ACOA in an International and Historical Context*

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Introduction

The Atlantic Canada Opportunities Agency (ACOA) began operation in the summer of 1987. While the Agency represents a new structure and a new approach for the Canadian government, ACOA can be viewed as the product of changing ideas about economic development in developed countries and the historical record of Canadian attempts to relieve regional disparities.

The aim of this paper is to outline the context that resulted in ACOA's particular structure and mandate. This context can be seen as the result of trends in many developed countries in terms of shifts in industrial and occupational methods as well as diverse experiences in industrial and regional development. Canadian approaches to developmental problems are not formulated in isolation; there is an international flow of ideas and innovations in public policy just as there is in consumer products. The context is also historical, in that Canada has a unique and, one might say, kaleidoscopic experience in regional and

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economic development programming, which has affected the structure and mandate of ACOA (Aucoin 1988; Leger 1987).

The product of these forces today, ACOA, is a separate agency of the federal government with a specific life-span and a specific mandate. It is both more flexible and more broadly developmental than most of its predecessors, with an orientation towards small and medium-sized enterprises that they did not have. Finally, its structure is more closely tied to the Atlantic region than any of its predecessors since the Atlantic Development Board of a generation ago.

The question of whether the new structure and mandate of ACOA will produce a measurable impact on the regional development problem in Atlantic Canada is obviously still open. Measuring such change is very complicated. The final section of this paper explores ways of attempting to measure development.

International Context

Normally, any discussion of regional or subnational economic development involves a discussion of microeconomic tools, as opposed to macroeconomic ones. National economies tend to be managed by the large-scale instruments of currency exchange rates, taxation policies, interest rates, and trade barriers (including tariffs). Regional problems are addressed wtihin this macroeconomic environment by public expenditures on infrastructure, capital grants, loans with concessionary interest rates, and the like. In effect, regional development is promoted by tools that attempt to overcome distortions created by macroeconomic tools, by unequal resource endowments, by labour force quality problems, by credit availability, and by infrastructure inequalities. The tools available to market economies are rather similar in all cases. It is the appropriateness of the mix that tends to make the difference in performance.

The use of regional development tools is more complex in federations than in unitary countries. The states or provinces in federations do not have access to macroeconomic tools and therefore tend to be more active in pursuing local development through microeconomic methods. This is often criticized as being a zero-sum game for a nation, in that what one state manages to secure, especially in manufacturing plant siting, is often at the expense of another state.

In unitary countries, national governments have tended to swing between centralized and decentralized administrative arrangements. Incentives may be provided for geographic zones, while the negotiations between clients and government take place in the capital. In a more decentralized mode, special development agencies may be set up to cover geographic areas and to administer incentives as well as

provide special infrastructure and other developmental services. Many countries in Europe appear to be entering a more decentralized mode today. In 1988, for example, the Scottish Development Agency established a system of regional offices for administering programs that had hitherto been administered from its headquarters in Glasgow.

During the 1980s a generalized shift in development approaches has taken place. Prior to this decade, the driving force for regional economic development was seen to be the large-scale manufacturing facility. In general, the aim of the development authorities became one of identifying and attracting such facilities to less-advantaged areas. Promotional materials, infrastructural programs, and financial incentives were all structured to meet this objectives.

In many areas, industrial attraction, or "smokestack chasing", was carried to a fine art. American federal tax advantages allowed Operation Bootstrap in Puerto Rico to move thousands of people off the island's farms and into assembly line operations. While incomes in Puerto Rico are less than half the American average, they are multiples of those on neighboring West Indies islands. Massive tax advantages also allowed the Industrial Development Authority in the Republic of Ireland to absorb much of the farm labour made surplus by improvements in agricultural productivity in the 1960s. Japanese and American assembly plants producing for the EEC market dot the countryside of Western Ireland and contributed strongly to Ireland's strong export performance in the 1980s. For most of the American states outside of the North, this approach was, and to a great extent still is, the prime method of development. As a result of 25 years of aggressive industrial attraction efforts, North Carolina has moved from a state dominated by agriculture to one claiming the highest percentage of any state's labour force employed in manufacturing. Silicon Glen in Scotland and parts of Bavaria in West Germany have also been transformed through the aggressive pursuit of "smokestacks".

The past decade has seen a shift in emphasis. There is still keen competition for the large manufacturing plant, but today it is more a quest for symbols rather than significantly altering the employment mix of a poorer region. Most development authorities now realize that outside investment in new plant facilities can provide little more than five percent of the employment required by a region's growing labour force. Further, the nature of technology in manufacturing processes is such that the day of large plants employing thousands of people is over, at least with respect to new plants.

