THE EVOLUTION OF CANADIAN REGIONAL POLICY

BY

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TO MY MOTHER AND FATHER

AND ALBERT

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ABSTRACT

A long-standing problem of Canadian federalism has been the persistence of regional disparities as manifest by income and employment differences among the provinces. Throughout most of the nation's history policies explicitly aimed at ameliorating these disparities have been limited. Since the 1960s specific policies designed to improve economic conditions in problem regions have been formulated and implemented. The process of formulating and implementing explicit regional policies has been subject to a number of constraints stemming from the institutional nature of the Canadian state and a lack of consensus concerning the underpinnings of the regional problem. In light of these constraints Canadian regional policy has evolved through a number of phases. With the onset of economic problems in the 1970s and in the midst of global restructuring, regional policy is at the crossroads in the mid-1980s.

INTRODUCTION

Economic development is a complex process encompassing social, political and economic factors. Complexity notwithstanding, the base of the development process is accumulation or, the progressive expansion of society's production frontier through the continual reinvestment of an expanding surplus. In the advanced capitalist economies, investment decisions as to what is to be produced, where production is to occur and when, are largely the preserve of private (accumulating) units and determined by profitability. Relative profitability is in turn circumscribed by the force of competition. Complementing the force of competition is the role of the state, which attempts to foster accumulation by creating and maintaining conditions propitious to it. A salient feature of the evolution of advanced capitalist economies has been the expansion of the role of the state in social and economic processes. In varying degrees the expansion of the role of the state has arisen as a consequence of problems (contradictions) arising in the accumulation process which inhibit sustained and orderly growth as well as resulting in socially unacceptable inequities.

Prominent among the latter have been problem regions. Indeed,

> All countries have regional problem areas, areas that are economically and socially deprived. Although a whole variety of indicators and combinations of indicators are used to delineate such areas, the normal measures of economic deprivation are unemployment, activity rates, migration, and income per head. Relative to the rest of the country,

> unemployment is high, activity rates and income per head are low (Allen et al 1979, p.1).

As a result of the regionally differentiated nature of the accumulation process, governments have been compelled to undertake programmes and initiate specific policies to attempt to direct investment towards lagging regions. The rationale for the introduction of regional policies typically rests on maintaining a reasonable degree of national political and economic cohesion, although strategic considerations (e.g. the "shadow" factory scheme in the UK) and economic motives (e.g. to reduce agglomeration diseconomies) have at various times underpinned regional policy.

In general there are four basic types of regional policies: infrastructure provision, incentive schemes ('carrots'), disincentive schemes ('sticks'), and the discretionary use of state investment particularly in industry. In practice the particular policy instruments utilized have varied depending on the nature of the regional problem, the rationale for regional policy and the nature of national economic policy. In terms of ameliorating regional income and employment disparities, the impact of regional policies has been at best insufficient and frequently limited. For example, beginning with the Special Areas Act of 1934, various British governments have consistently extended preferential industrial and developmental assistance to designated areas experiencing exceptional levels of unemployment. In terms of the distribution of manufacturing investment, and to a lesser extent, the distribution of capital stock, British regional policy has had a "sizeable" positive impact on the U.K. regions over the 1959-78 period (Rees and Miall 1981). Based on employment creation, the evidence suggests that regional incentives - e.g. Regional Employment Premium (REP), capital grants and tax concessions coupled with restrictive directive measures, i.e. Industrial Development Certificates (IDC) - had a relatively positive impact on the designated regions. Specifically, during the peak policy period of 1967-71, an estimated 25-30,000 jobs per year were created due to British regional policy, with the total number of jobs created during the "active" policy period (1969-76) reaching some 325-375,000 jobs in the assisted areas (Regional Studies Association 1983). In the case of Northern Ireland, employment increased at an average annual rate of 3,500-4,000 jobs for the period 1960-70, but the onset of political problems slowed this trend considerably (Moore et al 1978). In Scotland, the strengthening of regional policy in the 1960s resulted in the creation of roughly 70-80,000 new jobs by 1971, or an average annual increase of 6,000-7,000 jobs (Moore and Rhodes 1974). Despite this seemingly successful impact, these gains only accounted for a third of the necessary employment creation required to ameliorate the unemployment problem in Scotland. In general, notwithstanding the laudable benefits derived, Moore et al (1978) conclude that regional policy has neither, "worked well enough to overcome serious unemployment problems, nor has it yet made an impact on the low levels of income per head" (p.112).

In an extensive study of the role of regional development incentives and the distribution of foreign investment in Belgium, Thoman (1974) discovered that regional policy had a substantial impact on pulling foreign investment into designated depressed regions. In particular, whereas in the 1953-61 period only 35 per cent of new foreign investments were located in depressed regions, the corresponding figure for the 1967-70 period was 66 per cent. However, the impact of regional policy was not unequivocally favourable. In the first place, while there were admittedly beneficial employment impacts, these did not occur in those areas most in need. Rather, the pattern of plant locations indicates a tendency toward an equalization of employment among the more affluent provinces reflecting the extension of the areas eligible for incentives while leaving the poorest areas largely unaffected. In fact, most new investment occurred in areas located in provinces with an average or higher income and material welfare rank than the nation as a whole. Secondly, outside of increasing employment, the locational incentives did little in the way of achieving the objective of improving the economic structure of the depressed regions. Specifically, the industries showing the greatest propensity to invest in the designated regions were characterized by low profitability, stagnating demand, and a limited future investment potential. Thus, "one concludes that the Belgium government has succeeded in subsidizing [foreign] defensive investment...", and moreover, "it is possible to conclude that much of the labour intensive industry would have still located in depressed areas even with a smaller subsidy" (Thoman 1974 p. 65,82).

With the onset of an extended period of stagnation and high inflation (stagflation) the economic fortunes of most Advanced Industrial Countries (AICs) took a turn for the worse during the 1970s (Table 1). In the UK context, the modest success of regional policy was eclipsed by the accelerated decline in British manufacturing employment in general. Sustained economic turmoil throughout the better part of the 1970s and 1980s has resulted in a restructuring of the UK economy. Capital investment was directed at enhancing competitive efficiency, especially through rationalization, and bypassed new plant formation in assisted areas. Between 1970-71 and 1979-80 UK employment in Imperial Chemical Industries Ltd. (ICI) alone declined by nearly 40 per cent, or roughly job losses of the magnitude of 52,700 (Clarke 1982). Moreover, between 1979-82, some 1,375,000 manufacturing jobs were lost to the UK, with the numbers reaching 2,750,000 since 1966 (Regional Studies Association 1983).

As stagnation deepened and restructuring unfolded, unemployment in the UK steadily increased. Predicated on dispersing secular growth to assisted areas, it was not surprising that, "support for policies aimed at diversion of investment and employment between regions rapidly lost ground to the perceived need to arrest national industrial decline and to promote growth irrespective of its location" (Regional Studies Association 1983, p. 8). Thus, since the mid 1970s, the British government has embarked on a programme of retrenchment from regional policy including the descheduling of many of the assisted areas (from covering approximately 40 per cent to 25 per cent of the working population), suspension of the IDC programme, a shift in policy focus to the more politically volatile concern of the inner city problem (as manifest through the Inner Urban Areas Act 1978), and a rescission of the Regional Employment Premium Programme. Coeval with the demotion of regional policy was the ascendency of a "nation-wide" industrial strategy which has reinforced the concentration of investment in the already 'prosperous' regions (Cameron 1979, McCallum 1979). For example, the regional distribution of "high-tech" aid (through the small engineering firms investment scheme and the microelectronics industry support programme) in 1983 ranked in virtually an inverse order to that of recipients of regional aid with the South-East receiving £ 82.3 million, whereas the peripheral regions of Wales, Scotland, and the North-East received £ 3.1 million, £ 16.2 million and £5.1 million respectively (The Engineer, 27 September, 1984, p.6).

Like most advanced capitalist economies, the Canadian economy is characterized by significant regional (provincial) differences in economic well-being as manifest through income per capita and (un)employment data. Throughout Canada's history income and employment disparities have remained a pervasive feature of the economic landscape, seemingly impervious to national economic fortunes. As a result, questions of national unity and indeed the very basis of Canadian federalism have come under increasing criticism as illustrated most graphically with the election of the Parti Québécois on a separatist platform. Perhaps equally indicative of the state of dissatisfaction has been the increasing role of the provincial governments in attempting to improve their respective economic standing. In any event, the message is clear, regional income differences have been and are a problem in Canada, both politically and economically. As a result, the federal government has initiated a variety of measures designed to foster at least a semblance of regional balance in the Canadian economy.

However, like other AICs, Canada has experienced a serious economic crisis throughout much of the past decade (Table 1) and recalling the UK experience, the implications for regional policy and the amelioration of the regional problem in Canada are potentially very grave indeed. Thus, owing to the persistence of regional income and employment disparities, the political and social implications of these disparities, the restructuring of industrial economies, and changing government policy in dealing with prolonged economic malaise, an overview of Canadian regional policy would appear timely. Therefore, the purpose of this thesis is to trace the evolution of Canadian regional policy by drawing attention to the constraints which have influenced the direction and scope of this evolution. In terms of scope, a couple of provisos are in order. First, while all policy measures entail regional ramifications, the concern of this thesis will be confined to explicit regional policies undertaken by the federal government. Explicit regional policies are policies directly aimed at altering the spatial distribution of economic activities. Secondly, the discussion will cover the period extending from confederation to roughly 1982-83, that is, terminating just prior to the current hiatus in regional initiatives which has come about as a direct result of the change in national government.

