THE POLITICAL ECONOMY OF PROVINCIAL ECONOMIC DEVELOPMENT POLICY: A CASE STUDY OF MANITOBA

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ABSTRACT

The existence of marked regional economic disparities in Canada has made provincial governments very conscious of their potential role in stimulating provincial economic growth. Where provincial development policy is committed to growth as a primary goal, it is likely to promote growth at a considerable cost - both opportunity and direct costs to itself. These costs will be increased to the extent that the provincial government is enamoured with economic growth as a societal goal above all other goals (for example improving the welfare of its citizens, eliminating poverty, or redistributing income); to the extent that the provincial government is committed to competing with other regions in promoting growth through offering locational incentives to industry; and the lower the province's position on the growth scale to begin with.

Given the structure and concentration of ownership in Canada, provinces which attempt to promote their rate of growth under the above conditions will tend to provide risk capital and other major concessions to foreign corporations. Thus provincial development policy is a positive influence in accelerating the rate of location of foreign owned industry in Canada.

The Province of Manitoba from 1958 to 1969 adopted this growth policy under these conditions. A study of this period in Manitoba reveals that the consequences outlined above did in fact follow from this policy.

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CHAPTER I

INTRODUCTION

Regional Economic Disparaties and the Influence of Growth Orientated Policies

A major area of Canadian concern for economic policy makers has been regional economic inequalities. Inequalities in personal income, quality and level of government services and in general the regional share of the nation's wealth have been active historical forces in Canada since the founding of the nation. Strangely, the origins of such forces, the dynamic of their operation and their impact on the economic, political, and social fabric have been studied less extensively than one would have thought. The concern for equitable distribution of economic activity and wealth, however, has not been ignored by the political leadership nor the opinion makers in the media.

There is legitimate concern for eliminating or at least ameliorating obvious regional inequalities in wealth on purely pragmatic grounds of national survival, if not political justice. There is no doubt that regions of despair and stagnation co-existing in a nation with regions of affluence and dynamic activity can only make for disintegrative forces within the nation.

Although regional inequalities were recognized as far back as Confederation and limited government action taken, perhaps more accurately lip service paid, toward ameliorating them[1] it has only been relatively recently that they have occupied higher priority and received greater attention in a systematic way at both the national and provincial government level.[2] This new heightened interest in regional disparity has come at a time when Canadian economists, like their counterparts elsewhere, have focused a disproportionate share of their attention upon the problem of economic growth. Indeed, the concern for "a high rate of economic growth" has been enshrined in the Economic Council's first annual review as a basic goal for the Canadian economy.[3]

Economic growth for the provincial governments responsible in great part for the economic welfare of their provinces has become in the past decade <u>the</u> choice virtue beyond criticism and desirable, in practice it seems, at almost any cost. A reading of the press and politicians' speeches on the subject of economic development makes this point clear. As E. J. Mishan has pointed out in <u>The Costs of Economic Growth</u>:

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[1]The Confederation per capita subsidies were supplemented by special grants to those provinces who required them to finance their general expenditures; see <u>The Rowell-Sirois Report - Book I</u>, ed. Donald V. Smiley (The Carleton Library; Toronto: McClelland and Stewart, 1963), p. 55-56.

[2]The Royal Commission Report on Dominion-Provincial Relations of 1940 marked a turning point in public priority attached to problems of regional disparities. But only since the establishment of such regional agencies as Area Development Agency (ADA) and Agriculture and Rural Development (ARDA) in the early 1960's has there been continuous public policy toward such problems.

[3]Economic Council of Canada, <u>First Annual Review</u> (Ottawa: Queen's Printer, 1964)

> Economic growth remains the most respectable catchword in the current political vocabulary... To be with growth is manifestly to be 'with it' and like speed itself the faster the better....every businessman, politician, city editor, or writer impatient to acquire a reputation for economic sagacity and no nonsense realism is busy shouting giddy-up in several of two-score different ways.[1]

Growthamania, as Mishan calls it, has clearly established a firm foothold among Canadian policy makers as we shall see.

The renewed interest in problems of regional disparities, in fact, originates, in part, with the view among economists that in the slow growth regions there is a net waste of potential national output by the amount the region diverges in its output from its potential. Regional development policy is thus seen by some not so much as a means of redistributing wealth on equity grounds or even on grounds of national unity, but as a means of making for a more efficient allocation of economic activity, thereby maximizing national output.[2]

Thus concern for national economic growth as a policy goal reinforces concern for regional economic disparities and achieving balanced regional economic development. Where such concern for economic growth takes on the quality of 'growthamania,' that is, the

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[1](London: Penguin Books, 1969), p. 28.

[2]See for example Economic Council of Canada, Second Annual Review, Toward Sustained and Balanced Economic Growth (Ottawa: Queens Printer, 1965), p. 99.

fixation with economic growth as a wholly positive phenomenon, completely changeable into and therefore identical with improved economic welfare and hence the 'good life,' regional economic development policy becomes distorted in a significant way.

The thesis that economic growth, in itself, leads to an increase in social welfare has been dealt a serious blow by Mishan. The predisposition of welfare economics such "that what cannot be quantified is all too often left out of the calculus altogether,"[1] has meant that the many external diseconomies that accompany economic growth and industrialization have not been taken into account when measuring the net benefits of growth. Thus pollution and destruction of natural beauty, tension, personal unhappiness and alienation, frustration, urban sprawl, and anomie have been virtually ignored by economists concerned with economic growth. Rather, attention has been focused upon the expanding range of opportunities that will 'inevitably' follow increases in economic output. Those who at present do not receive a sufficient share of the pie, it is argued, will simply be served by a larger pie.[2] As affluence is more and more widespread, resources are freed for cultural, recreational, and social welfare

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[1]Mishan, p. 22.

[2]See for example the argument in John Kenneth Galbraith, The Affluent Society (Boston: Houghton Miflin, 1958), p. 90.

endeavours. Thus, the argument goes, economic growth on balance is good for it lays the groundwork for increased welfare and expanded opportunity.

The argument falls down, however, in a number of important ways. In the first place, it conveniently ignores one of the major rationales behind the proponents of economic growth. Economic growth, as a major societal goal, is in many ways a cold war phenomenon. The notion of the growth race between the bulwark of Communism, the Soviet Union, and the standard bearer of capitalism, the United States, is more closely identifiable with propaganda than welfare considerations.[1] This is particularly so if much of the increased Gross National Product (GNP) takes the form of military hardware.

The argument that increased affluence frees resources for cultural, recreational, and social welfare and other such public good ignores the tendency in capitalist society, at least, for the proliferation of private goods and equivalent 'needs' which accompany affluence. This 'revolution of rising expectations,' or perhaps more accurately, the realization of an advertiser's dream, has meant that private goods have tended to compete with rather than be supplanted by public goods as GNP has grown.[2] Further, an examination of income distribution data for both Canada and the United States, although not conclusive,

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[1] See for example William J. Baumol and Klauss Knorr, What Price Economic Growth (New York: Prentice Hall, 1961)

[2] This does not mean that the public percentage of GNP has not grown over time, only that it has grown less than its potential.

suggests that a rising GNP has not been accompanied by a decrease in income disparity.[1]

But perhaps most important to the argument is the fact that welfare optimality cannot be equated with a price equal to marginal cost equilibrium situation so long as certain goods generate

> either in the process of production...or in their final use by the public, damages...inflicted on other people to which some value may be attached. It follows that the <u>social</u> value of a good - the value remaining after subtracting from its market price the estimated value of the damage inflicted on others by producing and/or using the good...may even be negative....It follows that an apparently efficiently working competitive economy, one in which outputs are quickly adjusted so that prices everywhere tend to equal <u>private</u> marginal cost may lead the economy very far indeed from an optimal position as defined.[2]

The significance of this fact should be noted. For economists rely on the measure of welfare involved in the price equal to marginal cost equilibrium, even though it is based on a number of simplifications. When this measure of welfare optimality is removed it is no longer quite as clear that economic growth and increases in welfare are directly correlated.

Economic growth, in the past, as a goal, however, has been beyond such basic strictures. Consequently, as with most economic dogmas, suitably mystified by the technical subtleties of economic language, the goal has

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[1] Gabriel Kolko, <u>Wealth and Power in America</u> (New York: Fredrick A. Praeger, 1962) and Harold Chorney, "Some Aspects of Income Inequalities in Canada and the United States," 1966, unpublished paper.

[2] Mishan, p. 83.

been adopted and adapted for mass consumption by politicians anxious to ride to power on waves of sweeping reform and innovation. Thus provincial politicians in every province of Canada, almost without exception, in the past decade have beat the drum of economic growth as the 'sine qua non' of economic policy for their province.

While it is without doubt true that there has been overzealous endorsation of and proselytism by provincial governments on behalf of economic growth, the thesis needs qualification. There are definite regional disparities in Canada, which inflict social, political, and economic costs upon the country. These disparities have shown themselves to be deep-rooted and relatively stable.[1] There is, therefore, legitimate concern on rational political, social, and economic grounds that policies be adopted at both the national and provincial level to lessen the disparities. Provincial governments have been concerned with actively pursuing economic growth within their own boundaries through a combination of programmes ranging from social overhead capital (SOC) infrastructure programmes to specific cash incentives to private industry. As well, the federal government has enacted a number of measures culminating in the establishment of a Department of Regional Economic Expansion (DREE) in 1968 to assist slow growth

[1]M. McInnis, "The Trend of Regional Income Differentials in Canada," Canadian Journal of Economics, I, No. 2 (May, 1968), p. 441

areas and promote regional growth.[1]

The importance of the 'growthamania' phenomenon for regional economic development policy in Canada has been the destructive distortions it has introduced into the rationale behind the policy and the programmes that have been created and engendered by policy. The fact that in Canada not only do the poorer provinces compete with one another to attract industry and thereby stimulate growth in their regions, but that the richer provinces also are competitors, is directly explainable by the fixation with economic growth. The fact that provinces and, in particular, those on the lower end of the personal income per capita scale appear to so value new industry that they will go so far as to offer massive concessions to corporate enterprises which far outweigh the potential benefits the location of these enterprises in the province will bring, is also explainable in similar terms. Furthermore, not only are direct costs in the form of concessions often not considered in the cost-benefit calculus (which in itself appears to have had limited application) but the negative effects of the new enterprises, the external diseconomies, are virtually ignored. Such practices can be documented. And what is more astounding they are usually accompanied by political justifications alluding to the necessity of creating jobs for people, utilizing resources for the public good and in general stimulating economic progress.

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[1] The legislation establishing DREE was proclaimed in August, 1969.

An examination of the economic development policies of the province of Manitoba over the past decade illustrates this point quite well.

The Role of Foreign Investment in Regional Development

An accompanying characteristic of this type of regional economic development policy which is significant in terms of the growing foreign control of the natural resource and manufacturing sectors of the economy is the apparent tendency of these policies to underwrite much of the cost of foreign investment in the Canadian economy. Although it is impossible to draw a conclusive judgement from a case study of one province, the trend in Manitoba is highly suggestive.

Foreign, particularly American, firms will benefit most from provincial policy which offers incentives to those industries which are capable of sustaining high growth potential and significant employment to locate in the province. This is because of the leadership of foreign, particularly American, firms in the development of new technologies and the structural tendency of foreign ownership in Canada in the last two decades.[1] This has been the case in Manitoba. Often the provincial government will simply identify industries with high growth potential and significant employment

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[1] See Melville Watkins et al. Foreign Ownership and the Structure of Canadian Industry: Report of the Task Force on the Structure of Canadian Industry. (Ottawa: Privy Council Office, 1968.)

with bigness, particularly when political considerations so dictate. While this concentration upon bigness, usually signified by pointed reference to the capital cost of the project in press releases, may only be for advertising purposes it appears to reveal a certain attitude toward economic development that might be characterized as 'crude growthmanship.'

This tendency for foreign (and usually American) firms to be the chief beneficiaries of locational incentive policies in the slower growth regions is offset to the extent that foreign firms, particularly American subsidiaries, tend to locate where they are accessible to their parent company.[1] This is one reason for the concentration of so much of Canadian secondary manufacturing in southwestern Ontario. A study by D. Michael Ray has shown that the number of Ontario subsidiaries controlled from any United States city was directly proportional to the number of establishments in that city and inversely proportional to its distance from the province.[2] This tendency for American owned subsidiaries

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[1] T. N. Brewis, Regional Economic Policies in Canada (Toronto: Macmillan Company of Canada, 1969), p. 40-42

[2] D. Michael Ray, "The Location of United States Manufacturing Subsidiaries in Canada," A paper to be published in Economic Geography September, 1969.

to show a definite preference for the Ontario industrial heartland and in general "regional economic development to reflect the economic health of adjacent regions of the United States,"[1] has meant that the other provinces and, in particular, those outlying regions which are not close in proximity to concentrations of American industry are forced to offer proportionately greater locational incentives where American firms are concerned. And as the proportion of the Canadian economy that is dominated by American owned or controlled companies increases, so too will the magnitude of the incentives offered by the slower growth, lower income provinces to attract industry have to increase. Thus increased foreign domination of the Canadian economy reinforces the regional disparities that exist in Canada given the limited capacity of the poorer provinces to attract industry; or should the provinces be within the limit in terms of their capacity to offer incentives, increased foreign ownership and control increases the cost to the provinces and helps to shift the cost-benefit ratio to their detriment.

Another significant aspect of foreign influence in the Canadian economy and regional economic development is the growing importance of the multinational corporation. This relatively recent institution has and will continue to have profound effects on economic development wherever its influence is felt. North America is the most important base, at present, of the multinational corporation

[1] ibid, p. 10.

movement.

Stephen Hymer, one of the few economists who has devoted extensive study to the rise of the multinational corporations, has argued that

> (the) multinational corporation tends to create a division of labour between countries that corresponds to the division of labour between various levels of the corporate hierarchy. It will tend to centralize high-level decision making occupations in a few key cities in the advanced countries (surrounded by regional subcapitals) and confine the rest of the world to lower levels of activity and income... Income, status, authority and consumption patterns will radiate out from the centers in a declining fashion and the hinterland will be denied independence and equality. [1]

If Hymer's projections are correct then the greater the Canadian economy is integrated within the multinational corporate economy, that is, the greater American economic penetration of Canada, the greater will be the tendency to reinforce regional inequalities and the existing hierarchy of economic development.

Hymer's thesis appears to be borne out by the study by Ray referred to above, in which it was found that United States parent corporations prefer to locate in or near Toronto, particularly the further the distance the parent's loca tion from Ontario. The dominant positions of Toronto and Montreal as <u>the</u> major centers in Canada

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[1]Stephen Hymer, "The Efficiency (Contradictions) of Multinational Corporations," A paper read before the Annual Meeting of the American Economics Association, New York, December 28, 1969.

will tend to be reinforced if Hymer's thesis is valid.[1]

Hymer also argues that in any bargaining relationships which occur between multinational corporations and levels of government, such as in a government bargaining to attract a subsidiary unit of a corporation to be located within the national or provincial economy, the 'trading relationship' tends to be weighted more and more in the corporation's favour the lower down the hierarchy we go. Thus at the level of a provincial government of a slow growth region in a country which occupies a subsidiary or hinterland relation to the metropolis country the bargaining powers are definitely weighted in the corporation's favour.

In the bargaining process the corporation is interested in maximizing its net benefit, that is, profits after taxes and royalties. The provincial government is likewise interested in maximizing its net benefit; that is, the total revenue from the firm in direct taxes and royalties less the costs of infrastructure necessitated by the firm's loca tion within the province, as well as the costs of any incentives offered to the firm to induce them to locate. An additional important consideration from the point of view of the government are the jobs created for local population and the income generated by the establishment of the subsidiary.

The fact that multinational corporations are able to shift their declared profits from the subsidiaries to the

[1]Stephen Hymer, "The Coming Crisis of the Multinational Corporation," The Canadian Forum (April-May, 1970) p. 82-86.

head office, of which the great majority are located in the metropolis, by manipulating transfer prices severely limits the ability of hinterland governments, let alone provincial governments in hinterland countries, to extract a surplus (revenue from the multinational corporations less cost of services provided) from multinational corporations through taxation. The ability of the multinational corporation to shift its profits in this manner means "that they will only be attracted to countries (or regions) where superior infrastructures offset higher taxes."[1]

This relationship between multinational firms and countries or regions, as Hymer points out, resembles the relationship which exists within the country between provincial governments, the federal government, and national corporations. The lower levels of government are at a disadvantage with regard to the revenues they can extract from the corporation. The competition among provinces to attract corporate investment can only worsen the position of the provinces with regard to the corporation as the firm simply plays one province off against the other choosing to locate,other things being equal, in the province that has offered the greatest incentives and hence, other things being equal, will bear the greatest costs and extract the smallest surplus. Negative

[1] ibid, p. 84.

surpluses are not unheard of as we shall see. This competition among provinces is an extremely costly phenomenon and one which can only be destructive to ameliorating regional disparities.[1]

The fact that since Confederation many eastern companies have maintained their head offices in Ontario while generating a significant proportion of their profits by their activities in outlying provinces has been an important reason for some of the resentment provinces like Manitoba have felt toward eastern 'big business.' This resentment has its roots in the hinterland relationship the prairies, for example, had to the east in the economic development that followed Confederation.[2]

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[1] The tendency toward fiscal decentralization and increased provincial autonomy that has occurred in the last five years in Canada in response, in part, to the cultural and national demands of Quebec has worked to the disadvantage of the poorer provinces. They are less capable of developing their own economies and providing an adequate level of government services independent of significant federal assistance and stabilization of the national economy. See K. Levitt, "Economic Dependence and Political Disintegration in Canada," New World Quarterly, IV, No. 2 (Autumn, 1968) and Jacques Parizeau "Quebec-Canada En Plein Cul-De-Sac," Option Quebec ed. Rene Levesque (Ottawa: Les Editions de L'Homme, 1968) p. 97-112.

[2] For a discussion of this phenomenon see C.W. Gonick "Foreign Ownership and Political Decay," Close the 49th Parallel etc. The Americanization of Canada, ed. Ian Lumsden, (Toronto: University of Toronto Press, 1970), and K. Levitt, "Economic Dependence..."

Regional Economic Development: a Brief Survey of Theory

While it is clear that regional disparities are deeply rooted in Canada it is not at all quite so clear as to what is their origin. Although it is beyond the scope of this study to assess this problem it is useful to briefly survey some of the theses advanced thus far to explain the differences in regional wealth and economic growth.

In the first place, some regional differences in income, per capita wealth, and overall economic activity are inevitable.

> In Canada the physical immensity of the country, the presence of distinct geographic barriers, a narrow, uneven chain of settlement and a striking diversity of resources and economic structure among our major regions all make for a particularly high degree of regional differentiation.[1]

The concept of a region which I have used and will continue to use throughout the thesis, unless otherwise indicated, is that of an area which

> either by itself or in combination with other areas, must be able to take political action on its own behalf....(It...is appropriate) in the light of the Canadian Constitution under which the provincial governments have substantial responsibilities in economic development...that the definition of regions should conform to the realities of political action...[2]

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[1] Economic Council of Canada.Second Annual Review, p. 97.

[2] R. D. Howland, Some Regional Aspects of Canada's Economic Development (Ottawa: Queen's Printer, 1957), p. 2. For a discussion of alternative definitions of the 'region' concept see Irwin Lipnowski, "The Political Economy of Regional Development With Particular Reference to Canadian Policies" (unpublished M. A. thesis, University of Manitoba, 1969) Chapter ii.

Although there are relatively many explanations for differentials between regions based on differentials in the factors which when combined make for economic growth, such as endowment of resources, industrial and occupational distribution, and population and labour force characteristics, there are relatively few theories which explain the origins of uneven regional development.

One such theory which has particular relevance for the Canadian economy and was developed by a Canadian scholar, Harold Innis, to explain Canadian economic development is the staples thesis. The staples thesis assumes that "staple exports are the leading sector of the economy and set the pace for economic growth."[1] The staples approach relies on the migration of factors to a region

> in response to high returns offered by a staple export....Typically, labour and capital are available in other regions at going wages and rates of return ....the growth must commence either when productive technology makes it possible to supply a natural product or when the demand price rises.[2]

Thus the economic base develops around the new staple whose character determines how widespread will be the

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[1] Melville Watkins, "A Staple Theory of Economic Growth," Approaches to Canadian Economic History ed. M. Watkins, W.T. Easterbrook (Toronto: McClelland and Stewart Ltd., 1967), p. 53.

[2] A. D. Scott, "Policy for Declining Regions: A Theoretical Approach," Areas of Economic Stress in Canada ed. W. D. Wood, R. S. Thoman (Kingston: Industrial Relations Centre, Queens University, 1965), p. 79.

effects on the domestic economy and society. The emphasis of the staple thesis is upon the linkages which the new export activity establishes. Watkins in his essay on the staples approach describes these as the backward linkage, forward linkage, and what he calls demand linkage.

> Backward linkage is a measure of the inducement to invest in the home-production of inputs, including capital goods for the expanding export sector...Theory and history suggest that the most important example of backward linkage is the building of transport systems for collection of the staple, for that can have further and powerful spread effects...Forward linkage is a measure of the inducement to invest in industries using the output of the export sector as an input...Final demand linkage is a measure of the inducement to invest in the domestic industries producing consumer goods for factors in the export sector.[1]

The final demand linkage will be less to the extent that income generated by the export sector is transmitted abroad to foreigners and the higher the marginal propensity to import by domestic factors. It will also be diminished if the income distribution among domestic factor is relatively unequal producing, according to Watkins, demands for only subsistence goods at one end and luxury goods at the other end of the scale. If this is the case, the demand for a wide range of consumer goods upon which a domestic manufacturing sector would be dependent would be missing and the final demand linkage slight. This would likely characterize an early colonial sort of relationship with the domestic factors being more of the nature of either transient adventurers out to make a quick fortune or

[1] Watkins, "A Staple Theory of Economic Growth," p. 55.

colonials attached to the style and standard of life of the motherland.

