

THE ATLANTIC CANADA OPPORTUNITIES AGENCY: QUO VADIS?

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Lessons from the Past

Much has been written on the presence of economic disparity in the Atlantic region of Canada. Much has also been written on the variety of federal and provincial policies, programs, structures and services designed to eradicate that disparity, especially since the days of the Atlantic Development Board (ADB). This article does not review this chronology, assuming the reader already has a grasp of past events relevant to the birth of the Atlantic Canada Opportunities Agency (ACOA).

Nevertheless, some important lessons have emerged from the efforts of the past. First, in relation to the size of the four provincial economies, the supplementary funds infused by the federal government have been limited, certainly below one percent annually of Gross Domestic Product. In total, they have amounted to less than five percent of total annual investment in the region, where direct assistance programs are concerned (for example, IRDP, AOP, AEP). Although these additional funds have aided in long-term job creation, they must be considered only incremental additions to total economic activity.

Secondly, although the efforts have been small, they have been persistent. Since the early 1960s there have been a long series of federal-provincial initiatives aimed especially at generating additional growth in the region, beginning with the Atlantic Development Board and culminating with the establishment of the Atlantic Canada Opportunities Agency. Persistence for over thirty years suggests that the fed-

eral government will not give up in its efforts to remedy the underlying economic problems of the region (the preferred view). Alternatively, it could be said that the additional but notably small level of stimulation is now considered part of the on-going political-economic fabric, designed simply to keep the tolerance level in the region within acceptable bounds (the cynical view). Whichever view seems the most comfortable to live with, it is nevertheless true that persistent efforts have been made to respond specifically to the concerns of Atlantic Canadians, both through revenue and expenditure measures, either directly or in concert with the provinces. For example, for a number of years special tax incentives have been provided for businesses located only in the Atlantic provinces. Special federal-provincial agreements have been signed covering various industrial sectors, such as forestry or fishing, with cost-sharing amounts more generous than in wealthier provinces. Continued federal willingness to assist provinces in need of more rapid long-term growth must be viewed as a positive factor in understanding the context within which ACOA must function.

Thirdly, special federal measures to assist the Atlantic region have not taken an inordinate share of federal expenditures over time. They represent a fraction of gross federal expenditures and much less of the gross national product (GNP). Although the efforts have been persistent, they represent only a minor federal commitment in financial terms, certainly not sufficient to stimulate income or output convergence, or to prevent a widening of the unemployment rate gap.

Fourthly, federal policy to aid the region seems to have settled into a pattern of direct assistance to business through tax incentives and grants, direct expenditures on infrastructure (such as ports and shipping), and federal-provincial agreements in a variety of economic sectors. In general, the shape of the agreements reflects provincial priorities: planning on an industrial, rather than spatial, basis; the provision of economic infrastructure; productivity improvement; development of human capital; and effective management of resources. Regional plans unifying, or at least coordinating, provincial economic development activity do not seem to be a factor; thus, these agreements do not promote the changes in sectoral balances required to modify the structure of the economy. Rather, they tend to reinforce existing economic patterns and the agencies of government established to serve the current economic actors and to represent their concerns before provincial Cabinets.

Finally, the federal and provincial governments have gone through a series of programs and structures that have proven more or less unsatisfactory to both. The field is riddled with the corpses of organization types, starting with the ADB. It is not for lack of sincerity or effort on the part of the participants. Rather, it is due to the realiza-

tion that regional disparity is not diminishing, regardless of which type of policy is in place. It is also due to the growth of conflict points or centres within the federal government, and between Ottawa and the provinces. For example, in 1982 new structural approaches to regional development reflected a need by federal authorities to resolve some obvious internal tensions and contradictions in policy, which were also reflected in the positions of federal field offices, and in their relations with provincial economic agencies.

And so the events of the past serve as the portal to the future. In the case of Atlantic Canada they portray a national recognition of the presence of economic disparity, accompanied by persistent but low-key efforts to deal with it. They are seen to have been less than satisfactory, often frustrated by poor organization and coordination, hampered by insufficient funds, and shaped to fit the present economic structural characteristics of the region.