In terms of organization, the text is divided into five chapters. The first chapter, Regions and Regionalism in Canada, outlines the basis of regions and regionalism in Canada, and summarizes the main indicators of the regional problem. The following two chapters, Chapter 2 Institutional Constraints on the Formation of Regional Policy and Chapter 3 Theoretical Perspectives on the Regional Problem, outline two important constraints which have in varying degrees shaped the development of regional policy. Chapter 4, The Evolution of Canadian Regional Policy, then traces the development of Canadian regional policy. Finally, Chapter 5, Regional Policy in Perspective, summarizes the general findings of the text, and by way of conclusion, speculates on the future of regional policy in Canada.

TABLE 1

Recent Economic Developments in the OECD Countries

	Average[5] 1966-1973	Average[5] 1974-1980	Recession[5][6] 1981-1982
Growth in real CNP/GDP[1]			
United States	3.6	2.4	0.2
Japan	9.8	3.8	3.7
Germany	4.1	2.4	-0.7
France	5.5	2.8	1.1
United Kingdom	3.2	0.9	0.5
Italy	5.4	2.8	-0.2
Canada	5.5	2.9	-0.6
Seven major countries	4.7	2.5	0.8
Total OECD	4.7	2.5	0.8
Employment[3]			
United States	2.2	2.3	0.1
Japan	1.3	0.7	0.9
Germany	-0.1	-0.3	-1.3
France	0.8	0.2	-0.4
United Kingdom	-0.1	0.0	-2.5
Italy	-0.2	1.1	0.1
Canada	2.9	2.9	-0.3
Seven major countries	1.2	1.1	-0.2
Total OECD	1.1	1.0	-0.1
Unemployment rate (level)[2][4]			
United States	4.5	6.8	8.7
Japan	1.2	1.9	2.3
Germany	1.0	3.5	5.7
France	2.4	4.8	7.7
United Kingdom	2.4	4.7	10.3
Italy	5.6	6.7	8.9
Canada	5.1	7.2	9.3
Seven major countries	3.1	5.1	7.2
Total OECD	3.4	5.4	7.7
Consumer price inflation[3]			
United States	4.4	9.3	8.3
Japan	6.2	9.8	3.8
Germany	3.9	4.8	5.8
France	5.1	11.1	12.6
United Kingdom	6.1	16.0	10.3
Italy	4.5	16.8	17.2
Canada	4.3	9.4	11.7
Seven major countries	4.9	9.8	8.5
Total OECD	4.9	10.4	9.2

----continued

TABLE 1 - continued

	Average(5) 1966-1973	Average(5) 1974-1980	Recession(5)(6) 1981-1982
Productivity(1)(3)			
United States	1.6	0.1	0.1
Japan	8.3	3.1	2.7
Germany	4.3	2.7	0.7
France	4.7	2.6	1.4
United Kingdom	3.2	0.8	3.1
Italy	5.6	1.8	-0.2
Canada	2.6	0.0	-0.4
Seven major countries	3.6	1.4	0.9
Total OECD	3.7	1.5	0.8

1. GNP numbers are reported for the United States, Japan, Germany and Canada, while gross domestic (GDP) numbers are reported for France, the United Kingdom and Italy.

2. Unemployment rates are on the basis of national definitions.

3. Averages are calculated using weights based on the GNP or GDP respective shares in 1982.

4. Early period average is over the 1967-1973 period for the seven major countries.

5. Measured as the average of the annual growth rates.

6. As the precise dating of the recession varied somewhat across the G-7 countries, the 1981-1982 average in some cases obscures the peak-to-trough declines in real GNP/GDP. For the G-7 countries, the peak-to-trough movements in real GNP/GDP were: Untied States, -2.8 per cent; Germany, -1.4 per cent; United Kingdom, -2.4 per cent; Italy, -3.5 per cent; and Canada, -6.6 per cent.

Source: Canada, Department of Finance, May, 1985.

CHAPTER 1.

REGIONS AND REGIONALISM IN CANADA

1.0 Introduction

The concept of a region, while obviously being central to the idea of the regional problem or to regional planning is by no means analytically unambiguous. Ostensibly, a region is a spatial unit of analysis lying somewhere between a neighbourhood and a nation state. The appropriate level of spatial resolution will, of course, be contingent upon the purpose of the analysis. It is essential that one is cognizant of the limitations of regional boundaries; that is, different criteria may be valid for some purposes but not for others. The manipulation of regional boundaries presents the possibility of illuminating or concealing various features characterizing geographic space. Importantly, the nature of the delineation of regions influences the perception of the possibilities and problems confronting regions which, in turn, influences the appropriate policy response. In a similar fashion, the criteria for deciding what constitutes a regional problem or disparity are ultimately contingent upon the values and/or objectives of the researcher and society as a whole. Thus,

> ...the demographically defined problems of size, growth, or decline are not problems in themselves. They are statistical descriptions, and as such neutral. There may be, sometimes or always, grave problems associated with them, and balanced growth policies should address these. But it is misleading to formulate policies as if we were after particular population distributions and growth rates for their

> own sake. Balanced growth must refer to socially desired conditions for real people. (Alonso cited in Bell and Lande eds. 1982, p. 10).

For purposes of this thesis, the problem of regional disparity will be viewed from the perspective of Canadian public policy and the institutional structure in which this policy is formulated and initiated.

1.1 The Regions of Canada

A useful point of departure in determining the appropriate regions of Canada is to present a brief sketch of the geography of the country. Indeed, "Geography provides the grooves which determine the course and to a large extent the character of economic life. Population, in terms of numbers and quality, and technology are largely determined by geographic background ... through its effects on transportation and communication" (Innis, 1946 pp. 87-88). The point here is not geographic or environmental determination, but rather a recognition that the geography of a region, and the spatial relations implicit therein, conditions the form and sets certain parameters of capital accumulation[1]. In other words, the specific form which the relations of production assume is influenced by the nature of the commodity and its environmental and geographic basis. Similarily, the forces of production, also influenced by geographic and environmental conditions, influence the specific form of the relations of production.

Canada is the second largest country in the world and covers approximately 9,922,330 km^2 of territory. At its extreme east-west expanse, Canada extends more than 5000 km, while the north-south expanse reaches some 4,600 km (Canada Yearbook 1981). Not surprisingly, transportation has been of fundamental importance in the creation of the Canadian nation-state and thus has held a prominent position within the nexus of Canadian political economy (Innis 1956)[2]. To complicate matters, this vast territory encompasses a variety of physiographic, climatic, and vegetational regions which colour the Canadian landscape and present opportunities for economic exploitation. Interwoven within the major physiographic, climatic and vegetational regions are the myriad of lakes and rivers, which cover roughly 755,165 km^2 or 8.2 per cent of the nation's total territory (Canada Yearbook 1981). Moreover, Canada possesses in excess of 243,000 km of coastline bordering on three major oceans - the Pacific to the west, the Atlantic to the east, and the Arctic to the north (Canada Yearbook 1981). This extensive coastline provides access to rich offshore resources, and gives Canada a window to serve international markets. The inland waterways served as a conduit to the interior of the territory and thus were an important element in the early development of French and British North America.

> The comparative ease with which the transport unit was borrowed and adapted, or devised to meet the

> demands of the water routes (coastal and inland), gave the waterways a position of dominant importance in the moulding of types of economic and political structure." (Innis 1956, p. 66).

The significance of the above diversity in the physical characteristics of Canada comes to bear in terms of the patterns of climatic conditions and resources, and the constraints that this pattern places on the possibilities for capital accumulation. Put succinctly, the presence or absence of mineral resources of sufficient quantity and quality, and/or the occurrence of favourable soil, moisture and vegetation types condition the extent to which an area may generate wealth. In terms of the distribution of mineral, energy, forest, fishery and agricultural resources in the Canadian context, there is a marked regional concentration of specific resources. The concentration of specific resources in particular provinces has had an important impact on Canadian economic development. None the less, the problem of regional disparity is not simply one of resource distribution, rather it is one of social consequence.

Overlaying this disparate landscape and occupying a scant 11 per cent of the total land area rests a population numbering 24,343,180 (Canada Yearbook 1981). This population is distributed among the ten provinces and two territories which have been created in the process of nation building. The lion's share of the Canadian population, 82 per cent, is concentrated in the four provinces of Ontario, Quebec, Alberta and British Columbia (Table 1.1). Ontario and Quebec alone contain roughly 62 per cent of the nation's population, of which the Census Metropolitan Areas of

Toronto and Montreal account for 24 per cent of the Canadian total. Further, approximately 58 per cent of the Canadian population resides between the United States border and a 1,046 km east-west line extending from Quebec City to Sault Ste. Marie. This area is the nation's industrial heartland and forms the major market in the country. Overall, while 75.7 per cent of the Canadian population resides in urban centres, the degree of urbanization is regionally variable. In particular, the four Atlantic provinces are 53.6 per cent urbanized, ranging from a low of 36.3 per cent in Prince Edward Island to a high of 58.6 per cent in Newfoundland. Of the three prairie provinces, Saskatchewan is the least urbanized at 58.1 per cent, while Alberta, with two large urban centres, is the highest at 77.2 per cent. The provinces of Ontario, British Columbia, and Quebec are the most urbanized with the respective levels being 81.7 per cent, 77.9 per cent, and 77.6 per cent.

A practical starting point in ascertaining which territorial boundaries are appropriate for delineating the relevant regional boundaries in Canada is the consideration of the political boundaries which have emerged in the process of nation-building. All told, ten provinces and two territories were eventually formed, with the derivation of their boundaries reflecting the influence and interaction of a variety of physical, economic, cultural, and political factors. The use of these provincial boundaries in regional analysis is generally based on pragmatic considerations of data availability and the realities of administrative jurisdiction.