Recent research has tended to confirm to development authorities that a change in approach is needed. While there is a large body of such research, that done by David Birch (1987) in Boston, is perhaps the best example. For the past decade, Birch has noted, employment growth in the United States has been concentrated almost entirely in small businesses and, in particular, in those selling various types of services. Birch has applied his research on the growth and formation of firms to a regional perspective. He shows that the fastest-growing parts of the United States are those with the fastest-growing firms and the highest rates of company formation. In effect, the challenge has shifted from trying to attract branch plants into different regions to one of trying to create the conditions that foster a faster rate of creation of new small businesses and of enhancing the chances of local small business to grow at a fast rate.

Canadian job growth has paralleled in structure the situation described by Birch in the United States. The U.K. has begun to experiment with a similar emphasis, given the dramatic downsizing that major goods producers such as coal, steel, autos and shipyards have endured in this decade. Tax changes in New Zealand and Australia have been based on a felt need to revitalize the small-business side of the private sector. Translating the research of Birch and others into a new approach to regional development underlies in part the ACOA structure, as the report by Donald Savoie (1987) points out. Development agencies in many American states and Canadian provinces have also moved to discover and to promote those factors that lead to innovative firm creation and growth, especially in the high-technology sector.

The objectives of regional development have also changed over the past decades. In the 1960s, the industrialized economies were faced with an influx of workers who were surplus to the rural economies of the time. Newfoundland fishermen were exhorted to burn their boats. Irish farmers could no longer support themselves on their small plots. Australian cattle stations and farms in the American south were consolidated into much larger units dominated by mechanization. Something had to be done to absorb these people into the productive economy once more, and especially to do so in or near their homes. The 1970s were characterized by the entrance of the baby boom generation into the workforce, especially in North America. Jobless rates among young people skyrocketed in city and country alike. Three recessions between 1973 and 1983 added more pressure for increased employment, while technological changes in manufacturing processes cut the number of jobs in heretofore stable and growing large plants.

Today, the peak age cohort of the baby-boom is over 30, much of North America's manufacturing restructuring has taken place, and nearly six years of recovery and growth have changed the employment picture significantly. Social transfer programs have gone a long way towards masking the effects of disparities in earned income and employment opportunities. The regional development challenge has

become primarily one of the expansion of economic activity, both geographically and in terms of products and services, so that, as a whole, a country can react successfully to the rapid changes in demand and in technology that will continue to appear as the 1990s unfold.

The foregoing has been an attempt to put regional development into an international comparative context. In the future, students of regional development will have to adopt this approach as a matter of course. The movement towards free trade between the U.S. and Canada is paralleled by the determination within the EEC to have a free and open market by 1922. Australia and New Zealand have already embarked on a free trade zone. The trend is clearly towards more economic integration, accelerated by the globalization of manufacturing and of products and services, by advances in communications, and by the effective internationalization of finance. These international trends will certainly open new opportunities for growth for all regions. How the more disadvantaged regions of industrialized countries seize upon these opportunities will be significant.

The "geographical" context in which ACOA finds itself is one where microeconomic tools continue to be the only ones available for regional development use. The Agency must work within a federal/provincial environment. It must emphasize the endogenous (internal) growth of the private sector, although the fruits of effective "smokestack chasing" should not be ignored. Finally, it must focus on providing a diversified regional economy as part of a national requirement in an age of greater global economic integration and more rapid changes in demand and in technology application (McNiven 1988).

Historical Context

ACOA is not just the product of changing international conditions and changing approaches to regional development. It also derives from the past experience of both the federal and provincial governments in Canada. In general, Canadian regional development efforts have been undertaken as a partnership effort between both levels of government. Both have reserved to themselves the right to create or to change the programs and institutions they might adopt, but the usual procedure has been to try to minimize overlap and duplication. Relationships have changed with changing conditions. In the early 1960s the administrative and delivery capabilities of the Atlantic provinces, in particular, were not strong. The election of the Parti Québécois (PQ) government in Quebec in 1976 coloured federal relationships with that province and, by extension, with others. An era of closer cooperation began after 1984, when both the federal and Quebec governments changed.

