

## Reviews/Comptes rendus

**Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada.** Fred McMahon. Halifax: Atlantic Institute for Market Studies, 1996, 118 pages, (ISBN 1-896928-00-5).

This is a frustrating book. It claims (pp. 9) to present the “full truth” about the impact of federal subsidies on the Atlantic Economy, yet the language is loaded, the economics is suspect, the data are presented in charts not tables, and there are many assertions but limited (or no) evidence to support them. Thus, the reader is left with the sense that this is simply a political tract. It jumps from one argument to another, ignoring the contradictions between them or their inappropriateness to the Atlantic economy.

The frustrations begin with the central thesis of the book, that federal subsidies have harmed the economic growth of the Atlantic region. The book is **not** about federal subsidies -- the data used are for the net flow of federal funds into the region, the difference between total revenues received and total expenditures made in the region by the federal government. One reason for this strange choice is that “it is very difficult to pick up the macro effect of individual expenditure programs” (pp. 16). That suggests that specific subsidy programs do not have the impacts the report seeks to find, so subsidies have been defined as net flows to justify the interpretation desired.

The implications of defining net federal flows as regional subsidies are quite startling. Canada pension payments are a regional subsidy, expenditures on the navy are a regional subsidy (is Alberta offended?), a successful bid for a federal contract is a subsidy, the purchase of equipment in the region (but manufactured outside the region) is a subsidy. Unemployment insurance is explicitly identified as a regional subsidy program (pp. 47). Of course, many federal expenditures are not subsidies, most of the programs are not regional programs, and many do not even benefit the Atlantic region, although they are all counted as subsidies in

### **The Gift Horse**

McMahon argues that the Atlantic economy has experienced “explosive” growth, except when federal subsidies accelerated in the early 1970s. He claims that “Atlantic Canada’s per capita economic growth has strongly and consistently

outpaced the rest of the nation” yet his data (Graph 2) indicate that this was not true about 1/3 of the time. He asserts that the “trend in personal income growth appears unaffected by very large changes in the amount of subsidies received...” (pp. 21-22). But why should a trend line reflect short term changes in the subsidies?

The weakness of the book’s conclusions are illustrated in the initial graph, showing per capita subsidies and Atlantic per capita GDP as a fraction of the Canadian GDP. The subsidies climb after 1973 and income falters. However, the inverse relationship is not consistent over the 1961-1993 period or even specific segments of it. Nonetheless, McMahon claims that his thesis is borne out with data showing “exactly the expected timing” (pp. 28).

Even if the data were consistent with McMahon’s claim, it is subject to different interpretations. 1973 was a significant year -- the year of the first oil crisis and of the rapid acceleration in inflation (and profits, indicating the inflation was not due to energy costs alone). It was also the year that unemployment escalated in the Atlantic region relative to the rest of Canada. Thus, we would expect at least two components of federal subsidies in the region to increase federal expenditures in Atlantic Canada: unemployment insurance and the national energy program. These increases did not cause the economy to falter, as McMahon would have us believe; they were necessary because the economy was in trouble.

Similarly, we can easily infer a different cause and effect for Atlantic unemployment rates. McMahon argues they rise with increased federal spending in the region and the federal spending was therefore counter-productive. He does not deal with the possibility that increased spending led to more jobs which led to even more workers re-entering the job market (or returning home). The expenditures did not cause unemployment; they simply created higher expectations than could be met.

McMahon has two explanations for the claimed perverse impact of federal expenditures. One is related to the Dutch disease -- an inflow of money raises the exchange rate and that reduces traditional exports. Of course, Atlantic Canada does not have its own exchange rate, so the argument is that the expenditures raise wages which leads to a decrease in the quantity of labour hired. But that sounds like a confusion of a movement along the demand for labour curve when the federal expenditures lead to a shift of the demand curve.