"Freedom of choice in defining economic regions for policy purposes is in fact, severely limited by the political and administrative structure of the country on the one hand, and the geographical unit employed in statistical compilations on the other" (Economic Council of Canada 1965, p.98). Given this constraint, regions are then formed by grouping the provinces together in various combinations. In this fashion, between four and six regions are generally identified, for example; British Columbia, The Prairies (Alberta, Saskatchewan, Manitoba), Ontario, Quebec, The Atlantic (Prince Edward Island, New Brunswick, Nova Scotia, Newfoundland) and the North.

The obvious problem with the selection of provincial boundaries as regional boundaries is that these demarcations do not necessarily correspond to geographic, economic, or cultural criteria in spite of the aforementioned logic of historical evolution. For example, many social and cultural groups may share a greater affinity to social groups in a contiguous province than to other groups within their own province. Thus, the problems confronting inhabitants of northern Quebec and northern Ontario are probably of greater similarity than those associated with the southern portions of their respective provinces. A second difficulty in utilizing provincial boundaries is that the spatial scale of resolution obscures intra-provincial differences which may be as pronounced, or more so, than those purported to exist between provinces. While both these considerations are useful, they are to all intents and purposes unavoidable.

production per employed worker (Copithorne 1978). Moreover, correcting income data for regional differences in resource windfalls, further highlights the importance of other factors in explaining regional income differentials.

Primary among these other factors are productivity differences among the provinces (Table 3.1). In a detailed, albeit limited, study of provincial productivity differences in Canada, Auer (1979) discovered that provincial variations in output per worker on average accounted for greater than 80 per cent of all variations in labour productivity of the provincial economies in general and manufacturing in particular (pp. 38-44). Overall output per worker in the Maritime provinces was less than the national average in most industries, while in Quebec and Manitoba it was below the national average in all but two industries. In contrast, Alberta, British Columbia and Ontario generally exceeded the national average in terms of output per worker, with Saskatchewan possessing about half of its industries in the upper category. A number of factors contributed to the variations in output per worker including labour quality (with educational attainment of the work force especially prominent in this respect) which accounted for approximately 20 per cent of the observed variations, and capital per worker. With respect to the latter, the results varied considerably, with above-average capital stock per worker associated with above-average labour productivity in Saskatchewan, Alberta, and British Columbia. At the same time above-average capital stock per worker in manufacturing was associated with below-average productivity levels in Newfoundland,

1.2 The Regional Problem and Public Policy

> Regional disparities have been a pervasive feature of the Canadian economic landscape since well before the turn of the century. The economic, social, cultural, and political structure of the country has been shaped and conditioned by the existence of regional disparities, and their persistence has continued to pose Canada with one of its principal problems of public policy (Daniels 1981, p.55).

Underpinning the foregoing is the position that the differences which exist between regions are meaningful from the perspective of Canadian public policy. This, in turn, presupposes regional differences possess a political-economic significance beyond that generally ascribed to the nation-state as a whole, and thus warrants an explicit regional response. The significance of these differences is that they pose a problem to the smooth functioning of the nation and, in particular, to the legitimacy of the federal state. Conveniently, the problem is often encapsulated within the rubric of regional disparities or, alternatively, regional economic disparities. However, the issue so stated is predicated on the existence of regions independent of the problem; which is to say, regions must be defined by reference to criteria in addition to economic variables and, secondly, these disparities must possess a geographic significance and not simply reflect the spatial incidence of particular groups or classes (Cameron 1981). In other words, does regionalism exist in the sense of an identity of, and with, a particular region, and is it made manifest by regionally differentiated political behaviour? Further, what is the identified and appropriate level of spatial abstraction at which political behaviour occurs?

On the question of whether regionalism is present in Canada, the literature is varied, although generally supportive of the existence of regionalism. A salient feature of an analysis of public opinion polls over a twenty-year period was the persistent relevance of where people lived in flavouring their perception of national issues (Schwartz 1968). This result stimulated a second inquiry concerning the extent and basis of regional persistence in Canada (Schwartz 1974). Interview data were collected based on a sample survey drawn from the official list of voters of the Canadian electorate after the 1965 general election, and three principal components of regionalism were examined: the characteristics and conditions that differentiate spatial units; the states of mind which facilitate a regional identity: and the behaviour of regional actors in the political sphere. In terms of the first, three main structural elements were identified which facilitate an awareness of regional differences. The political organization and federal structure of the Canadian policy, and the uneven distribution of certain ethnic groups, most notably in Quebec, are important factors in this respect. As well, there was a pronounced cognizance on the part of Canadians of differences in the economic situation confronting the various regions of Canada. Perceptions of regional economic well-being roughly paralleled the actual conditions of prosperity in the various regions, with Ontario generally ranked at or near the top, with the Atlantic Provinces consistently perceived as being the worst off. In partial contrast was the high rankings accorded to themselves by the prairie provinces and British Columbia. Irrespective of the perceived economic conditions, Canadians displayed a marked affinity towards their own region as a desired place of residence.

The identity of particular regions on the part of Canadians is reflected in the political arena. "From the perspective both of the political system and the orientations of voters, each region manifested considerable uniqueness... but more important is the overall effect, in which Canada emerges as a regionally-divided society" (Schwartz 1974, p.312). On the basis of perceptions of political efficacy and political trust, substantial differences exist among the residents of the provinces (Simeon and Elkins 1974). On both dimensions, the Atlantic Provinces and to a lesser extent Quebec were characterized by an alienation from the political process, while Ontario, British Columbia, and Manitoba exhibit a greater confidence in the political system. Surprisingly, the apparent cynicism and resignation of the Atlantic provinces and Quebec is not evident in the actual participation of these provinces in the political process, as provincial variations of this dimension were relatively small. Moreover, the variations are not simply a reflection of socio-economic or lingual differences existing among the provinces. Control variables such as education level and class structure, were introduced to take these factors into account and "regional differences remain substantial after controls are introduced" (Simeon and Elkins 1974, p.429).

By way of contrast, regional and national barriers to capital accumulation are said to have been eroded as a consequence of the pervasive penetration of American multinational corporations, mass urbanization and the emergence at a specialized division of labour characteristic of the increasing centralization of capital (Chorney 1977). Similarly, with respect to the Canadian prairies, Gibbins (1980) notes,

> In the past the combination of an ethnically-distinct immigrant population and a frontier agrarian economy, set in a unifying geographical locale remote from central Canada, yielded patterns of social and political behaviour that were peculiar to and distinctive of the region. Today the 'special combinations' of the past are fading as the society and economy become increasingly integrated into the social and economic patterns of the surrounding nation and continent, and as technological advancement diminishes the importance of geographical separation from the Canadian heartland (p. 196).

However, asserting that 'prairie' regionalism is in decline need not be equated, as Matthews (1983) seems to imply, with a decline of regionalism in western Canada per se. Rather, in the face of new realities and parallel to the historical evolution of the institutional structure of the nation, the appropriate level of regional differentiation has changed; that is, Confederation represented a compromise among a myriad of economic interests situated throughout the land. By virtue of the federal structure of the Canadian state, the various classes and regional interests contained therein became associated with the different tiers of government. When the central government is unsympathetic to a particular concern, as in the current case of Alberta oil interests, then these interests will seek accommodation by way of the provincial state. In effect, the level of government with which business chooses to align itself is determined by its interests. Specifically and in contradistinction to other federal states, the provincial governments have assumed a particular importance in the course of Canadian nation-building (Panitch 1977, Pratt and Richards 1979, Stevenson 1982). Thus, to the extent that governments may shape the fabric of society, "mechanisms set in motion by the creation of political institutions permit provinces such as Saskatchewan and Alberta which possessed little sociological legitimacy at their birth to acquire it with the passage of time...." (Black and Cairns, 1966, p.40). The seemingly contradictory assessment of the state of regionalism in Canada expressed by Gibbins (1980) and Matthews (1983) may be partially reconciled, if individual provinces, and not combinations thereof, are considered the relevant level of regional differentiation.

All told, the evidence suggests that there are regional variations in outlook and values amongst Canadians, and these variations underpin the regional nature of Canadian society. The appropriate level of spatial abstraction in which regionalism is best comprehended is the province, as this unit of analysis is the territorial basis of the nation's institutional structure (Breton 1981, Cameron 1981). In light of this structure, regional development in Canada may be more realistically conceived of as province-building, and the regional problem essentially one of differences among the provinces. This is not to say that a number of provinces cannot be grouped together to indicate the nature of the differences vis-a-vis other provinces, only that this grouping is not particularly useful as an appropriate policy framework; nor is it entirely consistent with the conceptions of regionalism outlined previously.

Insofar as the individual provinces differ from one another on the basis of various indicators, the question begged is, does a problem exist? A semantical distinction should be drawn between regional differences and regional disparities. It is fairly obvious that virtually all things possess certain attributes which are in some way unique. It is, therefore, equally obvious that all things differ to some extent. Hence, to assert that significant regional differences exist in Canada by no means constitutes a problem in and of itself, as many differences are natural and desirable. In contrast, labelling relative differences amongst regions as disparities solicits implications concerning the meaning of those differences. The selection of the term disparaties implies that differences are negative and, thus, necessarily imputes a normative judgement. While some authors reject the use of the term 'disparities' on these grounds (e.g. Cameron 1981), for the purpose of this study the term will be utilized to signify when regional differences constitute a problem for public policy. However, use of the term should not be construed to mean that certain provinces, or the individuals therein, are in any way inferior. From the perspective of Canadian public policy, interregional differences of income and unemployment probably warrant the most attention as far as the impetus behind explicit regional policy.

