Regional Economic Policies in Canada

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Introduction

Federal countries such as Canada are naturally preoccupied with regional development. Examination of the level of economic well-being and of the prospects for economic development in the different regions of this country make an especially appropriate topic at the present time. The election of a separatist government in Quebec, concerns about the long-run future of the Canadian economy, and the recent study of the regional economies of Canada by the Economic Council of Canada all contribute to the timeliness of such a review.

Some elaboration of the setting for the current examination of regional policies in Canada may be useful. As an "empirical" rather than a "philosophical" union [12, pp. 5-8], political and economic relationships between Canada's provinces evolve as new pressures and opportunities develop. Hard times economically create strains on the political union, as Donald Smiley [20, pp. 4-5] explains:

"...continuous economic growth whose impact is felt throughout Canada is necessary to the viability of the federal system. The Rowell-Sirois historical investigation makes clear that in our integrated national economy, created for the most part through the initiative of the federal government, the material gains and burdens are differently distributed among the provinces and regions. Because of this, general economic dislocations give rise to discontent with one aspect or another of national economic policies and to severe stress on the federal fabric itself. The necessary solvent, the circumstance under which enough consensus results to make federalism workable, is thus widely distributed economic well-being."

Current slack in the Canadian economy may be only a forerunner of a rather gloomy future. According to the Economic Council of Canada [17, p. 26],

"Canadians are, in general, relatively complacent about the future of their country's economy. Although there is concern at present over inflation, the energy crisis, rather high levels of unemployment, and other problems, the long-range prospect is felt to be good. It is reasoned that Canada has ample resources, an energetic population, highly developed industry, and an advantageous position with respect to the world's richest and most advanced society, the United States. While political difficulties may exist, the typical perception of Canada's economic outlook is that of a bountiful land growing ever more prosperous."

Such optimism is not well founded. Canada's economic performance, while showing considerable strength in some respects, has long been weak in the key area of productivity growth. There is serious risk that this unsatisfactory performance will continue in future and that Canada's assets will be wasted through inefficient use."
If such a discouraging general forecast is not enough to stimulate self-examination, a separatist government in the country's second largest province (30 per cent of the national population) urges even more interest in the economic relationships between provinces and in the basic arrangements of Canadian Confederation.

Despite this, anyone attempting to write a paper on Canadian regional economic policy must avoid being repetitive; there are many comprehensive and excellent surveys both of the nature of regional economic disparities in Canada and of the government programs designed to alleviate them. Most of this work, incidentally, leaves aside the regional problems of the Yukon and Northwest Territories. This paper does the same; while such issues are very much in the public mind at the present because of the imminence of major decisions affecting petroleum and natural gas extraction and transportation, they are of a different character than the regional problems of "provincial" Canada. In discussing the latter, this paper begins with an overview of regional disparities in Canada and follows it with a survey of regional development policies, concentrating on the last ten years. This is followed by a summary of evaluations of Canadian regional development policies. The impact of national economic policies on the various regional economies is discussed in the next section.

Regional Disparities in Canada

Every one of the considerable number of studies of regional disparities in Canada agrees that levels of economic welfare differ significantly between the regions of the country.1 Whether the measure is income, employment opportunities, or various social indicators, the typical pattern of Ontario at the top and the Atlantic provinces at the bottom, with the other five provinces scattered variously in between is repeated. What makes the Canadian regional disparity problem particularly serious is its persistence and its magnitude relative to other industrial nations.

While regional disparities in Canada are narrower now than fifty years ago and presumably could never be expected to disappear completely,2 there appears to be general agreement that they are too wide and that the rate of convergence is too slow.3 Table 1 gives the trends in one simple disparity measure over the 1926-1974 period.4

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1Two of the most recent are [6] and [8].

2One of the shortcomings of Canadian regional policy has been its failure to include targets for the reduction of specific regional disparities. "Lessening" indicates direction, but it is not very useful in monitoring the rate of progress.

3It has been shown that convergence of income levels between regions tends to accompany increases in levels of national income. See [26].