The staples thesis is in a way "really a pseudonym for a special kind of imperial relationship."[1] According to Gonick in the Canadian case the succeeding staples which were developed: fish, furs, lumber, wheat, minerals, and pulp and paper each represented a different stage of Canadian colonial development. The dependence of regional development upon externally arrived at decisions and innovations meant that regional growth of the Canadian economy, except to the extent that linkages were deeply enough emeshed to create a viable economic region regardless of the ultimate fate of the staple, was inherently unstable. The country, at least that part of it that was the centre of the staple development, served as the hinterland for the metropolis. As the hinterland moved inland from the early fishing areas through the wheatfields and to the vast northland, so too did the metropolis move from France, to Britain, to eastern Canada, and now to the United States. The National Policy which followed Confederation, Gonick claims, was aimed at securing a hinterland for the Montreal indigenous capitalist class which the fur trade had established. This group and the economy which had grown up around it were caught without

[1] Gonick, "Foreign Ownership and Political Decay," p. 46. The following analysis is heavily dependent on the above essay and that of Levitt.

a viable trade when both the English and American markets were closed off to them. The National Policy, which virtually assured that American branch plants would dominate the economy in the century to come,[1] thrived on the export of wheat from the Prairies; the profits from land sales to settlers from the land holdings granted to the Canadian Pacific Railway; and the captive market for manufacturing goods from the protected industries in Eastern Canada, many of them already American establishments. The tendency of the National Policy to promote American investment in branch plants has meant ultimately that the metropolis has transferred from eastern Canada to the United States. Eastern Canada still plays an important role, but in Hymer's terms, it is one rung lower on the hierarchy of centres, a regional, rather than an international centre.

While this interpretation of the staples thesis in its application to Canada is certainly open to question, it does provide a definite, if not complete, explanation for the origins of regional disparities in Canada. For according to the staples thesis as the staple declines in importance either because of technological change or changes in demand, the region that is dependent upon it, except to the extent that through the linkage effects it has developed a

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[1] M. Bliss, "Canadianizing American Business," Close the 49th Parallel etc. The Americanization of Canada

viable secondary manufacturing and service sector and/or alternative export sectors independent of the staple, declines in economic importance. If the region

> no longer depends upon a staple export base the crumbling of that base should result in a period of reallocation of inputs among industries, accompanied by unemployment, a repricing of labour, and capital services, all eventually followed by a resumption of growth with full employment.[1]

The region that is dependent, however, on a declining staple will gradually contract. Those in the labour force that are mobile, usually the young and the well-trained, will depart. Capital in the form of savings will be attracted to regions where the return is greater. This in turn reduces the size of the local markets for regional output which originally grew up to service the export sector. The contractual process will only be slowed to the extent that workers and capital remain.

If they do so this will force wage rates and capital returns down leading to the creation of a depressed region. In such an instance pressure on the real income per capita from wages will be a function of the population size. Emigration, depopulation, and therefore further contraction will appear as the only alternative to the stagnation. The situation, which Watkins calls the "staple trap," characterizes the conditions faced by underdeveloped countries. The backward regions in Canada, particularly the Maritimes

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[1] Scott, p. 81.

and Newfoundland, appear to have suffered this fate.[1]

Thus the adaptation of the staples thesis by Gonick and others to the imperial relationship places the origin of Canadian regional disparities on the colonial way in which Canada has developed. The present regional disparities, largely the creation of these past colonial relationships, are reinforced by the hinterland status which the Canadian economy presently holds as a natural resource base for the American economy. The bulk of Canadian exports are raw materials or semiprocessed materials, largely staples, and the bulk of our imports finished manufacturing goods. The major proportion of our trade is with the United States. Because of this hinterland relationship with the United States,[2] the imperial staples thesis argues that the federal government has lost control over fiscal policy and is therefore no longer in a position to independently alter the level of aggregate demand significantly enough to avoid a major recession. If this is so this further reinforces regional disparities; for it is the slower growth regions like the Atlantic provinces where employment is most severely affected by a national recession.

Another theory which seeks to explain regional economic inequalities is known as the factor equalization theorem. The factor equalization theorem in its classical

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[1]W. Woodfine, "Canada's Atlantic Provinces: A Study in Regional Economic Retardation," Economics Canada ed. M. Watkins, D. Forester, (Toronto: McGraw-Hill Co. Canada, 1963) p. 312-319.

[2]Levitt, New World Quarterly, IV, No. 2, p. 128-29.

form argues that given the free flow of factors between two regions, the outflow of factors from the region of low returns to the region of high returns would gradually bring about equalized returns in both regions. The neo-classical variant of the theorem assumes the following properties for each of the two regions: zero transport costs, homogeneous outputs, identical production functions, incomplete specialization, perfect competition, and diminishing returns for each good. Under these assumptions, given the relationship that will hold between commodity and factor prices, so long as there is incomplete specialization in identical production in both regions the equalization of commodity prices will lead to the equalization of factor prices. Even if, as one would suppose, there is complete specialization within the region based on its resource endowment the theorem concludes that there will be a tendency toward equalization. The theorem explains regional inequalities by reference to assumptions which do not hold. The obvious drawback to the theory is that it offers any of a number of alternative reasons for disparities given the number of simplifying assumptions it requires for the theorem to hold.[1]

Stephen Hymer has suggested an interesting qualification of the factor price equalization theorem. The rise of multinational corporations and the hierarchical

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[1]Lipnowski, chapter iii, and Scott, p. 73-76.

economic planning that they have introduced, by which the regions of the world have been assigned specific functions by means of the way in which they relate to the needs of the corporations, has meant that it is no longer possible for a region to specialize in what resources it is best endowed with and still share in the total of the world's wealth.[1]

Many economists, notably Myrdal, have argued that market forces in themselves tend toward inequalities among regions rather than equalities.

> If things were left to market forces unhampered by any policy interference, industrial production, commerce, banking, insurance, shipping, and indeed almost all those economic activities which in a developing country tend to give a bigger than average return...would cluster in certain localities and regions, leaving the rest of the country more or less in a backwater.[2]

The very fact that the market dictates that locational decisions will be made on the basis of private calculations of cost and benefit, that is profitability, will inevitably mean that certain regions will be less favoured than others. This process has a cumulative effect, as once disparities in regions are established the high growth regions draw migrant workers and capital from the slower growth regions thereby widening the gap between the two.[3]

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[1] Hymer, "The Efficiency (Contradictions)..."

[2] quoted in Lipnowski, p. 36.

[3] Brewis, p. 37.

A third alternative theory which seeks to explain regional economic growth and the disparities that might arise out of it is known as stages theory. The basic conclusion of stages theory, obvious in the name itself, is that there is "a normal sequence of stages through which regions experience economic growth."[1] The economy of the region is seen to develop from a subsistence agricultural oriented one; through increased specialization in primary production, interregional trade and transportation improvements which lead to the development of secondary industries and the necessary social overhead capital expenditures; which in turn leads to increasingly complex specialized and diversified industrialization; which culminates in a mature economy with a full range of specialized services including the export of capital, skills, personnel, and services to less advanced regions.

> An implication of the theory is that policies and activities of private groups and government can determine the rate at which the economy of a region will evolve from one stage into another: for example, in the building of social overhead capital facilities... and in the efforts made to attract outside capital.[2]

Thus the theory provides for a positive, indeed aggressive role, for government in economic development. But like

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[1] H. S. Perloff et al, Regions, Resources, and Economic Growth, (Baltimore: John Hopkins Press, 1960), p. 50. Much of the following analysis is taken from this work.

[2] ibid, p. 59.

most contemporary theories of regional economic growth it does not specify the costs and benefits of such a role; and in particular who bears the costs and who benefits.

Perloff, Dunn, Lampart, and Muth in their work, Regions, Resources, and Economic Growth attempt to sketch out what they consider to be the significant features of any general theory of regional development. The sketch is worth considering, notso much because of their insights into the interrelationship of factors which make for regional growth, but rather for the conclusions which they reach which indicate how diffuse, narrowly institutionally defined, general, and therefore essentially unexplanatory their general theory would be.

The problem is first approached by considering the impact of national forces upon the regional economy. The extent to which regions share in the national output and the secular changes and tendencies which can be observed are a factor in their general theory. Perloff et al found that contrary to common assumption there was no positive correlation between increases in the proportion of workers in 'growth' industries within the region and relative increases in economic activity in general among the regions, at least for the manufacturing sector in the United States. They conclude that a region may grow either "through getting an increasingly greater proportion of an industry that as a whole is declining nationally... or because it contains the growing parts of a general declining industry.[1] Brewis found this same phenomenon

[1] ibid, p. 69.

to hold for growth among Canadian regions where fast growing provinces like British Columbia had a higher proportion of slow growth industries than one would have expected. Further statistical analysis showed that British Columbia was getting a far greater proportion of those industries, in particular wood, and paper industries, than the other regions and the growth rate of them was above the national average within the province.[1]

Perloff et al observe that shifts in important growth components such as employment and per capita income among regions in relation to national averages are generated by what they call "proportionality" or "differential" shifts. The net differential shift is generated by certain regions expanding more rapidly in certain sectors than in other regions. The proportionality shifts are generated by certain sectors expanding more rapidly than others. Thus these regions which have a higher proportion of fast growth sectors reflect different proportionality shifts than the other regions.

Location theory, which is often regarded as a separate theory of regional economic development, is also considered to be a significant part of the general theory. The fundamental basis of location theory is that the entrepreneur will choose to locate his enterprise where long run profit potential will be maximized. Thus regional growth is a direct function of "its access at competitive

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[1] T. N. Brewis, p. 73.

costs to the inputs of production and its access at competitive costs to markets for the outputs of production.[1] Transport costs and the size of the regional market play an important role. Depending on the particular industry input access is the dominant factor, in which case the industry is material oriented; sometimes market access, in which case it is market oriented; and sometimes neither is dominant, in which case it is oriented to intermediate sites.

Transfer costs are an important consideration except where the input(s) is immobile and non-substitutable and located in a single source. Here location will be dictated, by the supply source. Another exception is where transfer costs form only a very small proportion of total cost outlay. In general, however, transfer costs are an important influence. The ratio of transfer costs on inputs compared to outputs will tend to determine whether the activity is input or output oriented. If there is weight loss in production, this will favour input or material orientation, if weight gain, this will favour market orientation.

Economies of scale also influence location. If such internal economies are present the firm, if input oriented, will be restricted to the larger concentrations of inputs. If the firm is market oriented it will tend to be attracted to larger market areas which permit sufficient scale.

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[1] Perloff _et al_, p. 75.

External economies tend to increase the attractiveness of areas of concentration to the extent that such economies are immobile, that is, require that the firm be located in the area of concentration.

Perloff et al develop the importance of external economies in terms of "agglomeration." Where immobile economies arise out of concentration of factors such as social overhead capital, other linked industries, specialized business services, and pools of skilled labour, the regions in which these concentrations reside will attract industry and reinforce the agglomeration effect. While they mention the possibility of external diseconomies they do not dwell on them.

Nodality, or orientation toward a central place or node, is cited as a useful explanatory device in relation to agglomeration. The position of a particular area with reference to the national configuration of population nodes, that is, the national market, the distance from a major population node, and the distance from a number of minor nodes all play an important role in locational relationships.

Population distribution, in general, appears to reflect the distribution of economic activity. But accessibility to consumption inputs tends to increase with increases in affluence; This would be one way of explaining the move out of metropolitan areas, where concentrations of cultural consumption inputs originally reinforced the attraction of population to areas of economic opportunity, to the suburbs. Some firms which are oriented to labour markets will, according to Perloff et al, be footloose. They will be more inclined to seek locations where employees are attracted by the range of consumptive inputs available.

"'Input-output access' is a netting-out of the relative advantages and disadvantages of each region for the economic activities of any given industry or of all industries combined."[1] Implicit in this approach is the concept of competition among regions. That is, what is in the absolute sense a 'good' opportunity in a given region may be ignored in favour of better opportunities in other regions. Hence opportunity cost must figure in the calculation of net disadvantage.

Once again Perloff et al reveal the bias of their work. The fact that they explain regional lags in economic development in terms of one region offering a higher marginal return over other regions with good but not equally attractive returns, without then clearly establishing the differential effects of market forces and suggesting government sponsored development as an alternative means they artificially narrow their institutional assumptions. For, given this narrow institutional framework, government either intervenes so as to make the rate of return sufficient to attract the private sector, with all of the ramifications of following that policy, or the

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[1] ibid, p. 87.

region simply lags behind. And while Perloff et al make the point that "the extreme local economic development approach which regards every region and community as capable of limitless economic development"[1] is a fallacy; they nonetheless adopt an institutional framework, the policy implications of which tend to promote, rather than impede, the local growthamania psychology.

The concept of regional multipliers explains, at least in part, the complex set of interrelationships which are set up when there is a significant injection of new investment within a region. The multiplier works itself out through changes in the volume and composition of inputs and outputs, and exports and imports associated with these. The multiple impact of such changes is reflected within the region in terms of income, employment, and consumer expenditures. The strength and character of the multiplier will depend on the input-output interactions of the industry; that is, the degree of its forward and backward linkages. In part the impact of the multiplier will also depend on the stage of development of social overhead capital within the region. In the lesser developed regions surges of new investment will likely confront shortages of social overhead capital. This, in turn, will stimulate a greater overall multiplier effect. Whereas, in

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[1] ibid, p. 90.

the more developed regions there likely will be sufficient unused capacity that will be taken up by the new investment. Hence, the multiplier will be accordingly reduced.

Perloff et al here ignore the role that the social overhead capital must have played in the calculation of net advantage which attracted the industries to the region in the first place.[1]

The index of economic growth which Perloff et al choose for regions for considerations of welfare is that of per capita income. In doing so, they become subject to similar criticisms outlined earlier in the chapter, by Mishan and others. While per capita income is certainly preferable to indices of manufacturing or total output it is still a long way from an acceptable index of economic welfare. Disparity in income distribution, and not just the absolute level of per capita income, is an essential measure in approximating economic welfare. Further, measures of per capita income ignore the diseconomies that accompany increases in per capita income such as outlined above.

Perloff et al associate changes in per capita income with the relationship between the rate of capital input

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[1]For a discussion of the role of SOC in promoting devel opment see A. Hirschman, <u>The Strategy of Economic Development</u> (Yale University Press, 1958)

and the rate of population change. Low wage areas are not always eliminated simply by population outflow. Usually the forces which make for the inflow of capital and population such as a high rate of return for both factors do not always work as evenly in reverse. The costs of transferring out of a region is often prohibitive thereby discouraging outmigration.

> As long as new investment decisions are based only partly on regional differences in wage rates and as long as only certain areas have the necessary advantages in input-output access to attract a large inflow of capital, the critical factor for many of the low-income areas will remain the rate of outmigration.[1]

What is ignored here however, is the tendency for the outmigration to be concentrated among the most productive members of the regional population who are usually the younger, more skilled, and therefore more mobile members of the labour force. Thus outmigration will often promote stagnation rather than rises in per capita income.

Perloff et al reveal another bias of regional economic theory by their concentration upon economic efficiency.

> Any forces which pull industries away from locating in the areas which provide the best overall situation for their particular requirements can do so only at the expense of the rate of increase in national product and average per capita income for the country as a whole.[2]

What is most efficient from the point of view of the individual firm is not necessarily most efficient from the point of view of the nation as a whole, even if it means

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[1] Perloff *et al*, p. 103.

[2] *ibid*, p. 103.

maximizing national per capita income. For the social costs and the diseconomies which result from regional disparities and the concentration of industries in one or two regions which accompany such disparities must be considered in the overall calculation. Whereas the first may sometimes be compensated for by intergovernmental transfers of income at the national level (although Canadian historical evidence suggests that at best only a very partial transfer has taken place), the second is extremely difficult if not impossible to compensate for.

Perloff et al conclude their sketch of the significant factors of a general theory of regional economic development with a number of "YES BUT" propositions which they argue flow from the foregoing analysis. Their conclusions are not anything more than equivocal general tendency statements, as is obvious from consideration of their analysis.

Most importantly their general theory does not offer a comprehensive explanation of the origins of regional disparities. Rather, it points out certain tentative tendencies which arise out of given sets of circumstances, often the very regional disparities themselves, whose origin we are interested in understanding. Finally, despite the narrow institutional bias of their work their theory is simply too difuse, to be sufficiently explanatory. In this sense the staples thesis, particularly the imperial adaptation of it, because it is more sharply focused is a more useful explanatory theory. Insofar as it does explain the origin of regional disparities in Canada it is a more valid theory.

CHAPTER II

REGIONAL GROWTH: THE CASE OF MANITOBA 1950 - 1958

The Problem Defined:

The record of economic development in the province of Manitoba during the decade 1958 to 1968 offers an intriguing case study of the impact of growthamania, foreign investment, and indeed many of the factors which have been seen in Chapter I to impinge on the economic development of a region. The period which I have chosen to concentrate upon, although not to the exclusion of years which fall on either side of it, is convenient insofar as it represents the reign of one political regime having a definite set of economic policies designed to promote regional economic growth, in most ways distinct from that of other political parties in the province. The decade is also convenient because in the years immediately preceding it and almost immediately following, two different political parties held office in the province.[1] Thus it is possible to compare the differences and similarities among political parties toward regional economic development policy. As I shall try to show in a subsequent chapter the forces of "conventional wisdom," and in particular, what Mishan has called the "no choice myth"[2] tend to limit differences, or

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[1] The Liberal Progressive Party (Liberals) preceded the Progressive Conservatives (Conservatives), ruling from 1950-1958. (The first date marks the end of the coalition government in which the Conservatives and others participated.) The New Democratic Party followed the Conservatives taking office in the summer of 1969. (N.D.P.)

[2] Mishan, p. 34-41.

at least lessen them, among political parties in matters of policy toward regional economic development.

In assessing the policy of any government it is important to understand that the rationale behind any policy need not be based, and often is not, on a correct understanding and analysis of reality. The point is perhaps all too obvious; but so often do misapprehensions take on the weight of "correct ideas," that is, "conventional wisdoms," that the argument is worth restressing. Therefore an aggressive policy toward regional economic expansion which stresses the urgency of such growth may be based on a distorted understanding of the existing state of regional development and/or the value of growth per se.

A further consideration which influences policy is the ideology of the policy makers. Ideology is here interpreted in the widest sense of the concept, embracing even these groups which profess to be "pragmatic" and beyond ideology.[1] Ideological orientation will place the weight more heavily upon certain values which, in turn, will be reflected in economic policy. Thus, superficially one would expect conservative ideology to influence economic policy toward preservation of free enterprise relatively unhindered by government intervention, whereas socialist ideology would influence economic policy toward collective control and participation in the economy. Of

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[1] See Harold Chorney, "Ideology in the Liberal and Conservative Parties in Canada," 1967, unpublished paper.

course, the matter is far more complex than this, and in any case outside the scope of this study. But it is significant that in Manitoba ideological considerations appear to have shifted policy more toward concentrating upon economic development techniques rather than on the basic value of such development, in the first place.

The Political Atmosphere

The Liberal Progressive regime which preceded the Progressive Conservative government was widely characterized by all but its staunchest defenders, notably the partisan Winnipeg Free Press who did, however, manage to disagree openly with it over education policy, as a passive "penny pinching" government. From 1950 to 1957 the government ran substantial surplus budgets for every year but one; its net revenues exceeding expenditures for the period by $48.3 million - some 11% of total net expenditures for the period.[1] For the same period, the net expenditures expressed as a percentage of total Provincial personal income per year averaged out to 5.3%. As can be seen from the following table this was low relative to other provinces. Although it was close to that spent by the Ontario government, in fact, it was the lowest percentage of all the provinces.

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[1] Calculated from D.B.S. Historical Review: Financial Statistics of Governments in Canada: 1952-1962, (Ottawa: Minister of Trade and Commerce, 1966) and Historical Statistics of Canada, ed. M. C. Urquhart and K. H. Buckley, (Toronto: The MacMillan Co. of Canada, 1965).

TABLE 2:1. - Net government expenditures as a percentage of personal income, selected provinces, 1950 - 1957.

	Man.	Ont.	Sask.	N.S.	Alta.	B.C.
1950	4.6%	5.3%	8.8%	11.1%	12.0%	10.1%
1951	4.9	5.6	7.5	10.0	6.4	9.7
1952	4.5	5.5	6.6	8.3	7.8	9.8
1953	5.0	5.3	7.6	8.7	8.6	9.7
1954	5.2	5.7	11.8	8.8	10.6	9.6
1955	5.2	6.2	10.0	9.2	11.2	10.1
1956	5.6	6.4	8.9	12.7	10.4	11.0
1957	6.7	7.0	11.0	11.2	12.0	11.4

[a]Source: Calculations from Urquhart and Buckley, p. 212 and p. 78.
[b]Data for other provinces places their percentage figures substantially above those of Manitoba (Quebec less so than the Atlantic provinces).
[c]Net government expenditures excludes the share of joint expenditures which are financed by the federal government. Net revenues also exclude similar federal contributions.

The fiscal policy of the Liberal Progressive Government was heavily influenced by the financial and economic disaster which the depression wreaked upon Manitoba. Like that of many provincial and even national governments the policy could hardly be termed a Keynesian one.

> Should these essential elements (maintenance of full employment and a buoyant economy) show signs of exercising a diminishing stimulus to general business activity those responsible for public administration should have whatever protection is possible. They should not have comittments to meet, that are beyond their capacity to pay.[1]

In general the provincial government of the early 1950's had a passive attitude toward intervention in the economy.