The most popular indicator of regional disparities is the relative differences of incomes among the provinces. Most frequently it is expressed in terms of income per capita. Measuring differences among provinces in these terms is attractive since it utilizes identifiable and familiar monetary values which seemingly facilitate 'objective' comparisons between provinces. Furthermore, per capita income serves as a general proxy for the overall standard of living, which exists in particular places. Perhaps more importantly, per capita income provides a tangible policy target for politicians and policy-makers and thus avoids the theoretical fuzziness and subjectiveness generally ascribed to social indicators. However, there is a serious limitation attached to the use of an average when the realm is that of public policy. As mentioned previously, the problem of selecting provincial boundaries as operational regional boundaries is that it necessarily obfuscates equally important intra-regional disparities. The use of average income has a similar effect. As a measure of central tendency, average income obscures distributional questions that are pivotal to meaningful notions of equity and civility. The fact that average income for Newfoundland is less than that for Ontario cannot be interpreted as indicating all Newfoundlander's are less well off than Ontario residents and vice versa.

In light of the limitations associated with using per capita income as an indicator of regional disparities, it is worth considering whether poverty is a uniquely regional phenomenon in

Canada. In 1967 the majority of all low-income families, some 2.1 million persons, resided in the two most industrialized provinces of Canada, namely, Ontario and Quebec (Table 1.2). "Perhaps the most striking fact...is the concentration of poor in Quebec and Ontario. Quebec alone had more poor people than the combined western provinces, and nearly twice as many as all Maritime provinces" (Canada, A Report of the Special Senate Committee, 1971, p.19). By 1971, Ontario and Quebec contained 56 per cent of all low-income families, while the four Atlantic provinces collectively had 14.4 per cent (Economic Council of Canada, 1977). In terms of absolute numbers, the data indicate that the incidence of poverty is by no means confined to specific regions, but is evident in all parts of Canada. What does present a problem, is the relative frequency of low-income families within specific provinces. In terms of this measure, the provinces of Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick had 33.7, 34.0 23.0 and 24.1 per cent respectively as against 15.9 per cent for Canada as a whole (Economic Council of Canada 1977). Also exhibiting a high frequency of low-income families was Sasksatchewan with 27.9 per cent.

Examination of regional income differentials is generally discussed in terms of the convergence or divergence of trends. A tendency towards convergence indicates greater regional balance and implies that low-income regions are improving relative to high-income regions (although this need not be the case, since high-income regions may experience a relative or absolute decline).

In a study of the historical pattern of regional income differentials in Canada, McInnis (1968 p.441) noted,

> Over the period 1926 to 1962 taken as a whole, the level of variability of relative per capita income among the regions has been approximately constant. Furthermore, over the long term, there has been little change in the relative positions of the individual regions. On the basis of this evidence the trend of regional income differentials in Canada appear to have been roughly constant; there has been neither convergence nor divergence.

While there was in fact a slight convergence, this was attributed to the redistribution of income through government transfer payments. Adjusting the levels of personal income to exclude the impact of these transfers, the long-term constancy of relative income differentials in Canada is clearly established (Table 1.3). Moreover, the analysis is extended by estimating regional per capita incomes for the years 1910-11 and 1920-21 (Table 1.4). Using participation income (wages, salaries and independent business income), the same trend is again evident, with the Maritime provinces and Quebec consistently at the bottom, and Ontario and British Columbia at the top. These findings are generally consistent with the regional growth patterns prevailing for the 1890-1926 period (Green 1967).

The legacy of regional income disparities has remained virtually unchanged since 1962. In terms of market income per capita, that is investment, business, farm and employment income, the position of the four Atlantic provinces vis-à-vis Ontario and British Columbia is basically similar to that in proceeding periods (Table 1.5). To the extent that convergence has occurred, it is tainted by the decline of Ontario, as opposed to the positive improvement of the four eastern provinces. A second feature of the recent past has been the strong performance of Alberta (stimulated in the main by the oil shocks of 1973 and 1979) and to a lesser extent Saskatchewan, relative to Canada as a whole. The actual magnitude of regional income disparities, however, must take into account the implicit regional policy measures designed to reduce these disparities; government transfer payments, and progressive tax policies.

Government transfer payments include a variety of equalization and social-welfare payments, e.g. unemployment insurance, designed to ameliorate individual and regional inequalities. The impact of these payments tends to reduce relative income disparities among the provinces (Table 1.6). The range between the highest (Alberta) and the lowest (Newfoundland) has narrowed considerably, although significant disparities remain. Finally, the personal disposable income profile of the provinces again exhibits a slight convergence over the previous two measures (Table 1.7). The difference between personal disposable income and personal income per capita is that the former takes into account the 'progressive' tax system operational in Canada [3]. The relative position of the four Atlantic provinces displays a marked improvement, while British Columbia's and Alberta's income are slightly redistributed. Ontario comes out slightly ahead after differential taxes are levied. None the less, income disparities remain a prominent feature of Canadian federalism, despite more than 25 years of implicit and explicit regional policy. In 1982 personal disposable income per capita in each of Ontario, Alberta, and British Columbia exceeded that of Newfoundland, New Brunswick, Nova Scotia, and Prince Edward Island by approximately 55, 46, 34 and 46 per cent respectively. While the comparable figures in 1962 were greater, with the exception of Alberta, the problem remains. Indeed, market income growth in the period 1969-1979 was marginal in most provinces, and actually declined in Ontario and Manitoba relative to the Canadian average for the period. These points emphasize that (except for Alberta and Saskatchewan) differences in income have not been declining between regions. Any apparent equalization was due to the poor performance of Ontario, whose decline was part of a continental trend of industrial stagnation. No doubt these figures understate the case, as the federal government and its crown corporations have national wage scales which augment the income position at the lower income provinces [4].

Perhaps the most important indicator of regional imbalance; and probably the most politically volatile, is that of regional disparities of unemployment. A salient feature of the historical record is the poor performance of the four eastern provinces and, to a slightly lesser extent, Quebec vis-à-vis the remainder of Canada (Table 1.8). With the exception of British Columbia, these five provinces have persistently exhibited the highest average annual unemployment rates across the nation. Of these provinces, Newfoundland has performed the worst by far, with unemployment levels being almost double the Canadian average, reaching a dismal peak of 18.8 per cent in 1983 [5]. Since 1980, Quebec's unemployment level has jumped considerably and was the third highest in Canada in 1983; a situation which does little to appease separatist sentiments[6]. Despite its prosperity, British Columbia has had unemployment rates which have exceeded the national average in 24 out of the last 27 years [7]. In contrast, the provinces of Alberta, Saskatchewan and Manitoba have traditionally had relatively low unemployment levels. Alberta's unemployment rate was the lowest of the three provinces during its oil bonanza. However, its precarious dependence on resource rents has resulted in a sudden jump in unemployment as oil revenues have slowed [8]. Ontario's unemployment levels have also historically remained between 0.6 and 1.5 percentage points below the national average, although its economy is by no means performing admirably. Layoffs have struck substantial segments of its industrial base, as some 441,000 individuals were officially out of work in 1982 in contrast to the 295,000 in 1981, a 49 per cent increase. As unemployment figures only represent those individuals remaining in the labour force and not those who have withdrawn, the severity of the problem in undoubtedly understated.

A second aspect of the employment dimension warranting serious attention from the perspective of explicit regional policy is the effect of seasonal factors on employment patterns. The magnitude of the seasonal factor is largely contingent upon the incidence of seasonal industries in particular provinces; that is to say, certain industries' experience varying activity levels depending on the time of the year, as in the case of agriculture, construction and other primary industries. Other industries experience moderate or minimal fluctuations in activity levels depending on the time of the year, for example, manufacturing or banking. The overall impact of seasonality however, may change over time as industries become more or less subject to seasonal influences. To the extent that seasonal industries are concentrated in particular provinces, significant costs are imposed on certain individuals, the provincial economy, and the Canadian economy as a whole. For example, with respect to the latter, Dawson et al (1975) estimate that the alleviation of seasonal under- utilization of labour could increase total annual GNP by 1.6 per cent and average annual employment by 1.1 per cent.

In terms of the regional dimensions of seasonality of employment, "the problem of regional disparities quickly comes to the fore" (Huot and Higginson, 1982, p.62). Only three provinces in Canada - Ontario (8.1 per cent for males and 4.6 per cent for females), Manitoba (7.3 per cent) and Alberta (6.2 per cent) - enjoyed a seasonal amplitude of employment lower than the national average of 8.3 per cent in 1980 [9]. As was indicated previously, Alberta's favourable performance is a consequence of rapid growth spurred by energy development which resulted in the seasonal fluctuation declining by approximately five per cent since 1971.

Ontario is generally characterized by a limited seasonality of employment. In sharp contrast, Newfoundland, New Brunswick and Prince Edward Island had the largest seasonal amplitudes in employment between 1966 and 1980. The highest level of seasonal fluctuation in Canada occurred in P.E.I., although there was a decrease in this level from 28.8 per cent in 1970 to 21.8 per cent in 1980. In every sector of the Newfoundland economy, seasonal influences exceeded the national average, and the seasonal amplitude registered well above the Canadian average at 23 per cent in 1980. A major source of this province's seasonality is the fishing industry and its dependence on climatic factors (Morry 1982). Of the four Atlantic provinces, Nova Scotia possesses the fewest seasonal industries and thus exhibited the smallest seasonal amplitude of employment in 1980, 11.3.per cent. As was the case in Ontario, seasonality of employment in Quebec decreased between 1970 and 1980, but unlike Ontario, this decrease was not sufficient to place Quebec below the national average. Of the two remaining prairie provinces, Saskatchewan, with about 20 per cent of its employment in agriculture in 1980, had the greatest seasonal employment. However its seasonal influence was still well below that in Atlantic Canada. Finally, British Columbia's total employment also tends to display a greater seasonality than the Canadian economy as a whole. Thus, seasonality clearly has a regionally-differentiated impact on the Canadian economy.

