

## COURCHENE AND REGIONAL DEVELOPMENT: BEYOND THE NEOCLASSICAL APPROACH\*

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### Introduction

Professor Thomas J. Courchene, an economist with the University of Western Ontario, holds views on regional development that are increasingly being discussed in both academic and government circles as possible solutions to Canada's regional economic disparities [14:143-86]. And well they should - Courchene's views stem from solid scholarly work, and they have very effectively challenged the usefulness of past and current Canadian regional development programs.

In the simplest terms, Courchene believes that transfer payments and a number of continuing regional programs have made slow-growth regions dependent on government. This is the opposite effect to what was intended. Regional disparities have not narrowed over the years; indeed, if one looks at standard indicators of employment and income per capita, it is apparent that the traditionally slow-growth regions now count on government transfer payments to sustain their level of consumption.

The solution, according to the neoclassicists - among whom Courchene is a leading Canadian proponent - is to let the market forces resolve regional disparities. Regional unemployment results from a failure to equilibrate labour supply and demand. If surplus labour is reduced by lowering wages, the market can take advantage of lower

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productivity costs. New economic activity should follow and employment be created, albeit with lower wages than may be available elsewhere in the country. If such new economic activity is not thus created, then worker outmigration becomes appropriate. This will trigger the necessary adjustments and bring about regional balance.

One cannot help but think that much of the appeal of Courchene's views on regional disparities in recent years is not simply a direct result of their sound intellectual underpinnings. Concern over growing government deficits and preoccupation with our ability to compete on international markets have led policymakers and observers to concentrate on efficiency rather than equity in public policy. The view that government activities on behalf of regional development ought to be retrenched and market forces set free to create the necessary equilibrium obviously appeals to all those who insist on efficiency as the guiding principle in defining new policies, and to those who are calling for cuts in federal spending to control the federal deficit.

### Some Cautions

Before we all embrace Courchene economics as the way ahead for Canada's regional problems, however, a word of caution is called for. For despite the fact that Courchene's views have their roots in the mainstream of economic thought, there are some questions still to be answered.

To start with, the neoclassical approach to regional problems was tried in Canada for a good half-century and regional disparities were not resolved. Indeed, they were reinforced, if not actually created, during this period. It was this very failure that led governments to intervene with transfer payments and specific development programs. Regional disparities predate government policies inhibiting wage flexibility and migration. As the Economic Council of Canada suggested, net outmigration from Atlantic Canada over the years has been such that it should have closed the unemployment gap between that region and the rest of Canada five times over [1:189]. Thus the question that immediately comes to mind is this: If the approach holds so much promise, why did it not work in the past?

Labour mobility is viewed as a fundamental tenet of the neoclassical paradigm to regional issues. Tom Courchene [5:512] commented that the approach:

... may well mean that some of the provinces in the Atlantic region will suffer losses of population over the short term. But so what! To my mind, the critical issues are (a) whether or not the migrants are better off in their new location and (b) whether the region will be

more viable economically over the longer term. If these answers are in the affirmative, that to me is the end of the story.

The "if" here looms large. It is doubtful whether any sensible policy analysts would disagree with Courchene, assuming, of course, that both "ifs" could be realized. Given current economic circumstances across the country, however, one has difficulty imagining where unemployed fishermen of Newfoundland and New Brunswick could find work. Even if there were jobs available in other regions, it is not at all certain that unemployed workers from the Maritime Provinces (or, say, northern Ontario) would have the necessary qualifications.

Whether the region losing population would be more viable economically over the longer term constitutes another big "if". No one has conclusively demonstrated that in all instances the adjustment of labour (supply) through migration will reduce interregional disparities in unemployment and earned income [6]. Where the argument seems to apply best is in the case of resource-based smaller regions [7:523]. But this no longer describes the Maritime Provinces, for example, where cities like Halifax and Saint John are emerging as centres that are "know-how" based, as opposed to "resource-based". Halifax's comparative advantage is increasingly its labour force, and outmigration, in this instance, would not necessarily have the same impact that it would have for a smaller, resource-based region, in, say, northern Newfoundland. In addition, some scholars point out that outmigrants tend to be younger, better educated, and greater risktakers, and argue that outmigration does the very opposite of what neoclassical theory suggests; instead of attenuating regional disparities, it exacerbates them [3:87].

Neoclassicists do not deal with a region's historical grievances. Although admittedly too much is made in the Maritime Provinces over the negative impact national policies have had on the region's economy, it remains that the Maritimes did not share equally with other regions in the benefits of confederation. The region's industrial development suffered from the reorganization of the railways and from the National Policy, with Ontario and Quebec acquiring the protected industries. The market was certainly not free of distortions in the past in shaping Canada's current economic structure. To suggest that it ought now be set free to deal with our regional problems would strike some as analogous to the home team changing the rules of the game in the bottom of the ninth inning.