4It should be noted that disparity decreases as the income measure is changed from personal income per capita through personal disposable income per capita through average family disposable income to average family disposable income (price level adjusted) including housing cost differential. The most dramatic change is in the relative positions of Quebec (from 89 percent of national average to 102 per cent) and British Columbia (from 109 per cent of national average to 97 per cent) [6, p. 46].
Table 2

MEASURES OF DISPARITY

<table>
<thead>
<tr>
<th>Category</th>
<th>Measure</th>
<th>Variance, 1961-71</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>Growth, 1961-71</td>
<td>±34.1 per cent to ±0.1 per cent (+18.3)</td>
</tr>
<tr>
<td></td>
<td>Net migration, 1961-71</td>
<td>±22.7 per cent to ±13.6 per cent (+4.0)</td>
</tr>
<tr>
<td></td>
<td>Urbanization, 1971</td>
<td>82.4 per cent to 38.3 per cent (76.1)</td>
</tr>
<tr>
<td>Demography</td>
<td>Average family size, 1971</td>
<td>3.5 persons to 4.4 persons (3.7)</td>
</tr>
<tr>
<td></td>
<td>Youth dependency ratio, 1971</td>
<td>.445 to .659 (.475)</td>
</tr>
<tr>
<td></td>
<td>Old age dependency ratio, 1971</td>
<td>.108 to .172 (.130)</td>
</tr>
<tr>
<td>Employment</td>
<td>Labour force participation rate, 1975</td>
<td>64.2 per cent to 53.5 per cent (61.1)</td>
</tr>
<tr>
<td>(five regions)</td>
<td>Average unemployment rate, 1953-75</td>
<td>3.3 per cent to 8.6 per cent (5.3)</td>
</tr>
<tr>
<td></td>
<td>Unemployment insurance payments per capita, 1974-75</td>
<td>$169 to $43 (103)</td>
</tr>
<tr>
<td>Income</td>
<td>Average weekly earnings, industrial composite, 1976</td>
<td>$262 to $162 (229)</td>
</tr>
<tr>
<td></td>
<td>Percentage of &quot;low income&quot; families, 1971</td>
<td>11.2 per cent to 34.0 per cent (15.9)</td>
</tr>
</tbody>
</table>

Source: [6, pp. 31-60, 186].

The relative proportion of conditional and unconditional grants from the federal government to the provinces in the years since 1940 has varied considerably; conditional grants rising to a peak of popularity in the 1965-75 period and now, seemingly, destined to become much less important in the future. The relevance of this issue to regional economic policies should be clear; not only do federal payments to the provinces represent, in most cases, an income transfer, but they are also available, especially when the grants are unconditional, for provincial government regional development programs. Grains have not, however, been the preferred mode for implementing federal regional development programs. 6

Discussion of specific federal government regional development programs7 can be separated neatly into the periods before and after 1969, the year the Department of Regional Economic Expansion (DREE) was established. Four regional development programs were initiated before 1969:

1. Agricultural Rehabilitation (later, and Rural) and Development Act (1961) - oriented to resource upgrading and development in rural areas;
2. Atlantic Development Board (1962) - responsible for regional planning and infrastructure improvement in the Atlantic Region;
3. Area Development Agency (1963 and 1965) - provision of grants and loans for firms expanding in areas of chronic high unemployment;
4. Fund for Rural Economic Development (1966) - comprehensive rural development programs for Prince Edward Island and four selected areas in New Brunswick, Quebec, and Manitoba.

A desire to coordinate and rationalize existing federal regional development programs and to create new initiatives for combating regional disparities led to the creation of DREE in 1969. All of the existing programs were retained, although the industrial development program (ex-Area Development Agency) was modified under a new Regional Development Incentives Act (RDIA). The geographic scope of the program was initially widened but has now been narrowed. In addition, three new programs were instituted:

6For a survey of developments to 1961 and a re-statement of the Rowell-Sirois Report's arguments for extensive provincial autonomy see [21].
7The major unconditional grant consists of "tax equalization payments" - $1.8 billion transfers to the seven poorer provinces (all except Alberta, British Columbia, and Ontario) by the federal government. These payments have increased over ten-fold in the last 20 years. An interesting analysis of the tax equalization program is presented in [4].
8Admittedly, this begs the question of the importance of equalized education expenditures on regional development.
9More complete discussions can be found in [1;2;17;3;9;6].
(1) Special Areas Program (1969) - provision of assistance for infrastructure and other development-oriented projects in 23 special chronic unemployment areas;

(2) Special Highways Agreement (1969 to 1975) - highway improvement programs outside the Special Areas in the Atlantic Region;

(3) General Development Agreements (1974) - agreements between DREE and each provincial government to facilitate subsidiary goal-oriented comprehensive regional development programs. GDA's are intended, apparently, to supplant many of the other programs.