Participation rates are a third aspect of the employment dimension that elicits an explicit regional response [11]. The participation rate is defined as the number of people in the labour force, that is the employed and the unemployed, divided by the population aged fifteen years and over. Consistent with the previous indicators, the Maritime provinces display a lower portion of their population actively engaged in the labour force relative to the national average (Table 1.9). Again, Newfoundland tops the list with the nation's worst performance with only 52.1 per cent of its eligible population participated in the labour force during 1983. Corresponding figures for Prince Edward Island, Nova Scotia and New Brunswick were 60.2, 57.4 and 55.5 per cent, versus 64.4 per cent for the nation as a whole. Quebec, likewise, is below the national average, with 60.9 per cent of its potential population engaged in the labour force. Equally consistent with previous measures are Alberta (71.6 per cent) and Ontario (62.1 per cent) who perform as the national leaders. Manitoba (65.6 per cent) and Saskatchewan (65.2 per cent) while not highest, exceed the Canadian rate and that of the more prosperous British Columbia (64.1 per cent).

In sum, the concept of a region is generally defined relative to the objectives of the researcher. However, the demarcation of regional entities should reflect not simply the perceptions of the planner or academic, but more importantly the perceptions of the inhabitants who reside there. That is, regions are social spaces, embodying class structures and institutional frameworks as much as they are objective entities.They gain significance when there is a sense of regionalism amongst the population. In Canada, the province is a relevant regional framework as it coincides with the institutional and political structures of the nation as these have evolved in Canadian society. While not exhaustive of the possible indicators of the regional problem, this Chapter has highlighted those elements which have provided the primary impetus in determining regional policy. It is evident that the four Atlantic provinces, Quebec, and to a somewhat lesser extent Manitoba and possibly Saskatchewan are central concerns of regional policy. At the same time, it is critical to be cognizant of intra-regional disparities which exist in all provinces.

TABLE 1.1

Rural-Urban Population in Canada 1981

	Total Population	Urban (%)	Rural
Newfoundland	567680	332900 (58.6)	234785
P.E.I.	122505	44515 (36.3)	77990
Nova Scotia	847440	466845 (55.1)	380600
New Brunswick	696400	353220 (50.7)	343180
Atlantic	2234025	1197480 (53.6)	
Quebec	6438400	4993840 (77.6)	1444565
Ontario	8625110	7047030 (81.2)	1578075
Manitoba	1026240	730655 (71.2)	295580
Saskatchewan	968310	563165 (58.1)	405145
Alberta	2237725	1727545 (77.2)	510180
Prairies	4232275	3021365 (71.4)	
British Columbia	2744465	2139410 (77.9)	605055
Yukon	23155	14815 (64)	8340
Northwest	45740	21985 (48)	23755
Canada	24343185	18435930 (75.7)	5907255

Source: Statistics Canada, Census, 1981, Catalogue 92-901.

TABLE 1.2

Estimated numbers of persons and children under 16 in low-income family units by province, 1967

Province	Number of persons in low-income family units	Distribution	Number of children under 16 in low-income family units	Distribution
	(thousands)	%	(thousands)	%
Newfoundland	197	5.1	90	6.4
P.E.I.	54	1.4	20	1.5
Nova Scotia	223	5.8	87	6.2
New Brunswick	188	4.9	81	5.8
Quebec	1232	31.9	486	34.6
Ontario	902	23.3	298	21.3
Manitoba	204	5.3	72	5.1
Saskatchewan	253	6.5	82	5.9
Alberta	299	7.7	99	7.1
British Columbia	312	8.1	85	6.1
Canada	3863	100.0	1404	100.0

Source: Canada, A Report of the Special Senate Committee, 1971.

TABLE 1.3

Relative levels of per capita personal income exclusive of government transfer payments, Canadian Regions 1926 - 27 to 1960-62

	Maritimes	Quebec	Ontario	Prairies	B.C.	Relative Mean Deviation
			(Canada = 100)			
1926 - 27	64	86	115	107	120	18.4
1930 - 32	70	95	126	73	126	22.8
1940 - 42	68	88	124	86	122	20.8
1950 - 52	64	82	118	106	118	19.2
1960 - 62	65	86	118	96	114	17.1

Source: McInnis (1968).

TABLE 1.4

Participation Income Per Capita and Participation Income Per Capita Relatives, Regions and Canada 1910 - 11 to 1960 - 62

Year	Maritimes	Quebec	Ontario	Prairies	B.C.	Canada
Participation income per capita in dollars						
1910 - 11	159	191	261	315	464	249
1920 - 21	298	362	465	501	520	430
1926 - 27	246	314	417	409	463	372
1930 - 32	208	272	358	218	398	290
1940 - 42	291	374	515	370	537	423
1950 - 52	615	777	1121	1018	1117	952
1960 - 62	833	1087	1465	1229	1434	1257
Relatives, Canada = 100						
1910 - 11	64	77	105	127	186	100
1920 - 21	69	84	108	117	121	100
1926 - 27	66	84	112	110	124	100
1930 - 32	72	94	123	75	137	100
1940 - 42	69	88	122	87	127	100
1950 - 52	65	82	118	107	117	100
1960 - 62	66	86	117	98	114	100

Source: McInnis (1968).

TABLE 1.5

Market Income per Capita
Canada = 100

Province	1962	1967	1972	1977	1982
Newfoundland	51.3	52.8	52.8	55.9	55.4
P.E.I.	54.8	55.9	58.8	58.5	60.3
Nova Scotia	73.1	77.3	76.1	74.9	74.1
New Brunswick	62.9	66.3	68.4	67.9	65.2
Quebec	88.7	90.5	88.2	90.5	90.2
Ontario	119.7	118.3	119.1	113.2	111.1
Manitoba	90.7	95.2	92.5	92.9	93.8
Saskatchewan	90.8	80.9	76.8	90.9	95.3
Alberta	99.6	98.1	98.6	105.0	113.3
B.C.	113.2 [1]	111.0	110.9	111.4	108.4
Canada	100	100	100	100	100

NOTES

1. Includes the Northwest Territories and the Yukon.

Source: Data for the period 1962-82 derived from Statistics Canada, Provincial Economic Accounts 13-213 and Statistics Canada, Estimates of Population for Canada and the Provinces 91-201.

TABLE 1.6

Personal Income Per Capita

Canada = 100

Province	1962	1967	1972	1977	1982
Newfoundland	56.1	61.1	63.9	68.8	66.8
P.E.I.	60.5	62.2	66.4	67.4	69.4
Nova Scotia	75.8	76.8	79.9	79.6	78.6
New Brunswick	66.4	69.5	73.7	74.9	71.9
Quebec	89.3	90.7	89.6	93.8	93.7
Ontario	117.2	116.4	116.2	109.6	107.9
Manitoba	97.8	95.6	93.7	92.5	93.4
Saskatchewan	93.4	81.5	78.9	91.7	96.4
Alberta	100.0	99.3	98.5	102.4	109.3
B.C.	114.3[1]	111.0	110.8	110.2	107.6
Canada	100	100	100	100	100

NOTES:

1. Includes theNorthwest Territories and the Yukon.

Source: Data for the period 1962-82 derived from Statistics Canada, Provincial Economic Accounts 13-213, and Statistics Canada, Estimates of Population for Canada and the Provinces 91-201.

TABLE 1.7

Regional Disposable Income Per Capita

Canada = 100

Province	1962	1967	1972	1977	1982
Newfoundland	57.5	64.2	67.5	71.1	69.5
P.E.I.	62.9	65.2	70.9	70.7	73.9
Nova Scotia	77.3	77.7	81.3	81.1	80.7
New Brunswick	67.8	71.3	76.2	76.8	74
Quebec	90.2	91.9	89.9	91.5	91.2
Ontario	115.3	114.5	114.4	110.1	108.7
Manitoba	98.4	96.9	95.3	96.4	98.3
Saskatchewan	95.8	82.4	83.4	94.3	100.4
Alberta	101.4	100.8	99.0	102.0	107.9
British Columbia	114.1 [1]	110.5	110.7	110.3	107.0
Canada	100	100	100	100	100

NOTES:

1. Includes the Northwest Territories and the Yukon.

Source: Data for the period 1962-82 derived from Statistics Canada, Provincial Economic Accounts 13-213, and Statistics Canada, Estimates of Population for Canada and the Provinces 91-201.

TABLE 1.8

Provincial Unemployment Rates (%)

<table>
<tr><th>Province</th><th>1966</th><th>1972</th><th>1977</th><th>1982</th></tr>
<tr><td>Newfoundland</td><td rowspan="4">5.4</td><td rowspan="4">7.7</td><td>15.6</td><td>16.8</td></tr>
<tr><td>P.E.I.</td><td>9.9</td><td>12.9</td></tr>
<tr><td>Nova Scotia</td><td>10.6</td><td>13.2</td></tr>
<tr><td>New Brunswick</td><td>13.2</td><td>14.0</td></tr>
<tr><td>Quebec</td><td>4.1</td><td>7.5</td><td>10.3</td><td>13.8</td></tr>
<tr><td>Ontario</td><td>2.6</td><td>5.0</td><td>7.0</td><td>9.8</td></tr>
<tr><td>Manitoba</td><td rowspan="3">2.4</td><td rowspan="3">5.3</td><td>5.9</td><td>8.5</td></tr>
<tr><td>Saskatchewan</td><td>4.5</td><td>6.2</td></tr>
<tr><td>Alberta</td><td>4.5</td><td>7.7</td></tr>
<tr><td>British Columbia</td><td>4.6</td><td>7.8</td><td>8.5</td><td>12.1</td></tr>
<tr><td>Canada</td><td>3.4</td><td>6.2</td><td>8.1</td><td>11.0</td></tr>
</table>

Source: Department of Finance, Economic Review, various years and Canadian Statistical Review, various years.