It is now being said that additional funds for stimulating business development, entrepreneurship, and the private sector generally, is what is required. As well, of course, there is a need for greater decentralization of decision making in the region and better coordination of federal programs and federal-provincial agreements.

Fundamental Changes

It is into this atmosphere that ACOA has been thrust. ACOA has two choices. It can pursue the traditional federal approach of the past, although with a greater degree of decentralization. This means pursuing the grants and loans to industry approach, together with continuing development and management of federal-provincial agreements, better coordination of federal developmental efforts in the region, pursuit of regional planning to the extent possible and desirable, and finally, the exercise of persuasion at the centre of the government on behalf of the Atlantic region as a whole. Or, ACOA can begin by noting that the traditional approach has been marred by one fatal flaw: the economic problems of the region have not been resolvable by small incremental efforts that encourage growth throughout the existing economic base of the Atlantic economy. Any amount of limited proportional sectoral stimulation over time will at best achieve little but maintenance of the "disparity gaps" reflected by symptoms such as lower per capita income and output and high unemployment. The question for ACOA then is: how should it proceed differently in policy making and programming, in working with the provinces, the federal government, business, labour and universities, in order to ensure that real inroads are made on the fundamental economic problems giving

rise to prolonged and continuing regional economic disparity in the region?

Fundamental Problems

What are the fundamental problems? In a lengthy residency at the Canadian Institute for Research on Regional Development, the author was asked by the provincial government to seek out new approaches to regional development that might be applicable to New Brunswick. Because there is a considerable parallel between the economies of the four Atlantic provinces, the new approaches presented in that study may have some application to the whole of the region. The train of thought is as follows.

The Atlantic economy functions at a lower level than that of Canada. Incomes are lower. Unemployment is higher. Dependency on the federal government is higher. The economic structure reflects these observations, relying more on output of semi-processed goods than Canada and on a less sophisticated service sector, and less on secondary manufacturing. Leakages on the domestic side of the economy have been marked, exceeding 20 percent per year. On the other hand, surpluses on the international accounts have been recorded consistently. Although the region has maintained a stable relationship with the Canadian economy in per capita income and output, the convergence that was occurring in earlier decades of the century has stopped. Further, the shape of that relationship has changed as relative dependency on federal transfers has increased.

Although the lack of apparent relative progress could have generated substantial gloom in a period when regional development efforts were increased, this was not the case. Federal development assistance enabled a substantial social and economic infrastructure to be developed in the form of new schools, expansion of universities, new hospitals, a revamped transportation system, better housing conditions, and urban improvements. In addition, transfer payments to persons rose substantially, providing an income net to cover growing living costs.

Paradoxically, the lack of convergence was masked by a substantial growth in the Atlantic economy, fueled in part by federal largess. It was also hidden by the inability to make any comprehensible disparity comparisons short of the aggregate level. Those who have travelled extensively throughout Canada over the years since 1970 can appreciate the enormous wealth generated in Canada's heartland and in western Canada. But the average person cannot do a visual scan. He or she must rely on the evidence available, which showed increasing prosperity in the region, although there have been renewed expres-

sions of concern by governments and academics that the economic "divide" was growing larger. Indeed, one could argue that federal redistribution policies have been so effective that visual comparisons of similarly sized "wealthy" and "less wealthy" communities in Canada do not reveal the disparity that would have been seen in the absence of those policies. In this context, regional disparity requires a very careful description and definition indeed. The problem is there, but well hidden from view by the impact of federal redistribution spending.

Assuming that a campaign could be mounted for more rapid growth (against disparity), what form could it take? The region's lack of new resource frontiers provides one part of the answer. Exploitation of natural resources is at or near its natural limits in most cases. Technological transfer and improvement is advancing apace, in order to ensure that international competitiveness is maintained. The international markets are where much of the region's natural resources find their customers. It is natural that employment in these sectors would decline, in absolute terms. Further, the manufacturing industry, which is heavily dependent upon resource processing, is limited in its potential for expansion. Without a shift in overall direction the manufacturing sector as well might be expected to lose employment. In fact, that has already been the case for several years. In contrast, the service sector has been growing rapidly, generating the bulk of new employment. But the growth has not been of the type that generates parallel production of service facilities and producer services, as in telecommunication. Rather, it has been once removed from service manufacturing activity: in distribution, transportation and communications. In consequence, income gaps have not declined. This is true even in services highly funded by governments, such as hospitals and educational institutions.