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[1]Hon. D.L. Campbell, Premier and Provincial Treasurer, Budget Speech, April 4, 1950, Manitoba Budget Estimates 1950-1951

> Declines in activity in any sector of the economy are favoured by no one. They result in unemployment, decreased incomes, decreased expenditures, and if sufficiently broad may even precipitate a decrease in the tempo of activity in other sectors. However it must be recognized and accepted that in an economy as dynamic as our own, change is inevitable - it is in fact synonomous with progress.[1]

While the Liberal Government paid attention to the rhetoric of economic expansion (the words "upsurge," "boom," "sparked," etc. appear regularly in its budget addresses) its basic policy toward regional economic development was simple and limited. "We continually recognize the need of agriculture and industry in Manitoba to have costs low enough (and taxes as low as possible) to help them compete."[2] The anti-interventionist orientation of Liberal policy in the 1950's is clear from its refusal to proceed with a provincial industrial loan fund which ostensibly would have granted loans of risk capital to small businessmen where available credit was not forthcoming through normal channels. The fund was first proposed in 1954 by an N. D. P. (then known as the Co-operative Commonwealth Federation - C. C. F.) member of the opposition. An American economic consulting

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[1] Honourable R. D. Turner, Provincial Treasurer, Budget Speech, March 23, 1955, <u>Manitoba Budget Estimates 1955-56</u>.

[2] Honourable C. H. Greenlay, Provincial Treasurer, Budget Speech, <u>Manitoba Budget Estimates</u>, 1957-1958.

company later recommended it to the Liberal government and despite general favour to the proposal by the opposition, the Liberals did not establish the fund. Instead, they argued that existing federal institutions, particularly the Industrial Development Bank, be broadened to encompass the demand for loan capital by small businesses. Later criticism by leading members of the party, when in opposition, of the establishment of such a provincial body by the Conservative Government reflected the Liberals' non interventionist policy toward economic development. These same leading members of the former Liberal Government charged that the Conservatives were out "to socialize...the state in Manitoba," and that their aggressive intentions with regard to development policy and expenditure in general reflected "leftist" thinking.

During the election campaign that brought about the downfall of the Liberal regime in 1958 the "stagnant state of the provincial economy" and the "tightfisted policies" of the Government which was held responsible, were major issues.

The Conservative party in 1958 claimed that

> Manitoba had not grown and prospered with the rest of Canada. In comparison after comparison our province lags behind the Canadian average (with) a slower rate of growth and progress than our sister provinces. This is the cost of lack of leadership in the provincial government, this is the price for complacency and inertia.[1]

[1] Conservative election ad quoted in <u>Winnipeg Free Press</u>, May 31, 1966.

The Conservative leader, Duff Roblin, soon to be premier, charged that the Government was "an old lackadaisical limping administration...with a debt depression complex."[1] Development in the province had lagged, he argued, because the necessary expenditures on social overhead capital such as roads, power facilities, transport facilities and education had not been carried out. The Government lacked a development policy and the province's growth had suffered accordingly. The Conservatives promised a development policy based on expenditures on social overhead capital "sufficiently in advance (of demands by existing industry) to stimulate and attract new economic development."[2] A provincial industrial development bank would be central to their policy in order to ensure "that instead of catching a full grown whale (large established foreign corporations) we can start feeding the minnows (local small enterprises) in our own pond."[3]

Conservative policy was based on a number of basic assumptions, most of which were articulated in the first few years of office. The Conservatives held that there was a large backlog of social overhead capital expenditures which were essential to the promotion of industrial

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[1]Winnipeg Free Press, March 14, 1958.

[2]ibid, June 6, 1958.

[3]Winnipeg Tribune, March 21, 1958.

expansion that up to 1958 had seriously lagged. Manitoba in 1958 was therefore, in the Conservative view, an underdeveloped region whose growth and modernization could not simply be left to the "natural play of economic forces."[1] The role of the new government was to be that of a catalyst, undertaking massive public investment and offering direct incentives in an effort to attract new and expanded industry to the province.[2] Yet the government, in Conservative eyes, could ultimately only act in economic development as a "junior partner because the main burden (in developing the economy and utilizing resources) would be assumed by the senior partner-business...Business (would) be responsible for the planning and the decisions. Business (would), to the greatest possible extent, assume the risk; they (would) assume the risk of loss and in that case they would be entitled to the profits."[3]

The role of government nonetheless was "to place strong emphasis upon determining the extent and value of ...resources, how production of those (already) being utilized (might) be...increased and how others (might) be brought into production...to the greatest advantage of the public interest. Government (was thus) engaged in progress

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[1] Honourable D. Roblin, Debates and Proceedings of the Manitoba Legislative Assembly, March 12, 1963.

[2] ibid.

[3] Honourable G. Evans, ibid., p. 11.

designed to encourage continuous economic growth."[1] And such continuous economic growth could only mean more jobs and with them improved welfare for the society as a whole.

> The reason for emphasis on economic growth has to be expressed in human terms. Better happier healthier lives depend in major part upon the capacity of society to provide full opportunities for development. Government activity in this regard constitutes basic support for the creation and expansion of economic opportunity.[2]

Provincial development policy could not function in a vacuum. The Conservatives argued that the government had to

> sell Manitoba and the development of Manitoba's resources in competition with ten other provinces and with other countries of the world. (The choice was) to make...preliminary studies, to discover the opportunities and try to promote them and secure this development for Manitoba or...not to do these things and to lose the opportunity of making these developments and gaining that additional wealth.[3]

The choice, in the framework of the Conservative argument was therefore no choice at all - progress or stagnation.

It is quite clear that the policies of the new regime which began in 1958 represented a radical departure from the policies of the regime which they succeeded. The new Government claimed their policies to be so, the Liberals argued that they were so, and the press, both the Liberal

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[1]Speech from the throne, Debates and Proceedings of the Manitoba Legislative Assembly, June 9, 1959.

[2]Hon. D. Roblin, Prov. Treas., Budget Speech, April 26, 1963. Manitoba Budget Estimates, 1963-1964.

[3]Honourable G. Evans, Minister of Industry and Commerce, Debates and Proceedings of the Manitoba Legislative Assembly, June 25, 1969, p. 255.

Free Press and the Conservative Tribune, saw them in that light.

The Provincial Economy 1950-1958: A Slow Growth Region

The state of the Manitoba economy (1950-1958) was clearly a major plank in the Conservative party platform in 1958. The Conservatives painted a picture of a stagnant economy led by a stagnant government. As table 2:1 shows, the provincial government during this period was not inclined to large expenditures.

In order to assess the actual as opposed to the Conservative interpretation of the state of the provincial economy, a number of performance indices must be assessed against similar indices for other regions in Canada and national averages. The fact that the provincial economy does not compare favourably with other economic regions in such indices does not necessarily mean that the welfare of the people in Manitoba was less than the welfare of people in regions with greater indices. Economic growth cannot simply be translated into economic welfare. In this respect, certain indices are more meaningful than others. An index of per capita personal income is not meaningful unless it is accompanied by an index of income distribution. Total personal income is even less significant in terms of welfare as opposed to simply growth. Indices of output for various sectors of the economy are useful in describing changes in growth, but by themselves not very meaningful for welfare purposes. The distribution of employment and output by industry and province is significant in comparing structures of regional economics. It says little however about welfare unless it is specifically related to earning levels in the various sectors. In general, indices of health and social welfare such as cultural, educational, and recreational facilities are more significant from the point of view of welfare than those directly related to economic growth. Ultimately, of course, so long as economists are unable to fully take into account external diseconomies and dissatisfactions which flow from certain patterns of life style (or changes in life style) as well as the satisfactions which derive from certain ways of life, comparisons of welfare over time will be extremely difficult.

The following factors will be considered in assessing the validity of the Conservative claim that Manitoba during the period 1950-1958 was a slow growth region: changes in population, personal income per capita, capital investment per capita, labour income, structure of the economy, and growth in the manufacturing sector.

Growth in Manitoba's population definitely lagged behind the national average during this period. The greatest percentage growth by province occurred in Ontario, Alberta, and British Columbia. The Yukon and Northwest Territories also showed substantial percentage changes but, of course, their population base was tiny relative to that of the other provinces.

TABLE 2:2. - Index of Manitoba's Population Growth

(Canada=100)

1946-51	-	61.1
1951-56	-	64.5
1956-61	-	63.2

a Source: Manitoba Economic Consultative Board, Second Annual Report, 1965, p. 23.

TABLE 2:3. - Percentage Change in Population Census Years 1951-1961
(% change from preceding census)

	1951-1956	1956-1961
Manitoba	9.5	8.4
Newfoundland	12.9	10.3
Prince Edward Island	.9	5.4
Nova Scotia	8.1	6.1
New Brunswick	7.6	7.8
Quebec	14.1	13.6
Ontario	17.6	15.4
Saskatchewan	5.9	5.1
Alberta	19.5	18.6
British Columbia	20.2	16.5
Yukon Territories	34.0	20.0
Northwest Territories	20.7	19.1
CANADA	14.8	13.4

Source: Calculations from data in Urquhart and Buckley, p. 14.

Manitoba thus ranked sixth out of ten provinces in growth of population from 1951-61. All of Manitoba's population increase in the period resulted from natural increase rather than migration.

TABLE 2:3. - Manitoba, Net Interprovincial Migration 1951-1958

1951	- 4800		1955	- 5600	
1952	- 4500		1956	- 10700	
1953	- 4800		1957	- 8000	
1954	- 1600		1958	- 1400	

a Source: M.E.C.B. Third Annual Report, 1966, p. 32.

This position contrasted with those provinces which showed percentage increases above the national average.

TABLE 2:4. - Factors in the Growth of Population 1951-1961

	Population (1000's)				
	1951 Census	Natural Increase	Actual Increase	Net Migration	1961 Census
Nfld.	361	111	96	-15	458
P.E.I.	98	18	6	-11	105
Nova Scotia	643	128	94	-34	737
New Brunswick	516	119	82	-37	598
Quebec	4056	998	1204	205	5529
Ontario	4598	953	1639	685	6236
Manitoba	777	150	145	-5	922
Saskatchewan	832	172	93	-79	925
Alberta	940	265	392	127	1332
British Columbia	1165	224	464	240	1629
Yukon & N.W.T.	25	9	13	3	38

Figures do not add in all cases because of rounding.
a Source: T. N. Brewis, Regional Economic Policies in Canada, p. 12.
b Includes immigration

In terms of personal income per capita, Manitoba in the period 1950 to 1959 was very close to the national average. The province ranked 4th in personal income per capita expressed as a percentage of the national average.[1]

[1] For a discussion of the distribution of personal income for this period, a factor which the Conservatives never pointed to in their critique of the economic health of the province, see below Chapter 6.

TABLE 2:5. - Personal Income Expressed as a Percentage of the Canadian Average 1950-1959 (selected years)

(as % of the national average)	1950	1955	1959
Newfoundland	51	54	55
Prince Edward Island	56	55	62
Nova Scotia	74	73	75
New Brunswick	69	65	68
Quebec	85	85	85
Ontario	121	120	119
Manitoba	100	95	100
Saskatchewan	87	93	87
Alberta	103	104	102
British Columbia	123	122	118

a Source: T. N. Brewis, Regional Economic Policies in Canada, p. 17.

Capital investment per capita in Manitoba from 1950 to 1958 was less than the Canadian average and in general lagged behind Ontario, Alberta, British Columbia, and Saskatchewan.

TABLE 2:6. - New Capital Investment per capita by Regions

(millions of 1949 $)	1950	1951	1952	1953	1954	1955	1956	1957	1958
Nfld.	125	135	188	163	145	166	160	316	315
P.E.I.	156	133	138	128	136	151	158	303	390
N.S.	162	154	167	185	184	184	180	382	365
N.B.	212	183	168	159	173	232	237	402	433
Quebec	204	221	252	252	246	264	290	557	550
Ont.	303	318	326	337	328	338	380	754	701
Man.	270	249	248	277	258	273	307	593	629
Sask.	273	241	304	325	340	303	380	685	699
Alta.	409	428	499	561	471	523	578	920	935
B.C.	346	367	410	396	331	414	528	1054	777
CANADA	266	275	300	309	293	313	357	683	643

a Data for 1950-1956 do not include outlays on repair and maintenance. Data for 1957-1958 include these outlays.
b Source: R. D. Howland

The province also lagged in labour income behind the national average. Labour income is defined as the total of wages, salaries, and supplements which accrue to workers in return for services provided. The level of labour income in Manitoba as the table below shows, grew at a slower rate from 1950 to 1958 than the national average. Labour income in British Columbia and Alberta grew at a much faster rate than the national average, while Ontario and Saskatchewan's rate on the whole exceeded the national rate. Quebec's rate, while less than the national rate nevertheless exceeded that of Manitoba.

TABLE 2:7. - Annual Index Numbers of Labour Income for Manitoba and Canada

(1949 = 100)

	Manitoba	Canada
1949	100.0	100.0
1950	106.6	107.9
1951	121.7	126.3
1952	134.4	140.2
1953	146.1	151.6
1954	147.3	155.6
1955	154.9	165.3
1956	170.7	186.1
1957	179.5	200.0
1958	186.1	205.4

a Source: D.B.S. Labour Income

In 1951 the industrial sector with the largest percentage of employees was agriculture. Secondary manufacturing was relatively small, although it was substantially greater than in either of the other two prairie provinces. Between 1951 and 1961 the greatest changes occurred in agriculture, its percentage of total employees declining from 24.7 to 17.6%. The manufacturing sector also declined, a trend common to all provinces but possibly an anomaly arising out of the changing definition of the sector.

TABLE 2:8. - Regional Employment by Industry 1951 and 1961
(Percentage of Distribution)

	Nfld.		P.E.I.		N.S.	
	1951	1961	1951	1961	1951	1961
Agriculture	3.3	1.5	38.1	27.3	10.8	5.2
Forestry	9.9	5.0	.9	0.4	2.7	1.7
Fishing and Trapping	17.4	7.5	5.0	6.2	4.4	3.2
Mines and Oil Wells	3.5	3.9	0.0	0.0	7.7	4.3
TOTAL PRIMARY	34.1	17.9	44.0	33.9	25.6	14.4
Manufacturing	13.7	10.9	10.3	8.8	16.7	14.2
Construction	6.9	7.4	5.6	6.1	7.4	6.2
TOTAL SECONDARY	20.6	18.3	15.9	14.9	24.1	20.4
Transportation & Communication	9.4	13.6	6.2	8.0	8.2	10.4
Trade	13.4	17.5	11.4	14.0	13.6	15.6
Finance, Insurance & Real Estate	a	1.4	a	1.6	a	2.4
Community, Business & Personal Service	a	16.7	a	16.7	a	19.2
Government-Public Administration	8.9	11.6	6.7	8.7	10.4	15.9
Other Services	12.9	3.0	16.2	2.2	18.9	1.7
TOTAL SERVICES	44.6	63.8	40.5	51.2	51.1	65.2

TABLE 2:8. - Continued

	N.B.		Que.		Ont.	
	1951	1961	1951	1961	1951	1961
Agriculture	15.7	7.2	13.3	7.6	10.7	7.2
Forestry	9.5	5.0	3.1	2.0	1.2	0.7
Fishing and Trapping	2.7	2.1	0.3	0.2	0.1	0.1
Mines and Oil Wells	.7	0.8	1.4	1.5	1.6	1.8
TOTAL PRIMARY	28.6	15.2	18.1	11.3	13.6	9.7
Manufacturing	18.5	16.0	30.8	26.5	32.6	26.9
Construction	5.0	5.8	7.0	6.7	6.7	6.1
TOTAL SECONDARY	23.5	21.8	37.8	33.2	39.3	33.0
Transportation & Communication	9.9	11.8	7.3	9.1	6.7	8.2
Trade	13.1	16.7	11.8	14.1	14.2	15.5
Finance, Insurance and Real Estate	a	2.3	a	3.6	a	4.2
Community, Business & Personal Service	a	20.0	a	20.2	a	19.7
Government-Public Administration	5.2	10.1	4.2	5.6	6.2	7.7
Other Services	18.9	2.2	21.1	2.9	19.8	2.0
TOTAL SERVICES	47.1	63.0	44.4	55.5	46.9	57.3

	Man.		Sask.	
	1951	1961	1951	1961
Agriculture	24.7	17.6	48.9	37.0
Forestry	0.5	0.3	0.2	0.3
Fishing and Trapping	0.5	0.3	0.5	0.3
Mines and Oil Wells	1.3	1.6	0.6	1.2
TOTAL PRIMARY	27.0	19.9	50.2	38.9
Manufacturing	16.4	13.6	6.2	4.6
Construction	5.7	5.8	3.8	5.1
TOTAL SECONDARY	22.1	19.4	10.0	9.7
Transportation & Communication	9.9	11.6	7.9	9.3
Trade	15.9	16.8	11.3	14.0
Finance, Insurance & Real Estate	2.9	3.6	a	2.2
Community, Business & Personal Service	14.3	18.8	a	18.0
Government-Public Admin.	6.0	7.8	3.9	5.6
Other Services	2.0	2.1	16.7	2.3
TOTAL SERVICES	51.0	60.7	38.8	51.4

TABLE 2:8. - Continued

	Alta.		B.C.	
	1951	1961	1951	1961
Agriculture	32.5	21.5	4.1	6.2
Forestry	0.5	0.5	3.5	5.6
Fishing and Trapping	0.3	0.2	0.8	1.1
Mines and Oil Wells	4.4	3.5	1.4	2.6
TOTAL PRIMARY	37.7	25.7	9.8	15.5
Manufacturing	10.1	8.5	19.5	23.2
Construction	7.3	7.3	5.8	6.9
TOTAL SECONDARY	17.4	15.9	25.4	30.1
Transportation & Communication	7.6	9.7	11.0	9.2
Trade	13.2	16.4	17.3	15.9
Finance, Insurance and Real Estate	a	3.0	4.0	3.3
Community, Business and Personal Service	a	19.1	21.8	16.7
Government-Public Administration	6.2	7.9	8.1	6.9
Other Services	17.9	2.2	2.6	2.6
TOTAL SERVICES	44.9	58.4	64.8	54.6

a Included in "Other Services"
b Source: D.B.S. Census 1951, 1961.

The major growth during this period occurred in the services sector. This was also true of all other provinces. The manufacturing sector as a percentage of total employment in Manitoba relative to the importance of the same sector in other provinces ranked 6th in 1951 and 7th in 1961. In the period 1949 to 1959 the total employment in the manufacturing sector in Manitoba grew by 3%, compared to a 12% increase in the national figure. In the same period Manitoba ranked 7th relative to growth in this sector in other provinces.

TABLE 2:9. - Index of Industrial Employment by Province 1949-1959

(1949=100)	
Alberta	150
Newfoundland	139
British Columbia	122
Saskatchewan	116
Ontario	111
Quebec	110
Manitoba	103
Prince Edward Island	101
Nova Scotia	96
New Brunswick	89

a Source: Manufacturing in Manitoba, COMEF working paper no. 58, p. 26.

Since manufacturing is regarded as a crucial sector by growth oriented politicians and economists, the performance of this sector during the period probably accounts for much of the popularity of the "slow growth" sentiment, particularly when coupled with the slow rate of growth of the provincial population. But without doubt the most important factor in establishing the credibility of the stagnation thesis which the Conservatives advanced was the levels of government expenditure by the Liberal government during its term in office.

This brief survey of economic growth 1950-1958 indicates that there was some justification for regarding the province as a slow growth region. Of course, as pointed out earlier, slow growth is not synonomous with low welfare. It is quite possible that the level of welfare in the province during this period lagged behind that of other regions but to validate that conclusion many other factors, most of them not easily quantified, would have to be considered. In any case the policies which the new regime were to follow were not necessarily rational given their goal of accelerating economic growth. To the extent that they fell into the growthmanship trap, as discussed in Chapter I their programmes were to be substantially more costly than they otherwise might have been, particularly in the context of their attitude toward the interrelationship between government and business.

CHAPTER III

REGIONAL ECONOMIC DEVELOPMENT POLICY: THE MANITOBA DEVELOPMENT FUND

Introduction

The thesis that "private enterprise if supported by a basic level of social overhead capital investment undertaken by government would make the greatest contribution to the economic growth of the province was fundamental to Conservative policy. But the Conservatives went much further than simply underwriting the costs of erecting the infrastructure on which the economy was to develop. The government's new role has been described as that of a catalyst [1] but in fact became much more than that. The new government, with the full weight of the public purse at its disposal, became an entrepreneur extrordinaire; wheeling and dealing in the province's resources, enticing new industry and underwriting not only the costs of social overhead capital, such as roads, power, education and training directly essential to the success of new industrial enterprises, but providing much of the risk capital itself. Even the entrepreneurial function was not ignored, as the government drastically expanded Department of Industry and Commerce and associated institutes and agencies increasingly became involved in feasibility studies and discoveries of new resource locations

[1] T.L. Powrie, "Economic Policy of Manitoba," Targets for Economic Development, background paper, Nov. 1968.

and new markets.[1] The Manitoba Development Fund (M.D.F.), which was established under the authority of the Business Development Fund Act in 1958 [2] was the institution that became central to the "new economic policy" of the Conservative Government. The fund was established as a "lender of last resort" of risk capital to small enterprises with viable plans for either expansion or creation of new business enterprises within the Province. According to the act, the fund's objects were to encourage a balanced development of industry in the province, and, to that end:

(a) to provide financial assistance to,
  i) the operators of manufacturing plants that are established or that by means of that assistance will be established, and
  ii) persons or organizations who are engaged in the business of providing tourist accomodation or recreational facilities and
  iii) community development corporations;
(b) to assist the minister in encouraging the owners of capital to invest funds in industrial enterprises in the province,
(c) to provide technical and business advice and guidance to persons and organizations receiving financial assistance from the fund,
(d) to promote the diversification of business activity in the province. [3]

The fund was set up as an "arms length" crown corporation under a government appointed board of directors all of whom, but one, were to be private businessmen. [4] The M. D. F. in its day to day operations and its overall policies within the terms of its legislation, was ostensibly to be independent

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[1]These new aspects of the expanded role of government and the policy behind it will be discussed in more detail in Chapter V.

[2]Statutes of Manitoba, 7 Elizabeth II, C.3, 1958 (Second Session).

