

REGIONAL DEVELOPMENT POLICY IN THE NEXT DECADE

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Old Rhetoric and New Problems

The pursuit of a more regionally balanced national economy has been a Canadian political goal since at least the late 1950s. Other countries, such as the United Kingdom, West Germany and Japan, have also pursued it. Today in Canada, however, this goal has become rather blurred and downplayed. Even before the recession of 1982 focused the nation's attention on the difficulties of the more developed parts of the country, public interest in the possibility of achieving some kind of regional balance in Canada had been declining. Federal fiscal problems have added to the pressure to lower what priority the regional problem might once have had.

In part, this malaise has resulted from a realization that the problem is far more intractable than it was originally thought to be. Real earned incomes in Atlantic Canada have moved little, if at all, against the national average over the past two decades. None of the "alphabet soup" of federal and provincial programs has seemed to make any significant difference. Instead, progress, if it can be called that, has come through the system of transfers to individuals and provinces developed to meet national rather than regional concerns. The sheer volume of these transfers, coupled with their focus upon people in the

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poorer provinces, has led to a narrowing of the income gap between the richest and poorest provinces.

The policies of the past were not wrong, yet they were not right either. In the two decades until the mid-1970s, the policy emphasis on establishing programs to enhance the security of Canadians took priority over attempting to develop regional economies. Federal programs came in two large categories: transfers and services to individuals; and transfers to provincial governments to assist them in carrying out more transfers and services to individuals. The aims were to provide a basic level of public facilities and services and a minimum level of income to all Canadians. In the end, the overall policy structure met these aims and continues to meet them as well as any equivalent system in other nations. This set of policies has passed into the accepted infrastructure of Canadians' lives; it is taken for granted. But since the policies and programs of the past that still exist today continue to focus upon the priority needs of the past, today's politics must deal with a new set of priority needs.

The very process of meeting the need for security created three political problems: the political leadership ran out of security sub-needs to fill in order to justify re-election; the programs became too expensive, but the electorate were loathe to trim them or to dismantle those that were less useful; and the Canadian value-set changed so that programs that had been devised to meet security needs began to conflict in part with meeting the newly perceived priority needs of the voters. These conflicts can be seen in the problem of the federal deficit and the concern over the "welfare trap".

At the present time, the federal government is spending approximately three dollars for every two that it takes in as revenue. Most of the expenditures are transfers to individuals, to provincial governments and, to a much lesser degree, to businesses, including crown corporations. Debt servicing is also significant. A rough perusal of the public accounts suggests that if all direct federal expenditures on goods and services were eliminated, there would still be a deficit. Since the security net is in place and is accepted as such by Canadians, they are reluctant to pay more for it than they are already paying. Furthermore, because security has receded as a priority need - it having been met by the existing programs - there are other, now more pressing needs that taxpayers feel require the use of their disposable funds. The deficit is the political way of "solving" these conflicting demands of the voter/taxpayer.

The second problem is a little trickier to outline. It has been recognized for years that income support programs are psychologically easier to "enter" than they are to "leave". A person who loses his or her job can get unemployment or welfare, as the case may be, and feel

that he or she is receiving more than he or she otherwise might. Going off one of the programs by taking a new job leads to a feeling of loss, since the pay for the new job, from the employee's perspective, is always net of the money lost by giving up the income security program. This welfare trap is especially difficult to escape where the earned income is only marginally greater than the income from the program. One could equate the loss of program income as being a 100 percent tax on the equivalent job income of the re-employed person. If the new job pays enough so that the new income is also taxable, this imputed tax rate would then exceed the 100 percent. Reports of people living more or less permanently on income security programs upset those whose security needs are met - in part because they resent supporting those who might not need the support, but also because it demonstrates that it is possible to remain on these programs for indefinite periods. To those who are concerned about social propriety and status perception, the idea of someone living "on the dole" is an affront. The political problem is, unlike the deficit, a difficult one to postpone as well as to solve. Canada's income security programs were not designed with an eye towards getting people out of them, but towards making sure that those who need help get it as quickly as feasible.