The present structure of the Atlantic economy is such that the reduction of regional disparity seems a remote possibility. The problem is exacerbated by the pressure of domestic leakages, which reflect the high dependency of the Canadian economy on demand by citizens of the region for goods produced in central Canada, whether as factors of production or as consumption goods. Of course, some of that demand is generated from recycling federal transfer payments.

Given these leakages, changes in the structure of the Atlantic economy alone would appear to be insufficient to remedy its own difficulties, especially under the assumption of a relatively closed economic system. Rather, changes in the structure of the Canadian economy itself are also required if regional disparity and economic dependency or "colonialism" is to be overcome. The widening cracks in the wall can be covered over by plaster for a limited time. Eventually structural repairs are required.

Remedies: The Role of ACOA

The major first step needed is a continuing shift towards freer trade, and eventually free trade. Removal of virtually all barriers to the free movement of factors of production and goods and services is defensible on economic grounds, because it will enlarge opportunities for Canadians and stimulate the interregional adjustment needed to offset the concentrative tendencies of industry to locate in central Canada, to serve the large capital market. Although ACOA does not have a direct voice on the subject, this is one area of federal policy that will have far-reaching consequences for the region. ACOA should take the lead in ensuring that the subject is thoroughly reviewed in terms of its impact on investment, productivity, and competitiveness of industries and firms in the region.

Secondly, the principle of equality as the basis for social redistribution, whether for private or public consumption, is well established in Canadian society. But it also applies to economic participation in Canadian society, in this case as equality of economic opportunity. The principle demands that entrepreneurs who wish to do business in Ontario or New Brunswick, for example, should have the same opportunity to do so, given comparable circumstances. That suggests the equalization of real transportation and communication costs, and of agglomeration benefits and other factors of production, so that equality of access to domestic and international opportunities occurs. But it would be difficult to justify regional subsidies to improve access to domestic markets in a free trade situation, since they would essentially be in the same position as foreign markets and would be treated in the same manner. The consequence would be a shift in trade from east-west to north-south. Again, ACOA should be the leader in enlarging understanding and application of the principle of equality of economic opportunity in the region.

The above two points make it clear that adjustment of the Canadian economy to the international economic environment is a necessary prerequisite to any effective growth measures for the region. The question remains: what areas of economic activity are open for exploitation and development in a region like Atlantic Canada? The answer is clear. First, a shift in emphasis must be made from a natural resource based economy to a human resource based economy, given the limits to growth based on natural resources. This means a substantial acceleration in training and development, and probably structured changes in how it is done. Well educated and skilled residents of the region have been a valuable export for decades. For those who would choose to remain, the key area for exploitation would be tech-

nological innovation, development, diffusion, production and distribution, largely in the service sector and its manufacturing spin-offs.

The development of a second tier of productive activity in the region thus depends upon a much greater investment in human capital; the development of technological resource and high-tech industries built around the basic facilities of the universities; the carving out of "niches" in international markets, especially in the United States and Asia; and the support of the federal government for the diffusion of new technological activity in all the regions of the country. In the case of natural resources, transferability is out of the question. In the case of technology and human resources, almost anything is possible. The major structural change in the region would probably be an increase in manufacturing and services, most of it technology based. Employment accompanying the transition would be higher-skilled and higher-paid. The traditional service sector would become more differentiated and complex, and contain better paid and more highly skilled workers. There would be greater reliance on international markets. A significant internal transformation of the labour force would occur over time. Of necessity, a continuing small component of less skilled individuals working chiefly around resource based industrial activity and in the traditional service sector would persist.