TABLE 1.9

Provincial Participation Rates (%)

Province	1966	1972	1977	1982
Newfoundland			50.7	52.1
P.E.I.	50.4	50.5	57.0	57.8
Nova Scotia			55.2	57.0
New Brunswick			53.2	55.0
Quebec	56.0	55.9	58.9	60.0
Ontario	58.9	61.7	64.3	67.3
Manitoba			61.7	64.9
Saskatchewan	58.3	60.8	61.5	63.9
Alberta			67.0	71.4
British Columbia	56.7	58.8	61.5	64.3
Canada	57.3	58.6	61.5	64.1

Source: Department of Finance, Economic Review, various years, Canadian Statistical Review, various years.

NOTES

1. The debate surrounding this point has recently surfaced in <u>Studies in Political Economy</u>. On the one hand, McNally argues Innis' work "was a rigidly deterministic interpretation of economic history whose central feature was commodity fetishism - the attribution of creative powers in the historical process to the staple commodity as a natural and technical object." On the other hand, and more convincingly, Parker argues, "one of the practical lessons Canadian marxists can learn from critical study of Innis...is the necessity for serious, systematic and painstaking analysis of the changing material basis of Canadian capitalist development, or of the historical significance of technological, political-economic, and geographic determinants of the concrete development of Canadian social-economic and class formation." See David McNally, "Staple Theory as Commodity Fetishism: Marx, Innis and Canadian Political Economy" <u>Studies in Political Economy</u>, No. 6, 1981, pp. 35-63 and Ian Parker, "'Commodity Fetishism" and "Vulgar Marxism": On "Rethinking Canadian Political Economy'", <u>Studies in Political Economy</u>, No. 10, 1983, pp. 143-172.

2. The political-economic importance of transportation in Canada is vividly illustrated by the debate surrounding freight rates, as for example in the case of the Crow Rate, and Maritime Freight Rates.

3. The actual progressiveness of the Canadian tax system is open to debate as was partially evidenced by the recent Progressive Conservative Party's Task Force dealing with Taxation. In terms of corporate taxation, direct taxes on companies as a percentage of total current tax liabilities has declined from 20.52 per cent in 1953 to 11.33 per cent in 1979 in Canada. This decrease in the corporate tax burden is attributable to inflation, more generous depreciation laws (hence reducing profits share of income) and changes to tax laws which have eroded the effective rate or taxation. See Mirowski, P. and A. R. Schwartz, "The Falling Share of Corporate Taxation", <u>Journal of Post-Keynesian Economics</u>, Vol. 5, No. 2 1982-83, pp. 245-256.

4. These figures do not reflect the actual purchasing power of the dollar across the provinces. Irrespective of this factor regional income disparities remain.

5. Canadian Statistical Review, November, 1984.

6. Canadian Statistical Review, November, 1984.

7. Canadian Statistical Review and Department of Finance, Economic Review, various issues.

8. For example, the unemployment rate jumped from 3.3 per cent in 1981 to 9.7 per cent in 1982 and reached 10.8 per cent by 1983.

9. The figures for Quebec, Ontario and British Columbia were disaggregated on the basis of sex in Huot and Higginson (1982) and Morry (1982).

10. Also similar to Ontario was the differential impact of the decrease in terms of sex; female employment is less seasonal than that of males.

11. Policies designed to facilitate social adjustment (e.g. Newfoundland Resettlement Programme) attempt to increase the participation rate in certain regions by attracting workers into a wage-labour industrial environment, from independent commodity production, e.g. fishing.

CHAPTER 2

INSTITUTIONAL CONSTRAINTS ON THE FORMATION OF REGIONAL POLICY

2.0 Introduction

The previous chapter has highlighted the key indicators of the regional problem in Canada. The historical records, dating back to 1926, clearly display the interregional disparities of income per capita which have become a 'hallmark' of Canadian federalism. Equally telling are interregional disparities of unemployment and participation rates. Together these trends have remained a persistent feature of Canada's political economy, seemingly impervious to national economic fortunes. Somewhat surprisingly, therefore, has been the general failure to explicitly address the regional problem in Canadian public policy for most of the nation's existence. Initially, this neglect probably stemmed from a preoccupation with nation building - and resistence to American annexation - as envisaged in MacDonald's National Policy. Implicit here is the general assumption that regional prosperity and national prosperity go hand in hand, an assumption which was prevalent in the post-World War II reconstruction period and is again extant today. That this sanguine assumption may not be tenable has been recognized on various occasions, not least in the 1930s when it was made explicit by the Rowell-Sirois Commission (1940). However, given the structure of the Canadian polity, and the existence of a problem which undermined that structure, the regional problem could not be avoided indefinitely. In large measure, the aversion to policy measures directed at regional concerns reflects the complexity of the problem itself.

Formulation and implementation of policies designed to ameliorate regional income and employment disparities is beset by a number of institutional constraints. These constraints emerge out of the historical evolution of the Canadian political-economy and _a fortiori_, by virtue of the capitalist nature of that evolution. In so far as the state is the key institution capable of undertaking countervailing measures and marshalling the requisite resources necessary to ameliorate regional disparities, it appears germane to examine the nature and role of the state in Canadian society. Specifically, the state in Canada will be examined from two levels of analysis. At a structural level, the Canadian state, as a capitalist state, will be set within the general context of capitalist accumulation. These structural relations between state and society, and the accumulation process in particular, will set the parameters that circumscribe the scope of state action in addressing the regional problem. At a more refined level, the organizational structure of the Canadian state will be examined and the implications arising for regional policy will be elucidated. In either case, ascertaining the institutional constraints surrounding regional policy will provide a general indication as to the form and direction of this policy as it has evolved in Canada.

2.1. Structural Constraints: The Role and Nature of the Capitalist State

Since the focus of this thesis is Canadian regional policy and since the government, as the focal point of the state apparatus, institutes these policies, it follows that the role and nature of the state in capitalist economies needs to be examined in order to ascertain the structural parameters within which these policies are formulated and administered. These structural parameters will delimit the scope for state action in addressing regional or other problems confronting contemporary societies. An apt illustration of that point can be gotten from the example of the comprehensive economic and social development programme aimed at transforming the living conditions of residents in northern Manitoba. Loxley (1981) concludes,

> ... the most important reason for the failure of the northern strategy exercise was the neglect of the planners to analyse the class nature of the state in Manitoba...the planners failed to comprehend the political coherance of capitalist development, and the extent to which their proposed strategy challenged both the ideology of capitalist accumulation and the political institutions which serve it....Essentially the state continued to support the accumulation of capital by a non-resident class of property owners (p. 171, 172).

In light of such obvious regional implications, the purpose of this section therefore is to elucidate the salient features of the role and nature of the state in western economies by drawing attention to some of the pecularities of the Canadian experience.

The evolution of western societies has witnessed two important tendencies: the increasing size of private accumulating units on the one hand and the progressive expansion of the role of the state on the other. The latter of course is manifest through state intervention in social and economic processes. However, while the concentration of capital has been seriously, albeit inadequately, addressed in orthodox theory, discussion of the state role is conspicuous by its relative absence. Frequently the state is simply ignored or treated in a largely residual way as is the case, for example, in the world of neo-classical economics. To the extent that the state is considered, more often than not it is conceptualized in a rudimentary fashion such as an economic agent roughly comparable to a firm or household, or as a set of neutral policy instruments applicable to various economic goals. In so doing, analyses of this character tend to focus on empirically observable state functions and go on to identify the state as: a supplier of public or social goods and services; a regulator and facilitator of the marketplace; a social engineer in the sense of intervening in the economy to achieve its own policy goals; and an arbitrator of intergroup conflict (Clark and Dear 1981). The fundamental limitation of these perspectives is their failure to address the social nature of capitalist production and its economic, political and ideological preconditions and that the state plays an essential role in securing these preconditions. In effect,

> This means that the state and state power must assume a central role in capital accumulation, even in those

> apparently counterfactual cases characterized by a neutral, laissez-faire state, as well as those where the state is massively involved in the organization of production (Jessop 1977 p. 370).

First and foremost, the state is a system of political domination (Jessop 1977). The state itself exists as a complex institutional system consisting of a number of institutions (Miliband 1969), namely the government, the bureaucracy, the military and police, the judiciary, parliamentary assemblies and sub-central levels of government. State power is a complex contradictory effect of social (class) struggle mediated through, and conditioned by, the institutional system of the state. As the state is not a monolithic totality the extent to which the government is able to act on behalf of the state will be contingent upon the balance of forces within the state apparatus and the extent to which there is a set of common assumptions. Thus, while the elected government is formally invested with state power and acts as a spokesman for the state as a whole, it does not necessarily control that power. Of particular significance in this respect in the case of Canada is the relative strength of provincial governments in promoting the affairs of regional, sectoral and/or class interests. At the same time, as a complex institutional system, the state is not simply a political instrument under the control of capital (the dominant social force in capitalist economies), although in Canada the linkages between political and economic elite are strong (Clement 1975). More correctly, the state is a political force which is an integral factor in the social reproduction of capital and complements the economic force of competition in the accumulation process.

