

COMMENT AND DISCUSSION/COMMENTAIRE  
ET DISCUSSION

REGIONAL POLICY: A MATTER OF PERSPECTIVES

N. H. Lithwick  
Department of Economics  
Carleton University  
Ottawa, Ontario  
K1S 5B6

Introduction

Two decades after the creation of a variety of federal agencies to alleviate regional disparities<sup>1</sup> and thirteen years after the Trudeau government's first efforts to rationalize those efforts through the creation of the Department of Regional Economic Expansion (DREE), the problem persists. DREE has prospered, its cumulative expenditures now stand at over 5 billion dollars. But it is not apparent that any substantial success has been achieved in reducing disparities.<sup>2</sup> Moreover, the sense of regional alienation, which it was said could be moderated by regional policy, has, if anything, intensified.

Most attempts to explain this policy "failure" have focused on objectives, instruments, organizations, and so forth. To that list, we feel one more element should be added, and that is the matter of *perspective*. The prevailing perspective is rooted in a particular model or paradigm of regional economic relationships, to which political, sociological, and administrative elements have been added to yield a reasonably consistent and highly influential approach to regional policy. This approach will be flawed to the extent that its core economic model is inappropriate. As a result, the superstructure of

<sup>1</sup>For a good review of the early efforts, see Brewis [3].

<sup>2</sup>For example, see the evidence provided in [7]. It concludes that "regional disparities in incomes and job opportunities are indeed substantial and remarkably persistent . . ." (p. 60).

political, sociological, and administrative elements will be neither as consistent nor as persuasive as is generally believed.

We propose to demonstrate the flaws in the prevailing perspective by contrasting it to an alternative, and in our view preferable, regional economic paradigm. Our analysis is inadequate at this stage to erect a whole new policy orientation, but its core idea should permit us to view many of the current difficulties in regional policy in a different and possibly insightful manner.

### A Model of Regional Economies

Economic analysis sees a national economy as a well-integrated system of interdependent markets. The identification of regional subsystems within this whole requires that some important principles of disaggregation be followed to preserve this interdependence.

The most widely used disaggregation is the partitioning of the economy into key sectors. *Input-output* analysis best exemplifies how such partitioning must be done to preserve interdependence. Firstly, it identifies the basic units, which are reasonably unique economic sectors. These tend to have quite well-defined characteristics and boundaries that are largely determined by technological considerations. Secondly, the functional relationship to other sectoral units must be fully specified. In the input-output framework, factor use, output distribution, and interindustry linkages are all specified and measurable. The whole economy is thereby accurately represented for the purposes at hand by this particular mode of disaggregation.

If we wish to disaggregate the national economy into spatially delimited units, or economic regions, an equivalent standard of partitioning is requisite. This requirement entails a clear specification of the internal structure of each region and the functional interdependencies between them.

The favourite strategy has been to try to identify spatial units that are at once internally homogeneous and minimally linked to other regions. The standard model of regional disparities in developing countries does just this. It partitions the national economy into a modern sector and a traditional sector, which are conveniently spatially separate. North and South Italy were treated in precisely this manner by Hirschman [8].

Such a device has a number of attractions. Each region can be understood in its own terms, as a quasi-autonomous economic entity. Moreover, the national economy is little more than the arithmetic sum of its regional subunits. Regions are thus seen as the building blocks of the nation. They operate in parallel rather than in series. We shall refer to this as the *REGION-CENTRED* perspective.

Because this view is so influential in shaping our approach to

regional policy, it is important that we first establish those circumstances in which it might be applicable. In countries at an early stage of economic development, where the economic structure is quite simple, where primary activities such as agriculture or resource industries dominate the hinterland, and where modern activities are few and concentrated in a limited number of metropolitan areas, the *REGION-CENTRED* perspective appears to be quite appropriate. The notion of distinctive, weakly linked regions is descriptively accurate and is analytically useful in helping to explain the problems such as spatial dualism, as Hirschman and Myrdal have demonstrated.

