

CANADIAN REGIONAL POLICY: AN OVERVIEW

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General Framework

Canada is a large country where distance, unequal endowment in natural resources, unequal proximity to the United States, and various other factors, have played a role in the unequal regional ability to develop. Many empirical studies have shown that in the past the capability to create jobs and to retain population differed markedly from one region to another. Some, like the Atlantic Provinces, have been in difficulty for long periods of time. Similarly, the Prairies lost (in relative terms) 114,447 jobs in the period 1961-70 due to the consolidation of agriculture and the rapid growth of the tertiary sector of the Canadian economy. Yet, since 1975, the Atlantic region has ceased (at least in the manufacturing sector) to lose ground, while Quebec, which was marginally in difficulty in the period 1961-70, is now engaged in a steady relative decline. On the other hand, the Prairies (except for Manitoba) have mounted, since the early 1970s, a performance which is superior to the Canadian average.¹

The present and future outlooks call for a marginal westward movement of population. There are two reasons for this: the expected boom in energy related industries, and the relative deindustrialization of central Canada because of the competition from the new industrial countries in the textile, clothing, shoe, small electrical apparatus, shipbuilding, and toy industries.

Furthermore, regional policy in Canada is constrained by the federal system of government. This means that some methods of

¹A shift-share analysis pertaining to the manufacturing sector, for the period 1969-79, yields the following net relative variation: Atlantic + 7,580; Québec - 46,379; Ontario - 5,951; Prairies + 24,870; British Columbia + 19,880. Source: author's computations.

alleviating regional disparities in a unitary state are not acceptable in Canada. For instance, increasing the productivity of factors of production through large scale migration or centralizing the provision of some public services are frowned upon.

Finally, since the early 1960s, a large amount of decentralization of federalism has taken place through the use of either political power or economic power. This is a new turn of events because before 1960 the regions were quite passive in matters of economic development [14:78]. In fact, the heyday of effective regional policy, originating in the federal government, dates back to the early 1900s when the federal government, through the so-called National Policy (consisting mainly of a transport policy and of industrialization behind tariff walls), eventually succeeded in shaping the economic structures of the regions.

The Nature of Regional Policy in Canada

Since the early 1960s, two types of policies have been used in Canada. The first of these are *strictly defined* regional policies, implemented by either the federal government or the provincial governments. On the federal government side, they consisted mainly in the activities of a federal agency like the Department of Regional Economic Expansion (DREE),² which operated in two fields: (a) assistance to industrial firms (this constituted about 30% of DREE's expenditures), and (b) expenditures on local infrastructures (where DREE spent 65% of its funds) and on sponsoring manpower programs and studies (5% of its funds) [7:151]. The activities of the provincial governments consisted of matching the federal spendings described above, and also of spending funds on projects of their own and in granting privileges with the hope of influencing the location of manufacturing firms.

There are many problems with this type of regional policy. First, its impact is difficult to measure.³ The evaluation methods usually overstate the impact because they often estimate "what would have happened" in the absence of DREE policies by extrapolating historical trends without incorporating alternative rival policies that would have likely been implemented had not DREE existed.⁴ Second, only the impact of "industrial assistance" is measured. Economists are at a loss to measure the impact of infrastructure expenditures (the

²Now largely integrated into the new Department of Regional and Industrial Expansion (DRIE).

³One brave attempt to measure the impact of DREE has been made by the Economic Council of Canada [7:Ch. 8].

⁴For a discussion of this technical point see Martin and Moroz [13:386-7].

major portion of DREE's expenditures). The Economic Council of Canada, in its study, said that "it remains a matter of further research" [7:172]. Third, "industrial assistance" has been found to have had a non-negligible impact, although in relation to other federal transfers it had a small and temporary effect. In any case, the manufacturing sector is gradually (in terms of employment) shrinking in relative importance in the economy. The potential for this type of policy is consequently small.

The second type of regional policy consists of policies *defined broadly* and implemented either by the federal government or the provincial governments. On the side of the federal government, our interest lies in policies (which may or may not involve expenditures) that have as a prime object a differentiated regional impact, although not initiated or administered by a department with a specific regional vocation.⁵ The main expenditure policies in this category are:

- (1) Federal-Provincial fiscal transfers, either between governments or directly to individuals; e.g., equalization payments.
- (2) The spatial distribution of footloose federal government operating expenditures and the purchases of supplies and equipment.
- (3) Transport subsidies, agricultural subsidies, investment tax credits, etc., when they are specific to a region.

The main nonexpenditure regional policies are:

- (1) The regulation of some transport tariffs, e.g., the grain statutory rate.
- (2) Foreign trade agreements which for all practical purposes have a specific regional impact; e.g., the Canada-U.S. Automotive Agreement, which is oriented mainly at Ontario, or energy export permits in the case of Alberta.
- (3) Programs designed to redistribute resource rents within Canada.

Quantitatively speaking, the federal regional policies *broadly defined* are significantly more important than those defined in strict terms.⁶

⁵We are not referring to the regional impact of national sectoral and macro policies, such as the monetary policy. It would be trivial to include these policies just because they may have different regional impacts and thus create regional disparities.

⁶For instance, DREE's expenditures (a federal regional policy strictly defined) amounted to \$630 million in 1980, while in the same year \$3.4 billion were paid to six "have not" provinces in the form of equalization payments [6:20] and \$13.7 billion of natural resource rents were redistributed from Newfoundland, Saskatchewan, and principally Alberta to the other Canadian provinces [6:45], both amounts being instances of regional policies *broadly defined*.