In its role of facilitating the reproduction of capital, the state must try to fulfil two important functions (O'Conner 1973). On the one hand, the state attempts to create and maintain the conditions for profitable private capital accumulation, that is, it undertakes an accumulation function. On the other hand, the state attempts to maintain and create conditions of social harmony, that is, it makes an effort to legitimate the former function. In turn, the need for a legitimation function stems from two principal contradictions extant in the accumulation process. First, an objective basis for conflict exists in the sphere of production over the capitalist control of the work place and in the sphere of circulation over the distribution of social product between profits and wages. Secondly, and following from the former, an objective basis for conflict exists over the use and control of society's savings, which are the basis for future expansion (Foglesong 1983). While many individuals and groups contribute to society's savings, only a handful of individuals determine how these are to be allocated according to private rates of return. At issue, then, is the private control and use of savings versus the social requirements that savings and investment must fulfil. The two functions, accumulation and legitimation, may or may not be contradictory, and the balance between the two reflects the outcome of social struggles. Because of this last factor, the state also has a coercive function by virtue of its monopoly over the legitimate use of force. The state, therefore, may use force or the threat of force, in order to maintain social stability.

The accumulation function of the state implies the need for a separate political institution to secure certain preconditions for sustained accumulation. To this end,

> ...what the state protects and sanctions is a set of rules and <u>social relationships</u> which are presupposed by the class rule of the capitalist class. The state does not defend the interests of one class, but the <u>common</u> interests of all members of a <u>capitalist class society</u> (Offe and Ronge 1977 p. 346).

Implicit here is the notion that the collective interest of a capitalist class supersedes the individual interests of individual capitals. This means that the state may act against capital as well as labour, or other groups, in order to defend the common interest. In addition the need for a separate political body to secure preconditions for accumulation arises from the fact that certain general preconditions are inappropriate or impossible to secure by any individual agent of capital. In particular, the state functions to: provide the general material conditions of production, i.e. infrastructure; establish and guarantee general legal relations; regulate conflict between capital and wage-labour; and safeguard the existence and expansion of total national capital on the world market (Altvater 1978). Seen in this context the state attempts to act as an 'ideal total capitalist' which makes historically possible the atomistic capitalist economy.

Set against the accumulation process, the concept of the capitalist state may be determined according to its functional relationship to and dependence on that process (Offe 1975, 1984; Offe and Ronge 1977). Specifically, the capitalist state describes an institutional form of political power which is guided by four functional conditions. First, the state is excluded from directly organizing production according to its own criteria (exclusion); property is private and thus production decisions are directly made by private individuals. Secondly, state political power is dependent on (by virtue of its separation from) the accumulation process (dependence); that is to say, the capitalist state is powerless unless the volume of the accumulation process enables it to derive the requisite material resources (through taxation) that are necessary to pursue its political ends. Hence, "this fundamental dependency upon accumulation functions as a selective principle upon state policies" (Offe 1975, p. 126). Thirdly, the state has a mandate to create and sustain conditions of accumulation since capitalism is not self-sufficient or self-regulating (maintenance). This mandate also follows from the state's own dependence on accumulation. Fourthly, there is a joint determination of the political power of the capitalist state: on the one hand, the rules of democratic and representative government determine the institutional form of the capitalist state, but, on the other hand, the material content of state power is conditioned by the demands of the accumulation process which is private in character. Thus, the state can only serve the needs of private capital and accumulation if it is able to translate the requirements of accumulation into common and general concerns of society as a whole and thereby secure popular support, as for example by appealing to the "national interest".

The four functional conditions place divergent demands on the state. The means by which the capitalist state is able to reconcile these conditions is through "commodification"; that is, if all economic agents participate in commodity relationships - are able to successfully exchange their value as a commodity - then the four constitutive elements of the state may be reconciled. However, a fundamental problem of capitalist societies is that the accumulation process evolves in such a way that "paralyses" the commodity form of value and leads to crises. In response, state intervention is required to re-establish exchange relations, since there is no guarantee that self-correcting measures are sufficiently operative. Thus, "The most abstract and inclusive common denominator of state policy in late capitalist societies is the securing of exchange relations between individual economic actors" (Offe 1984, p. 123). Policies, such as manpower training, R & D support and export marketing are, in other words, designed to facilitate the maximization of exchange opportunites for labour and capital in order that they may participate in capitalist relations of production through the expansion of market possibilities. The strategies adopted by the state to achieve this end may range from inaction to the "welfare state" to "administrative commodification". A major constraint of "welfare state" strategies is their fiscal cost which augments the fiscal crises of the state (see O'Conner 1973). Administrative commodification, on the other hand, involves active state intervention designed to reassert exchange activities and develops along three general lines: the enhancement of the salability of labour power through manpower and mobility programmes, etc; the enhancement of the salability of capital and manufactured goods; and through state-sponsored restructuring of the economy be they industries, regions, or labour markets. However, the strategies and policies designed to extend exchange relationships and thus sustain accumulation also entail negative side effects which inhibit the continued realization of these objectives, as for example, with increased regulations impinging on the freedom of capital or labour to realize the most profitable return. At the same time, these interventions frequently lead to an expansion of state-organized sectors of the economy, e.g. the bureaucracy, which places an ever-increasing burden on capital and labour, but none the less is required in order to ensure accumulation. Thus, while state intervention may ameliorate political and economic problems arising from the accumulation process, it cannot do so indefinitely.

Of significance is the finding that the appropriate forms of state intervention change as the capitalist economy evolves and this process has serious implications for the forms of political representation and institutional structure. The relationship between the form of political representation and state apparatus and the form of intervention is not unidirectional but rather is; mutually interactive, integrated into the movement of capital, and a potential area of conflict. Hence it can be argued that, "the form of the state problematises its functionality" and state policies are not simply determined by accumulation requirements but are subject to the influence of social pressures (Jessop 1977; 1982 p. 142). Therefore, failure of state intervention to ameliorate economic problems may arise not only from mistaken analysis but also from inadequate forms of political representation. By implication this latter point indicates, "that the reorganization of the state apparatus may be necessary before economic problems or crises can be resolved" (Jessop 1977 p. 371).

Like all capitalist states, the Canadian state functions to create and maintain conditions for profitable accumulation and attempts to legitimate that purpose. Of particular importance to Canada has been the accumulation function which has dominated state activity virtually from the beginning. The Canadian state never really existed as a <u>laissez-faire</u> state, rather its involvement in the economy has always been extensive owing to the nature of staple production in Canada and the close ties of the economic elite to the state apparatus (Panitch 1985). In fulfilling its accumulation function the Canadian state has undertaken four key tasks (Panitch

1977). First, it has provided a propitious fiscal and monetary climate for private accumulation, as well as maintained the requisite legal framework for that accumulation. Secondly, it has provided the necessary infrastructure for private accumulation, including the provision of utilities and an extensive railroad network. Thirdly, it has played an important role in creating a capitalist labour market through such measures as immigration policy. Finally, the Canadian state has played an active role in underwriting and socializing the private risks of production at public expense. While holding the principle of private accumulation sacrosanct, the Canadian state has not been averse to public ownership as a means to secure the necessary material conditions for accumulation, or to safeguard the "national" interest when deemed expedient. In fulfilling the accumulation function both federal and provincial governments have taken an active role in Canada as is evidenced by the number of crown corporations (Tupper and Doern 1981) and the state provision of cheap hydro power to southern Ontario manufacturers (Nelles 1974). However, the preoccupation with rapid growth combined with the commitment to private enterprise had the effect of formal neglect of both the origin and nature of investment in Canada. In partial contrast to assertions that the state protects national capital from foreign competition, the Canadian state has seen fit to protect national and foreign capital within the boundaries of the nation-state.

> The guiding ideology and function of the Canadian state remained that of providing the basis for capital accumulation to facilitate national economic development, with some discrimination in favour of central Canada in terms of location of investment, but without discrimination with regard to the origin or nature of the investment....The result of this policy was economic growth indeed, but a distorted growth which removed from the Canadian state, given the sheer dominance of foreign capital over the economy, much of its political sovereignty (Panitch 1977, p. 18).

As a result of this process, fulfilling its accumulation function has frequently been problematic. The formation of a strong and internationally competitive industrial economy has in practice remained essentially illusory. The pursuit of an import-substitution-industrialization (ISI) strategy, fueled in large measure through American foreign direct investment (FDI), has resulted in the alienation of control over much of Canada's productive capacity and technological dependence on American research and development (Britton and Gilmour 1978, Williams 1983). Continental economic and defence integration, in concert with American economic and geopolitical interests, has severely circumscribed the scope of Canadian federal policy options - especially in the nature and direction of capital accumulation (Clark 1984)[2]. As the federal government sets the terms of entry of foreign capital, province-building efforts, especially diversification around resources, are circumscribed not only by federal actions but more importantly, according to the role they play in the greater continental (and global for that matter) division of labour [3]. In light of the above, it is not surprising that many federal-provincial conflicts arise over the division of resource rents, as both levels of government have maintained a relatively open door to foreign penetration and resource exports - consistent with a north-south continental economic strategy.