With economic development, this model becomes increasingly tenuous. The reason is that the structural changes inherent in economic growth have more complex spatial impacts. Development features the increasing dominance of industrial and tertiary activities over the primary. These activities involve much greater differentiation and interdependence than primary activity. As development proceeds, the input-output table expands in all dimensions: in the relative size of the non-primary sectors; the number of individual sectors therein; and the intensity of their linkages.

The spatial patterning of these structural changes entails the nodalization of activity, and greater interdependence between the nodes, or urban centres. This patterning is attributable to the dominance of locational factors such as market size, scale economies, externalities in production and consumption, and the declining relative cost of transportation.

The important consequence for our purposes is that the once clearly applicable *REGION-CENTRED* model of the regional economy begins to lose its relevance. The dominant activities within a given region will tend to be those that are functionally linked to activities in other regions - a spatial extension of the increasing specialization and exchange. And as regional interdependence intensifies, the internal structure of regions becomes increasingly heterogeneous. These developments are clearly contradictory to the neat and simple assumptions of the *REGION-CENTRED* model.

### Regional Economies in a Canadian Setting

Canada's economic development has featured just such a transition from regional economic autonomy to interregional integration. The early phase has been articulated in the influential work of Harold Innis. Staple or primary product exploitation for export provides an explanation of regional economic development and, given the *REGION-CENTRED* perspective, an explanation of national eco-

conomic development as well.<sup>3</sup>

The technical characteristics of a particular staple - cod fish, fur, timber, wheat, or minerals - shaped the set of spatial arrangements necessary for efficient exploitation. Since staples are first and foremost territorially bounded, the structure of the regional economy was determined by this pattern of development. The export orientation of the staples made each such region rather autonomous and structurally unique. Interregional linkages were therefore modest. Hence national economic development was usefully identified as the sum of these regional development trajectories. The popular view of the Canadian economy as little more than an assemblage of parallel regional economies was, in this situation, accurate and insightful.

With MacDonald's *NATIONAL POLICY* at the end of the last century, a deliberate attempt was made to realign domestic economic relations, substituting a spatially integrated, manufacturing-based national economy for the externally oriented, quasi-autonomous regional economic system. Whether or not his particular policies of tariffs and of transportation linkages worked very well, there can be little doubt that Canada's subsequent rapid development has been in the direction of increasing regional economic integration.<sup>4</sup> This can readily be seen, indirectly in the parallel trends of regional economic variables, such as prices, incomes, and unemployment, and directly in the high rates of interregional commodity trade, labour migration, capital flows, technological diffusion, and so forth.

Needless to say, regional economic integration has been far from complete. The continued importance of primary product exports for some regions provides for certain variations in economic performance among regions. But even the most primary export-dependent provinces demonstrate high levels of integration, particularly within and between large metropolitan areas.

One might have expected, as a result, a gradual disenchantment with the *REGION-CENTRED* model, and the search for an alternative, empirically more tenable conception of regional economies. Yet, it is evident that such has not been the case. Perhaps the best, but by no means the only, example of the persistence of this view is contained in the recent research of the Economic Council of Canada on regional disparities [7]. The Council's attempts to explain those disparities are almost all based on the analysis of each region as if it were a separable economy.<sup>5</sup> At best, spending interdependencies or

<sup>3</sup>A useful summary of Innis' approach is given in Watkins [14].

<sup>4</sup>An excellent demonstration of the process of integration using input-output analysis is contained in Caves and Holton [4].

<sup>5</sup>See also the background study by Auer [1].

leakages are noted. But those processes which are generally taken by economists to be essential to regional equalization, such as interregional factor flows and trade, play an exceedingly modest role in their search for explanations. In addressing policy, such matters are therefore largely ignored. Closer interregional integration does not appear an important part of the answer.

### Political, Sociological and Administrative Influences

The explanation of the persistence of the *REGION-CENTRED* perspective lies outside its weak economic core, and more in the realms of political, sociological, and administrative dimensions that have been built on that core; for the staple-based economic regions did not evolve in a political vacuum. Rather, they often coincided with the territorial boundaries of the provinces. As the regional economies prospered the tax base, and hence the fiscal capacity of the provinces, grew apace. This was reinforced by constitutional interpretations which favoured the augmentation of provincial government power.