[3]Statutes of Manitoba, C.3, Sec. 4, 1958.

[4]In 1966 the fund was reorganized and the position of chairman and general manager became that of a full time civil servant.

of the government. But in practice, the Conservatives were closely involved with the M. D. F. and used it as a direct instrument of development policy. Their intimate involvement, although constantly denied by them is clear from the public relations programme that the Conservatives organized over the years in making dramatic announcements of new industries lured to the province and from an examination of a number of large loans which the fund undertook. The government's obvious direct involvement in the M. D. F. was symbolized from 1958 to 1966 by the presence of the then deputy Minister of Industry and Commerce in a double capacity as the general manager of the fund.

The fact that the provincial government tried to keep up the pretense of the M. D. F. being a corporation at "arms length" distance from itself reflects the peculiarly parochial political atmosphere in which the Conservatives operated. While the government clearly understood the nature and importance of its entrepreneurial role in providing substantial assistance to the private sector in the financing of new industry; it also saw the necessity of projecting a more traditional image of the separation of government and "free enterprise." The M. D. F. therefore was depicted as a public agency supplementing the traditional credit activities of the banking sector, whose involvement with the government was one of sponsorship for which the Conservatives took full credit, but that nonetheless was independent of government interference. For according to the Conservatives, direct involvement in the activities of the fund making it an arm of government policy would have meant the establishment of a "socialist system" of economic planning. [1] When the fund was first established in 1958 the Minister of Industry and Commerce reassured an anxious business community that the M. D. F. would not be any sort of socialist planning agency. "It's (the M. D. F.) the opposite of socialist - it's strongly anti-socialist, to help the small business to be successful." [2]

The Conservative Government's policy of maintaining the pretense of an "arms-length" relationship between itself and the fund, and the provision within the act for details of the fund's loans not being subject to the scrutiny of the legislative assembly created much of the political controversy that surrounded the M. D. F. from its very inception. The secrecy which governed its operations forbidding disclosure of the size of individual loans and the companies involved, was defended by the Conservatives as essential to the protection of the"confidential business relationship" of the client borrower to the fund. [3] But in practice, this policy of non-disclosure served to hide the true nature of the financing of many of the new important industrial enterprises whose establishment in the province over the years was heralded by the Conservatives

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[1] See Hon. D. Roblin, Debates and Proceedings of the Manitoba Legislative Assembly, Jan. 19, 1967.

[2] Hon. G. Evans quoted in Harold Chorney, "M. D. F.: The N. D. P. Meets Big Business in Manitoba," Canadian Dimension, Vol. 6 No. 7, (Feb.-March, 1970), p. 21.

[3] This argument was made by members of the Government on many occasions throughout the 11 year period of Conservative rule. See for example Debates and Proceedings...R. Smellie, May 15, 1965 and Hon. D. Roblin, Dec. 15, 1966.

as dramatic evidence of the success of their economic growth policies.[1]

The MDF: A Fund For Small Business

When the Development Fund was first set up in 1958 the Conservatives justified its establishment on the grounds that existing credit facilities for small local businessmen were inadequate. This shortage of capital, they argued, was hindering the economic expansion the province and preventing local business from growing and prospering. The then Minister of Industry and Commerce put it quite clearly when he stated during debate on the legislation establishing the fund:

> (The Industrial Development Bank)[2]...does not truly serve small businessmen and I support this by referring to the (statistics).... As of September 30, 1956 they had issued only 9 loans less than $5,000, 250 between $5 and $25,000 - a total of $4.25 million out of total authorized capital of $93 million. And so only some 4 or 5% of their money has been of the size which we anticipate will be the major requirement in the province for the kind and size of business that we have.... The M. D. F. will provide a kind of capital which is not being offered in the provice today... that is loans of moderate size.... Industrial expansion and development springs from private initiative...It (springs from) someone who thinks he can make himself a profit after taking risks and after staying awake all night wondering where the money is coming from and where next Friday's payroll is to be found....There are large numbers of worthy businesses which if financed and assisted with their financing and with some technical assistance too will

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[1]This will be clear from an examination of specific loans made by the M. D. F. , in the following chapter.

[2]The Industrial Development Bank is a federal agency authorized to make loans for fixed capital to industrial enterprises, established in 1944.

> grow into large and prosperous concerns...but without financial assistance will wither.... (We propose) to take Industry and Commerce down out of the 'Ivory Tower' and put it down to work on practical problems of nourishing and encouraging business within Manitoba to grow and prosper. [1]

Arthur D. Little Inc., an American economic consulting company, had first proposed a provincial development fund in 1956 to the then Liberal Government. It had stressed that the lack of a financial agency to stimulate investment in the province had slowed the rate of growth of the provincial economy. While the company's report praised the province for refraining "from offering special inducements in the form of subsidies and tax reductions to attract industry (since such a policy) had seldom led to more than a short visit from undesirable and undercapitalized companies,"[2] A. D. Little argued that the setting up of a development fund however, would be appropriate.

Since "the economic structure of Manitoba (was) of a type that traditionally suffer(ed) from a lack of both equity capital and long term loans - 75% of all firms in the province employ(ed) fewer than 15 persons" [3] the new development fund would satisfy this primary need for medium and long term

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[1]Hon. G. Evans, Debates and Proceedings..., Oct. 27, 1958.

[2]The Report of Arthur D. Little Inc. Respecting Credit Facilites For Industry in Manitoba, Sessional Paper no.63, 1958, (Report to an order of the House no. 13, Feb.28, 1958, Hon. F. L. Jobin, Manitoba Legislative Assembly).

[3]ibid., p.2.

loan capital by Manitoba businesses. "Well considered loan(s) might frequently enable the recipient to obtain additional equity participation from other sources." [1] The Little report recommended that a Provincial Development Fund be established to "promote the economic development of Manitoba by providing loans to small and medium sized businesses and to community industrial development organizations that ... are likely to benefit from financial assistance."[2] The close correspondence between the specific proposal of A. D. Little to the legislation which established the fund indicates how important a role the company played in the establishment of the M. D. F. Over the next decade this company participated as a consultant to the provincial government in a number of important development decisions. [3]

Although the Development Fund was originally envisaged primarily as a source of loan capital for small enterprises, within a few years it became clear that its role was to be greatly expanded. The Government in 1965 argued that the fund would have to be "more aggressive in going after the larger opportunities." While the Conservative Government claimed that they did not dictate to it, they stated that they had "asked (the fund's) consideration of this point." [4]

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[1]<u>ibid</u>., p.2.

[2]<u>ibid</u>., p. 3.

[3]Between 1958 and 1969, the years of Conservative rule, this one American consulting company received payments of slightly over $1 million from the Manitoba Government. Source: <u>Public Accounts</u>, Province of Manitoba.

[4]Hon. G. Evans, <u>Proceedings and Debates...</u>, May 1, 1965.

The Conservatives stressed the importance of raising their sights from small "minnows" to larger "whales."

> We have only to look at other provinces to see the kind of competition we're up against... we have a pretty good tight race on our hands.... (But) in addition to helping the small (businesses) we must keep out sights on the big (businesses) what I call the breakthrough industries. [1]

In 1966, a year which the Conservatives were to hail as the beginning of "a bonanza of economic growth" for Manitoba,[2] the structure of the Manitoba Development Fund was changed. Its scope, resources, and risk-taking capacity were greatly extended. The amount that it could borrow through the sale of debentures to either the provincial government or to federal agencies such as the Canada Pension Plan (in which case the debt would be guaranteed by the Province) was increased from $20 to $100 million. The staff of the Fund was increased, a full time General Manager appointed, and the range of consulting services it offered to prospective borrowers broadened. There was a provision in the new act for the fund to take an equity position in enterprises and in a special section II of the act, "Extraordinary Operations", the fund was empowered to establish an enterprise where it was judged to be "urgently required for the economic development

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[1]Hon. G. Evans, Debates and Proceedings..., May 1, 1965.

[2]The phrase referred to a number of major industrial projects which were announced during the spring of 1966 and which will be discussed in the next chapter. It is possible that in time the year will come to be known for something else.

of (the Province)... and that private industry (was) not ready to proceed with the development of such (an) industrial enterprise."[1] The Conservative Government assured the assembly that any such enterprises established would be sold at the first opportunity to the private sector.

The Conservatives justified these changes in the M. D. F. on the grounds that future growth depended on attracting key industries to the province.

> There are certain special important key industries... which we require in the province for the future growth which they themselves will bring...(and) act as a further stimulus to the economy.... In the next few years, they're going to be established somewhere in Western Canada and we intend to do everything possible to see that they are established in this province... if we are to grow as fast as we must, we must attract to this province bigger manufacturing projects... based on export markets. We're in tough competition... (with) other provinces. Saskatchewan, Alberta, Ontario, Quebec, New Brunswick and Prince Edward Island all have provincial development agencies of a character somewhat similar to the M. D. F. .... Well to meet that competition it's our intention to broaden the scope and activity of the M. D. F. which will become much more development orientated... more aggressive and in certain circumstances be prepared to advance a higher proportion of loan capital than in the past.... The new M. D. F. act... will represent a new offensive in the government's drive for new jobs in the province.[2]

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[1] Statutes of Manitoba, 14 & 15 Elizabeth II, C.17, Part II, sec. 41 (1966), "The M. D. F. Act." This "Extraordinary Operations" section was never utilized by the Conservatives. It was welcomed by the N. D. P. as a "socialist" measure and proof of the failure of the private sector to bear the burden of economic growth in the province. The Liberals saw it as a socialist measure also and proof of the failure of Conservative policy to attract private enterprise. They therefore did not support it.

[2] Hon. G. Evans, Debates and Proceedings..., Apr. 20, 1966.

The revised rationale behind the new Development Fund Act reflected a clear committment by the Conservatives to economic growth in the narrowest and therefore most irrational sense of the concept. The province, in their conception, would have to grow as fast as possible, in competition with other provinces for industry, in order that its growth rate approximate the Canadian average. The benefits of such a policy were considered to be, directly, new job opportunities and, indirectly a thriving buoyant and therefore better economy. The first benefit - assuming that the diseconomies which accompany any new job opportunities and the costs of creating them are less than the net private and public benefits that flow from them - can be a rational goal of economic growth. The second benefit, a thriving, buoyant and better economy, can be translated as economic growth is a goal of economic growth. For the inclusion of the concept of "better", as has been indicated before, cannot be assumed to be automatic.

The first goal, more job opportunities, can be rationally pursued within the context of a given population and labour force. The M. D. F. 's role in promoting the achievement of this goal, however, has been highly irrational.

<u>The Manitoba Development Fund: 1958 - 1969</u>

In order to assess the overall record of the M. D. F., it first has to be established that the fund is something more than just a provincial banking agency, loaning out short and medium term capital in relatively small amounts for near market rates of interest, with the loan fully secured against loss. The annual reports of the M. D. F. have stressed that the agency operates on such business-like principles as to ensure that, within the objectives of the fund, it operates at a profit. While profit is obviously not the primary goal it, nonetheless, is considered to be evidence of a "sound business-like approach" to economic development. Every annual report of the fund lists a modest profit of between $20,000 and $200,000. The principal sources of income for the fund have been fees collected from borrowers for investigations of the economic viability of their business venture and from interest on loans. The rate of interest charged by the fund according to the act under which the Conservatives operated must exceed the rate at which the government could have borrowed the money.[1] In fact, however, as we shall see in the next chapter this provision appears to have been violated on more than one occasion.

According to the fund's annual reports, the criteria on which loans are granted include the extent to which the resulting venture will contribute to the balanced industrial growth of the Manitoba economy, as well as the extent to which it is a sound business venture. In this respect, the fund has regarded "the ability to earn reasonable profits as the yardstick of an efficient enterprise."[2]

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[1] C.3,., sec. 9 (5). This concept was introduced in a 1959 ammendment to the Business Development Fund Act.

[2] Manitoba Development Fund Annual Report, 1967-1968, p. 8

It has done so on the grounds that the act has specified that the "fund shall not make a loan unless 'in the opinion of the board the industrial enterprise carried on by the borrower shows reasonable prospects of being able to repay the loan from earnings.' " [1] This emphasis upon the profitability of a venture, however, appears to be somewhat contradictory. It is quite possible that a new industrial enterprise will be highly profitable; but because of the nature of its inputs and/or structure, not contribute much to the economy of the province - indeed it may even harm it. In fact, this appears to have been the case with a number of loans. [2]

The fund also has listed the following activities as preferred: "those which have a specific material advantage; those which can benificiate locally available raw materials which are at present unused or exported in their raw state; those that are labour intensive; food processing industries which can materially assist in the stabilization of agricultural prices and reduction of wastage." [3] It is clear

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[1] M. D. F. Annual Report, 1966-67, p. 8.

[2] For example the fund has granted loans to vertically integrated corporate farm processing operations which have resulted in the dislocation of small farmers. See Harold Chorney, "M.D.F. : the N.D.P. Meets Big Business in Manitoba," Canadian Dimension, Vol. 6 no. 7, (Feb. - March 1970.)

[3] M. D. F. Annual Report, 1967-1968, p. 8.

that there are possible contradictions among these preferences themselves. For example, an enterprise may be capital and not labour intensive and yet satisfy one or more of the other criteria. In fact, despite these stated criteria even with their possible contradictions, major loans seem to have been granted more on the basis of obvious political rather than economic criteria. [1]

The M. D. F. since its inception appears to have altered its policy toward the ratio that its loan capital should bear to capital investment provided by the borrowing firm itself. In the fourth annual report of the fund in 1962 it is stated that "(as) a general rule, the Corporation seeks dollar for dollar participation by borrowers." As of 1962 the ratio of M. D. F. loans to total direct capital investment related to the loans (M. D. F. and borrowers' capital) was 52.5%. [2] In the tenth annual report of the fund in 1968, however, it is stated that "(the fund) welcomes the maximum capital contribution from its borrowers whether these are Canadian or foreign, so long as sound development results." [3] The change in policy is reflected in the increase in the ratio of M. D. F. loan capital to total capital investment from 1965 to 1969.

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[1]See the discussion in the following chapter.

[2]M. D. F. Annual Report, 1962, p. 5.

[3]ibid., 1967-68, p. 8.

TABLE 3:1. - M. D. F. Cumulative Loan Capital as a Percentage of Cumulative Total Capital 1960-1969 (for years ending Mar. 31)

(percentages)

1960	56.8	1965	61.0
1961	55.1	1966	65.3
1962	52.5	1967	67.4
1963	53.1	1968	68.3
1964	54.7	1969	62.4

a Source: Calculated from data in M. D. F. Annual Reports 1960-69

In the cases of large individual loans the percentages have been substantially higher, as large as 94% in at least one case.[1]

The fact that the M. D. F. only loans capital, as opposed to granting outright capital gifts or "forgivable loans" to private enterprises as the Federal Department of Regional Economic Expansion does in its Industrial Incentives Programme, does not alter the incentive and subsidy nature of its operations. In the first place, it appears that where the private sector does seek outside financing, in Canada at least, there has been an increasing tendency to turn to provincial development funds and the federal programme. The role of the private banking sector in establishing new industry may be relatively slight.[2]

[1]This instance will be discussed in the next chapter.

[2]This thesis was presented by a federal D. R. E. E. official in discussions I had with him.

When large established corporations receive loans from the provincial agencies such as the M. D. F. they are able to divert funds which they might have otherwise invested in the project into other enterprises and investments. Thus they are able to broaden their base of operations and in the process their profits. The fact that in Manitoba large established companies have received substantial loans, despite the section of the act which states that the "fund shall not make a loan if in its opinion, the applicant for the loan can obtain sufficient funds for his requirements from other sources on reasonable terms," [1] is explained by the inter-provincial competition for industry. The M. D. F. no doubt has been governed by the principle that, in spite of this section of the act a more important consideration is if a loan is not granted the particular industry might not locate in the province.

Although the M. D. F. maintains that in each case "in addition to equity investment, the fund insists upon additional security, generally by way of real property or chattel mortgages;"[2] examination of the fund's operations during the period 1958-1969 suggests that in the case of large loans to corporations the only security required has been the capital assets of the plant and equipment for which the loan has been granted. In such cases where the borrower's equity is nil (as when a federal agency like D. R. E. E.

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[1] M. D. F. Act... 1966, sect. 8/1.

[2] M. D. F. Annual Report, 1967-68, p. 8.

puts up the difference between the capital cost and the M. D. F.'s contribution) the rate of profit on the venture calculated on risk capital alone is infinite. Certainly, the application of M. D. F. regulations regarding the security behind loans, the financial viability of the project, and the guarantee of repayment has been far more stringent in the case of small local enterprises than in the case of far larger, and one might add riskier, loans made to foreign corporation. [1] The explanation lies in the fact that these large loans, which form the bulk of the total amount of loans made between 1958 and 1969, were definitely seen as important incentives to industrial growth, and a crucial part of the overall Conservative economic development policy.

What must not be forgotten in assessing the importance of the M. D. F. is that the loans granted to private firms represent an opportunity cost to the province. For since the provincial government either guarantees loans by the M. D. F. from the capital market, or loans directly to it; it in effect is diverting monies to the fund that it could utilize for other purposes. During the 1958-1969 period the M. D. F. never held any equity in the enterprises for which it provided much of the risk capital. Consequently because it did not share in any profits resulting from such enterprises the provincial government suffered an opportunity cost in this respect as well. To the extent that the new

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[1]Since 1958 the only companies to have suffered foreclosure by the M.D.F., allegedly because of failure to meet their repayment obligations, have been small local companies. See Ch. 4 for a discussion of such cases.

enterprises meant increased corporate tax revenues this opportunity cost was offset.

The exact breakdown of loans given out by the fund from 1958 to 1969 is difficult to arrive at because of the official policy of nondisclosure. However, by working from the official data given in the M. D. F. Annual Reports and combining it with data from a number of other sources, including newspaper accounts and the files of the mortgage registry, an approximate breakdown of loans can be established. [1]

TABLE 3:2. - Percentage of Total M.D.F. Loan Capital by Size and Number of Loans (as of Mar. 31, 1969)

	%	number of loans
$ 10,000 or less	.2	36
10,001 - 25,000	.9	64
25,001 - 100,000	4.4	91
100,001 - 500,000	8.6	57
500,001 - 1,000,000	4.5	7
1 - 3 million	9.8	10
3 million and over	71.4	7
Total	100	272

a These percentages were calculated by applying the the average percentage of loan to total capital for the two distinct periods involved (1958-1964, 1965-1969) to the relevant portions of total capital in each range, as stated in the M. D. F. annual reports. To the extent that the ratio of loan to total capital is not uniform throughout the range of loans the listed percentages are likely overestimated for the smaller range of loans and underestimated for the higher range.

b The percentages do not total 100% exactly because of rounding.

[1] If the name of a firm thought to have received a loan is known a search in the mortgage registry will reveal the amount provided a mortgage was issued as security.

Table 3:2 indicates that the percentage of loan capital from 1958 to 1969 which fell into the range that the Conservatives claimed the M.D.F. was set up to serve was only 1.1%. This is even less than the percentage which the Conservatives disparagingly drew attention to with regard to existing public credit facilities in 1958. Even if the percentage of loans falling into the $25,000 and less category is calculated from 1966 before the Conservatives' policy changes with regard to the M. D. F. were implemented, the percentage is still only 2.7%. This extremely low percentage belies the claim made by the Conservatives that the M. D. F. would serve primarily those small local businesses whose needs fell into the $25,000 and less category.

Even if the one million dollar mark is accepted as the upward limit on loans to "small" companies, 81% of the loans from 1958 to 1969 went to enterprises which called for a greater amount of loan capital. In the context of the Manitoba economy such firms are definitely not "small" businesses.

One of the major goals of the M. D. F. was to stimulate the creation of job opportunities. This goal was fundamental to Conservative economic development policy. An examination of the M. D. F.'s effectiveness in this regard reveals an important inconsistency. Whereas the bulk of the fund's loans have been in the one million plus category; it has been the smaller loans which have been considerably more 'efficient' in creating job opportunities.

TABLE 3:3 - Loan Capital Per Job Opportunity Created by Size of Loan 1958-1969 (Each amount created one job)

$ 10,000 or less	$ 3,473
10,001 - 25,000	3,841
25,001 - 100,000	5,068
100,001 - 500,000	9,829
500,001 - 1,000,000	6,632
1 - 3 million	11,379
3 million and over	44,739

a Source: Calculated from M. D. F. Annual Reports

For loans in the $3 million range it required about twelve times as much loan capital to create one job as it did in the under $25,000 category. About 19% of the total loans (those under $1 million) created 53% of the jobs. [1]

This inconsistency is easily explainable by the fact that the large loans went toward more capital intensive industries. However, this in itself does not alter the fact that by apparently favouring capital intensive as opposed to labour intensive industry in their actual provision of loan capital, the M. D. F. contradicted its own stated preference for the latter. While capital intensive industry may increase the growth rate of the provincial economy in terms of gross output and productivity it is not clear that it will, even with the operation of a multiplier, produce as significant an increase in employment capacity.

The potential net effect on the overall economy of a region of a new industry is a function of the linkages which

[1] Calculated from M. D. F. Annual Reports

the new industry establishes with the region's economic structure. These linkages, as described in Chapter I, are: backward linkage, which is a measure of the inducement to invest in the regional production of inputs for the new industry; forward linkage, which is a measure of the inducement to invest in industries using the new industry's output; and final demand linkage, which is a measure of the inducement to invest in domestic industries producing consumer goods for factors in the new industry.

If the new industry is capital intensive the final demand linkage will be diminished. The relative increase in consumer demand originating with factors employed in the new industry will be less than if the industry had been labour intensive. In this respect, therefore, the M. D. F. has had a less beneficial impact on the provincial economy than it might have had, had it favoured labour intensive rather than capital intensive industry.