This brief sketch does not do justice to the range and complexity of the argument. Nevertheless, it demonstrates that ACOA could do much more with its mandate than past traditional approaches have done. Assuming that it chooses a new path, a new road, its first responsibility would be to develop a two-pronged development strategy within a time horizon of 20 to 30 years. The first task would be to find a way to restructure the Atlantic economy so that the "structural barriers to growth" built into the existing economy could be removed. The second would be a strategy of national information and persuasion based on solid fact-gathering and research, to inform Canadians of the national advantages of promoting regional growth and of reducing the region's economic disparities. Within these twin strategies, then, ACOA responsibilities would encompass:

1. Intelligence, Research, Publicity. This would cover:
 - an intelligence and information network at the international level, and a national counterpart;
 - sponsoring research activities in order to better understand the dimensions of regional disparity; to identify specific international and domestic market niches that would be a good "fit" for exploitation; to identify international and domestic resources that could be of specific assistance in accelerating technological and human resource development in the region;

- a public information program for the whole region, to stimulate interest in regional growth possibilities and to stress the importance to national life of overcoming regional disparity in the Atlantic region.
2. Development of a regional strategies outlook. An element critical to the agency's success is the ability to develop a strategic outlook for the region acceptable to all provinces. This is crucial if for no other reason than to reduce the amount of political bargaining among the provinces. The agency would have to spend considerable effort at building an economic viewpoint that is more than a consensus of the least common denominator. Thus the agency should establish a liaison network(s) of key political governmental, business, labour and university representatives to ensure that there is a continuing exchange of information and opinion about the economic strategy, about the responsibilities of various levels of government and the private sector, and about the agency's responsibilities, policies and programs.
 3. Negotiation and administration of all Federal-Provincial Economic Regional Development Agreements (ERDAs) with all four provinces.
 4. Management, coordination and financing of all ERDAs in the Atlantic region.
 5. Management and implementation of all grant and loan programs in the region presently administered by the federal government through the Department of Regional Industrial Expansion, including agencies such as the Atlantic Enterprises Program and the Atlantic Opportunities Program.
 6. Special responsibilities for the study and recommendation to the Government of Canada of measures to improve national and interregional adjustment programs for the benefit of the region, including tariff and non-tariff barriers, taxation and tax expenditures, regulation of transport and communication, economic and social infrastructure, and cultural matters.
 7. Technology, human resource development and post secondary education. The agency's action strategy, if the economic analysis is accepted, will rely heavily on a policy fostering technological change in the region and participation in international technological developments. Thus the agency should have:
 - an ongoing review, under the aegis of the provinces, of changes in the region's technological capacity, including innovation, diffusion, technological transfer, and application;

- an ongoing review, again under the aegis of the provinces, of changes in the region's human resource capacity, to get a clear comparative picture of the ability of the labour force to compete in the international and domestic market in new fields.

8. Supplementary investment. The agency's funds should be viewed as supplementary to the region, not a substitute for present spending there. In this way the agency, although it may be responsible for pre-existing programs, can be held accountable for the special programs and activities that have been put in place to give a regional orientation to the area and to initiate a process of economic reconstruction.

ACOA: An Agency in Search of a Mission

Announcements concerning ACOA began on June 6, 1987, when the Prime Minister indicated a federal commitment of \$1.05 billion in new money over five years. The agency was to "develop and implement programs contributing to the long term economic development of Atlantic Canada. It also will have a strong coordinating mandate over all federal activities contributing to the economic growth of the region." [3] In addition, organization and staffing information was released. For example, Donald McPhail was named as the Agency's President-designate, and the offices of the Federal Economic Development Coordinators in four provincial capitals will form the nucleus of the Agency.

More specifically,

The Agency will have a strong mandate for the coordination and planning of all federal activities contributing to the economic growth of the region, particularly procurement, training and skills development, job-creation, technology infrastructure development and local investment promotion. It also will be directly responsible for federal small and medium-sized business and industrial development policy and programs in the region, working in close cooperation with provincial governments and with the private sector. Special efforts will be made to ensure Atlantic suppliers benefit fairly from federal procurement requirements.