Canadian regional development activity has also been affected by the elaboration of the welfare state. Most of the federal budget is devoted to transfer payments to provinces, individuals, and businesses, this last being by far the smallest sum. The commitment to equalized public services across Canada and to providing all Canadians with a spartan but decent standard of living has had its impact on regional disparities. Transfers to individuals in terms of pensions, welfare, and unemployment funds and transfers to provinces for health, education, and other services have tended to reduce disparities considerably. The funds have also stimulated provincial economies and helped to expand the local private sectors. The amounts spent under this guise far exceed those devoted to regional development directly (Annual Conference of First Ministers, 1988).

Federal regional development efforts over the past three decades have been paralleled by increasing provincial efforts at economic development and have been overshadowed by massive expenditures by both levels of government on social development programs. By the end of the 1960s, regional development was no longer seen as a method of reducing poverty. Instead, it became a commitment to increasing employment opportunities, earned per capita incomes, tax bases, and local prosperity. Given the challenges of the present day and of the 1990s mentioned above, regional development is likely to be seen as a tool for the strengthening of the Canadian economy in the face of stiff global competition.

Federal regional development activity has gone through numerous organizational and policy modifications. Not all of these modifications resulted in vast changes in operations or expenditures. Many built on past successes and learned from mistakes. Many were prompted by changes in the economy or in society. The Atlantic Development Board (ADB), formed in 1962, was the first modern federal development organization. The ADB consisted of a board appointed from the region, whose task it was to recommend and fund capital works programs throughout Atlantic Canada. Savoie (1987) noted in his report that the ADB is still fondly remembered by some of the people he interviewed.

For some time the ADB existed in parallel with the Agricultural Rehabilitation and Development Act (ARDA), established in 1961, which empowered the Ministry of Forestry and Rural Development to work with provinces and local communities to plan and carry out rural community development schemes and agricultural development projects. ARDA activity reached its peak in the early 1960s, although programs under the Act were not completely terminated until the early 1980s.

A third approach was made in 1966 with the creation of the Fund for Rural Economic Development (FRED) under ARDA legislation. FRED was used to encourage and fund large-scale comprehensive regional planning. This approach was borrowed from French experience and resulted in plans being drawn up for the Interlake region in Manitoba, eastern Quebec, two regions of New Brunswick, and the whole of Prince Edward Island. The 15-year Development Plan in Prince Edward Island governed federal/provincial development spending there until the mid 1980s and gave that island the most flexible arrangement for regional development activity of any province.

In 1969, the Department of Regional Economic Expansion (DREE) was formed in order to give regional development a higher profile and to assure the government of a means to coordinate the activities of other line departments so that development efforts might be maximized. In its early years, DREE adopted a growth-centre approach, which focused spending on infrastructure and other needs in areas where growth was most likely to occur, namely the urban municipalities in so-called "designated areas" of the country. This too was a concept borrowed from French development planning experience. It soon became a victim of local jealousies and nearly every part of Canada became a growth-centre by 1973, when the approach was dropped.

Following an extensive review, DREE was reorganized (Love 1987). Its administration was decentralized, with regional offices being created in Moncton, New Brunswick, and Saskatoon, Saskatchewan, as well as in Toronto and Montreal. The areas designated for DREE assistance included some or all of each province. In the more prosperous provinces, these areas were generally in the north. DREE administered two main programs: the Regional Development Incentive Act (RDIA) and the General Development Agreements (GDAs). RDIA was a capital incentive program which was applied on a formula basis as an incentive for new plant location or expansion. Under the test of incrementality, the proposed investment had to be both new and not likely to happen without the grant. The GDA was an umbrella agreement signed with each province. Under its aegis, the two governments could negotiate sectoral public investment plans whose costs were shared on a basis that could change from sub-agreement to sub-agreement. This approach remained in force from 1974 until 1984.

In 1982, DREE was abolished and the Department of Regional Industrial Expansion (DREE) took its place. DRIE was an amalgamation of DREE and part of the Department of Industry, Trade and Commerce (ITC). The Trade Commission Service was stripped from ITC and placed within the Department of External Affairs. DRIE was created in part because of a policy conviction at the time that the ends of the country were likely to be entering a long period of prosperity based on megaprojects and resource-based growth while the industrial centre of the country was faced with an uncertain future as a result of the recession of 1981-82 and of the global restructuring of manufacturing that was taking place. In fact, the exact opposite occurred.