It is difficult to assess the effect of the fund's preference for capital intensive to labour intensive industry on backward and forward linkages. The effect would depend on the structure and potential structure of the provincial economy and how well it meshed with the demand for inputs and the final output of the new industry.

According to Hirschman, backward linkage is an independent and stronger force than forward linkage because the demand for inputs by the new industry is a more direct inducement than the inducement to invest in industries utilizing the new output.[1] Similarly since final demand linkage is more closely analagous to backward linkage than forward linkage it is likely a stronger and more important force than forward linkage. Because an exact breakdown of M. D. F. loans by industrial category is limited to what is published in the M. D. F. annual reports, it is not possible to make more than a tentative judgement of the linkages established by their loans.

According to a table of linkages developed for the United States, Japan and Italy,[2] loans by the M. D. F. as of March 31, 1968 have not had particularly strong backward and forward linkage effects. Some 70% of all loans as of that date had gone to the food processing, miscellaneous manufacturing and processing and storage industries. None of these industries ("miscellaneous" of course possibly being defined in two different ways) had very high total backward and forward linkages according to the table of linkages. The iron and steel and textile industries which have high linkages accounted for slightly less than 13% of total loans. Wood and paper products industries which also have high linkages accounted for another 13%.[3]

Because total loans almost doubled as of 1969 compared

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[1]Hirschman, p. 107 and p. 116.

[2]ibid., p. 106-107.

[3]Percentages calculated from M. D. F. Annual Report 1967-68.

to 1968 the conclusions one can draw from the data available can only be indeteriminate. Nevertheless, in view of the weakened final demand linkage of industries financed by the fund and the greater importance this linkage has relative to forward linkage it seems legitimate to conclude that the policy which the M. D. F. pursued from 1958 to 1969, given the rationale within which it operated, was not a rational policy. Furthermore, because final demand linkage is also weakened to the extent that income generated by the new industry accrues to foreigners (in the case of a province, out of province ownership would qualify as "foreign") the ownership of new industries is an important consideration. Yet the M. D. F. has either not been aware of the importance of this factor or simply ignored it.[1]

The M. D. F., contrary to one of its original goals of promoting the growth of local industry, has loaned a disproportionate percentage of its loan capital to foreign enterprises. This fact is not surprising given the emphasis, as of 1966, on dramatic growth and "breakthrough industries." The high percentage of its loans, in particular its larger loans, that have gone to foreign firms simply reflects the concentration and structure of foreign ownership in the Canadian economy, particularly in the high growth sectors of the economy.

Only an approximation of the percentage of loan capital that has gone to foreign business can be made because of the

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[1]Foreign owned subsidiaries will likely have a lesser backward linkage as well.

lack of public disclosure. Some known $123.5 million has gone to 10 foreign firms since 1958. This represents 83% of the estimated total loans approved by the fund since its inception. [1]

This percentage may be too small on the one hand, because it underestimates the total of loans that has gone to foreign corporations. There are likely to be some loans to foreign companies which have not been included, simply because they are not known. On the other hand the percentage may be too large because the total of all loans on which it was calculated may be too small. In either case the missing amounts however are not likely to be of too significant a size; since the errors are in opposite direction the estimated percentage is likely a close approximation.

Of the known $123.5 million that was loaned to foreign companies about 29% went to American companies. Another 12% went to British companies. European companies , whose ownership however is not completely clear, account for the other 59%. The reason for the predominance of European over American countries is notclear. It may only reflect the inexhaustive nature of the data on which the percentages are based.

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[1] This figure is based on the inclusion of two major loans worth $44.5 million for which agreements were formally signed in May and July of 1969 in the total of approved (but not all yet accepted i. e. formally signed for) loans as of March 31, 1969 as stated in the 1968-1969 M. D. F. Annual Report, p. 15.

The large percentage of loan capital that went to foreign corporations, both European and American during the 1958 - 1969 period is consistent with speeches and statements made by members of the Conservative party or the executive administration of the M. D. F.

The General Manager and Chairman of the M. D. F. during this period made it quite plain that American corporations were welcomed by the M. D. F. and the provincial government.

> In Manitoba we are not allergic to outside capital. Quite the contrary, we want United States investment because we believe it is vital to ...growth...
>
> . . . .
>
> Now is a most advantageous time for U. S. business to invest...From a resource point of view, Canada is becoming increasingly important, and if U. S. companies are to participate in utilizing Canadian raw materials in the most economic locations, early action is important. With each passing year the untapped forestry, mineral, petroleum and water power resources of Canada increase in value as economical sources of the resources decrease in the United States ...
>
> . . . .
>
> Canada is an extremely easy place in which to do business or start a new operation... Government at ... the provincial level has factual and scientific facilities second to none in the world, and is fully geared to help an investor assess the business risks in a given enterprise ...
>
> . . . .
>
> The fact that U. S. and other foreign companies can benefit from this assistance (from Manitoba Government agencies) is further proof that outside investment is welcome in Manitoba. As a matter of fact we are going flat out to attract U. S. capital.
>
> . . . .
>
> Basic to the approach applied in Manitoba is a firm understanding that only profitable opportunities are of real interest to the entrepreneur, to labour, and to the community.
>
> . . . .
>
> The government in Manitoba is willing...to use its influence where appropriate to create a profitable opportunity where none might otherwise exist. Government assistance is therefore offered in a number

> of ways to assist investors in achieving a profitable operation.
>
> . . . .
>
> The combined services of all departments of the government are available to facilitate the establishment of new industry and the government has gone on record clearly and emphatically that it is prepared to offer all reasonable assistance to foster new investment in the province. The government is in contact with private sources of capital and to supplement such sources has sponsored the Manitoba Development Fund to provide special assistance so that an attractive and feasible project does not die for want of capital. The province has continued its efforts to improve the infrastructure. Special attention has been given to power and transport. In short, the province has committed itself to providing an attractive environment for industry believed not to be matched elsewhere in Canada.[1]

It is clear from this address not only that the M. D. F. would be well disposed to American borrowers; but that the province, in general, was prepared to be second to none in offering concessions to foreign corporate enterprises.

Given the policy of the province as described above, its status as a "slow growth region" in the eyes of the provincial government, the competition among provinces, and the bargaining power of the province relative to that of the corporations it was trying to attract; the outcome of the bargain struck between foreign corporate industry and the Province of Manitoba was likely to be heavily weighted in the favour of the foreign corporations.

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1. Rex Grose, General Manager and Chairman, M. D. F., address to the Conference on Business Opportunities in Western Canada, Minneapolis, 1968.

CHAPTER IV

THE MANITOBA DEVELOPMENT FUND: CASE STUDIES

The Manitoba Development Fund: The Consistency of Government Policy

The M. D. F., as has been established in the previous chapter, ultimately served as a development agency whose goal was to attract "breakthrough" industries to the province. The percentage of its loans made to small local business was far smaller than what had originally been promised. It is possible that the policy of the fund simply evolved in response to the changing goals of the government and the realization that development, in the"breakthrough" sense, would not occur if loans were concentrated on the small business sector. But it is probable that the Conservatives when they first established the fund fully intended that it would expand to serve as a major incentive to out of province corporations considering locating in Manitoba.

The political atmosphere in the province and the initially suspicious attitude toward the M. D. F. by the Chamber of Commerce and the two major newspapers [1] at the time the fund was established made it politically

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[1]For example The Winnipeg Tribune, a Conservative paper, editorialized at the time of the introduction of the legislation:

> "A great many people have an almost instinctive uneasiness about Government becoming a partner in private commercial undertakings. This uneasiness springs from the threat of government interference with free enterprise and also from the danger of decisions based on politics rather than business principles."

undesirable for the new government to introduce the M. D. F. as a full fledged development agency geared toward attracting large enterprises to the province. This fact may explain why the fund was introduced as a "grass roots programme to help provide capital for new enterprises and small businesses in Manitoba..." [1]

While it is possible that the Conservatives did not have such an expansionary role in mind for the fund during their first few years in office, statements by the government suggest that its initial growth vision was not strictly limited to local business. The premier made it quite clear that the province would welcome "American investment, knowledge and initiative." [2] The Minister of Industry and Commerce also stated unequivocally that the province was looking beyond its own borders for new industry.

> A principal object on which definite action will be taken will be to attract prosperous investors to the province and try to accomplish as much practical work which will aid them as is proper for a government to undertake. We will try to identify secondary economic prospects and opportunities for development within the province and call them to the attention of prospective investors. [3]

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[1]Hon. G. Evans, <u>Free Press</u>, Dec. 2, 1958.

[2]Hon. D. Roblin, <u>Free Press</u>, Sept. 24, 1959.

[3]Hon. G. Evans, <u>Debates and Proceedings...</u>, July 23, 1959.

One of the first major loans by the M. D. F. was to an American company, Carnation Foods, for $1.5 million to build a $2.5 million plant in the province. At the time of the announcement one of the major shareholders in the firm and member of its board of directors was quoted in the press as saying, " we in the U. S. need to take a leaf out of the (Manitoba) Department of Industry and Commerce book as to ways and means of helping industry to establish itself in the community." [1]

At the time the loan was granted (the amount and the fact that a loan had been granted was of course not made public) the M. D. F. had approved a total of $11.1 million in loans. Only two of its loans exceeded the $1 million mark. But they accounted for about 40% of the total amount. Loans $25,000 and under accounted for about 5% of the total loans. These loans numbered thirty-nine out of a total of eighty-eight. The fund had also turned down 83 out of a total of 204 applications, the majority of those declined likely from small businesses. [2] Thus it is clear that almost from the outset the fund was geared not for small local business but for a more expansionary role.

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[1] Tribune, May 23, 1961.

[2] The percentage figures are based on assumptions stated in chap. III, table 3:2. The data is from M. D. F. Annual Report 1962. It is assumed that the majority of declined applications are from small businesses because members of the opposition parties raised complaints in the legislature by small businessmen about the overly stringent loan policy of the M. D. F. toward small enterprises.

The Committee on Manitoba's Economic Future, (C. M. E. F.) which was commissioned by the Conservatives in 1961 and whose report was issued in 1963 (at a cost of $750,000), also reveals the early orientation of the provincial government toward attracting outside investment. Although the report was ostensibly prepared by an executive committee of eight men, only one of whom was a civil servant, assisted by an advisory group of over a 100, largely consisting of professional and business executives sprinkled with assorted academics; in fact in its final form it bore the imprint of the provincial government's foremost civil servant, the deputy Minister of Industry and Commerce and General Manager of the M. D. F. , who was responsible for the writing and editing of it. [1]

The report clearly placed its emphasis upon the need for the province to grow. "Manitoba is at the crossroads.

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[1] A government press release which described the report as "a comprehensive (one) that filled 1,000 pages, weighed 7 pounds, and was 2½" thick", attributed this role to the deputy-minister. It is interesting that the provincial government at first tried to solicit, by means of direct specified assessments, contributions from the business community toward the costs of this report. The response by both the business community and the Winnipeg Tribune was considerably less than enthusiastic and the government quietly dropped the matter.

Its choice is not between standing still and going forward and dropping back." [1] And if this growth was to take place -"dropping back"was quite obviously out of the question - there would have to be an "acceleration" in the rate of growth of output and employment in the secondary manufacturing sector, in particular, and the industrial base a a whole. [2] According to the report:

> The economic growth of Manitoba must be based upon industrial development. In this respect, Manitoba is in competition with the other regions of Canada, and the world at large, for the capital and entrepreneurial energy which foster growth. In this competitive situation the interest of the individual enterprise is to seek the most advantageous location for new or expanded operations. The interest of the province and of the individual community is to hold those operations already in the province and to attract new industrial enterprises. [3]

The implications were clear. The province would be well advised to be certain that the climate for industry was one of"confidence... (where) investors (would) be given a reasonable opportunity for profit." [4] And part of that favourable climate would be the loan services of the M. D. F. If the province were to achieve the "top priority" growth goals established for it by C. O. M. E. F. reliance on local industry would not be sufficient.

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[1] Report of the Committee on Manitoba's Economic Future, Manitoba 1962 - 1975: 1963, Part II, p. 1. See also Part VII, chap. 7, p. 4-6.

[2] ibid., Part II, p. 10. and Part VI, chap. 2, p. 1.

[3] ibid., Part III, chap. 2, p. 2.

[4] ibid., Part VII, chap. 7, p. 5.

Since, according to the Report, " the decision as to where, when and what investment will be made remains in the control of private business," [1] the role of the provincial government would have to be to maximize the net advantage to firms in order to induce them to invest in the province. The report consistent with the provincial government's views also did not distinguish between capital investment in the sense of external capital flowing into the province and investment in the sense of out of province entrepreneurs borrowing risk capital from the M. D. F. for investments in the province. As such "economic development programs...designed to influence the location, timing or growth rates of private (investment)," [2] meant, as far as the M. D. F. was concerned, its utilization as an underwriter of risk capital for foreign "investors" in the province.

The C. O. M. E. F. Report, the policy statements of the government as early as 1958, and the actual breakdown of loans made by the development fund as of 1961 clearly establish that the "expansionary" as opposed to "fund for small business" role of the fund was implicit from the very beginning of Conservative policy. The Conservative policy thus can be seen as a policy of modernization. In their attitudes toward economic growth, government participation

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[1] <u>ibid.</u>, Part VII, chap. 7, p. 6.

[2] <u>ibid</u>.

in stimulating the economy, the level and importance of government expenditures and the importance of attracting foreign investment to the economy the Conservatives were "progressives," free enterprise revisionists rather than traditionalists. But because of the political climate in which they operated and in particular the overly parochial and conservative philosophy of the local business community they dressed their modernization policy, to some extent at least, in tradionalist clothing. This explains much of the language of "free enterprise" which accompanied most of their policy pronouncements. To some extent, of course, the apparent discrepancy between their policy with regard to the importance of direct government intervention on behalf of business and their stated endorsation of the mythology of "free enterprise" simply reflected current capitalist ideology.[1]

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[1]An example of how the Conservatives "reconciled this apparent discrepancy follows:

> These committments (government expenditures) are not extravagences. In fact they may well be unavoidable for it is only in an atmosphere of public improvement that private enterprise will flourish. Without schools, roads, bridges, waterworks, sewers, hospitals, universities, and the countless other facilities furnished or aided by government private enterprise will not invest or progress.
>
> In as much as the public investment programme must supplement private development, it is not an end in itself. We must emphasize that response from private enterprise is essential if our free economy is to be maintained. It is our general view that government should only undertake what it can do better than private enterprise and that effective private response... is essential to our purpose.
>
> . . . .
>
> If balanced growth is to be achieved it is necessary that the potential profits be attractive in all sectors and for this reason enterprises must have ready access to capital at reasonable interest and on terms that enable them to retain control over capital under the inevitable stresses of a development stage.

Case Studies

The stringent enforcement of M. D. F. regulations regarding loans and the extent of financial security required of small firms to back them up indicated how low on the level of political priority such loans were regarded by the Conservatives. The way in which small firms were treated by the fund, particularly those which suffered foreclosure because they defaulted on their loans was a recurring subject of debate in the legislature. Both the Liberal and N. D. P. opposition members concentrated on a number of such cases in their critique of Conservative policy because they used them as a pretext to embarrass the government since many of the cases suggested unusual management procedures by the fund and had the potential, in appearance at least, for being construed as having been

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> It is important to remove as many obstacles as possible from the path of development. The achievement of dynamic and profitable expansion requires the introduction of new ideas, products and methods into the economy. The financial climate for this must be established and maintained.
>
> . . . .
>
> To complement the provision of capital on reasonable terms consideration should also be given to special incentive programmes for industry establishing in these areas (slow growth regions).
>
> . . . .
>
> We would emphasize the impracticality of any approach that does not make full provision for the utilization of private initiative in the solution of economic problems. We may as a public authority prime the mechanism but the principal thrust should be found in the stimulus of private organizations and in the sustained energy of private enterprise.

Hon. D. Roblin, "Submission of the Province of Manitoba," Royal Commission on Banking and Finance, April 9, 1962, p. 5 - 10.

influenced by considerations of political patronage.[1] .
Another consideration which did not escape the opposition was that the apparent policy of the M. D. F. toward small firms contradicted the fund's original stated purpose.

In one such case, that of a small manufacturing plant which had loaned some $20,000 from the fund, the M. D. F. foreclosed on the plant and sold off its assets at less than one half its assessed value. The new owners received far more generous financing from the fumd than had been offered to its original owners who had lost nearly all their own investment in the plant. The circumstances in which the foreclosure took place, particularly the contradictory way in which the fund had dealt with the firm brought charges of lack of financial support by the fund and mismanagement. The opposition claimed that cases like this one were indicative of the irrational behaviour of the fund and its failure to contribute to the growth of the provincial economy.

(Given M. D. F. policy)

> There is scant hope that Manitoba shall increase this sector of the economy (manufacturing) ...by 50% as the C. O. M. E. F. report hopes it can be done.... All the firm's troubles stemmed from lack of working capital, a problem which the M. D. F. only hindered. Therefore how much of a job is the fund doing. [2]

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[1]See Harold Chorney, Canadian Dimension, Vol. 6, no. 7, p. 23 - 25.

[2]E. Schreyer, (N. D. P.) <u>Debates and Proceedings...</u>, May 1, 1965.

The Conservative Government defended the fund's actions on the grounds that the firm involved had been badly managed and that their "venture...(had been) beyond their abilities." [1] (This claim contradicted an assessment made by consultants appointed by the M. D. F. itself.) The Minister responsible for the fund argued that the fact that the enterprise had defaulted on its loan and had been foreclosed upon was regrettable; however this was "a fact of business life." [2] Government was after all not responsible for business.

> I cannot agree to the principle ... that the government is responsible for the success of a private commercial undertaking .... No department that I am responsible for will undertake the responsibility of running private business, mostly because they can run it a damn sight better than I can. They know what they're doing, they've got their own money in it and they've got their own incentive to succeed.... Any company bankrupts itself. [3]

The significance of such cases and the government's policy toward them is important because it reveals a further discrepancy between Conservative policy toward the real free enterprise constituency, that is the small local businessmen, and their policy toward the corporate capitalist constituency which they wished to attract to the province, not only on purely economic development considerations but as a crucial part of their modernization

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[1]Hon. G. Evans, Debates and Proceedings..., May 3, 1965.

[2]ibid.

[3]ibid.

policy. The modernization policy, by which the provincial economy was to be linked with major national and even international firms, was closely identified with the policy of "growth as a top priority." In Conservative eyes a " growing economy" seemed in many ways synonomous with one in which major out of province corporations participated. Whether this equation of "growth" and "big business" reflected more than just the "dynamic" nature of that sector of the national economy (for example the vested interests of certain financial backers and associates of the party in Manitoba anxious to broaden their links with the national and international corporate structure) is not clear.

In order to understand the full implications of the economic development policy of the province for the 1958 - 1969 period, an examination of the "bonanza of economic growth" which according to the government began in 1966 is essential. The major industrial developments which were announced from the summer of 1965 to the spring of 1966 encompassed almost every aspect of the new growth policy. The political atmosphere which had developed in the province prior to and during this period formed an important backdrop for the concentrated display of policy pronouncements and programmes coming to fruition which took place.

The C. O. M. E. F. report, which was released in early 1963, received an enthusiastic response from the media. Both major papers welcomed its "blunt assessment" of the "lagging growth" of the provincial economy and the "challenging blueprint" for the future which it presented. Under the headline "Clearing the Decks" the Winnipeg Tribune editorialized

> The C. O. M. E. F. report is the type of medicine needed to shake this province out of its isolation and lethargy in the industrial world. It's a bold imaginary remedy and bold steps have already been taken to put it into operation. [1]

And the Winnipeg Free Press interpreting the report in its own framework of opposition to increased government expenditures welcomed its "free enterprise" basis.

> It is significant, (that) in times when governments are becoming more and more deeply embroiled in economic matters to note that the committee insists that Manitoba's future development lies within the framework of a free society. The province is not to be floated into the future on a wave of massive government expenditures. The government's task is to provide a climate suitable to economic growth. The growth itself must come from the efforts of firms and individuals.... The report is more than just a well considered and much detailed plan. It is a challenge to the people of Manitoba. [2]

But in the intervening years between 1963 and 1966 there were no dramatic announcements of major breakthroughs in the provincial economy. Personal income per capita lagged behind the Canadian average from 1963 through to 1966. Investment per capita also fell from its position of brief excess over the Canadian average from 1961 through 1963 to less than the Canadian average from 1963 to 1966.

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[1] Aug. 13, 1963.

[2] Mar. 7, 1963.

The increase in employment in the manufacturing sector averaged about 3.7% from 1963 to 1966 compared to the Canadian average of slightly more than 5%. Increased employment for the industrial composite as a whole lagged behind the Canadian average for the period. Population outflow rose drastically between 1963 and 1965 compared to the preceding five years. Net inter-provincial migration (which for all years since 1951 had been negative) rose from an average of 1,767 (net outflow) from 1960 to 1962 to 7,367 for the years 1963-1965. The net outflow in 1965, 12,500, was the highest since 1951. Furthermore this outflow came at a time when the general level of unemployment in Canada as a whole was the lowest since 1956. [1]

These trends in the economy, given the provincial governments long standing committment to reversing them and the government's often stated optimistic projections of growth [2] must have created considerable pressure upon the Conservative government to "produce results." [3]

Relief of these pressures were all the more important

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[1]All the data is taken from the M. E. C. B. Third, Fourth & Fifth Annual Reports, 1966, 1967, 1968.

[2]For examples of these optimistic projections see the annual budget address 1961.

[3]Both opposition parties as well as the Winnipeg Free Press attacked the government's failure, despite their optimistic projections, to make any significant progress in the rate of economic growth in the province.

because of the impending necessity of another provincial election sometime before the end of 1966. The previous election held in December 1962 had been fought by the Conservatives on a platform heavily weighted in the direction of economic development policy. The key points in the Conservative platform for that year were according to the Winnipeg Tribune "research, loans and a big push for industry." [1] The Conservatives proposed and later established an economic consultative board, a research council, a product development fund, a design institute, an export corporation and a number of other programmes designed to promote economic development. The apparent lack of results, despite the greatly expanded programmes, undoubtedly made some dramatic announcements all the more urgent.