The Department of Regional Industrial Expansion will continue its responsibility for national industrial policy and programs and for major industrial projects. All other federal departments and agencies will continue their regional responsibilities in the Atlantic and, working closely with the Agency, special efforts will be made by them to support regional aspirations.

The Agency will complement, not duplicate, programs of the provinces and local government. But it will have a particular responsibility to foster new enterprises at the local level.

While its principle function will be the design and delivery of programs for small and medium-sized businesses and industries within the region, it also will be responsible for bringing a regional perspective to the design of national economic and social programs that affect Atlantic Canada. [1]

The Agency became operational on June 8, 1987. Membership on the 19-member Board of the Agency was announced on August 31st, 1987. Its composition revealed a heavy business orientation: 13 business persons, 3 representing government, 1 representing labour, 1 representing municipal government and the chairperson representing the federal government. As well, francophone representation was assured with three members from the business community.

The Board held its first meeting on September 3, 1987. Two points are of particular note:

The Board stressed that the Agency's new activities should be designed to encourage individual entrepreneurs to maximize their efforts ...

and

The Board agreed that the Agency's programs should be designed to complement, not duplicate, those of other federal agencies, the provinces and local governments. ACOA is responsible for coordinating all federal activities contributing to the economic growth of the region.

ACOA also administers a number of existing programs relating to small and medium-sized business, available under subsidiary agreements formerly managed by the Department of Regional Industrial Expansion. In addition, ACOA is responsible for the administration of the Atlantic Enterprise Program and the Industrial and Regional Development Program. [2]

It is clear at the outset that the Agency seems headed, by accident or by choice, in a direction that extends the approaches and strategies of the past. It is almost as if, once again, Canadians believe that support, promotion and subsidy of business in the region is the only supplementary mechanism that will stimulate long-term growth and hopefully close the disparity gaps as well. That it has not been particularly successful in the past does not seem to be a deterrent to choosing it as the basis for future effort. It is analogous to the farmer who follows traditional patterns of farming, by habit and of necessity, and loses money with considerable frequency. Upon his passing, his sons then transform the farm into a modern agri-business. In that case, the failure of perception by the traditional farmer led to a failure to seize opportunity. In this case, ACOA was conceived to help generate long-term economic growth in the region, and, by doing so, reduce dispari-

ties. Although providing a better climate for business investment of various kinds is one important approach, it is surely insufficient in the context of the economic problems of the region.

This is not to deny that government and its agencies must respond to short-term pressures and needs as a condition of existence. There will always be the need to maintain a minimum level of satisfaction among clientele, decision makers and those who pay the bills, regardless of what long-term strategy is chosen. That is the reality of government in a democratic society. It must respond not only to fundamental problems but also to the short-term needs of citizens, in this case small and medium business enterprises, and the many unskilled and unemployed. Despite that requirement, ACOA has a real opportunity to chart a new course leading to needed structural changes in the Atlantic economy. Such a vision is the only thing that will make ACOA significantly different from the aid agencies of the past.

In most types of life, and in man's creative activity, form follows function. The continuing resurgence of area-type agencies like ACOA (form) reveals that Canadians really do want a special functional approach that tackles the regional disparity problem as a whole (collaborative) and not as a series of apparently related sectoral initiatives (competitive). Moreover, the presence of regional policies in other parts of the country (the western diversification fund, for example), also reflects a recognition that national growth can be aided by collaborative regional efforts.

That is good as far as it goes. But we should never lose sight of the fact that ACOA is not just another federal agency responsible for regional growth. Rather, it has a double function: the promotion of regional growth, *and* the reduction of regional disparity. They are not the same thing; the former can occur without the latter. They may require a different orientation, scope, time scale, economic strategy, federal-provincial policy linkage, and, above all, a different type and level of community collaboration. ACOA, quo vadis?

References

1. Atlantic Canada Opportunities Agency. Mandate and Program Details.
2. Atlantic Canada Opportunities Agency. Press Release, September 3, 1987.
3. Canada. Office of the Prime Minister. Press Release, June 6, 1987.