The complex administrative structure of DREE's operations can be examined through the patterns of expenditure allocation (Table 3). The emphasis on expenditures in the poorer provinces and in the public sector (mainly infrastructure investment) is noteworthy.

Table 3
DREE EXPENDITURES, 1969-70 THROUGH 1974-75

<table>
<thead>
<tr>
<th>A. By Category</th>
<th>Total</th>
<th>Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonrural public sector</td>
<td>$549 million</td>
<td>$ 86</td>
</tr>
<tr>
<td>Private sector</td>
<td>476</td>
<td></td>
</tr>
<tr>
<td>Rural public sector</td>
<td>454</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,551</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. By Province</th>
<th>Total</th>
<th>Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quebec</td>
<td>$523 million</td>
<td>$ 85</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>247</td>
<td></td>
</tr>
<tr>
<td>Newfoundland</td>
<td>186</td>
<td></td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>182</td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,551 million</td>
<td>$ 72</td>
</tr>
</tbody>
</table>

Source: [6, pp. 150-152].

Brief mention should be made of provincial government regional development programs. Economic disparities are generally greater within provinces than between them, and some provincial governments have attempted to address this problem through specific policies as well as by mounting general provincial economic development efforts. Taken together, the ten provincial governments offer a bewildering array of economic development programs. A full listing here is impossible, but the programs can be classified into four types:

1. Provision of investment capital through loans or guarantees (all provinces);
2. Provision of industrial facilities for leasing (all provinces);
3. Direct participation in ownership of manufacturing enterprise (most provinces);
4. Tax concessions, subsidies, grants (some provinces).

The amount spent on these programs is difficult to determine, but it is probably about 25 per cent of DREE expenditures [6, p. 171].

Evaluations of Regional Economic Policies

This section summarizes some evaluations of Canadian regional economic policies. Only those concerned with federal government programs are included; while there is some information available on the effectiveness of provincial programs, most analyses have focused on the larger and more comprehensive federal programs.

The first evaluation is Buckley and Tihanyi's work [3] on the Agricultural and Rural Development Act program and related initiatives. They find considerable confusion as to the purpose of the program and suggest that many of its projects would not have been carried out if they had been analyzed in a benefit/cost framework.

Brewis and Paquet [2] criticize the lack of a planning framework in federal regional development programs, noting the absence of goal-setting and the vagueness of theories of the actual process of regional development. In light of these criticisms, they express serious reservations concerning the long-term impact of the mix of regional development programs that was in use in the 1960s. Particular concern is expressed over the fixation on secondary manufacturing expansion as the sure route to regional prosperity.

Roy George's comparative study of Nova Scotia and Ontario—Quebec manufacturing [10] examines the various categories of manufacturing production cost in the two regions and concludes that an inadequate supply of competent entrepreneurship is at the root of the competitive problems of Nova Scotia's secondary industry. George is critical of the poor coordination of federal regional development efforts through 1969 and observes that the industrial incentives of the Area Development Administration failed to attract much new manufacturing to Nova Scotia. He is impressed with the potential of industrial estates, believing that they might be able to overcome the "socio-psychological" barriers to industrial development in Nova Scotia.

Criticism of DREE's industrial incentive program mounted in the early 1970s. In 1972, David Springate completed a Harvard University doctoral thesis on one critical aspect of the RDIA program - the
degree to which jobs allegedly created because of the program would have been created anyway. After interviews with the executives of thirty-one firms who had received incentive grants, Springgate concluded that few firms had been effectively influenced by the grants they had received.

DREE was quick to reply to this criticism of one of its two major programs and in April 1973 issued its own assessment [5]. DREE defended the rigour of its administrative procedures and, more substantively, argued that available evidence from an indirect study of incremental investment in poorer regions and a direct case study of aided firms both suggested that the incrementality proportion of new employment was two-thirds, rather than the one-third found by Springgate. Actually, both studies may have been somewhat premature, since the RDIA program was quite new and the important question is how many new direct jobs are still in existence two, five, and ten years later and how many indirect jobs have been created.

