional "fit" universally plague the formulation and implementation of regional policy. One is interdepartmental *program* coordination, the second is agency (or interdepartmental) coordination, and the third is intergovernmental coordination. The first arises primarily when different semi-autonomous agencies pursue policies with crosscutting spatial impact. The creation of DREE was partially a response to this need.

But a larger spatial authority such as DREE does not necessarily capture all of the spatial dimension of (federal) policy. Indeed, coincidental with the creation of DREE, the Ministry of State for Urban

Affairs (MSUA) was launched, with a mandate to coordinate federal urban policies and to cooperate with the provinces. Regional and urban policies are intrinsically functionally interdependent. In a situation where the regional policy thrust is itself urban based (as in DREE's growth centre approach), such an institutional dichotomy is bound to increase rather than eliminate conflict.

In the end, MSUA, the weaker agency, was terminated, after a decade of modest achievement and maximum friction, with the federal spatial authority left entirely in DREE's hands. Ironically, at almost the same time, DREE shifted its focus to small communities, leaving a gaping absence of an urban focus in national spatial policy.

But the MSUA episode reveals only a small element of the interdepartmental coordination problem. Virtually all federal agencies produce policy outcomes with regional implications - from tariff policies to monetary and fiscal policies to regulatory activity. Coordinating these policies at the top is, in fact, the function of Cabinet. Certainly weak agencies such as MSUA, or even larger departments, like DREE, cannot hope to play such a role. Yet inability to play such a coordinating role destroys the credibility of the agency vis-à-vis its clients, the provinces.

The ingenuity of the GDA was that it provided an intermediate vehicle for delivering coordinated federal efforts in line with provincial development needs. Rather than trying to coordinate major federal departments at the top, as did MSUA, futilely, the GDA instrument was based on the use of DREE's own budget as an incentive to induce departmental support for specific projects under subsidiary agreements. Departments thus could claim credit for their expenditures while retaining maximum overall policy independence. The provinces approved this approach as well, for it meant negotiating with one federal spokesman who was knowledgeable about and committed to the general developmental strategy that had been approved.

Despite the apparent success of this instrument, it produced one result that in the end has led the federal government to abandon it; for it operated within the structure of the province, and therefore tended to legitimate the concept of provincial autonomy and even assisted in financing the achievement of that end. In other words, the instrument of the GDA had reinforced a category II approach to regional policy. But this was occurring at a time when provincial autonomy was felt by Ottawa to have gone too far and was weakening Confederation.

A reorganization of government was proposed early in 1982 that was intended to reverse this process of "decentralization". National unity was to be achieved by augmenting the federal presence in the regions and increasing its freedom of action.

Apart from the shallowness of this view, the reality is that this change in power relationships will not radically alter the regional policy frame of reference. It certainly will not shift that policy from a category II to a category IV approach.

There is no explicit reference to addressing the possibilities of a category IV approach. Such an approach would entail both regional specialization based on comparative advantages and heavy emphasis on interregional economic integration. Lowering barriers to inter-regional trade and factor mobility, improved transportation and communication, and so forth would be the essence of such an approach.

The persistence of a category II approach is inherent in the structure being proposed. At the core is the Ministry of State for Economic and Regional Development (MSERD) which will be charged with coordinating federal sectoral and spatial efforts. Although no explicit working arrangements have yet been publicly disclosed, it appears that the emphasis will be on high level coordination. The difficulty here is that it is not obvious that MSERD will have the clout necessary to enforce interdepartmental coordination. To reinforce that function, it is planned to have a senior regional coordinator in each province. While this might bring together federal officials in each region, the fact is that such officials play a rather modest role in setting departmental, let alone overall federal, policy directions.

Even if some greater interdepartmental coordination were achievable, the substantive emphasis of federal development policy precludes a shift away from a category II orientation. The sectoral bias will favour resource industries (megaprojects). Such industries are notorious for providing few lasting linkages, even within provinces. Thus, intraprovincial development will be stressed, because Ottawa's sectoral philosophy is only compatible with a category II pattern of regional development.

What ought to be obvious is that such an approach can only work in cooperation with the provinces, yet the new federal assertiveness virtually rules out such cooperation. Moreover, the most virulent federal-provincial conflicts revolve around resource-related issues because of constitutional ambiguities regarding ownership and control.

What we are being offered, it seems, is a reorganization that will not really shift the focus, and hence the prospects for regional policy. Rather, we are witnessing an attempt by Ottawa to displace the provinces within the existing policy orientation while focusing on a sector that is itself highly contentious. It is almost incomprehensible that such a far-reaching institutional change could be so insensitive to both the economic and political realities of Canadian regionalism.

Conclusions

Our survey reveals that Canada has been remarkably innovative in building institutions to deal with regional policy. But this willingness to try new ideas has been undisciplined. It has not been informed by a consistent, credible understanding of regional problems and appropriate solutions. The innovations thus give the appearance of bureaucratic cleverness unfettered by substantive knowledge. This reflects a view prevalent in Ottawa's upper bureaucratic echelons that creative institutional design is a necessary and sufficient condition for good policy. Regrettably, the proliferation of new agencies over the past decade and a half has produced at best half-baked and at worst devastating policy results. MSUA, MOSST, DREE, MSSD, MSED and others have failed to live up to their enormous potential. In several cases their misuse has managed to discredit important issues requiring federal policy initiatives.

This is not to argue that institutional design should flow entirely from abstract theoretical reasoning. That approach is, if anything, less conducive to realistic policymaking. What is required is a marriage of good analysis and good administration. Why this has failed to take place is too large a subject for this paper. But without some effort being devoted to building public institutions with a clear and tenable sense of direction, there can be little hope for significant improvements in public policy. In no field is a recognition of this perhaps obvious point more important than regional policy.