Given this political and economic environment it is easier to understand why 1966 was hailed as the beginning of a "bonanza of economic growth" for the province. But the character of the projects announced, in particular the agreements between the province and/or the M. D. F. and various foreign corporations must not be seen simply as the result of the pressures of the moment. Rather, they were the logical outcome of the growth policy of the provincial government, given the nature of the regional disparities, interprovincial competition for

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[1] Nov. 24, 1962.

industry, and foreign concentration of industry in Canada. It was their timing that was determined by the political pressures at work, not their basic character. The probable haste with which, at least, the major agreement for a northern forestry complex was entered into, likely explains certain anamolies that later arose out of that agreement.

Three major projects totalling over $1.1 billion in capital investment were announced in the space of one fiscal year for the province. The largest of these was a $1 billion power development on the Nelson River, - a joint federally-provincially financed project, whose first stage was to involve about $300 million in capital investment and create an estimated 3,000 additional jobs in the construction of it.

This major investment in social overhead capital was undertaken according to the government both to serve the increasing demand for power in the southern part of the province, and to provide a potential of power for export to the United States.[1]

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[1]The first stage of the development, according to government statements, would generate 1 million kilowatts principally for Winnipeg with the residual being exported. Ultimately the development would have a potential for 5 million kilowatts. The federal government's participation was based on its policy of building a national power grid. In return for its contribution of one third of the capital costs of construction, the federal government would own the principal transmission line for the use of which the province would pay a small fee.

While undoubtedly power considerations played an important part in the decision to proceed with the development. (A careful cost-benefit study would have to be undertaken to establish the projects economic rationality.) Nevertheless, the power development, at least in its timing if not in its scope, was clearly designed to stimulate provincial economic development. The announcement of the project was hailed by the business community as a major new stimulus to the economy; generating new supply contracts, expanded activity in the sectors directly associated with inputs required for its construction and new jobs, particularly for workers in the north. [1]

The government clearly saw the project in the same light. "The full development of the Nelson is a billion dollar proposition. It triples the economic opportunities (in Manitoba) and extends the development over a number of years... We can have our cake, we can eat it and we can make a bigger cake and sell part of that. [2]

The press also enthusiastically welcomed the development

> The Nelson project can be the catalyst Manitoba has been seeking. It can be the Billion dollar trigger that will give this province its thrust into a new era of massive expansion.... Now Manitoba has the makings of a real economic boom

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[1] Tribune, Feb. 16, 1966.

[2] Hon. D. Roblin, Free Press, April 16, 1966.

> that could lift this province into the first rank of development along with Quebec, (sic) B. C. and Alberta.... The scheme will provide immediate employment to Manitobans of Indian origin. It will furnish just the cushion of self support that will make it possible for these ... disadvantaged citizens to profit from education and training plans now being prepared to help them.... (This date) is a red letter day in the history of Manitoba. It is a 'take off' day in the biggest economic breakthrough since Manitoba became a part of Canada.[1]

It is difficult to establish the exact impact upon a regional economy like that of Manitoba of a power project of this nature. Certainly the response of the press, and the claims made by the provincial government have to be regarded in the context of the prevailing political atmosphere in the province, and the wholesale devotion of both these groups to growth per se.

The forward and backward linkage of such a development, at least according to the table in Hirschman cited above, is not great. In the intermediate primary production range electric power developments rank low on the scale behind metal mining, petroleum and natural gas, coal mining, and agriculture and forestry.[2] Forward linkage naturally is greater than the backward linkage in this cast. This being so, the relative impact of an electric power development is not as great as one might assume; in any case certainly nowhere near the estimation of the provincial government or the press.

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[1] Tribune, Feb. 16, 1966.

[2] Hirschman, p. 106-107.

Hirschman has argued that in an undeveloped economy development through investment in SOC in advance of investment in directly productive activities (DPA) which depend upon such SOC in order to function may not necessarily induce the desired increase in DPA. This is particularly so where reliance is to be placed upon domestically generated investment. Where foreign investors are involved, however and excesses as opposed to shortages in capacity are part of the "comparitive endowment" of competitive regions, development via excess capacity is more likely to attract foreign investment.

Given the provincial government's attitude toward foreign investment, their committtment to growth and their policy of absorbing the costs of building SOC, the Nelson River power project was a consistent part of their overall development policy. To the extent the power potential of the project exceeded existing dynamic demands built into the structure of the economy, the project would act as an additional incentive to foreign investment, as was no doubt intended by the government.

The other two major projects which were part of the "Industrial Breakthrough" programme of the provincial government were a $30 million chemical fertilizer complex and a $100 million northern forestry complex. Both of these projects involved heavy financing by the M. D. F., and the industrial incentives programme of the federal government. In both cases the companies involved were foreign corporations.

The chemical fertilizer plant was announced in the summer of 1965. The developer of the project, the Simplot Chemical Company, was an American based conglomerate specializing in farms, potato processing plants, saw mills, mines, food processing plants, and fertilizer companies. Simplot's net worth including property has been estimated to be about $one-half billion, the owner's personal fortune about $200 million (the company is not a public company), and the annual sales of the company's enterprises about $200 million. As well, the company has been estimated to control 15% of the western U.S. fertilizer market and one-third of the institutional market for potato products. [1]

The Simplot Chemical Company received between $20 and $23.5 million in loans from the M. D. F. and a $5 million capital grant from the Federal Area Development Agency industrial incentives programme. The remainder of the $30 million - between $5 and 1.5 million - was raised by the company itself. According to the employment data of A. D. A. in their listing of companies who have received grants, some 250 direct new job opportunities were created by the Simplot plant. In terms of the public monies involved in the project, a total of $25 - 28.5 million (both loan capital and capital grants), the investment of public money per job created equals $114,000 per job.

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[1] _Fortune_, Aug. 1968.

If the loan capital is not considered a direct investment in the sense of an opportunity cost (a consideration which was adopted above) the investment per job works out to $20,000 per job, still an extraordinarily large amount.[1]

The linkage effect of this particular industry is not clear. On the one hand, again according to the table in Hirschman, a chemical industry has fairly high forward and backward linkages. But to the extent that this particular industrial establishment is part of an integrated operation largely based in the United States and its inputs flowing from American plants the backward linkage will be diminished.[2]

The $100 million dollar forestry complex is undoubtedly the most significant of the projects announced in 1966 - Although the total capital investment involved fell far short of the power project, the forestry complex was hailed as the long awaited proof that the provincial government's development policy would ultimately bear fruit, bringing to the province massive private investment in the development of its resources. That the investment was to be foreign controlled in the eyes of the government and the press was all the more significant; for it meant that Manitoba was attracting the foreign capital that it "needed" for its growth. The fact that the complex would be built

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[1]The Simplot project was also greeted by banner headlines and enthusiastic speeches.

[2]See Levitt for a discussion of this phenomenon.

in the north, an undeveloped and sparsely populated region of the province, added to the complex's significance.

A forestry complex similar to the one announced had first been proposed by Arthur D. Little in 1958.[1] The C. O. M. E. F. report had reiterated the need for such a complex to be built if the north was to be developed. The presence of a large number of native peoples concentrated in areas near the resource, made the prospect of such a development more urgent if employment opportunities were to be found which would "integrate" these people into white society. The presence of this group of people however was not only looked upon as an additional reason for requiring a northern forestry development. According to the Arthur D. Little report

> a plentiful supply of Indian labour is available from the Reserves. Although many of the Indians are skilled woodsmen, their productivity is generally considered below that of other Canadian workers; since, however, present Indian wage rates are considerably below average levels, their employment is economic, particular in logging operations.[2]

It is not clear from this passage just what in the way of increased welfare the forestry complex would offer in

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[1] See Economic Survey of Northern Manitoba, A report by Arthur D. Little Inc., Sessional Paper # 5, Second Session, Chap. IV.

[2] ibid., p. 57.

return for access to "economic" pools of Indian labour.

The project when it was first announced by the government was to consist of a woodlands debarking and loading facility, a sawmill, a newsprint and paper mill, and later subject to existing economies a chemical furnishing plant, a high capacity sulphate pulp mill or doubling the capacity of the newsprint mill.[1] Although it was not made public by the government[2] the project was to be 100% financed by the M. D. F. and the Industrial Incentives Programme of the federal government.

The total capital cost of the project ultimately amounted to $100.7 million and involved four companies - one American and three European. A breakdown of the capital costs per company, M. D. F. loans, and federal contributions follows.

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[1]The development when it was finally established departed in a number of ways from the original description of it. This and other more important anomalies, as well as the confused understanding of most of the government including almost all of the Cabinet (they continually made contradictory statements about the project), suggest the haste with which an agreement was reached. Furthermore to this date the ultimate identity of all the owners of the project has yet to be established. In general, an air of mystery, confusion, and controversy has surrounded this project since its first announcement. For a discussion of these aspects of this project see Chorney, Canadian Dimension vol. 6, no. 7 and Phillip Mathias, "Manitoba's New Angel From Patti to the Pas," "Should Manitoba Mills Cost $135 million?", and "Firms involved in the Pas pick up $23 million in fees," The Financial Post, Sept. 2, 1967, March 28, 1970 & June 27, 1970.

[2]Full public disclosure did not come until March, 1970. For a discussion of the circumstances, and responses from the Liberal, Conservative, and N.D.P. parties (then in government), see Harold Chorney, "From Sicily With Love: Manitoba's Pulp and Paper Fiasco," Canadian Dimension, vol. 7, no. 1 & 2 (June - July, 1970).

TABLE 4:1 - Financing of the Northern Forestry Complex

unit	capital cost	M.D.F. loan	A.D.A. grant	M.D.F. as % of capital cost	A.D.A. as % of capital cost	total public share as % of capital cost
	(all figures in millions)			(all figures percentages)		
sawmill	12.0	9.6		80		80
pulpmill	44.2	40.7	5.0	92	12	104
papermill	34.0	32.0	5.0	94	16	110
machine-tool plant	10.5	9.8		93		93
total	100.7	92.1	10	92	10	102

a Source: Calculated from statement by Hon. E. Schreyer, Debates and Proceedings..., Mar. 31, 1970.
b There is a possible additional $5 million involved making the A. D. A. contribution to the project $15 million.

It is clear from the table that the private sector was not risking any capital in the case of the two larger units and relatively little capital in comparison with public risk, in the case of the smaller two units. In all cases as far as can be determined the only security taken in return for the loan from the M. D. F. was the plant and equipment to be constructed and installed.[1]

[1] Because of certain cost plus contracting procedures involved in the construction of the plants in the complex it has turned out that the complex's capital cost is likely overvalued. This would mean that the normal market value of the complex's plant and equipment is less than the total monies loaned to it. In any case, even if this is not so it does not alter the fact that none of the risk in the venture was borne by the private sector. See Mathias, The Financial Post, June 27, 1970 and "Are Manitoba Mills Viable?", May 16, 1970.

The interest rate on the monies loaned to the companies was in the case of some loans, less than what the government itself could borrow the money at in the market. The difference on some $40 million amounted to as much as 2 3/4%.[1] The "massive injection" of foreign "investment" in the case of the forestry complex was therefore largely self administered; for all of the total capital was generated by the provincial and federal government.

While it is impossible to generalize from one such case, it would be interesting to establish to what extent foreign investment risk capital in Canada has been similarly generated by government development programmes.[2] Certainly, in Manitoba, the M. D. F. has significantly contributed to the provision of risk capital for foreign "investment" in the provincial economy.

The subsidy involved in the northern forestry complex was however not simply a matter of public provision of risk capital. The agreement signed between the provincial government and the major co-ordinating firm of the project, the builder and owner of the pulp mill, is a classic document insofar as it illustrates the "bargain" struck between a multinational corporation[3] and a province

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[1]Tribune, Mar. 23, 1970 and Free Press, Mar. 25, 1970.

[2]For an evaluation of the impact of the federal government's industrial incentives programmes see Appendix.

[3]The corporation, in this instance, although multinational was far more mysterious than the typical multinational firm. It is unlikely, however, that this affected the basic nature of the agreement.

committed to growth to the point of "growthamania", low on the international hierarchy of power and influence.

The contract was for a period of twenty years with two options to renew - a total of sixty years in all. The company was to receive the timber rights to a total of 40,000 square miles of Manitoba - about 16% of the area of the province. This area could be reduced to conform to company production requirements after a 12 year period followed by a 3 year notice period. The stumpage duties on timber payable by the firm to the government were to be 75¢ a peeled cord, which is 18% larger than a normal rough cord. But for the first 7 years only 37.5¢ would be payable. The normal stumpage duty in the province for the predominant type of wood in the area ranged from $1.25 - 1.50 per rough cord. The revenues to the province from stumpage duties would likely average about $100,000 per year for the first 7 years, some $267,000 less per year than if the rates had been normal ones.

The government agreed to pay for the costs of fire protection, and to be responsible for reforestation. (Normally a pulpwood company would pay $12.80 per square mile for fireguarding - a sum of $514,000 for 40,000 square miles.) Ground rent normally paid by companies at the rate of $2 per square mile was also waived, as were scaling charges of 25¢ per cord. This charge was normally assessed for measuring the wood cut in order that an accurate stumpage duty could be assessed.

The government also undertook free of charge to conduct photographic surveys of the entire area at a cost of $20 per square mile. The government also agreed to pay up to one-half the cost of construction, up to a maximum of $1 million, of company roads as well as the full costs of maintenance of these roads for a period of 8 years. As well, it agreed to pay in full for the construction of an all weather road from the plant-site to the nearest provincial trunk highway. These concessions would cost the province about $700,000 per year plus a lump sum of about $2.1 million for the roads and aerial survey. A more conservative estimate based on the actual utilization of only 10,000 square miles of timber resources, would reduce the cost to about $250,000 per year and a lump sum of $1.5 million.[1]

In spite of the importance of guaranteeing that local labour would be employed in the complex, in order that its impact upon the employment situation in the north be maximized, the agreement made no such guarantee.

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[1]The calculations are based on a series of editorials "The Monaco A G Concessions," in the Winnipeg Free Press, April 26, 27, & 28, 1966; a copy of the agreement between the Province of Manitoba and Churchill Forest Industries, Manitoba, Ltd. dated Feb. 24, 1966. Return to the Order of the House No. 27, Manitoba Legislative Assembly, March 14, 1966; and numerous references to the agreement in Proceedings and Debates....

According to the agreement:

> the company agrees to employ local people as far as is possible and in such numbers as the company... deems practical in its operations. The Government agrees to arrange vocational training of such local people without cost to the company...and the company agrees to employ such local people as have successfully completed such ... training... provided that the company will not have any obligation to retain such local people... unless they are satisfactory to the company in the performance of the duties for which they have been hired.

The government, in addition to providing vocational training, was obligated by the agreement to pay one-half the cost of on-the-job training of not less than 6 months for mechanized logging operations and 12 months for mill operations. The government also obligated itself to pay one-half the cost of moving in skilled personnel from anywhere in the world.

The social diseconomies of a project such as a pulp and paper plant can be considerable. Yet despite the obvious costs of pollution from such a plant, and the wilderness nature of much of the area involved, the sections of the agreement dealing with pollution could hardly be termed overly protective of the public interest.

> In carrying out its operations the Company shall employ such necessary techniques, methods and devices as are generally recognized as possible or practicable in the operation of its pulp mill in order to minimize or eliminate any deleterious effect which may result from such operations, always provided that (these)...do not unreasonably increase the cost of the Company's operations and the cost of the Company's operations and the location of the mill.... The Company... shall not, in the course of any of its operations... place...in any river or stream or other public body of water any unnecessary refuse, waste, chemical or other matter which is harmful to down-stream interests, but it being recognized by the

> Government that in the nature of the Company's requirements and industrial operations, some refuse, waste, chemical or other matter must be placed in rivers, etc., the Government agrees that the Company's ... obligations shall be limited to the taking of reasonable steps to render such waste, ... harmless to downstream interests, having due consideration to the ... economic necessity of holding costs to an extent that provides a reasonable cost.[1]

The Government also agreed in the contract with the company to sell land for the mill site and extra storage and housing at the rate of $1.00 per acre, with the right to purchase additional land at $1.00 per acre and rent land at $1.00 per acre.

Nor did the agreement with the company limit the amount of total concessions the company obtained. In a separate agreement between the town of The Pas, in which the plant site was to be located, and the company which was concluded with the help of the "good offices" of the provincial government the company received substantial concessions. The company was to be taxed at less than $3.00 per acre when its buildings were in use and less than $1.00 per acre when land was not improved. Personal property and machinery were to be tax exempt. In lieu of ordinary fees, business and property taxes, royalties and other charges the company would pay a lump sum of $500 for the first 5 years escalating to $2,000 per year for the last 5 years - a total of $25,000.

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[1]See The agreement between The Province of Manitoba and Churchill Forest Industries, Man. Ltd.

Its buildings would be taxed at 1/25 their assessed value escalating by 6% per year for the first 20 years.

The town was obligated by the agreement to sell to the company 500 serviced lots for the purpose of housing the influx of population that would accompany the development. The town agreed to incorporate the housing development that was to be located in this area within its school division. Finally, the town was obligated by its agreement with the company that any new anti-noise or pollution control legislation enacted by it would not apply to the company.

The burden of the agreement entered into with the company by the town in its search for new industry, proved to be so onerous that the province, after been petitioned for financial help by the town, arranged with the federal D. R. E. E. that the town and an area of about 16,000 square miles surrounding it, be declared a "special area" making it eligible for special grants and loans. At least some $1.8 million of the approximate $3 million in grants made to the town for various improvements were earmarked for additional expenditures made necessary by the location of the plant in the town. As well about $2.9 million in loans were made available to the town for various projects, some of which were also directly attributable to the establishment of the new industry.[1]

[1] For relevant data see Federal-Provincial Agreement on the Special Area of The Pas (Manitoba), April 1, 1970 - June 30, 1972, Canada, D. R. E. E.

While it is impossible to accurately assess the total cost to the public of the "luring" of this new industry to the province borne by both the provincial and federal governments; it is clear from the above description of the "bargain" that it is highly improbable that any net surplus can accrue to the public. A rough conservative estimate of the direct cost, excluding the possible pollution and destruction of natural resources that might result from the establishment of this industry, totals about $5 million, plus $250,000 for each year the plant is in operation.[1] This does not take into account opportunity costs such as are involved in lower tax rates, provision of risk capital at near to cost and lower stumpage duties etcetera. Nor does it include the cost of new facilities, such as the vocational training school built in the town, which will be used in part for the benefit of the new industry.

It is difficult to estimate what the benefits of having this industry established in the province will ultimately be. The complex because it is a highly automated operation is a relatively capital intensive industry. Despite the claims of the provincial government at the time of the initial announcement that some 2,000 direct new jobs would be created, the total

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[1]The lump sum estimation is based on including D.R.E.E. expenditures directly related to the establishment of the plant, the cost of interest rate differential on the loans from the M.D.F., the cost of roads and aerial survey, and the cost of vocational training. The per year estimation is the conservative one calculated above on the cost of fire guarding, scaling, etc.

number of jobs directly associated with the new industry is considerably less.

According to the most recent information available, some 250 positions will be available in logging operations and an additional 580 positions in plant operation when the mills begin production in 1970. By 1973, presumably when the plant is at full capacity, the numbers will increase to 570 and 860 respectively.[1] This would mean a total of 1,430 jobs by 1973. An employment multiplier would create an additional 740 positions in service based employment growing out of final demand linkage. The direct jobs "cost" in terms of the public share of the risk capital is about $70,000 per job, in terms of M. D. F. loan capital alone about $64,000 per job, and in terms of A. D. A. grants alone about $10,500 per job on the basis of $15 million in grants.

The figure of 1,430 may overestimate the total number of jobs created, as the companies have used the figure 1,300 in advertisements. According to provincial government sources a significant proportion of the jobs, particularly in the logging operations, will be filled by out of province labour. The provincial government is apparently working on the assumption that about 50% of the jobs will be filled by local people. Native peoples

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[1]This information is as of March, 1970. The plant is not scheduled to start up full production until Aug. 15, 1970.

in the area, who number about 15,000 and were originally touted as one of the prime beneficiaries of the project, according to one federal source will likely fill less than 100 of the logging positions. And to date, according to provincial and federal sources, the company has expressed dissatisfaction with the productivity of loggers, largely local and native people who have completed government sponsored training programmes. (The costs of these pre on-the-job programmes are shared with the federal government.) Since the agreement signed between the company engaged in logging and the province allows the company to bring in skilled labour with one-half the cost being borne by the province; if the company is not satisfied with the productivity of local labour, even after the completion of vocational training programmes and on-the-job training, the impact on local employment opportunities, in this respect at least, will be less. [1]

Although workers brought in from outside the province may come from an unemployed work force in another region of Canada (assuming of course they come from Canada in the first place);the net benefit to the province will be diminished and the costs increased by the substitution of out of province for in province labour given unemployed factors in the provincial economy.

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[1]See statement by Hon. S. Green, Debates and Proceedings...,Mar. 18, 1970.

Given the lack of certain information (for example potential corporate tax revenues) it is impossible to give an exact cost-benefit evaluation of this new industry. However, it is probably not unjustified to conclude that in the case of the northern forestry complex the"bargain" struck by the Conservative Government between the province and the corporation will result in a net cost to the province. The increase in employment that will be generated by the industry could have been accomplished in a far more rational and less costly manner.

The way in which the northern forestry complex was announced, the response the announcement received from the Tribune and the business community, and the way in which the Conservative Government and the Tribune defended the agreement against severe criticism by the opposition political parties and the Free Press is an excellent illustration of the impact of "growthamania" on a society.