DRIE administered two programs that resembled those of DREE. The Industrial and Regional Development Program (IRDP) began as a replacement to RDIP (originally, RDIA) that was far more comprehensive in scope and in geography than its predecessor. IRDP could help fund marketing studies and business plans, among many other things. It was national in scope, with all census areas of the country being ranked on a tier system. The tiers enabled different areas to receive different maximum contributions based on ministerial discretion. The formula elements were discarded, as were the geographic restrictions under DREE. The result was a significant shift of resources into Ontario and Quebec and a consequent rise in regional anger at the program from both East and West.

The second DRIE program was the Economic and Regional Development Agreement (ERDA), which was the successor to the GDA. There was not a great deal to distinguish the two, other than a shifting of cost-sharing proportions away from the high federal shares under the GDA to a more even sharing under the ERDA and the involvement of federal departments other than DREE (DRIE). Provision was also made for direct federal delivery under the ERDA, this approach having been experimented with in the last years of the GDA program, but it was not pursued rigourously. Likewise, the flexibility features of the IRDP were never really used.

The new government elected in 1984 was committed to a process of consultation and cooperation with provincial governments. As a result, IRDP was modified to harmonize it with provincial programs and the ERDA structure reverted to the basic GDA approach while the government considered ways to meet the new realities of a depressed East and West and a booming Central Canada.

The result was the creation in 1987 of ACOA and its sister organization the Western Diversification Office. These are separate from DRIE, which itself is undergoing another transformation into Industry, Science and Technology Canada. Regional development focus has been restored by the creation of these two bodies, while the flexibility originally envisaged for IRDP has been given to ACOA programming. The ERDA/GDA structure will also be maintained, with a more strategic approach than was previously taken.

This brief history has tried to weave a number of elements together to show how Canadian regional development efforts have evolved. There have been sectoral investment plans for over a dozen years, as well as some kind of grant or cost-sharing mechanism to assist investment or business activity. Infrastructure assistance has been a part of every agency since the ADB. The flexibility of these instruments shows through the many objectives pursued by regional development bodies over time, from comprehensive planning to business cycle assistance to enterprise and entrepreneurial development. The pressures of the global economy, the needs of the Canadian society and the demands of regional groups have all combined to keep program innovation and experimentation occurring at a rapid rate in Canadian regional development bodies.

Results

A feature of many European regional development programs today is a regular review of progress. For instance, Belgium and Denmark are committed to review processes every four years. The Scottish Development Agency has just had a major review of its policies and programs completed (Industry Department of Scotland 1987). ACOA has been given a term of existence that, given the longevity of the Canadian regional development effort, should more logically be considered as a review after five years.

It will be difficult for those undertaking such a review to point to specific results. ACOA funding is vastly overshadowed by Canadian social spending at all levels. Modification of the formulae for such spending could deflate regional economies (or in the opposite case, inflate them) more than regional development could stimulate them. A shift in Canadian or world interest rates or exchange rates could have a greater effect as well. The adjustments under the free trade agreement could have a large positive or negative effect, depending on the opportunism existing in the Atlantic region economy. In short, it is impossible to measure ACOA effects at the macroeconomc level. It might be possible, however, to develop an index or set of indicators that measure variables that ACOA could affect. Such indicators might be the rate of new company formation, the rate of small business employment increase, and mortality rates for small businesses. At this point, helping to provide a good business climate for internal or endogenous economic development may be a more useful goal than the long-term one of raising regional per capita earned income.

One of the most controversial methods of measuring such activity has been the "report card" approach used by a number of American organizations. It is simple to read, consisting of a number of indices and a ranking of individual states relative to their performance, thus establishing who is best at what. The controversy arises from the fact that it is really difficult to relate these indices or report card grades to real performance in an economy. Further, depending on what is ranked, the rankings vary considerably.

A comparison of four different report cards using data from 1984-86 bears this out. In late 1985 and late 1986, *Inc.* magazine published two installments of its annual rankings (Kahn 1986; Katkin and Caister 1985; Mangolis 1985). They differed considerably in their factors and the weights given to them. In early 1987 the Corporation for Enterprise Development (1987) published a very sophisticated report card using a wide variety of indices of economic performance that ranged from growth to environmental concerns to income equity. In 1987, as well, Grant Thornton (1987) published another installment of its index for manufacturing climate, a narrow ranking that has remained generally consistent in its factors and results for many years.

Comparing these four report cards reveals an immense amount of discrepancy. If the top ten states in each report card were completely different, 40 states would be named. In reality, 29 states were identified. There were only two states, Massachusetts and Virginia, that were named by three report cards as being in the top 10, and seven states named by two of them as being in the top 10. Some of the discrepancies are extreme. Grant Thornton named North Dakota as #1 while *Inc.* 1986 named it #49. *Inc.* 1985 named California #1, *Inc.* 1986, #11 and Grant Thornton, #30 (see Table 1).