The RDIA program's industrial incentives structure, however, is a feature that can be criticized from a theoretical point of view without waiting for the effects to filter through several years of regional economic activity. Such an analysis has been provided by R.S. Woodward in two 1974 articles in the Canadian Journal of Economics dealing with the 1969-74 RDIA rules and a later article [28] examining the post-1974 rules. Briefly, the conclusion is that this program, as now established, biases firms' production technology decisions towards capital-intensive techniques despite DREE's mandate to develop employment opportunities.

A more general critique has been given by R.I. McAllister [15]. Concentrating on the pre-DREE period, McAllister echoes the familiar complaints about the lack of specified program goals and inadequate evaluation and takes particular aim at the failure of regional development plans to include sufficient detail and even to identify critical decision points. As a practical answer to his own criticisms of the absence of good quality regional economic planning, McAllister urges that more research be done on the problems of regional development and the organization of governments to deal with those problems.

The recent Economic Council report, Living Together [6], represents a response to such requests. As the broadest research investigation (and the latest), it deserves more attention than has been given to the others.

Before proceeding to examine the findings of the Economic Council on the effectiveness of federal government regional policies, some mention of the rest of the report is needed. The Council provides a thoughtful discussion of the goals of regional policy and, in the following quotation, sums up its views in an unusually frank statement on the central dilemma in establishing regional policy [6, p. 22]:

In our view, regional policy action must be justified by more than just the greater relative poverty of the people living in a certain area or the poorer job prospects available there. It must be based on a rational assessment of the area's ability to provide a standard of living close to the

Canadian average. If any area within a province cannot do this, it should be left to its fate. In any case, it is difficult to support the idea that areas with inefficient productively relative to more productive ones within a province have any right to other than transitional federal assistance. Any permanent assistance should come from the provincial government.

We do believe that any province, however small, has a right to federal assistance in its efforts to equalize regional productivity levels that, relative to the Canadian average, would be significantly lower than they are now or even to preserve their present relative importance and power without costly long-term subsidization from the rest of the country. It is easy to underestimate the amount of fiscal resources needed to reduce regional disparities. If permanent federal assistance is needed to keep jobs and industries in a province or if permanent provincial aid is needed for a subregion, it should be openly recognized as social assistance and not as a guarantee that the province or subregion will someday achieve economic success.

Later, after a rather unfocused discussion of "theories" of regional disparity, the report provides a useful survey of regional productivity differences, a factor that they identify as a major cause of regional disparity and an important target for policy action. According to the research presented [6, pp. 61-88], labour productivity differences between the provinces (which range, in manufacturing, from -33 per cent to +9 per cent around the national average) are distinctly related to differences in output per worker and not to variations in industrial structure. In turn, differences in output per worker seem to be due most importantly to varying levels of labour quality, although capital/labour ratios and other factors such as management, technology, and accessibility are also relevant.

Living Together approaches the evaluation of DREE's effectiveness at two levels; there is an attempt to assess its overall impact by examining trends in disparity measures over time and there is also an evaluation of specific programs. At the general level any conclusions would have to be tentative because of the changes in regionally differentiated non-DREE policies during the period of analysis [14]. In fact, none of the three analyses of disparity measures produces convincing evidence that DREE has made much difference to the disparity problem [6, pp. 156-160]:

(1) Unemployment rates. The report compares differences between actual and hypothetical (trend) unemployment rates in the Atlantic Region and Quebec. From this analysis, the most that can be said is that the Atlantic Region showed a reduction of something less than two per cent in its unemployment rate between 1970 and 1972.

(2) Income disparities. The slow convergence in personal income levels among the provinces is noted, but not advanced as much of an argument for DREE's impact.

\footnote{For example, unemployment insurance payments in the Atlantic region in 1974/75 totalled $350 million, one-half of total DREE expenditures there in the six-year period ending in 1974-75. The unemployment insurance program was substantially expanded in the early 1970s.}
of several federal and Ihe reliance on protective tariffs in foreign trade. The development of Canada's economic policy. These are the centralization of monetary policy and the reliance on protective tariffs in foreign trade policy. The argument against a single, centralized monetary authority is that it may adopt policy stances that, while suitable for some provinces or the country as a whole, are inappropriate for some others. The current arrangements have been criticized many times by provincial politicians, notably in the Western Economic Opportunities Conference of 1973, but there has not been sufficient research to make further discussion useful. 16

Before considering the regional ramifications of the Canadian tariff system, we should examine the nature of the country's economic integration. Safarian's (18) classification outlines the range of options available in economic integration.