The neoclassical paradigm also runs into difficulty when confronted with the real world of politics. Neoclassicists favour, for example, "people prosperity" over "place prosperity"; that is, they emphasize the welfare of individual Canadians more than the welfare of geographical collectivities. There are obvious practical difficulties

with this approach. In a federation, it is hardly possible to expect that all regional or provincial governments will subscribe fully to the view of people prosperity over place prosperity. The Nova Scotia government, for example, may well be primarily concerned with the well-being of all residents within its jurisdiction. Viewed from the perspective of the country as a whole, however, this constitutes an emphasis on place, not people. Province-building - that is, the establishment of measures designed to stimulate growth within provincial boundaries - has become an inevitable fact for Canadian policymakers. For the federal government to wash its hands of any regional development responsibility could well give rise to all kinds of additional "me first" provincial economic initiatives. In the end, provinces would "sabotage" the neoclassical approach and costly competition would surface.

Added to this is the often-expressed argument that Canada's population is not perfectly mobile. Given the country's ethnic composition, there are for many Canadians significant cultural costs associated with moving from one region of the country to another. French Canadians, for example, may well have to sacrifice their culture and language, or at least those of their offspring, should they move outside of Quebec or a handful of regions in New Brunswick and Ontario.

Politicians from whatever political party in Canada will also have great difficulty subscribing to the neoclassical approach. Even assuming for a moment that the theory holds most promise in alleviating our regional problems, it does not follow that politicians would wish to be identified with it. Imagine, if you will, a federal politician from the Maritimes standing up in the House of Commons and declaring that the solution to the region's economic woes is to unleash market forces and encourage outmigration. It is unlikely that he would be standing in the House of Commons for very long! Yet approaches to our regional problems will be debated at the political level and, in the end, they can only be reconciled at that level. On this basis alone, a complete reliance on the neoclassical approach is essentially a non-starter.

Some economists and policy analysts who profess to subscribe to Courchene's views on regional development dismiss the political argument. One recently exclaimed that "I do not care one whit about political realities."<sup>1</sup> Those who make policy decisions, however, do. Certainly neoclassicists are free to build invulnerable fortresses by employing sophisticated economic models and declaring their models immune to the troublesome facts of political reality. How relevant and helpful they may be in the end is quite another matter. It remains that an important criterion for evaluating alternative approaches to regional development is the usefulness of their policy implications [8:23].

<sup>1</sup>The comment was made at the XX<sup>th</sup> Anniversary Conference of the Institute of Intergovernmental Relations, Queen's University, 15-18 October 1985.

In addition, as is so often the case in other fields of study, it appears that some of Courchene's followers are fast becoming more Courchenian than Courchene. For instance, Courchene has always recognized the importance of political reality. He once wrote that governments will not "stand idly by and allow the unfettered market to call the adjustment tune" [5:506]. He also observed that "a wholesale adoption of the tenets of the neoclassical paradigm to regional issues" is not possible, and added that "[it] would be contrary to the very essence of a federal system" [5:513].

Thus, we are left with an approach based on solid and competent economic models but of limited use in the real world. This is not to suggest that we should adopt a knee-jerk reaction against government cutbacks in transfer payments to the provinces and to individuals, or against cuts in regional development programs. Tom Courchene's most important contribution to the study is that he has forced us to hang a question mark on all regional programs.

### The Search for Solutions

Answers to those questions are now coming in, and they are not very encouraging for those who support a continuation of existing regional development programs. Even economists and public policy specialists who have long favoured government intervention for promoting regional development are now rejecting centrally planned and implemented programs, see [7]. Alternative measures are being suggested, including locally-planned and implemented initiatives and a greater reliance on local entrepreneurs. Government grants to encourage national or multinational firms to locate in designated slow-growth areas are also fast losing their appeal for a number of regional development specialists. Courchene's work has contributed substantially to this realignment. For the most part, however, his proposed solutions are quite simply not viable, given Canada's population composition and institutional arrangements.

A policy of benign neglect of or disavowal of regional development responsibilities on the part of the federal government, as the Macdonald Royal Commission seems to suggest, is also not the answer. Essentially, the Commission seeks to transfer regional development responsibility to the provinces. The Commission concluded that the federal government "should not involve itself directly in regional job creation" [2:III:219]. It did not, however, come forward with suggestions as to how and with what the provinces should proceed.

This is not to suggest that Ottawa should introduce still more measures designed to blunt or discourage labour migration. Migration

must remain an important mechanism for individual self-betterment. Neither is it to suggest that we regard as a "sacred trust" all of Ottawa's transfer payments to slow-growth provinces. A firm policy designed to lessen the dependence of slow-growth regions on federal transfer payment is clearly required. How this should be accomplished is obviously a difficult question. Turning off the transfer tap and letting the chips fall where they may is one option. That option, while certainly in line with neoclassical thinking, would, however, pose serious difficulties for provincial governments in slow-growth regions and result in tremendous strain on the federation. Migration would be encouraged, but to where? In all likelihood, whatever migration occurred would be of the wrong kind, if the objective is to attenuate regional disparities.