The second explanation for rising unemployment rates is that unemployment insurance increased the attractiveness of unemployment, extending search time and permitting workers to “deliberately [choose] leisure over work” (pp. 30). While there is no doubt that people are reluctant to lose their ui eligibility to take short term work, ui has not made the labour force lazy. People desperately want stable, long term employment and they also need support in an economy where many jobs are seasonal. To claim that a program which provides poverty-level support is preferred to work is an affront to Atlantic Canadians and contrary to the facts (Economic Council 1980). To suggest that ui is a major distortion of the economy but to ignore the efficiency and human costs of excessive unemploy-

ment is unacceptable. The ui system should not be withdrawn but re-designed to provide flexibility and incentives to work.

The language used is that of a political tract. Regional subsidies are “massive” (pp. 13) but no attempt is made to compare them to subsidies which have helped other regions, such as the \$16 billion to the CANDU reactor program (Macdonald 1985: II-99). During the period over which McMahon is most exercised, subsidies under the Defence Industry Program were substantially higher than under Industrial and Regional Development -- \$169.2 vs. \$102.7 millions in 1982/83 (Ibid.: 102). The Atlantic Canada Opportunity Agency’s seven year budget is only twice the half billion tax expenditure given to one family in Ontario (McQuaig 1987: 298). We are told there is a “huge government presence” (pp. 15) from the “bloating of government” (pp. 39) yet there is no attempt to actually detail what government does. The two largest federal programs are education and health, which the report actually approves of. Yet taking the ratio of expenditure to net national income, “...the ratio of personal spending on transportation and communications (8.9%) equals the ratio for public health... [C]ombined personal spending on restaurants, hotels, and recreation (9.1%) was larger than public spending on either education or health care” (Ruggeri and Hermanutz 1996: 44). What was bloated in government expenditures was debt servicing and that reflected policies of cutting taxes and raising interest too far (Mimoto and Cross 1991).

While the report claims to have conducted “econometric tests” (pp. 23), it presents only the results of a few linear regressions. McMahon seems content to assume that correlation means causation, but he may have the linkage reversed. Lynch et al. (1997) raise serious questions about his methodology.

*Looking the Gift Horse in the Mouth* is not credible research and would not normally merit a review. However, its promoters have drawn considerable public, and therefore political, attention to its conclusions. It is important that its fundamentally flawed character be pointed out.

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**Interregional Migration and Regional Development.** Jinsuk Chun. Brookfield, Vermont: Ashgate Publishing Ltd., 1996, 179 pages.

The role of migration on regional development is closely related to federalism, transfer payments to provinces and issues of equity as contrasted with economic efficiency. In Canada this is a politically charged and value loaded topic that has sparked considerable debate in academic and political circles. This book, however, is not about Canada. It is about the United States, where issues of regional development have also persisted for a long time.

The book draws heavily from the author's doctoral dissertation, although the presentation style is one of a seasoned researcher who has put considerable thought on the subject matter. The general framework is one in which the rates of net migration, employment growth and change in per-capita income interact with each other, affected by a host of exogenous variables. A large portion of the book is dedicated in establishing the directionality as well as the strength of the relationships between these variables by statistical means. The material is presented in an introduction (pp. 1-4), three main chapters numbered as 2, 3 and 4 (pp. 5-28, 29-70 and 71-113, respectively) and a short concluding chapter which summarizes the findings and touches on the general possible policy implications of these findings (pp. 115-117). Details on data used and on statistical parameter estimates are provided in a generous number of appendices (19 in total).

The introduction sets the stage by describing the two well known patterns of US internal migration during the study period 1965-86. The first is the shift of population from the north-east and north-central to south and south-west. The second pattern is the growth of non-metropolitan areas to the detriment of metropolitan areas during the late 1960's and early 1970's, a reversal of the long-standing trend. Metropolitan growth was re-established in the early 1980's. Chapter 2 focuses on the causality question between the rates of net migration and employment growth, using annual data at the state level for the period 1962-86. Are the observed patterns explained better by postulating that people tend to migrate towards places of employment growth or is it that employment tends to grow in places of net growth due to migration? Using two independent regression equations, one for employment and one for net migration, the conclusion is reached that the two variables are inter-related, although employment exerts a stronger influence on migration than the other way around. The dynamic relationship between the two resembles the cob-web cycles.