The front page banner headlines in the press when the project was announced were enthusiastic: "A Bonanza Seen For All," "North To Get $100 Million Dollar Industry," "Business Boom Expected," and "Empire For The Pas". Government spokesmen were quoted as estimating that the project when completed would create an additional 4,000 jobs - 2,000 as a direct result and another 2,000 through the employment multiplier. One article explained the government plan for training the necessary labour.

> Plans are underway to train northern residents to make the most use of new employment opportunities. Special attention will be given to the people of Indian descent and one half the workers employed could be Indian and Metis. To make sure these people are qualified, courses will be tailored to the requirements of the development. At the outset company engineers from Switzerland will help create programmes of instruction and perhaps also give classes. [1]

The then Minister of Welfare saw the project as a major boon to the northern native peoples.

> We rejoice at the opportunity being given to the people of Indian and Metis descent. The pulp and paper project to be built in Northern Manitoba may be the key which unlocks the door to the twentieth century for a large segment of the province's Indians and Metis citizens. [2]

The then Minister of Industry and Commerce was no less confident about the importance of the new industry to the province. "It's difficult to exaggerate the effects of this development. The development of the North will be traced from 1966." The press report then stated, presumably upon government advice, "it's expected a bonanza of economic growth will burst across the northern part of Manitoba."

According to the press, the reaction of the business community raged from "elated to ecstatic." "The business-men ... liked the idea that the project was being financed by

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[1]All press quotations, unless otherwise indicated, are from the Winnipeg Free Press and Tribune, March 9, 1966. As far as can be determined the company never sent instructors from Switzerland.

[2]The statement reveals the common sort of simplistic faith in economic growth as a panacea for all social problems as well as an extremely patronizing attitude toward Indian and Metis people.

a private corporation and not government financed enterprise, which would have made it yet another drain on the public purse sooner or later to be translated into some form of higher taxation."

The concessions offered to the company were described in the press as "kept to a minimum" by the government. The provincial government, in their press release quoted from reports by two consulting companies. According to the release, Arthur D. Little Inc. had described the concessions "as not only fair and equitable to both sides but the minimum requirement for the successful development of the northern forest industries"; Stadler-Hurter, Intl. had stated that "the incentives were realistic and did not exceed similar incentives granted by other authorities in similar circumstances." [1]

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[1]Once again Arthur D. Little, Inc. played an important role in economic development policy in the province. (The report of Stadler-Hurter was a 2½ page letter basically repeating the major points of the agreement and approving of them in view of the need to provide the private interests "with compensating considerations, particularly during the early years, to permit them to maintain their competitive position." The Little report, on the other hand, was a 12 page memorandum reviewing the history of the province's interest in developing its northern forest resources, the feasibility of the project, and the need for incentives if the province was to "compete...with other areas in North America and overseas...." The Little report stressed that "incentives may be necessary to accelerate a development that in the future, due to changing economic or technical conditions, may become less attractive." In evaluating the concessions the report compared them favourably with those granted by governments as far afield as Alaska and Nigeria. It is interesting that the Little report also stated that although they were not acquainted with the European group that had undertaken the project, they thought highly of the group's association with two well known international firms in a development in Sicily.

The Winnipeg Tribune once again was unreserved in its approval. Under the headline "Doubleheader" it editorialized:

> To the excitement of the $1 billion development of the Nelson, is now added the $100 million forest industry in Manitoba's northland. Manitobans have been given the greatest industrial doubleheader in their history.... Those in Government who have worked so diligently so long to give to Manitoba this magnificent economic stimulus are to be congratulated. Now it's up to the rest of the community to respond to the challenge. Manitoba could be on the threshold of the most rousing period of growth in our history.
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> . . . .
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> For years this province has registered solid steady growth....But somehow the essential spark was missing. The area did not experience the sense of exhilaration that gave other parts of Canada an aura of dynamic growth.... (The announcement) should cause a tremendous explosion of industrial and economic activity.... If anything can persuade local free enterprise to show enterprise $1.1 billion should. If anything can break the lingering spell of the depression bred ultra conservatism $1.1 billion should. [1]

The Winnipeg Free Press was somewhat less enthusiastic.

> While the government has been voluble and explicit in giving details of the company's plans and all the benefits that will flow from the project to the people of Manitoba it has been less open on an important aspect of the project - the financing. [2]

(This development later became a financial fiasco for one of the known international companies in highly unusual circumstances.) See Reports of Stadler-Hurter International Ltd. and Arthur D. Little Inc. regarding the Agreement between the Manitoba Government and Churchill Forest Industries (Manitoba) Limited, Feb. 16, 1966.

[1] Tribune, March 9, 1966.

[2] Free Press, March 10, 1966.

The Free Press, the Liberal, and New Democratic parties launched a full scale attack on the project soon after the government's initial announcement. The basis of their critique was their claim that the concessions granted to the company far exceeded the benefits that would flow from the development and the maximum cost that ought to have been necessary to attract the industry to the province. The Free Press and opposition were also concerned about the identity of the principals of the company involved, the likelihood that funds would be forthcoming from the M. D. F., and the fact that according to the agreement all the company had to provide as evidence of its capability of carrying out the project was a capitalization of $5 million and a total of $600,000 in a bank in Manitoba. The N. D. P. also criticized the new development on the grounds that the government, having undertaken all the feasibility studies, and in view of the failure of the private sector to invest in the province without massive concessions, should have undertaken the development as a public enterprise.[1]

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[1]The Free Press, the Liberal party and the N. D. P. all however criticized the government for not solving the problem of Manitoba's lagging growth. It was therefore basically not "growthamania" that was under attack but the manner in which the government was promoting (or failing to promote) such growth.

Perhaps, the essence of the provincial government's economic policy from 1958 - 1969 is best illustrated by the way in which Premier Roblin, one of the principal architects of the policy, defended the forestry development when it was revealed by a member of the N. D. P. that the developers of the complex were to receive loan capital from the M. D. F. (At the time in question the known amount was only $3.5 Million)

> We have to fight for the establishment of these key industries in our province in competition with the rest of North America; and the competition is mighty tough. If you think that we have inducements to try and get people to come here, you should see what the other fellow is doing. We look like pikers.
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> . . . .
>
> I now want to relate the Churchill Forest Products general arrangements to the policy the government followed in the disposition of a natural resource, and to bring that story and the M. D. F. together as far as I am able to do.... It was the responsibility of the government in connection with the unused northern forest, a forest that has been standing there with annual revenues of only $75,000 a year from stumpage and it hasn't changed in a dog's age; a forest that has been untouched, unused, and by and large useless and not producing anything for man nor beast for 40 years since the last time we had a pulp and paper development here...to see that a deal (to develop this resource) was made with terms and conditions equitable to the people of Manitoba.
>
> . . . .
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> There has been some complaint that the arrangement we made was spendthrift, that ...we'sold the farm'...that we did not get a good deal.... I maintain that the agreement...was an equitable agreement, consistent with practices elsewhere. That's the point because we're in competition.
>
> . . . .
>
> For 40 years we couldn't beat the competition. Now we've got something to go on, and if you want to have a forestry industry developed in the province, you've got to make up your mind that you are going to face competition. If you want to sit here for the next 30 or 40 years and

watch that forest grow and fall down, and rot, without contributing anything to the welfare and happiness of mankind in the province go ahead. Do nothing. Don't take any chances.

. . . .

Our plan was reviewed by outside consultants... and they told us that under the circumstances this arrangement was a good one. We're not 'selling the farm.'

. . . .

What is the basic issue: what are we trying to do: why should the government get itself into this kind of a position (of being the subject of severe criticism) if there wasn't a good reason? ... The basic reason why we took these risks (proposing the M. D. F., 'operation industrial breakthrough' and undertaking the forestry agreement) is because we wanted to boost the provincial economy in this province of ours. The opposition asked us to; they demanded we do it; they begged that we should do it. They said get on with the industrial development.... And what was the guiding factor ... that made it necessary to settle for the terms that we settled on? Competition, the fact that we had to meet the competition of other places.... We made the best deal that competition would allow us to make, and we only signed on the dotted line even when that had been done because we were satisfied that on the whole this meant money, and progress and development for the Province of Manitoba.

. . . .

We are using the credit and borrowing power that we as a province have to make this kind of industry possible. That's the purpose of the excercise.... We are using the public credit for the public good to provide jobs and to provide... opportunities.

. . . .

If we want to try and build up this province, to try and keep it up with others that have greater natural resources, we're going to have to work as hard and as smart as we know how and we're going to have to use all the resources that are available at our disposal.

. . . .

If you want to deal with competition in this world... you've got to get into the business of development. You've got to get into things like the M. D. F..... If you don't want these things to be done you don't have to do them. But you have to take the consequences of not getting the progress you're after.

. . . .

> We're going to recognize the competition we meet and we're going to use all legitimate means open to us to achieve the end of our policy, the development of the economy of Manitoba. [1]

[1] Hon. D. Roblin, Debates and Proceedings..., Dec. 15, 1966.

CHAPTER V

REGIONAL GROWTH: MANITOBA 1958-1969

Introduction

In the preceding chapters I have tried to establish what were the goals of the regional development policy adopted by the provincial government in Manitoba from 1958 to 1969. I have also attempted to indicate what were some of the costs of following such a policy; the extent to which government policy promoted increased foreign investment in Manitoba; and the political and economic atmosphere out of which the policy developed.

If the policy of the Conservative government was to stimulate the growth of the provincial economy an examination of selected growth indices should reveal, to some extent at least, how successful the policy has been in promoting the achievement of these goals. Of course, it is quite possible that growth in certain indices may have occured in spite of rather than because of provincial government policy, or growth in certain indices may bear no relationship whatsoever, neither negative nor positive, to government policy. It must be kept in mind that what is being examined is not how rational policy has been. Rather, simply given the fact that provincial growth policy has concentrated upon certain indices of performance, how have these indices changed in the period under question.

Indices of Growth: 1958-1969

The size of the provincial population and its rate of increase was probably the most fundamental index of concern for government policy. From 1958 to 1968 population in the province increased 14%. The province ranked 6th in the rate of increase of provincial population and 15% behind the national average rate of population increase.

TABLE 5:1.- Population Changes Canada and Provinces 1958-1968

	(all figures in 000's) Population		Percentage Chan
	1958	1968	1958-1968
Newfoundland	415	507	22
Prince Edward Island	99	110	11
Nova Scotia	695	760	9
New Brunswick	555	624	12
Quebec	4,628	5,927	28
Ontario	5,405	7,306	35
Manitoba	850	971	14
Saskatchewan	881	960	9
Alberta	1,123	1,526	36
British Columbia	1,399	2,007	44
CANADA	16,081	20,744	29

a Source: D.B.S. Canada Yearbook 1969.
b Because of rounding 1968 figures may not work out exactly to the percentage increase.
c Canada figures include Yukon and Northwest territories.

One of the factors which government policy had given great weight to in achieving its goal of economic growth therefore has not responded. The rate of growth, while it may have increased absolutely, relative to that of other provinces has not changed. [1]

[1]The province's rate of population growth ranked 6th between 1951-1956 and 1956-1961. See table 2:3.

Between 1961 and 1967 Manitoba still experienced a net population migration outflow. In fact the migration outflow from 1959 to 1967 nearly matched the migration outflow from 1951 to 1958.[1]

TABLE 5:2. - Factors in the Growth of Population by Province 1961 - 1967

	(1) net migration	(2) natural increase	(3) immigration	(1) as % of (2) + (3)
Nfld.	- 24,034	59,577	2,256	39
P. E. I.	- 4,600	3,071	8,506	34
N.S.	- 40,494	59,526	6,241	62
N.B.	- 34,377	53,209	4,460	61
Que.	+ 63,917	457,717	122,897	11
Ont.	+236,926	487,852	287,054	31
Man.	- 28,960	70,340	15,433	34
Sask.	- 45,528	75,691	8,988	54
Alta.	- 3,348	134,607	2,939	2
B.C.	+140,489	104,103	60,822	85

a Source: Calculated from D. B. S., Canada Yearbook 1969.

If the pattern of out-migration follows that of other periods (for example 1951-1961) the age group 25 to 29 will show the highest migration ratio for the period. In general outmigration ratios rise from the age group 15-19, reach a peak with the 25-29 age group and from this point on fall toward the higher ages. This has been the tendency for all provinces, including Manitoba.[2]

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[1] From 1951-1958 net population outmigration was about 34,200. From 1959-1967 it was 31,460. See Table 2:3, 5:2 and M. E. C. B. Third Annual Report, 1966, p.32.

[2] See L. Stone Migration in Canada: Regional Aspects (Ottawa: D.B.S., 1969), p. 78 and chart 3:3.

The level of personal income per capita for Manitoba in 1967 ranked 4th. In 1961 it also ranked 4th. The rate of increase in personal income per capita between 1961 and 1967 was 53%. This rate was exceeded by the rate of increase in five other provinces.

TABLE 5:3.- Changes in Personal Income Per Capita Canada and Provinces

	Personal Income Per Capita 1961	1967	% Change
Newfoundland	$ 935	$1,424	52.3
Prince Edward Island	962	1,532	59.3
Nova Scotia	1,197	1,790	49.5
New Brunswick	1,026	1,658	61.6
Quebec	1,383	2,069	49.6
Ontario	1,607	2,624	63.3
Manitoba	1,513	2,317	53.1
Saskatchewan	1,222	2,183	78.6
Alberta	1,595	2,372	48.7
British Columbia	1,813	2,579	42.3
CANADA	1,558	2,305	48.0

a Source: D. B. S. Canada Year Book 1969.

The fact that the level of personal income per capita in Manitoba ranked relatively high both before and after the change in provincial development policy,[1] suggests that the province was and still is less of a "have not" province with respect to this index which is more closely related to economic welfare than the other "growth" indices. (Although of course income and welfare are by no means synonomous, and per capita income

[1]See Chapter II Table 2:5.

alone ignores the crucial question of distribution.

The rate of growth of labour income in Manitoba from 1958 to 1968 lagged behind that of seven other provinces. Labour income by itself unrelated to the size of the labour force is not a very meaningful index. Nevertheless, its rate of growth was regarded (along with almost any other growth index) as important by the provincial government.

TABLE 5:4. – Percentage Increase in Labour Income 1958 – 1968

Newfoundland	143	Ontario	109
Prince Edward Island	156	Manitoba	97
Nova Scotia	96	Saskatchewan	95
New Brunswick	119	Alberta	120
Quebec	116	British Columbia	116
	Canada	112	

a Source: D. B. S., Labour Income.

The structure of a regional economy is an important factor in measuring its relative strength. A regional economy usually will be more diversified the more developed it is. Between 1961 and 1967 the changes in the provincial economy were most marked in the mining sector which showed an increase of 34.5% in the number of employees employed in that sector. The services sector increased in employment by 27.6%. The manufacturing sector, the one which provincial government policy had concentrated most upon, increased in employment by 14.8%; a rate of increase which ranked behind the Canadian average and 8 other provinces. While the absolute rate of increase in employment in this sector was more than 4 times the rate of increase for employment in the same sector between 1949 and 1959; its rank relative to the rate of growth in manufacturing employment in other provinces was one worse than between 1949 and 1959 when it ranked seventh.[1]

TABLE 5:5. - Percentage Change in Employment by Industrial Sector by Province 1961 - 1967

(all figures percentages)

	Nfld.	P.E.I.	N. S.
Forestry	-43.3	-	- 9.1
Mining	59.4	-	-
Manufacturing	18.1	43.9	23.2
Construction	43.4	-	22.8
Transportation & Communication	14.8	2.4	- 1.5
Trade	25.3	29.5	15.2
Finance, Insurance & Real Estate	-	-	30.7
Service	-	-	45.2
Industrial Composite	21.7	24.5	13.3

	N. B.	Que.	Ont.
Forestry	8.7	6.2	2.9
Mining		7.6	6.4
Manufacturing	19.3	17.0	28.9
Construction	47.7	3.8	19.2
Transportation & Communication	- .2	11.8	10.6
Trade	16.1	28.9	25.0
Finance, Insurance & Real Estate	20.0	27.8	25.1
Service	59.1	61.0	49.9
Industrial Composite	16.5	19.4	25.1

[1]See p. 53 above.

TABLE 5:5. - Continued

	Man.	Sask.	Alta.	B.C.
Forestry	-	43.5	-	9.2
Mining	34.5	-	14.4	27.1
Manufacturing	14.8	9.7	21.2	20.1
Construction	15.6	36.8	30.2	91.3
Transportation & Communication	4.1	7.0	17.6	20.6
Trade	23.7	22.6	25.1	30.8
Finance, Insurance & Real Estate	10.3	21.7	33.3	28.8
Service	27.6	47.0	61.8	57.2
Industrial Composite	15.0	19.5	26.2	28.7

a Source: D. B. S. Review of Employment and Average Weekly Salaries 1957 - 1967.

b Where no percentage figure is given data unavailable.

Because of changes in statistical methodology and the lack of industrial structure data from the 1966 census, it is extremely difficult to compare the structure of industry in 1968 with the structure in 1961. Agriculture and fishing as of 1966 were no longer included in the employees by industry data. According to the 1966 census, the number of "operators" in agriculture (which may not be the same concept as number of "employees") declined in every province from 1961 to 1966.

TABLE 5:6. - Percentage Change in Number of Operators in Agriculture by Province 1961 - 1966

(all figures percentages)

Manitoba	-8.2	Quebec	-16.2
Saskatchewan	-8.8	N. B.	-51.0
Alberta	-5.2	Nova Scotia	-23.1
B. C.	-4.3	P. E. I.	-13.3
Ontario	-9.4	Nfld.	- 2.4

a Source: D. B. S. Census, 1966.

For the province of Manitoba if we ignore fishing and assume that "operators" is synonomous with "employees" for agriculture, it is possible to construct a table comparing the distribution of employees for 1961 and 1967.

TABLE 5:7. - Percentage of Employees by Industry Manitoba 1961 and 1967

	(all figures percentages) 1961	1967
Forestry	.5	.4
Agriculture	20.0	16.1
Mining	2.1	2.5
Manufacturing	18.2	19.0
Construction	5.7	6.2
Transportation & Communication	20.5	19.8
Trade	19.0	20.7
Finance, Insurance & Real Estate	4.6	4.9
Services (commercial)	9.0	11.2

a Source: M. E. C. B. Calculated from Fourth and Fifth Annual Reports 1967, 1968 and D. B. S. Census 1966.

b Figures may not total 100% because of rounding.

c "Services" includes services such as health, recreation and personal services.

The table shows that the structure of the economy except for the decline in the manufacturing sector remained relatively stable. The service, mining, and trade sectors all showed significant increases. The manufacturing sector, though it showed an increase in the number of employees, did not exhibit the type of dramatic increase the provincial government no doubt hoped its policy would have promoted.

On balance an examination of selected growth indices from 1958 to 1969 reveals that provincial government policy was not successful, at least insofar as its goal was to accelerate the rate of economic growth relative to that of other provinces. Despite the fact that in some indices the province's rate of growth for the period was accelerated, the rate of growth of similar indices in other provinces was accelerated even more, leaving the province's relative position unchanged or even depreciated. This illustrates the treadmill aspect of adopting economic growth in competition with other regions as a goal of government policy. For as growth politicians constantly reiterate, "we have gained but we cannot rest if we are to keep up and not fall behind." This "competitive" fixation was perhaps the most irrational aspect of provincial policy.

A Digression: Government Expenditures 1958 - 1969

The provincial government's policy of investing heavily in SOC, in the widest sense of the concept, is evident from a comparison of changes in government expenditures from 1958 to 1969. The government definitely viewed such expenditures as an important prerequisite in promoting economic growth. To the extent such expenditures were more closely related to welfare, such as are health, social services, and education expenditures, the government reversed the "normal" order of prerequisites. That is, normally economic growth is justified as a goal because, it is argued, it promotes increased welfare. The Conservatives at times have argued the reverse. That is, increased welfare oriented expenditures are justified because they promote economic growth. [1]

TABLE 5:8. - Percentage Changes in Provincial Government Expenditures by Function 1958 - 1969

	(all figures percentages)
Health, Social Welfare	367
Education	591
Transportation & Communication	56
Natural resources & Primary Industry	302
Other (including debt charges and contributions to municipalities	309

a Source: D. B. S. Provincial Government Finance 1957 and 1968.

TABLE 5:9. - Expenditures by Function as Percentage of Government Expenditures 1958 and 1969

	(all figures percentages) 1958	1969
Health, Social Welfare	20.2	23.3
Education	22.8	38.9
Transportation & Communication	33.9	13.1
Natural Resources & Primary Industry	8.4	8.3
Other (including debt charges and contributions to municipalities)	15.9	16.4

a Source: D. B. S. Provincial Government Finance 1957 and 1968.

[1] See p. 86 above ftnote. 1

Tables 5:8 and 5:9 illustrate the change in both the volume and character of government expenditure during the period. The largest percentage increase was in education, followed by health and social welfare.[1] Both of these categories, however, if SOC were to be defined in the narrow "hard core" sense of the concept, would be excluded from it. Transportation and communications showed the smallest increase in expenditure. However, the provincial government's attitude toward education, health and social welfare expenditures, particularly expenditures such as on vocational and career oriented education, and their effective role in servicing the industrial sector makes the increase in them significant from the point of view of SOC. In any case, it is probably impossible to differentiate the welfare oriented impact of expenditures from the SOC aspect. Nonetheless, the fact that the provincial government viewed increased expenditures in health, social welfare and education as primarily part of their modernization and growth policy should not be overlooked.

Income Distribution: Manitoba 1949 - 1969

It is beyond the scope of this particular study to develop an index of improvement in welfare. If one could have been developed or been available and applied, it might have been possible to test the thesis that economic growth will lead to increased welfare.

[1]To the extent that the provincial government financed capital expenditures by shifting from a pay-as-you go to a borrowing approach it stimulated economic growth more than it would have otherwise. See C.L.Barber, Theory of Fiscal Policy As Applied To a Province. Study for The Ontario Committee on Taxation.