Thus we must search for another option, one that does not incorporate the blunt and harsh adjustments required by the neoclassicists, but also one that is less costly and less inefficient than past and current efforts in this country. Clearly, this is a tall order. It is unlikely that a panacea or a magic solution will emerge. Our brief flirtation with the growth-pole concept, with DREE's "comparative advantage" approach in the late 1970s, and the hope associated with the megaprojects of the early 1980s, have left us somewhat weary of instant solutions to our regional problems.

In paving the way for a new approach to regional development, governments should establish more realistic objectives. Current goals of alleviating regional disparities, as measured by unemployment rates and per capita income, date back to the 1960s, when we believed that governments could accomplish a great deal more than we now know they can. Some governments still cling to the notion that Ottawa should commit itself to *alleviating* regional disparities, as measured by unemployment rates and per capita income.<sup>2</sup> Somehow, it is believed that Ottawa has the capacity to plan the economy so that the per capita income in Prince Edward Island is equal to that in Ontario or Alberta, despite the fact that little progress was made even when the federal treasury was able to support a multitude of initiatives. It is somewhat like the king exclaiming that the fact that all his men and all his horses could not put Humpty Dumpty together again simply means that he needs more men and more horses.

New regional development initiatives should be defined according to more realistic criteria than has been the case thus far. All too often, we have attempted to duplicate the economic structure of southern Ontario in every other region of the country - witness the jockeying for position on the part of the provinces, and the confused federal

position, whenever a Toyota, Ford, or Volkswagen announces its intention to locate a car assembly plant in Canada.

We have, in Canada, adopted a kind of "cult cargo" approach to regional development. During World War II, natives of a South Pacific Island were deeply impressed by American cargo planes arriving on specially built landing strips. They went back to their villages, cleared a strip of land, lit torches on either side and sat patiently waiting for the big silver bird to arrive with all kinds of goods. Similarly, in order to attract firms, governments have endowed slow-growth regions with all kinds of infrastructure facilities such as modern industrial parks - facilities they had seen contributing to the development of high-growth urban centres.<sup>3</sup> Reminiscent of the South Pacific Islanders, residents of these slow-growth regions have never been able to attract the manufacturing firms the facilities were designed for. They are still waiting for the big silver bird to arrive.

Although no instant solution to the problem of regional development is at hand, promising research is being done that may offer some hope. William Alonso and Mario Polèse, among others, have suggested that in future we ought to look at the population factor, see [1;10]. Growth, they suggest, can be based on skills and talents. Thus, measures designed to raise educational and knowledge levels of a population, as well as initiatives which foster and encourage entrepreneurial talents, should be encouraged. As an example, special tax breaks to encourage local entrepreneurs to expand may well hold considerably more promise than large incentive grants designed to lure national or multinational firms to a region where they would not otherwise go. In short, we have too often ignored the local population in planning regional development measures in favour of high profile projects, and costly, but seldom used, infrastructure facilities.

Slow-growth regions would also benefit from measures designed to integrate their economies more fully with the national economy. Much as developing countries prefer trade with, and access to, the world economy over foreign aid, slow-growth regions would benefit from deliberate measures to integrate their economies with the national economy, and access to a larger market. It is perhaps no coincidence that the regional economy least integrated into the national economy is that of the Maritimes - the region that is also the least developed. The federal government should approach future regional development within a context that is considerably larger than that of individual provinces. Since the early 1970s, Ottawa's regional development efforts have been almost *exclusively* provincially oriented through a series of bilateral federal-provincial agreements that served to fuel interprovin-

<sup>2</sup>See, for example, [9:4].

<sup>3</sup>William Alonso makes this striking and illustrative comparison of past regional development efforts in [1].

cial competition. It is as though the economy of Prince Edward Island, with a total population smaller than a host of Canadian cities, can grow in isolation from even its neighbouring provinces.

### Conclusion

To be sure, Canada's regional development efforts to date have not been so successful as was once hoped, and they have been costly. That does not mean, however, that we should return the fate of slow-growth regions to the neoclassical approach. We have to find another route, while at the same time remaining skeptical of the ability of governments to realize stated goals, and of the usefulness of many of the past and present regional programs. The approach that is likely to emerge will be one that is considerably less ambitious than what was attempted in the late 1960s and the 1970s. It will also be less dramatic and visible in its application (that is, fewer infrastructure facilities, no major firms with the promise of a 1,000 jobs lured to small peripheral communities with cash grants, and so on). Attempts to upgrade the education and skills of the local population, measures designed to encourage local entrepreneurs to expand, and ways to establish stronger links between the regional economies - among other suggestions - may not be as costly or as high profile as past efforts, but they may well hold greater promise for the sustained long-term development of slow-growth regions [8:ch.10].

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