These report cards are supposedly used by corporate executives to guide them in their choice of plant sites. They may also be used by state officials and others to determine how they might improve legislation and programming. Yet the vast discrepancies in these report cards leave them suspect. Depending on which report receives the best publicity, a given state may be seen to be doing well or poorly in economic development.

One way ACOA could measure its own impact through this method would be through changes on a fairly narrow scale of variables over which it might have an effect. Such a report card would have to be constructed with care and would have to relate to a pre-ACOA baseline or time-series. It could also be constructed with data from other jurisdictions in other countries that have characteristics similar to Atlantic Canada, so as to provide an international perspective.

In the end, the measurement of results is not a simple task, and simple methods do not provide very much accurate information. Measuring results, in contrast with measuring the environment for development, remains a basic issue which must be resolved.

Table 1

A COMPARISON OF FOUR "REPORT CARDS"

	Inc. '85	Inc. '86	CED '87	GT '87
Alabama	37	28	48	28
Alaska	35	2	23	NA
Arizona	15	1	32	7
Arkansas	30	33	43	21
California	1	11	9	30
Colorado	3	13	20	5
Connecticut	2	19	2	35
Delaware	16	8	16	15
Florida	6	7	37	13
Georgia	12	5	39	23
Hawaii	20	34	10	NA
Idaho	28	42	32	16
Illinois	10	38	34	42
Indiana	11	25	22	36
Iowa	38	48	29	27
Kansas	23	36	15	8
Kentucky	36	37	46	25
Louisiana	29	35	50	45
Maine	34	26	5	41
Maryland	45	6	18	20
Massachusetts	4	9	1	11
Michigan	40	24	25	48
Minnesota	7	30	4	32
Mississippi	42	41	49	12
Missouri	41	31	28	6
Montana	24	47	36	46
Nebraska	49	44	13	2
Nevada	44	20	24	10
New Hampshire	22	4	3	17
New Jersey	8	18	11	29
New Mexico	17	17	43	19
New York	9	23	12	34
North Carolina	13	15	38	9
North Dakota	33	49	26	1
Ohio	25	29	30	47
Oklahoma	43	43	41	24
Oregon	47	40	30	39
Pennsylvania	39	32	18	38
Rhode Island	27	22	7	37
South Carolina	14	14	47	26
South Dakota	26	45	26	3
Tennessee	46	16	43	18
Texas	18	3	40	22
Utah	19	12	21	33
Vermont	32	21	8	14
Virginia	5	10	17	4
Washington	21	27	14	40
West Virginia	50	46	42	43
Wisconsin	31	39	6	31
Wyoming	48	50	35	44

Conclusion

ACOA fits easily into the mainstream of regional development agencies in the industrialized world. Its programs reflect the shift to endogenous development that is becoming the approach of similar bodies elsewhere. ACOA, in fact, may be somewhat of a pioneer in programming for this approach, with the possible exception of a number of high-technology partnerships in the United States.

ACOA's emphasis on innovation, education, entrepreneurship, training and local development is evidence of the new approach being taken by regional development agencies in western countries. The economic climate of the 1990s will be different than that of the previous three decades. Regional development agencies, like firms, will have to adjust to an environment that will be more competitive, will be service sector oriented, and will reward technological innovation. Communications will be essential to doing business in this climate, as information generated in one part of the world becomes almost instantaneously available to other parts. The more that agencies like ACOA are able to respond to this environment, the more successful they will be in undertaking regional development.

While ACOA must operate in an international environment of information, ideas and activities, it must be unique in its approach. In this regard, ACOA can be seen as an evolution of Canadian regional development efforts that go back nearly thirty years and have evolved into a regionalized approach to regional development. While many countries have development agencies that address the specific development issues of sub-regions (for example, the Highland and Islands Development Board in Scotland, the Development Board for Rural Wales, and Udaras na Gaeltachta for the Irish-speaking sections of Ireland), Canada has perhaps gone further than most countries in regionalizing regional development.

Measuring the success or failure of this new effort is likely to be difficult, because regional development spending and other activity has only a marginal role to play in economic development when contrasted to the sums expended on social development programs and the impact of macroeconomic tools. A report card mechanism is an attractive but potentially confusing and controversial approach to measurement. However, the development of some sort of measurement tool may in fact be the next useful innovation in Canadian regional development programming.

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