These political developments led quite directly to the *provincialization* of regional economies. Control of their respective "regional economies" enabled the provinces to impose an essentially political partitioning of Canada on its primitive *REGION-CENTRED* economic structure. With this framework came the ill-defined but potent concept of *PROVINCIAL ECONOMIES*. Such a concept is essential to the provinces. It provides a rationale for independent provincial policies, unfettered by concerns over interprovincial effects and hence overall consequences for the efficient operation of the national economy.

This cooptation of the *REGION-CENTRED* perspective by the provinces has been reinforced by the introduction of sociological considerations. The argument follows directly from the expanded role of provincial governments. Their efforts are presumed to have fostered *within* each province a common pattern of consumption of provincial public services. In addition, a Tiebout-like process of voting with the feet is implied, so that over time, citizens who prefer particular baskets of services migrate to those provinces providing them [13]. As a result, one projects increasingly homogeneous societies within provinces, and great divergencies between provinces.

This notion of unique *PROVINCIAL SOCIETIES* reinforces the case for autonomous provinces, largely because of administrative considerations. It follows that it will be more efficient for provinces to supply the unique baskets of public services that their distinctive societies want. A national authority may be more efficient at supplying things all Canadians want, but the more Canadians are differen-

tiated between as provinces, the stronger the case for provincial government action. And so, the notion of a province as an autonomous region is augmented by these political, sociological, and administrative considerations, apparently confirming the *REGION-CENTRED* perspective.

### The Federal Perspective

It might be expected that the federal government would reject the *REGION-CENTRED* perspective, if only for narrow, political advantage in the continuing struggle over the distribution of powers in a federal system. Paradoxically, this has not been the case. Indeed, until recently, federal actions can be seen to have derived from, and contributed importantly to, reinforcing the *REGION-CENTRED* perspective applied to Canada's provinces. This can be detected in a variety of spheres of federal policy that touch on regional economic issues.

Consider first the role of *EQUALIZATION PAYMENTS* and the many subsequent intergovernmental transfers that now constitute fiscal federalism. These transfers are designed to assist *provincial governments* to supply public services to their citizens. Since these policies are widely (if mistakenly) seen as important vehicles for curing regional disparities, they reflect at least an implicit view by Ottawa that those disparities are usefully established in terms of provincial aggregates and are resolvable through largely independent provincial government activities. This view can only derive from a *REGION-CENTRED* perspective.

Secondly, the dominance of a macroeconomic emphasis in federal economic policy in the postwar era further entrenched this perspective. Macroeconomics attempts to deal with the national economy by concentrating on accounting aggregates: total output, price levels, unemployment, and so forth. The explanatory "models" are related only tenuously to underlying, disaggregated behavioural relationships that characterize the economic system. This might explain Ottawa's relatively successful performance during periods of stable growth, and its disappointing performance during periods of economic turmoil such as at present.

Such a conception permits any entity for which the aggregate can be obtained to be considered "an economy". Statistics Canada [11] and the Conference Board [6] have provided us with an exhaustive, if not very reliable, set of such data which have permitted macroeconomic regional studies such as those of the Economic Council.

It is well known that such macro models raise particularly awkward problems when applied at the regional level. In part, this is because information on factor flows and trade patterns between units, which are easily obtained when looking at international rela-

tions, are rarely available at the interregional level. In addition, regions differ significantly from nations in terms of their ability to control key macroeconomic variables, such as monetary aggregates, exchange rates, and factor flows, especially capital. But this has not prevented federal, no less than provincial, analysts from seeing provincial units as not significantly different from national economies.

The actual approach of Keynesian macroeconomics to policy reinforces this validation of the provincial economy. For example, it tends to stress fiscal policy, the one set of instruments as clearly accessible to provinces as to the federal authorities. In addition, primary emphasis is on the public economy. The private economy provides only an aggregative context. Its structure and development have, until recently, not been of central concern. But these latter characteristics are the ones that define the general equilibrium, and hence spatial interdependency properties of the Canadian economy. Thus the statist emphasis of macroeconomics manages to overshadow those elements which most directly challenge the *REGION-CENTRED* perspective.