(a) Free trade area which involves the removal of customs tariffs and of quantitative restrictions, such as quotas, on trade between the member countries, but with each of them retaining its own distinct barriers against non-members.

(b) Customs union which, in addition to (a), standardizes such barriers by member countries against non-members.

(c) Common market which, in addition to (b), removes restrictions on the movement of labour and capital between member countries.

(d) Economic union which, in addition to (c), involves varying degrees of harmonization of national economic policies in order to remove discrimination that was due to disparities in these policies.

(e) A federal state which is a form of union in which the general government and the provinces or states each exercise exclusive jurisdiction in some major areas of policy and shared jurisdiction in others.

(f) A unitary state wherein the general government has jurisdiction over economic and other major policies.

Canadian economic integration is between (d) and (e) and closer to the latter.

Economic integration occurs either because one party forces it on the other(s) or because all parties believe it to be to their advantage. Canadian Confederation was of the latter type, but the advantages were perhaps more political than economic. The British North American colonies did not seem to meet the requirements of the following generalizations for selecting economically advantageous customs unions (23, p. 35). Customs unions are most advantageous when:

(1) Economies of the partners are actually very competitive but are potentially complementary (the former was not really the case and the latter was only fulfilled with the high external tariffs of the National Policy in 1879);

(2) Tariffs on imports from partners are initially high (there were no tariffs, although the lack of good transport links could be seen as a tariff and its remedy after Confederation the elimination of this trade barrier);

The Economic Council virtually ignores national monetary policy impact in Living Together, a strange omission given the lengthy treatment of regionally differentiated fiscal policy. For a brief survey see (24).
Increasing personal income in British Columbia by 5.5 per cent, mainly through Canadian tariff reduction lowering imported product prices in the province. A slightly lower estimate has been calculated for the Prairie Provinces for 1973 [18, p. 211].

Removal, or major reduction, of the level of protection afforded to Canadian manufacturing would, however, have its major impact in the long run with the rationalization of industries faced by new competitive pressures in the world economy.

One practical aspect of the rate of products manufactured in Canada and in the average prices at which manufactured products were sold, possibly a reduction in the total production of manufactured goods, but that, probably, significant relocation of manufacturing activity away from the Ontario-Quebec heartland. One major study has attempted to describe a reorganized, integrated manufacturing sector in Canada and the United States after free trade was established between the two countries.

We cannot provide a detailed summary of its results, but the removal of U.S. and Canadian tariffs would appear to leave Ontario and, to a lesser extent, Quebec in an advantageous position to serve a larger North American market for manufactured goods. Provinces specializing more in natural resource products would also find this aspect of their economies enhanced. Naturally, the adjustment period would be difficult and the political costs large.

Conclusion

Renewed interest in regional policy in Canada is warranted, not only because of the current economic and political environment and the lack of success of previous efforts to achieve a decisive narrowing of regional disparities. Another rationale for this interest is the looming impact of two external developments.

The energy "crisis" has already strained relationships between the provinces and the federal government in various ways. Per capita consumption of energy in the regions of Canada - Alberta aside - is roughly similar, yet the provinces are very differently placed with respect to their vulnerability to hydrocarbon price and supply problems. Already the equalization of petroleum prices across Canada at two-thirds the world price requires an annual transfer of $1.5 billion between the provinces. Price increases to world levels will be a severe blow to all but two provinces and will be particularly difficult for provinces relying on petroleum products for electricity generation.

The other external development is the continuing instability of the international economy and the rise of protectionist policies around the world. Even a partial collapse of Canada's export position would have severe repercussions, particularly in the four western provinces.

In light of these possibilities, what should Canada do about its regional disparities? This survey suggests that three new policy initiatives would be helpful.

1. A reduction in the level of protection provided to certain sectors of the Canadian economy.

20The importance of the long run adjustments and the dangers of misinterpreting the immediate burden of the tariff as reducing per capita incomes in all non-manufacturing regions is strongly stressed by W.A. Mackintosh [13].
(2) The firm placing of DREE-type programs within a comprehensive planning framework and the phasing out of ad hoc intervention in the private industrial sector.

(3) An increasing emphasis on the up-grading of human capital in poor regions and less assistance to immobile, inflexible, infrastructure investment.

References