The remainder of the analysis uses net migration data for the BEA economic areas, which are labour markets built around the SMSAs, for the four time periods 1965-70, 1970-75, 1975-80, and 1980-86. With the help of single net migration rate regression equations for each time period, chapter 3 attempts to identify significant non-economic factors. Climate and crime rate appear to be significant but are overshadowed by employment and per capita income. On the basis of these findings chapter 4 estimates a simultaneous three equations regression model for migration, employment and income. Of concern is to examine whether the US

regional system conforms to the neoclassical theory of Hicks in which migration is seen as an equilibrating factor that tends to equalize income over space, or to Myrdal's disequilibrating model of cumulative causation. After considerable discussion over the signs of parameter estimates for several statistical models, the verdict is that the system follows the business cycles with pressures to accelerate and counter-pressures to stabilize.

The most positive attribute of the book is that it summarizes very well a particular line of migration research, which is characterized by the use of aggregate data and econometric estimation of a system of regression equations in which net migration and employment growth interact with each other. Each of the chapters is introduced with a review of the relevant literature, which I found particularly useful. Also instructive and useful are the diagrams/flowcharts used to describe the hypothesized and estimated relationships between endogenous and exogenous variables. The exposition is clear and conveys a sense of purpose towards which the analysis is leading. The connection between the chapters, however, is not clear. Relationships established at the state level, as in chapter 2, do not necessarily hold at the BEA level used in chapters 3 and 4.

Research presented in the book is good and solid in many respects but not mainstream. Migration research over the last two decades has progressively shifted to using less aggregate data and econometric methodologies, such as discrete choice and event history analysis models. The feeling one gets while reading the book is that the author tries to extract information not embodied in the data used, which is precisely what precipitated the shift in migration research from macro to micro data and methods. Perhaps Andrei Rogers' expression some years ago that "...there is no such a thing as a net migrant" summarizes well what I mean here. Low five year net migration for a region could be associated with very high or very low in-migration and out-migration, each case leading to very different interpretations for employment growth in the region. Furthermore, an in-migrant in a region is simultaneously an out-migrant from another region, a fact that is lost in net migration analysis. A sizable volume of research has stressed that migration is a selective process. Elderly migration, for example constitutes an increasing proportion of total migration flows, especially from the north and north-east to the south of the US. Yet, this type of migration is not associated with employment growth. Aggregating elderly migrants with labor force entrants can produce misleading results.

From the methodological perspective, violations of assumptions of the regression model, such as heteroscedasticity and multicollinearity, are examined selectively in the single-equation model of chapter 3. What is missing entirely, however, is spatial auto-correlation analysis. From a series of maps presented in chapter 3 it is evident that the rates of net migration and employment growth are auto-correlated. It is well known that the effect of auto-correlation in regression analysis is to reduce the standard error of parameters, making them to appear statistically significant when in reality they are not. This omission casts some doubt on the validity of the results presented.

Would the book be useful to policy makers? Could it inform the political process on the vital issues of regional development? The policy implications of the research are described in one page at the end of a two page conclusion, which is too little too late. Thus, the focus of the book is the basic research of the matter ruling out the possibility of its use by policy makers. It would, however, be of interest to migration researchers because it provides a very good summary of what is known in aggregate migration analysis. Also, it could usefully complement other readings in teaching migration at the advanced undergraduate or graduate level. Furthermore, when one is pressed for results and micro-data are not available, the methods discussed in this book may be useful, especially since they are very conventional and as such available in any commercially available statistical package.

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**The New Middle Class and the Remaking of the Central City.** David Ley. New York: Oxford University Press, 1996, 383 pages.

Fascinated by ongoing changes in the social and built structure of Canadian cities, David Ley has set out to document, explain, and evaluate the impact of the new middle class on Canadian society. To a remarkable extent, he accomplishes this ambitious task with a detailed analysis of social change in Canadian inner cities since 1970. Ley begins by outlining theories of urban society: the post-industrial city, post-Fordism, and postmodern city. Offering his own interpretation of each, he links recent changes in the social and built landscapes of Canada's inner cities to a new politics.

Chapter two outlines recent trends in inner city housing markets. Relying on examples from Canadian, Australian, and American cities, Ley assesses various explanations for gentrification in light of his own eclectic definition that combines redevelopment with renovation. Once again, Ley takes issue with the rent gap hypothesis asserting that in Canadian cities, the value gap hypothesis is more applicable.