Not only are individuals subject to the welfare trap; so are the poor provinces.¹ In their case, equalization payments are transfers designed to bring public expenditures in recipient provinces up to a level approximating those in richer provinces, the aim being that of having roughly equal public facilities and services across the country. The system has worked reasonably well in pursuing this goal, but it has also created a welfare trap for recipients. The payments are based on a complex formula that is related to indicators of fiscal capacity. If a recipient province's economy were to improve relative to national averages, then the equalization payments would be reduced. There is no real incentive to get "off the dole". In fact, there may be a disincentive, since there is no guarantee that the relative prosperity of the recipient province's economy will generate tax returns that would be equivalent to the lost equalization revenues that otherwise would be realized so easily through a federal formula and payment. The political problem here is similar to that described for individuals on an income security program. Due to a shift in values that has taken place over the last decade, there is public resentment towards those provinces that permanently use programs of this type. Further, this resentment is shared by many people who live in the recipient provinces and who find their value orientation in increasing conflict with what they see as

¹The Macdonald Commission discusses this briefly as "transfer dependency" [6:III:216].

their status as residents of second-class provinces. Like the deficit problem, there is no easy true solution to this conflict.

If the regional problem were simply one of income and poverty, the solution would be at hand in the form of increased transfers to individuals and provinces. As we have seen, however, this is neither practical in budget terms, nor is it the case. What was felt to be the right answer in the past - transfer payments - is only part of the solution now. The concerns of people in the poorer provinces today lie not so much with individual welfare as with social or communal dignity. The concern over regional development in the 1950s was not the same as the concern that exists in the 1980s. There is a new and more complex problem, though much of the same old rhetoric is used in the new discussion. This mixture of old phraseology to express new thoughts has contributed significantly to the confusion and fuzziness of the past decade's debate over regional development.

Regional Development in a New Era

In order to discuss the regional development problem today, it is first necessary to define what the term means in the present circumstance. It does not mean the alleviation of per capita income differences, as this is relatively easily accomplished through transfers of various kinds. Instead, it is necessary to focus on the changed needs of the poorer regions. Unlike the regional development concerns of a generation ago, these underlie concerns about the relative status and dignity of these populations. These are not economic concerns, but they are tied inextricably to economic instruments and growth.

Explaining this change in the regional problem briefly requires a shorthand that for some may confuse more than enlighten, but the alternative is to write a book rather than an article. Essentially, the problem has arisen because the prosperity that Canada has enjoyed since the 1950s has been fairly effectively distributed across the country - or at least its fruits have - and this has led to a change in the values of the population, especially in Atlantic Canada. It must be remembered that if per capita income in the region remained the same or increased slightly against the national average over the past two or three decades while national incomes doubled in real terms, then there had to be a doubling in Atlantic Canada. As well, the institution of large transfer payments to the poorer provinces has resulted in a greater than average increase in the public services and facilities available to people in the Atlantic region. These have had their effects.

Ronald Inglehart [4] has written about value changes due to prosperity in postwar Western countries. He did extensive interviews in the late 1960s and 1970s and found a definite gap between those

who had never known the insecurities of depression and war and those who had. People seem to feel needs subjectively in an overlapping and yet serial fashion. Depending upon the manner in which a person feels a given need is satisfied, he or she will continue to feel that need or will begin to perceive another as now having a higher priority. Inglehart observed that people after World War II tended to focus heavily on survival and security needs. Later, they and their children tended to see these needs as having been largely met, and they became more concerned with policies to meet needs related to sociability and personal status. Concern over the environment, a "social" issue, began to take precedence over more mundane issues of industrial production as people began to worry less over "security". While these needs are subjective and personal, Inglehart noted that these personal perceptions can give an overall social direction when they are expressed through the vote. Individuals with different values or perceived needs would vote for different parties or platforms.

An extension of these ideas can help to highlight the way in which Canadian concerns over regional development may have shifted and why present concerns may not be the same as those of thirty years ago. It is hard to realize the kind of economies that existed in Atlantic Canada a generation and more ago. Joey Smallwood "chose" Canada, in part, in order to get pensions and other transfers for Newfoundlanders. Today, the question is whether pensions are large enough to live on decently, not whether they exist at all. Not until the education reforms of the early Stanfield years did quitting school after Grade Eight stop being unexceptional in Nova Scotia. Today, the Province is building the most advanced automated manufacturing training facility in North America. There is no need to list the social and economic changes that have come in the last generation in health, transportation, social services, and employment. Today, a plurality or even a majority of those now living in Atlantic Canada have not known the real (as opposed to relative) poverty that their parents and grandparents knew. It is not terribly surprising to find that they have created a voting majority in all four provinces that increasingly reflects a value system that is rather different from that of, say, 1956.