Third, the federal approach to regional policy itself was based explicitly on the *REGION-CENTRED* perspective applied to provincial economies. This can be explained in large part by political preoccupations, particularly the Quebec situation, which no doubt stimulated first the creation of DREE and later its particular program emphases. Virtually all subsequent policies of DREE have taken as a given the belief that provinces would have to constitute the basic targets and key partners in regional development policy. As a result, for thirteen years DREE has been a major force contributing to the legitimation of the concept of provincial economies, and hence the *REGION-CENTRED* perspective that is intrinsically tied up with that idea.

Only recently has the federal government begun to understand the implications of the *REGION-CENTRED* perspective which it has helped to foster. The turning point was 1973. In that year, the Canadian economy received one of the severest shocks in its history. The oil crisis and its aftermath impacted on prices, costs, incomes, and productivity in all Western countries, shifting downwards their potential for industrial growth. All economies were in trouble, but the Canadian economy, which was least exposed to the oil situation, proved to be particularly vulnerable.

It is reasonable to have expected the federal government to initiate fundamental, system-wide adjustments to these new circumstances. That they did not do so is clear. One explanation advanced has been that the problem is global, and no country on its own can do much. The experience of heavily oil-dependent countries such as Japan and Germany make this explanation less than persuasive.

Our analysis suggests an alternative explanation, and that is that our *REGION-CENTRED* perspective has created a situation in which effective systemic management is severely constrained. In part this may be attributed to the fact that powers and resources have been so substantially devolved to the provinces that federal interventions on the scale required are now seriously inhibited by the likelihood of provincial resistance to even the most obvious policy choices. Provinces are increasingly inclined to go their own way in pursuing their particular interests, regardless of potential conflicts with the "national interest."

In recent years, largely as a result of the constitutional fracas, the federal government has discovered its national economic responsibilities. But it has failed to come forward with a view of the national economy that either is an alternative to the *REGION-CENTRED* perspective, or can accommodate itself to the contemporary implications of that perspective. In particular, the nature and extent of provincial interdependencies remain imperfectly known.<sup>6</sup> The attempts by the Federal-Provincial Relations Office to establish such relationships have been highly selective and not very profound. Moreover, so long as the federal government continues to pursue policies that are themselves discriminatory, in favour of some and against other regions, with little regard to functional linkages and spending leakages, its expressed concern over the national interest in the free mobility of resources and goods appears somewhat disingenuous.<sup>7</sup>

Trapped within and by the prevailing *REGION-CENTRED* perspective, the new federal awareness is viewed by most Canadians as primarily self-serving. Its attempt to assert primacy for managing the national economy has been based on stressing the "national" rather than the "economy" part of that phrase. Advertising campaigns and nationalistic (i.e., anti-American) positions regarding such things as foreign ownership and international trade strategies, by wrapping each issue neatly in a Canadian flag, may have won transitory political support.

For our purposes, what is significant is that the debate has not focused on the basic question of the nature of the contemporary Canadian economy and the role of the provinces therein. The provinces are clearly unwilling to pose the issue and, for its own reasons, the federal government has been reluctant honestly to challenge the *REGION-CENTRED* concept.

<sup>6</sup>The Department of Regional Economic Expansion is attempting to develop an interregional model of the Canadian economy, but the work appears to be largely experimental and is unlikely to have significant policy influence for some time.

<sup>7</sup>See, for example, Chrétien [5].

An important factor that continues to deter such inquiry is the persistence of the political, sociological, and administrative arguments supporting that perspective. The Task Force on Canadian Unity (Pepin-Robarts) seems to argue that these dimensions are so important that they outweigh the incongruities raised by the more realistic economic paradigm [12]. This leads to the belief that provincial authority ought to be seen as on the same plane as federal authority in a new constitution. So also does the Progressive Conservative Party's view of Canada as a community of communities (read "provinces"). It is important therefore to take a closer look at the main arguments advanced for the supremacy of these non-economic elements.