The remaining chapters elucidate Ley's hypothesis that the resurgence of the middle class in downtown areas is linked to the growth of professional and managerial employment in service industries and to favourable government policies. The economic basis of gentrification is the topic of Chapters three and four in which Ley examines occupational change in major Canadian cities and sectoral trends in their inner-city labour markets. Published earlier in a series of journal articles, the arguments are familiar. Ley links the growth of producer and government service jobs in Canadian central cities to the emergence of a new middle class that lives and works downtown.

The cultural politics of the new middle class are examined in Chapter five where Ley argues that the anti-suburban, pro-urban preferences of gentrifiers originate in the youth movement of the sixties. Artists are the pioneers who resettle new downtown frontiers offering an urban and urbane lifestyle. The political ramifications of embourgeoisement emerge in Chapters six and seven. Ley begins by examining the rise of the neighbourhood movement and reform politics in Montreal, Toronto, and Vancouver. While Ley's historical review reaffirms the progressive aims of neighbourhood planning, it also reveals the impact of provincial and federal policies. Once funding for cooperative housing ceased, the neighbourhood movement largely abandoned the goal of social mix. Ley concludes that the neighbourhood movement and reform politics have been elitist, mainly serving the interests of the affluent new middle class. Reform politics also foundered on the divided interests of the new middle class. Condominium owners who Ley considers gentrifiers tend to be more conservative than renovators.



In the 1980s, the goals of the reform movement were subverted with the creation of a 'convivial city' devoted to consumption. In Chapter eight, Ley traces the development of the aesthetic turn among the new middle class in Canada's inner cities. Drawing on examples from Ottawa and Vancouver, he reveals how public policy has contributed to the creation of festivals and spectacles. Pessimistic by the end, he wonders if the aestheticization of urban life has led to the ideal capitalist citizen -- "the matchless consumer" (page 338).

Ley expands upon these concerns in the conclusion where he summarizes the argument while reiterating the importance of studying gentrification. For him, gentrification is a prism through which we may examine contemporary social, political, and cultural change.

This book presents a compelling and beautifully written argument. David Ley has synthesized twenty years of research that documents the emergence of a new middle class and the origins of their residential preferences for downtown neighbourhoods. The book adds significantly to our understanding of recent social change in Canadian cities. The importance of his contribution is clear, so his strident response to any criticism is unwarranted.

The analysis raises several unanswered questions. What happened to the majority of the new middle class who did not settle downtown? While Ley admits that only a minority of the new middle class shared the artists' view of the 'authenticity' of urban life when compared to the sterility and conformity of suburban lifestyles (page 211), he does not comment on the decisions of the majority who presumably moved to the suburbs. What distinguishes the suburban representatives of the new middle class from their inner city counterparts? In the same way, Ley pays attention to only a minority of working women. He underscores the feminization of the workforce in post-industrial cities, noting that professional women are concentrated in gentrifying neighbourhoods. However, professional women are still a minority of all female workers. Moreover, professional women are drawn from specific racial/ethnic groups, an aspect of social identity that Ley overlooks.

Throughout the book, inner city living is endorsed as a critical response to the conformity of the suburbs and the bulldozer style of urban planning in the sixties and seventies. This position overlooks the diversity of contemporary suburbs where it is increasingly difficult to generalize about the incomes, household types, ethnic and racial backgrounds and occupations of residents. Developers have responded to declining real incomes by building at higher densities in suburban locations. Even suburban planning has shifted with increasing efforts to create more dense neighbourhoods. The embourgeoisement of the inner city has not benefited all its residents equally. The new middle class has been favoured. Compared with the devastation of many inner city neighbourhoods in American cities, this social outcome may be desirable. Nevertheless, it raises vexing questions about equity.

In his passionate analysis of gentrification, David Ley has provided a sweeping analysis of recent social and political change in Canadian cities. This book

is essential reading for any researcher, policy maker, politician, and student who wishes to understand the recent social history of Canada's large cities. By revealing the contradictions inherent in the history of gentrification, David Ley has made an exceptional contribution to current international debate about urban change.

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