On the provinces' side, within their jurisdiction conferred by the Constitution, the provincial governments use both sectoral policies and special instruments either to further their growth directly or to insulate their markets (labour and products) from the competition of other provinces. The list of these instruments include marketing boards, discriminating policies against outsiders [9:10], takeovers and "moral suasion" of private enterprises by provincial governments (or by their public corporations), and, all sorts of other impediments to the movement of capital, goods, and labour [14:88].

The difference between federal and provincial policies *broadly defined* lies principally in the aim of the federal government which is simply to reduce disparities without necessarily furthering growth.⁷

Present Problems of Regional Policy in Canada

The difficulties in devising effective regional policies are compounded by four special characteristics of interregional relationships in Canada:

- (1) Some provinces have developed a high degree of dependency upon transfer payments from the federal government [7:182-9;3:509].
- (2) The policies of many provincial governments have taken the form of balkanization measures;⁸ they are designed in a framework of province-building as opposed to nation-building.⁹ Furthermore, the prognosis is that "the protective mentality of the regions. . . is going to intensify, particularly in the face of worsening economic conditions" [10:163]; all the more so because now the provinces have learned that they can force the federal government to assume a portion of the costs of these inefficient policies.¹⁰
- (3) The Canadian regional system is in a state of equilibrium where important regional disparities are perpetuating them-

⁷More specifically, the federal government has only tried to minimize the negative regional impact of its sectoral policies and of the general changes in the national economy. The hope was that by helping, in a marginal way, lagging regions realize some of their growth opportunities and potential, their relative shares of aggregate output would fall less rapidly over time [5:61].

⁸The situation is deemed so serious that the University of Toronto Institute for Public Policy Analysis organized a conference, on November 10-11, 1981, on the theme "Barriers to Interprovincial Trade: The Decline of Federalism and the Birth of Cloisonism". See also Grossman [9].

⁹In the sense of Maxwell and Pestiau [14:Ch. 6]. See also *Bâtir le Québec* [8].

¹⁰This is the position of Courchene [4:72].

selves. In the eyes of many observers, notably Courchene [4:71], this state of affairs results from the refusal, by the provinces, to let the market mechanism adjust their economic structure; that is, they have voluntarily rendered their economic structures rigid. It is, however, unrealistic to propose the market mechanism, especially large scale migration, as a means to reduce regional disparities because this approach does not correspond to the provinces' philosophy of Confederation.¹¹ Consequently, "efficiency", defined from the Canadian point of view, has forcibly been replaced by "regional equity" as a goal for the national policy.

- (4) The federal government has now some difficulty in recapturing the initiative in the formulation and implementation of regional policy *broadly defined*.¹² Two reasons combine here: the decentralization of federalism, and the drastic reduction in the relative importance of transport and industrialization policies. The challenge now lies in the field of natural resource rents which dwarf all other fields in terms of differentiated regional impact on the welfare of individuals and on the competitive position of local industries (mainly by determining their energy and transport costs). In 1980-81, \$28.8 billion of natural resource rents were generated by the provinces. One must note, however, that \$13.7 billion were redistributed under the federal authority [6:45]. Had not the federal government been able to force this redistribution and had the "have" provinces used their rents to reduce local taxes, increase public services, and invest in industries competitive with central Canada, the regional disparities would eventually, in the long run, become exacerbated.¹³ Even taking into account the actual size of the redistribution done in 1980-81, the resource rents at the disposition of some provinces still represent a formidable potential source of regional disparities.

Finally, the rise in natural resource revenues in some provinces makes it difficult for the federal government to control the expenditure flow that it is now obliged to pay to poorer provinces through

¹¹Actually, ". . . the history of Confederation can be seen as an attempt . . . to prevent . . . the market from working freely either through the use of regional development assistance and equalization at the federal level or through the establishment of non-tariff barriers and provincial industrial strategies at the regional level" [12:174]. Furthermore, the traditional implications of migration are now empirically and theoretically questioned. See Polèse [16].

¹²See Maxwell and Pestiau [14:83] and Jenkin [11:77].

¹³Especially if the adjustment mechanism would take the form of large-scale migrations that might destabilize "have-not" provinces both in terms of labour productivity and in capital availability. See Courchene [3:514].

equalization payments [15:106].

Conclusion

Because national transportation and industrial policies are now less potent for orienting regional development and reducing regional disparities, resource rents are now the main field for regional policy. Among other things, it then becomes imperative that the National Energy Program be redesigned partly as an explicit instrument of regional policy so that, although it will not prevent the westward shift in the economic centre of gravity of Canada, it should, to a greater degree than it does now, "attempt to avoid the most glaring regional disparities" [2:41] that are in the offing. Because of constitutional limitations, however, the federal government may fail in neutralizing completely the pervasive effects of resource rents on regional development.

The remaining options are then as follows:

- (1) The regional policy is hereafter formulated by an ongoing political process through which the provinces try to settle their differences. In the most optimistic case this takes the form of "bilateral or multilateral talks between the federal government and one province or a group of provinces with common interests" [12:85].
- (2) Canada could turn to the West German alternative where "the governments of the 'have' states or Länder transfer revenues directly to the governments of the 'have not' Länder" [1:25].
- (3) Canada could turn to the U.S. alternative where the federal government regional policy *strictly defined* has always been timid. On the other hand, the U.S. model relies on a political process involving mainly the federal politicians (representatives and senators) representing the various regions of the country.

The last two options have definite drawbacks for the Canadian situation; the West German model is based on "fraternal" intergovernmental relationships, while present Canadian intergovernmental relationships are better described by the term "adversary" [1]. On the other hand, the Canadian political context differs drastically from that of the United States because of the inability of the major federal political parties to adequately represent each and every region of Canada.

The Canadian regional policy model remains then to be formulated.

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