Certainly, as has been discussed in Chapter I, in theory at least this thesis cannot be validated.

Nevertheless, it is interesting that in Manitoba despite the economic growth policy of the government and the economic growth that took place between 1958 and 1969 the degree of disparity of income was not in any way lessened. Income disparity is related to considerations of welfare to the extent that if personal income is accepted as an approximate measure of welfare then if income is unevenly distributed so too is welfare.

A comparison of the distribution of personal income in Manitoba for selected years from 1949 to 1969 show that the distribution has been unaffected whatever the economic development policy and rate of growth. [1]

TABLE 5:10. - Income Distribution Manitoba 1949, 1956 & 1967

Range	% of recipients	(1949) % of income	Cumulative % of recipients	Cumulative % of income
under $1100	.50	.06	.52	.06
1-2000	35.92	18.94	36.42	19.0
2-3000	36.37	32.99	72.79	51.99
3-4000	15.10	18.73	87.89	70.72
4-5000	5.22	8.40	93.11	79.12
5-6000	2.24	4.42	95.35	83.54
6-7000	1.28	3.01	96.6	86.55
7-8000	.71	1.90	97.34	88.45
8-9000	.56	1.72	97.9	90.17
9-10000	1.11	4.85	99.01	95.02
10-15000	.31	1.97	99.32	96.99
15-20000	.13	1.07	99.45	98.06
20-25000	.13	1.95	99.58	100.
25+				

[1] Note that the data is for taxable returns only and therefore underestimates the degree of disparity.

TABLE 5:10 - Continued

(1956)

Range	% of recipients	% of income	Cumulative % of recipients	Cumulative % of income
under $1000	.67	.1	.67	.1
1 - 2000	20.45	8.93	21.12	9.03
2 - 3000	28.24	20.39	49.36	29.42
3 - 4000	25.68	25.36	75.04	54.78
4 - 5000	12.34	15.53	87.38	70.31
5 - 6000	5.04	7.80	92.42	78.11
6 - 7000	2.53	4.62	94.95	82.73
7 - 8000	1.57	3.32	96.5	86.05
8 - 9000	.9	2.17	97.4	88.22
9 -10000	.63	1.71	98.05	89.93
10 -15000	1.09	3.76	99.14	93.69
15 -20000	.43	2.08	99.57	95.77
20-25000	.17	1.05	99.74	96.82
25+	.27	3.17	100.	100.

(1967)

Range	% of recipients	% of income	Cumulative % of recipients	Cumulative % of income
under $1000	.83	.08	.83	.08
1 - 2000	12.0	3.71	12.83	3.79
2 - 3000	16.63	8.28	29.46	12.07
3 - 4000	15.94	10.96	45.40	23.03
4 - 5000	14.65	13.03	60.05	36.06
5 - 6000	13.33	14.49	73.38	50.55
6 - 7000	8.97	11.45	82.35	62.0
7 - 8000	5.36	7.91	87.71	69.91
8 - 9000	3.44	5.74	91.15	75.65
9 -10000	2.58	4.85	93.73	80.50
10 -15000	4.23	9.82	97.96	90.32
15 -20000	1.09	3.66	99.05	93.98
20 -25000	.39	1.72	99.44	95.7
25+	.55	4.33	100.	100.

a Source: Taxation Statistics Dept. of National Revenue, 1951, 1958, and 1969.

b Taxable returns only.

For each of the specified years, approximately the bottom 74% of total recipients received from 50.6 to 54.8% of the income. In fact, this bottom percentage over time has received slightly less of the income.

In 1949 the bottom 73% received 52% of the income. In 1956 the bottom 75% received 55% of the income but in 1967 the bottom 74% received 51% of the income. This suggests that the disparity likely has increased slightly from the time the province adopted a more aggressive growth policy.

The top 7% approximately has also received the same share of income for each of the specified years. In 1949 the top 6.9% received 20.9% of the income. In 1956 the top 7.6% received 21.9% of the income. And in 1967 the top 6.3% of the recipients received 19.5% of the income.

The middle group which has ranged from 20% in 1949 to 17% in 1956, and back to 21% in 1967 has slightly improved its position from 1956 to 1967. In 1949 the middle 20% received 27% of the income. In 1956 the middle 17% received 23% of the income. In 1967 the middle 21% of the recipients received 30% of the income. Thus it appears that to the extent provincial development policy has affected the income of any one group, it has been the group in the upper middle income range who has benefitted. That is those who are the first part of the top 25% of income recipients in the province.[1]

While economic growth may or may not have contributed to economic welfare in the province from 1958 to 1969, the income distribution data suggests that economic growth has done nothing to ameliorate disparities of income in Manitoba.

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[1]If the 1967 data are deflated for price increases since 1949 then the bottom 73% instead of earning $6,000 or less would be earning $4,000 or less in 1967. The percentage earning this amount or less in 1949 was 88%.

CHAPTER VI

THE POLITICS OF REGIONAL DEVELOPMENT

THE "NO CHOICE MYTH"

Introduction

E. J. Mishan has argued that economists have created the "myth" that there can be "no choice" for a society but to commit its energies to maximizing the rate of growth of its economy.[1] Political parties are extremely sensitive to current fashions and conventional wisdoms. Even ideological movement based political parties, though less easily swayed by current fashions of intellectual thought, are not immune to conventional wisdoms.

Political parties in Manitoba have been no exception. As has been suggested earlier, the major opposition to Conservative economic policy was concentrated upon the way in which development was being promoted and not the choice of growth as a goal to begin with.

The Liberal party when it was removed from office in 1958 was a traditional "free enterprise" oriented party. Its committment to economic growth as a goal was less fervent than that of the administration that succeeded it. Its leaders wholeheartedly rejected an aggressive government policy aimed at promoting growth as "socialistic."[2]

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[1]Mishan, part one.

[2]This fact did not prevent it from granting generous concessions in terms of lower royalties and tax rates where the opportunity presented itself. See the agreement between the Province of Manitoba and The International Nickel Company, 1957.

Nevertheless, the Liberal Government would have never gone so far as to deny economic growth as a goal.

In opposition the Liberal party, particularly its younger members, was as growth oriented as the Conservative government. The focal point of its criticism of Conservative policy was the government's alleged failure to "produce a sufficient rate of growth" so that Manitoba would, at the very least,"keep pace with the rate of growth" in other provinces. The Liberals believed that the province would "have to do much more to get industry in Manitoba" than what the Conservative Government had done. [1] Although the Liberals were convinced that the Conservative Government had failed to attract the necessary response from the private sector, they claimed that they were unwilling to go as far as the Conservatives had gone in enticing industry through massive concessions. Of the northern forestry complex their major economic spokesman stated when the full details of financing were revealed, "I am not a socialist...but if we're going to end up by putting the bulk of the money in this proposition then I wonder why we couldn't own the proposition."[2] Their committment to growth as a goal nevertheless was unaltered.

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[1]G. Molgat, Debates and Proceedings..., March 31, 1966.

[2]G. Molgat, Debates and Proceedings..., March 18, 1970.

The N. D. P., the only party of the three which regarded itself as a socialist oriented party (which of course does not mean that it was one), was, on the whole, from 1958 to close to the time it succeeded the Conservatives in 1969, as committed to economic growth as the Conservatives.

The N. D. P. supported, almost without exception, the Conservative Government's economic development legislation. Members of the party, in early years of the period, even went so far as to praise the work of the Department of Industry and Commerce. [1]

The N. D. P.'s criticisms of government policy were of the failure of the government to promote a sufficient rate of growth and of its policy of offering massive concessions to the private sector. Although there were individual differences among M. L. A.'s, the N. D. P. was not opposed to growth per se as a goal, but to the "costly" way in which it was being "promoted" by the government. The point however needs qualification. To the extent that the N. D. P. argued that there were other priorities in addition to economic growth; such as a more equitable distribution of income, more health and social welfare programmes, and that the benefits of growth

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[1]M. Gray, Proceedings and Debates...,May 1, 1965. Mr. Gray praised the work of the Government in spite of the Minister's apology during the presentation of the year-end economic review, that despite his fondest hopes provincial GNP had not quite reached $1 billion. Nevertheless the Minister was satisfied that $974 million was a "big figure."

had to be widely distributed in order for growth to be a meaningful goal, the N. D. P. was more sensitive to a welfare oriented rather than strictly growth oriented policy of development.[1]

The welfare as opposed to strict growth orientation of N. D. P. policy was far more noticable toward the end of the period(1958 - 1969)than at the beginning. Nevertheless, much of the N. D. P. critique of Conservative policy concentrated upon the need for the province to utilize government as an active agent of economic development where the private sector was unwilling to undertake development, except at the cost of substantial concessions from the province. (The degree to which the N. D. P. advocated an active entrepreneurial role for government varied with the socialist or non socialist orientation of of the particular member.) As such, N. D. P. policy

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[1]Thus one N. D. P. M. L. A. in criticizing the "sales and promotion" programmes of the Conservative government stated,"the basic difference between the Minister and members of my party is a general philosophy of what we're trying to achieve when we beat the drum. We're not interested in making multi-millionaires out of millionaires that we might entice into Manitoba. The purpose surely of enticing people or investment... is that the population as a whole should benefit. The attitude of this government seems to be somehow if you bring investment in, the crumbs will fall off and ... some of it will dribble down to the masses. (We are losing our best people and instead of) making our towns better to live in... our towns and cities exciting.... they bring in immigrants who they pay low wages and who ultimately when they can will leave. "
S. Miller, Debates and Proceedings..., April , 1968.
The reference to beating the drum refers to the "Growing to Beat 70" promotional programme the provincial government adopted in 1968 to "promote a spirit of optimism". It was symbolized by a drummer boy of American Revolutionary vintage and had the "spirit of 70" and "Manitoba, growing to beat 70!" as accompanying messages. Undoubtedly the ultimate in "growthamania."

was weighted as much, if not more, toward the tools of development rather than the goal of such development.

The question of what precisely is the function of economic growth was never clearly resolved by the N.D.P. while in opposition. Therefore, the N. D. P. while in government has not yet clearly established what are to be the goals of its development policy. And as such, a comprehensive, consistent policy has not yet emerged. This in part is due to the newness of the regime.

At present, however, despite their awareness of the dangers and consequences of "growthamania", N. D. P. policy is an amalgam of past Conservative policy, modified in many of the most obvious ways, [1] and N . D. P. economic development principles.

The present Minister of Industry and Commerce has rejected outright, "growthamania" and crude economic growth as a goal in place of increased welfare.

> The purpose of growth and development should be directed towards the realization that in Manitoba we still have more residual poverty, more domestic drudgery perhaps, a more restricted life for the average working consumer, less leisure... than is tolerable or indeed is desirable. To the extent that economic growth and development contributes to the alleviation of these problems, it is most certainly a desired and laudable aim. [2]

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[1]For example, the "Growing to Beat '70" symbol has been replaced by "Manitoba: Canada's Number One Sun " as the official symbol of the Department of Industry and Commerce.

[2]Hon. L. Evans, Debates and Proceedings..., May 4, 1970.

Nevertheless the new Government is very sensitive to criticism that its policies, or lack of them, is harming the rate of growth of the provincial economy. [1]

The N. D. P. policy toward the M. D. F. has been to alter, to some extent, the practice of not taking equity positions in enterprises which receive loans. Government policy now appears to be to encourage a "flexible" programme of loans, with the M. D. F. taking an equity position in certain instances and simply granting loans in others. [2] The provision for the fund to be used as a vehicle for developing crown corporations will also likely be employed for the first time by the N. D. P. Government. It has not been clearly established yet however that the fund will no longer be used to grant loans to large foreign corporations wishing risk capital to establish in the province. [3]

A conclusive judgement of whether or not the N. D. P. has seen and will act upon the choices that lie beyond the "no choice myth" is not yet possible.

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[1]See for example debate on economic policy Debates and Proceedings..., May 21, 1970. The N. D. P.'s government's reticence to reject the targets of the TED report, a crude growth document the Conservatives had prepared in their last years in office, is also an example of the new government's refusal to abandon old growth arguments.

[2]See statements by Hon. L. Evans, Minister of Industry and Commerce and Hon. E. Schreyer, Premier, Debates and Proceedings..., June 1, 1970.

[3]Statements by the Premier suggest that he, at least, sees the "necessity" of an inflow of foreign investment into Manitoba. Whether what he means by "investment" is in any way similar to what the Conservatives meant is not clear.

CHAPTER VII

CONCLUSIONS

Government Policy and Regional Economic Growth

In this thesis I have argued that where concern about regional disparities in Canada becomes the concern of regional governments, provincial government development policy is likely to promote growth at a considerable cost , - both opportunity and direct costs. These costs will be increased to the extent the provincial government is enamoured with economic growth as a societal goal; to the extent the provincial government is committed to competing with other regions in promoting its rate of growth; and the lower the province's position on the growth scale to begin with.

Given the structure and concentration of ownership in Canada, provinces which attempt to promote their rate of economic growth under the above conditions will tend to provide risk capital and other major concessions to foreign corporations. Thus provincial regional development policy is a positive influence in accelerating the rate of location of foreign owned industry in Canada.[1]

I have concentrated on the provision of risk capital by provincial development programmes to prospective "investors" in the provincial economy. I have done so because in Manitoba so much of provincial development policy centered around this very factor. An examination of the relationship between capital provided by the M.D.F.

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[1]This is also true of federal regional development policy. See appendix.

and total capital investment in Manitoba between 1958 and 1969 suggests however that policy makers have overstressed the importance of this factor.[1] Between 1958 and 1969 total capital investment in primary construction and manufacturing industry was $1,930 million. The M.D.F. in this same period provided $147 million of loan capital primarily for investment in these sectors. The percentage of M.D.F. to total capital investment in these sectors was 7.6%. The manufacturing sector which was regarded as a crucial sector by policy-makers accounted for $607 million of the $1,930 million. M.D.F. capital was 24.2% of this total - a more significant percentage except for the fact that the bulk of M.D.F. loan capital did not go toward the manufacturing as opposed to the primary sector.

In terms of total capital investment in the period under question, government investment (both provincial and federal) accounted for 26.4% of the total. Provincial utility investment accounted for another 10.3%. The private sector accounted for 28% in the manufacturing, primary and construction industries. Residential housing accounted for another 14.5%; trade,finance and commerce, 9.8%; and other utilities which include some public as well as private utilities, 11%. The data suggest that the public sector is far more significant in the absolute sense as a source of capital investment than the provincial government acknowledged it to be in its development policy.

[1]See D.B.S. Private and Public Investment. 1958-1969.

The fact that the provision of risk capital was not a significant factor in total capital investment in the province during the period, in no way alters the costs which such a programme imposed on the province. In this sense, this aspect of provincial development policy was very significant and deserves the attention it has received in this thesis.

To what extent provincial development policy has been duplicated in other provinces in Canada has not yet been established. It would seem likely that other provinces have followed similar policies with similar consequences in terms of costs and accelerated foreign "investment" in the Canadian economy. If so, a comprehensive study of regional development policy from the provincial perspective will likely go far in explaining the persistence of regional disparities in Canada.

APPENDIX

FEDERAL REGIONAL DEVELOPMENT POLICY: A STATISTICIAL BREAKDOWN OF INDUSTRIAL INCENTIVES

The Area Development Agency (ADA)

The Area Development Agency was established by the Department of Industry Act in 1963. According to the act, the government was empowered to designate

> any district or locality in Canada that is determined to require special measures to permit economic development or industrial development by reason of the exceptional nature or degree of unemployment in that area (as) a designated area. [1]

The ADA capital incentives programme established in 1965 offered non-refundable, non-taxable cash grants, and accelerated capital cost allowances to firms establishing new manufacturing or processing facilities or carrying out significant expansions of existing facilities in designated areas.

The amount of the grant was based on one-third of the first $250,000 of the capital cost of new machinery, equipment and buildings, plus 25% of the next $750,000, plus 20% of such costs thereafter. The maximum for any new facility or expansion was $5 million.

A breakdown of the total number of grants given out by ADA from 1965 to Dec. 31, 1969 by the ownership of the industry receiving the grant shows that the

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[1] Statutes of Canada, 12 Elizabeth II, chapter 3, sec. 9, p. 61.

majority of the total capital involved has gone to foreign owned enterprises. American owned enterprises received 38.8%; European owned enterprises, 12.1%; and British owned enterprises, 5.7% of the total amount of grants. Foreign owned enterprises as a whole received 56.6% of the total amount of capital grants offered by ADA from 1965 to 1969.

When further broken down by province the data reveals that the percentage of capital grants that were offered to foreign enterprises varied considerably. The variation ranges from as low as 25% in P.E.I. to as high as 85% in Alberta.

The criterion for determining whether or not an enterprise was foreign owned was its designation in the Inter-Corporate Ownership book.[1] If the enterprise was listed as having a foreign company as a holding company it was designated for the purposes of this analysis as being foreign owned.[2] Since the classification of ownership is based on 1967 data, grants given after 1967 to firms which subsequent to 1967 became foreign owned are not recorded in the total percentage figure.

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[1] Inter-Corporate Ownership 1967, (Ottawa: Queens Printer, 1969).

[2] Since only firms having more than a 10% share are included in Inter-Corporate Ownership the "ownership" designation that has been adopted begins with 10% or greater ownership. In fact in most cases the percentage was substantially greater than 10% and in many cases greater than 50%.

On the other hand, to the extent that enterprises received offers of grants before their ownership became foreign prior to 1967 the total percentage is over-estimated. In general, many enterprises were not listed in the <u>Inter-Corporate Ownership</u> book and to the extent that these were in fact foreign owned the percentage figure is underestimated. The net effect of all these qualifications is that the percentage of the total amount of capital grants that went to foreign owned enterprises is likely a conservative estimate.[1]

<u>TABLE 1</u> - ADA Grants by Province and By Ownership of Enterprise 1965 - 1969

	(Percentage of Total)				(in millio Total Amount of Grants
	U.S.	European	U.K.	Total Foreign	
Nfld.	1.3	-	65.0	66.3	8.2
N.S.	33.8	35.2	1.1	70.1	34.4
N.B.	28.3	13.5	-	41.8	37.2
P.E.I.	8.0	-	17.0	25.0	1.4
Quebec	35.6	-	10.3	45.9	48.4
Ont.	58.1	-	2.6	60.7	33.9
Man.	24.0	42.2	3.7	70.0	23.7
Sask.	72.0	-	-	72.0	8.0
Alta.	85.0	-	-	85.0	11.7
B.C.	62.8	-	-	62.8	17.8
CANADA	38.8	5.7	12.1	56.6	224.7

a Source: Calculated from "Projects Approved Under the Area Development Incentives Act To December 31, 1969." and <u>Inter-corporate Ownership 1967</u>.

b Where no percentage figure is shown the data simply did not reveal any ownership by the particular area. In some of these instances, at least, this reflects the lack of exhaustive ownership data.

[1]This is so, provided that one understands that "ownership" has been defined in terms of control and not in fact on the basis of greater than 50% ownership of the shares.

TABLE 1 - Continued

c The totals are based on grants offered, not necessarily disbursed.
d Some of the companies receiving grants include: Gulf Oil - $5 million, Michelin - $7 million, Canadian General Electric - $5 million, Irving Pulp and Paper - $5 million, Crown Zellarbach - $2.5 million, Hiram Walker - $5 million, Imperial Oil - $10 million, Union Carbide -$.6 million, Kimberly-Clark - $4.5 million, R. C. A. Victor - $.4 million, Aluminum Company of Canada - $1.8 million, Consolidated Bathurst - $5 million, Goodyear Tire - $1.4 million and Dupont- $.3 million.

ADA also appears not to have followed a rational policy with regard to the cost of creating job opportunities.

TABLE 2 - Amount of ADA Capital Grant per Job Opportunity Created by Province 1963 - 1969

Newfoundland	$4,705	Ontario	$4,320
Nova Scotia	5,299	Manitoba	13,263
New Brunswick	7,512	Saskatchewan	6;351
Prince Edward Island	1,329	Alberta	11,482
Quebec	5,442	British Columbia	6,619
CANADA	5,553		

a Source: "Projects Approved Under the Area Development Incentrives Act to December 31, 1969."

The great variation in the cost per job opportunity (from $1,329 to $13,263) suggests that the agency did not pursue a consistent policy with regard to capital versus labour intensive industry.

D.R.E.E. Industrial Incentives

The Regional Development Incentives Act which was passed in 1969 set up a new incentives programme whose purpose was"to create new job opportunities in regions of slow economic growth."[1] The new programme was incorporated as part of the Department of Regional Economic Expansion and essentially replaced the industrial incentives programme operated by ADA.

The D.R.E.E. industrial incentives programme offers cash grants to new industries expanding or establishing in "slow growth regions" on the basis of up to 20% of capital costs for modernization or expansion of present production and up to 25% of capital costs for establishing a new plant or new production lines plus $5,000 for each job created in the operation. The maximum benefit for modernization is $6 million and for a new plant or new product expansion $12 million or $30,000 for each job created or one half of the capital to be employed in the operation, whichever is the least amount.

From the inception of the programme to May 31, 1970 the percentage of the total amount of grants offered under the programme that went to foreign owned corporations was 38.6%. A provincial breakdown of grants has not been attempted because of the newness of the program and the relatively small amount of grants that have been offered to date. Whether the D.R.E.E. industrial incentives program will ultimately be less oriented toward foreign owned industry than was the ADA programme is not yet clear.

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[1]"Incentives To Industry," pamphlet prepared by D.R.E.E.

TABLE 3 - D.R.E.E. Industrial Incentives Grants
By Ownership of Enterprise

	(Percentage of Total)				(millions of dollars)
	U.S.	European	U.K.	Total Foreign	Total Amount
CANADA	22.9	14.1	1.6	38.6	29.5

a Source: Calculated from monthly "Reports on the Operation of Regional Development Incentives Act" and Inter-Corporate Ownership 1967.

b The data is based on offers made and accepted from the inception of the programme to May 31, 1970.

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