The notion of provincial societies, for example, which has been promoted by scholars such as Mildred Schwartz [10], proved to be empirically undetectable. A major reason no doubt lies in the process of regional economic adjustment, in which interregional labour migration plays a key role. Such mobility keeps the social structure of the provinces churning. Moreover, the evidence suggests that job-related factors are primary in explaining this mobility, and that public services are much less important. Nor did Tiebout's model deal with such long-distance moves. Rather, he was discussing changing residences only, and not jobs, and his focus was therefore intrametropolitan moves, a very different situation. In other words, there seems little to warrant belief in this notion of well-defined, stable provincial societies. Although there may be an exception in the case of Quebec, the historical cultural diversity of its dominant metropolis, Montreal, raises legitimate doubts. It may be, however, that policies recently enacted by provinces will tend to insulate their societies. Such would seem to be the effect of Quebec's language laws, or land ownership laws in other provinces. These policies may finally produce the result that their advocates claim to be in existence already, namely homogeneous provincial societies.

To the extent that such a result is not yet evident, the administrative case for differentiated policies loses much of its force. There will always be room for regionally administered policies, due to inefficiencies inherent in centralized provision, as Breton and Scott [2] have argued. But those who argue for decentralization will have to weigh intraregional efficiency against likely interregional consequences, rather than relying on the strongly normative case of provincial societies.

This leaves the major argument for the *REGION-CENTRED* view in the political-constitutional realm. It is based on the evolved role of the provinces in our federal system, which is deemed to be inviolable. This amounts to saying that provinces ought to be autonomous because they are autonomous. Such a case serves only the interests of those presently in power. It is not surprising that it has had to be

strengthened by introducing the *REGION-CENTRED* paraphernalia. To the extent that these institutional arrangements have become divorced from the changed economic and social relationships in Canada, which have radically altered our spatial organization, the ultimate futility of current approaches to regional policy becomes readily apparent.<sup>8</sup>

### Afterword

In January 1982, a major institutional change was made by the federal government with regard to regional policy. DREE's policy function was separated from its program activity. The policy division was attached to the central economic planning agency, formerly the Ministry of State for Economic Development, renamed Ministry of State for Economic and Regional Development (MSERD). MSERD is to appoint senior executives to the regions (provinces) with direct access to senior personnel in Ottawa in order to ensure tighter coordination by and communication with Ottawa. DREE's program activity was combined with the industry-related program sections of the Department of Industry to form a new Department of Regional Industrial Expansion (DRIE).

There has been little discussion of the policy directions to be followed by this new two-pronged mechanism. The available evidence suggests the motives are purely strategic - to increase Ottawa's autonomy in regional policy, while downgrading to some extent the provincial role.

This is particularly evident in the decision to allow the General Development Agreements (GDAs) to lapse. Those mechanisms were unique in establishing cooperative federal-provincial programs in the field, and indeed, earned Canada high marks on the part of such agencies as the OECD for innovation in intergovernmental cooperation in the difficult field of regional policy.

Such institutional changes, and the threats they pose to the provinces, are bound to provoke much public discussion. It would appear to be a propitious opportunity to reassess our prevailing narrow *REGION-CENTRED* perspective. The challenge is for MSERD to formulate regional policy as an intrinsic and supportive component of national economic policy. The stated intent of using megaprojects as the leading edge of economic development policy

<sup>8</sup>The well-known regional economist, Harry Richardson (9:23), has arrived at the following conclusion: "The key advantages of the planning-region approach [to selecting appropriate regions] are that data are collected on the administrative unit base . . . and . . . facilitates policy implementation. The disadvantage is the possible inconsistency between regional administrative boundaries and the boundaries of economic regions, and as a result policy decisions may be aborted."

provides confusing signals. On the one hand, the federal government is clearly aware of the need to take into account interregional spillovers from these projects. On the other, there appears to remain a strong sense of the need for a regionally "balanced" approach to distributing these projects. The latter emphasis could produce serious distortions in the economy in an environment that, because of the reorganization, will feature enhanced intergovernmental acrimony and counterproductive policy competition.

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