Another part of the reason for the support for a different approach to regional development lies in the occupational changes that have taken place in the Atlantic Provinces as a whole. Today, the vast majority of employment is found in the service sector in the region. In Nova Scotia, for instance, approximately three-quarters of all those employed are in this sector. There are more research scientists in that province today than farmers. Whether the service sector employees live in the urban centres or are teachers and bankers in smaller towns, they are both more mobile and more connected with the rest of the

world than were those of a generation ago. Further, the relative stability of their incomes has led them to consider as necessities the "positional goods" that are of similar concern everywhere else [3]. These are products and services that are valuable only because they are intrinsically scarce. Being considered backward or impoverished does not constitute a desirable positional good. Increasingly, these people are making this concern felt at the polls, and one means of its expression is a renewed demand for greater provincial equality on an "earned" basis.

The result has been increasing demands that provincial governments take a more active role in local economic development. This is consistent with political evolution elsewhere in Canada. A number of commentators on Canadian government and politics have noted the movement towards "province-building" over the past fifteen years. Often this phenomenon is discussed in conjunction with the conflict in Quebec over independence or Alberta's fight to control its energy resources. The Atlantic provinces have also been engaged in similar conflicts, with New Brunswick slowly trying to work out its identity based on two large linguistic groups and Newfoundland engaged in a long battle to establish its control over offshore resources. The battles in the East have never received the attention given the other province-building attempts, but they are just as real.

Newfoundland's battle has probably been the most overt and coherent and also goes a long way to explain how development and dignity have become tied together. Since the discovery of oil at Hibernia in 1979, the government of Brian Peckford has waged a strong, public, and often acrimonious battle to gain control over this resource. Two elections were fought with this federal-provincial issue being the centrepiece. Peckford has held out the dream that provincial control would allow the government to time the pace of development and allocate revenues so that the modern economy brought in by this resource could grow alongside the more traditional outport fishing economy. The aim was and is to somehow use public money and power to create a Newfoundland that retains the best of its past while enjoying the best of a modern economy. It is difficult to reconcile this vision with the stereotype of an Atlantic province of the past, beseeching Ottawa for more money to spend on local welfare and job projects. Funds are still needed and asked for, but increasingly the dominant political vision relates to the creation of self-reliant economies in all the eastern provinces.

Why should Canada make a new effort to promote regional economic development? One reason has to do with history and geography. As recently as the beginning of February, 1986, *The Financial Post* [2:9] quoted a *Western Report* article:

We see a profound difference between the way this country and the United States have developed. Their economic power has been spread from coast to coast: finance in New York; steel in Pittsburgh; automobiles in Detroit; meat in Chicago, Omaha and St. Louis; oil in Texas; cotton in New Orleans; textiles in New England and the South; heavy engineering in California; railways in New York, Chicago and St. Louis. In Canada, the entire story has been otherwise. Here, virtually every one of these industries has been concentrated in the tiny triangle of Southern Ontario and Montreal. The U.S. becomes a nation. We become a tinhorn empire.

The lament of both East and West for years has been along these lines: that the Canadian system has not integrated large parts of the country into a whole because the interaction among the geographic regions has been one of exploitation rather than of partnership. The converse is advocated as a method of building Canada - that strong regions can make a strong country.

Over the past few years there have been a few attempts to tie regional development to national development, but they have been ineffectual. For example, in 1979 the Atlantic Development Council, an advisory body to the DREE Minister, issued what was to be its last public report [1]. In it, the Council argued that the region should be provided with an economic mission or role within a national framework. The report and the Council were lost in the 1979 election hoopla. In 1981, the supporting documents to the federal budget, which focused on the National Energy Program, contained an outline of a new regional development approach that saw the economic balance in Canada shifting to the hinterland as the many megaprojects that \$70-a-barrel oil would create were constructed and operated [5]. Recession and falling oil prices destroyed this vision. Finally, the Macdonald Commission's advocacy of free trade with the United States allies itself to the convictions of many provincial premiers that this change in trade policy would provide the regions of Canada with their best change for a better balance nationally [6:I:330-31,337]. Their point may be correct, but it is a sorry state of affairs when a country has to rely on the diversity of its neighbour to provide it with the cure for its own national ills.

Finally, on a "micro" level, the mobility of those in the service sector has to be considered. According to the Macdonald Commission, in 1981, after Alberta and British Columbia, the two provinces having the smallest proportions of people over five years of age living in the same province as at birth were Prince Edward Island and Nova Scotia [6:III:124]. New Brunswick's proportion was virtually the same as that of Ontario. It may not be politically prudent from a national perspec-

tive to let potential migrants feel they will become second-class citizens if they move East.

Towards a New Development Policy

There are three general principles that ought to guide the creation of a new regional development policy. Unlike the old National Policy that developed Canada with a defensive tariff wall, a new national policy should promote development in the future by relying on the needs of provinces and regions to gain in self-respect and self-reliance. The three principles underlying this policy are *the provision of incentive, the respect for autonomy, and the requirement for strategy.*

There is no way to avoid the recognition that the development of the poorer provinces will require federal financial help. At best, the budget deficit problem would seem to imply that extra assistance will not be available. The way in which help is provided, however, is of crucial importance to the success of the venture. Aid given to provincial governments can assist or hinder the process, as can aid given to local companies. In the case of companies, aid must start with the realization that the small size and the weakness of the private sectors in the poorer provinces is a critical developmental bottleneck. It is counterproductive to any regional development effort to have funds flowing to provincial governments to assist in regional schemes while the federal industry bureaucracy relentlessly focuses on the needs of national (read Ontario) industries. The merger of DREE and ITC in the early 1980s was supposed to overcome this problem, but none of the original skeptics of this grand design are convinced that it has done so. Until there is a more regional focus at this level, the incentive for geographic centralization will be predominant.

The Macdonald Commission recommended that regional development funds be allocated to the provinces in a fashion tied to the equalization formula [6:III:220]. The general idea has merit, but the welfare-trap aspect of the equalization system would probably guarantee that the funds would not be used as efficiently as they might. It is critical that a formula be devised that rewards success rather than failure and in which the *incentive* is to progressively exit from the system rather than remain a perpetual recipient. A development fund formula that overcomes equalization losses due to economic success might provide this incentive.

Autonomy implies that the provinces have the basic responsibility for achieving development. Given the proper financial and technical incentives and assistance, the provinces should be allowed to follow diverse paths toward greater prosperity. One of the dysfunctional tendencies of present federal-provincial programs is the limited diversity

allowed across the country and the concomitant tendency to take a success in one place and apply it everywhere else it might fit. Increased federal research into program evaluation in development and an increased willingness to publish the results of provincial innovations should be linked to a federal distancing from program conception and administration. In this fashion, the system as a whole would learn from experience, where it does not do so at present.

Again, the Macdonald Commission has some useful comments on a new approach. It recommends that the federal government try to limit its involvement in the economy to managing the general, national scene, while leaving the problems of "place prosperity" to the provinces [6:III:219]. The motivation for this recommendation is different from that presented in this paper, but the result would be the same. The Commission also suggests that interprovincial economic competition probably would improve national productivity and growth.

Strategy must accompany incentive and autonomy. Unless a province has some idea of where it is going, providing it with the incentive and the responsibility for its own development is likely to prove futile. Federal inability to approve an overt and coherent strategy of its own has not been a precedent at the provincial level. Nearly every province has a strategy document: in the case of the poorer provinces, without incentive or autonomy, the value of these papers is lessened. Yet it is still instructive that provinces have been able to devise and have been willing to publish strategy documents. A similar process has begun to take place at the state level in the United States.

In general, strategies may take one of two forms. The province may choose to rely on the market for its cues as to an effective development path. The alternative is to use the public powers in a determined and coherent way, achieving specific goals. All strategies are to some extent a mixture of the two, with one tendency or the other predominating. Today's fascination with East Asian economic success has given the notion of an activist industrial strategy considerable glamour.

The coupling of strategy to incentive and autonomy provides in bare outline a new regional development policy that is compatible with free or enhanced trade with the U.S. and that meets the new needs of the poorer provinces for development. This approach also works to build a new sense of Canadian unity, paradoxically by providing for diversity.

Conclusion

The aim of this paper has been to outline an approach to Canadian regional development that meets both the national interest and the

concerns of the poorer provinces and regions of the country. Regional development is not the same problem today that it was a generation ago. The changes in values that have accompanied the prosperity of the past two decades have created new needs and new problems, even though much of the rhetoric has remained the same. Instead of basic needs such as survival and security taking priority, there now appears to be a greater emphasis on dignity and self-expression. These must be seen as the hallmarks of more prosperous economies. New solutions still take on an economic cast, while differing from those of the past. These new solutions, in the area of economic development, must integrate three principles: the incentive to develop and become more economically self-reliant; the autonomy to devise development paths that are relevant to local conditions and possibilities; and a strategy outlining the general rules and path of the particular development effort.

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