To summarize so far, the capitalist state as a complex institutional system, attempts to fulfil two general functions; to create and maintain the conditions for profitable accumulation and maintain social harmony. The former, in particular, acts as an important constraint on state policy. Therefore, the extent to which regional policy rests outside of this accumulation function limits the ability of the state to address regional concerns owing to the state's dependence on that process. The tasks confronting the state are problematic and evolve according to changes in the accumulation and social process. In Canada, the accumulation function has maintained a prominent place in state policy and is subject to important constraints owing to the country's integration into the continental economy. In addition to these general structural parameters circumscribing state policy, including regional policy, the institutional structure of the Canadian state also presents certain problems for directing state policy to the area of regional development policy, and these will now be discussed.

2.2. Organizational Structure of the Canadian State

As noted perviously, (supra. p. 48), the state consists of a number of institutions, while all of these institutions fulfil important roles and functions, the focus here will be on the government, the bureaucracy, and the sub-central, i.e. provincial, levels of government as these influence regional policy in Canada. The organizational structure of the Canadian state imposes two major institutional constraints on regional development policy; on the one hand, there is intra-government conflict at the federal level (the government and bureaucracy) in formulating and implementing regional policy, while on the other hand, there is inter-government conflict between the federal and provincial levels of government, and among the provinces themselves.

2.21 Intragovernment Conflict

The historical evolution and form of the federal government, in the sense of bureaucratic and organizational structure, is a product of pressures emanating from the accumulation process and the Canadian social structure. This structure in turn imposes constraints on the policy formulation and implementation process as applied to regional concerns. In carrying out the function of creating and maintaining the conditions necessary to facilitate capital accumulation, the federal government has been structured along general sectoral lines. There are departments of agriculture, industry, and resources designed to deal with policy formulation, implementation, administration and evaluation within their respective domains. As the various ministries and agencies evolved in response to the changing conditions (requirements) of accumulation, they developed relatively distinct domains corresponding to entrenched interests, which *pari passu*, entailed regional ramifications. For example, as secondary manufacturing expanded the department concerned with industry - Trade and Commerce as legislated in 1892 - began acting to promote manufacturing interests. To wit,

> There can be little doubt, however, that during this period the Department of Trade and Commerce moved firmly into the orbit of industrial capital...after 1900 the Commercial Intelligence Committee of the CMA [Canadian Manufacturers' Association] became both increasingly active in formulating demands on Trade and Commerce and successful in translating these demands into policy outputs (Williams 1983, p. 56)[4].

With manufacturing concentrated in southern Ontario and Montreal, the department responsible for secondary industry began promoting the interests of these areas since its constituency largely resided there. Those class, sectoral, and/or regional interests which could not penetrate or be accommodated at the federal level, then identified their interests at different government levels (Stevenson 1982). To the extent that the regional problem dictates a multisectoral perspective and traverses multiple levels of government, the planning and policy process is necessarily complex and problematic. Hence, in formulating and carrying out regional policy, there is intragovernment conflict at the federal level since, "any agency dealing with problems defined in a spatial context will invariably clash with an organizational system in which most other departments are concerned with sectoral issues"

(Lithwick 1982, p. 131).

Intragovernment conflict has logistical implications for policy at two stages. At the conceptual stage there is a problem of conflicting objectives. Ostensibly the broad objective of Canadian society is to create a "just" society consistent with the realization of the human potential. Under this rubric, there are a number of operational goals. Five "basic" economic objectives have been identified: high employment, sustained economic growth, reasonable price stability, a viable balance of payments position, and balanced regional development (Economic Council of Canada, 1964 p.3). The historical record indicates that the pursuit and achievement of favourable performance levels in some of these goals is often coupled with relatively poorer performances in others. Conflicts arise among various regional objectives and between regional and national objectives. The simultaneous realization of multiple objectives is thus difficult. Interestingly and importantly, the bulk of the Economic Council's First Review only casually addresses the problem of balanced regional development and its compatability with other goals. Conveniently, the Council endorsed the positive correlation between overall economic performance and regional economic performance, and conceded,

> The goal of balanced development involves much more complex issues than the four basic economic goals previously discussed. Moreover, these conceptual and practical difficulties greatly complicate the task of devising appropriate criteria for policy formulation in this field (p.26).

In its Second Annual Review (1965), the Economic Council of Canada (ECC) did examine 'regional growth and disparities' more extensively, though inadequately, and arrived at essentially the same conclusions as it did initially. In terms of policy direction, these conclusions imply that explicit regional objectives are frequently in conflict with national social and economic objectives, and, shifting from a place- to people-prosperity perspective, argue that the latter are really the same as the former. Similarly, in its first comprehensive document addressing the regional problem, Living Together, the ECC unambiguously acknowledged, "There are some direct conflicts among the various goals of regional policy and between those and certain goals of national policy. It is impossible to achieve all the desirable objectives at once" (p.17). At both levels of conflict, the stated incompatabilities are predicated on the existing structure of economic relations, and the existing plethora of economic instruments and theory. Changes in these assumptions may alleviate some of the incompatabilities and, indeed, create new ones. Moreover, the choices between objectives need not imply an either/or situation, as many policies have positive impacts, of varying degrees, on multiple objectives. The choice as to which objectives are to be pursued is a function of social, political and economic factors. Given the dependence of the state on the accumulation process, economic constraints frequently direct policy towards facilitating economic expansion. At the same time, the commitment to private enterprise and market relations equally conditions the nature of the objectives followed by the state.

The second stage at which intragovernment conflict has implications for regional policy is the implementation phase. Specifically, the pursuit of a number of objectives through a variety of policy measures results in the problem of maintaining a consistent policy impact. Since all policy measures have a differential spatial impact, then in planning for regional development all policy actions should be assessed in terms of their regional dimensions so as to facilitate a consistent policy focus. Thus in the case of implicit regional policies, this requires recognition that all policies entail regional implications and that these must be coordinated to ensure effective and desired policy outcomes. For example, national stabilization policy has a differential regional impact. Policies designed to combat inflation involve employment effects which vary regionally. That is, a policy inducing x per cent increase in the national unemployment rate results in a x-n per cent change in some regions, and a x+m per cent change in other regions. In Canada, for the period 1953-75, the Atlantic provinces and Quebec experienced increased unemployment relative to increases in other parts of Canada (Table 2.1). Similarly, the differential regional impact of stabilization and industrial policies in the U.K. has entailed negative consequences in terms of regional objectives in the post-1973 period (Regional Studies Association 1983). In addition to these broad policies, specific measures may conflict and work at cross purposes. The Department of National Defence's closure of its Gimli, Manitoba airbase, resulting in a loss of 256 jobs at the same time as the Fund for Regional Economic Development programme was attempting to provide job creation in the region is illustrative of this point.

2.22 Intergovernment Conflict

The second institutional constraint impinging upon regional development policy is the need to involve different levels of government in the policy process. In terms of logistical considerations, regional policy planning and administration often involves various levels of government. Coordinating and integrating bureaucratic structure and policy at the federal and provincial levels are important in order to facilitate information and communication flows, to delineate spheres of decision-making authority and to harmonize policy actions. Achieving this coordination and harmony remains an important and elusive objective of all regional policy (ECC Third Annual Review 1966, Office of the Prime Minister 1982, Phidd and Doern 1978). In addition to the mechanical problems of planning, the nature of federal-provincial relations in the sphere of economic development has played an important part in regional policy.

While the federal and provincial governments' share a mutual concern for creating and maintaining the conditions for accumulation, this need not imply a conflation of interests between or among governments. Thus, while, "The terms of confederation, most of which related to economic matters, represented the common denominator of agreement among a variety of economic interests and objectives in the different colonies" (Stevenson 1982, p. 67), disagreements as to the form and direction of accumulation are commonplace. The historical persistence of provincial strength in the realm of economic development reflects: cultural considerations in the case of Quebec, interpretation of the British North America (BNA) Act by the Judicial Committee of the Privy Council, the increased competence of provincial bureaucracies, and to the constitutional provision that, "all lands, mines, minerals, and royalties belonging to the several provinces of Canada, Nova Scotia, and New Brunswick in which the same are situated or arise" (cited in Stevenson 1982, p. 106)[5]. To the extent that various class, economic and regional interests have been assimilated at different levels of government, centred in the main around resources and staple production in the case of most provincial governments, the pursuit of regional policy objectives is fraught with conflict as to the path which that development is to proceed. While contentious debates concerning the division of resource rents are common, another area where federal-provincial and interprovincial conflict has important implications for regional policy is that of industrial policy.

In particular, the federal government's acceptance of a national division of labour characterized by secondary manufacturing situated in the central provinces, and staple production in the peripheral provinces is not shared by these latter interests, viz the position adopted by Alberta's Premier Lougheed, "For our objective means a fundamental change in the economy of Canada, a shift in the decision-making westward, and essentially to Alberta" (cited in Pratt 1977, p. 133). The historical pattern of economic development in Canada has resulted in the concentration of industrial activity in the southern portions of Ontario and Quebec as is evident in Table 2.2 and 2.3. Not surprisingly, given the importance of manufacturing and the nature of Canadian federalism, both federal and provincial governments have actively pursued industrial assistance policies to encourage and attract domestic and foreign investment. The economic woes of stagnation and rising unemployment are compounded by political pressures to provide employment opportunities. Thus, direct and indirect measures to stimulate industrial development have often been at the core of political controversy in Canada: to wit, Gerard Plourde, (the first chairman of the Quebec Industrial Corporation) exclaimed,

> The gap between Ontario and Quebec is growing wider and more apparent. If the rest of Canada - especially Ontario - wants Quebec to stay within Confederation then Ontario might have to accept a slower growth rate (Financial Post, 12 June 1971, p. 91).

From the federal government's perspective the basic problem is reconciling industrial expansion measures with a politically palpable level of regional balance. In terms of the spatial dynamics of industrial development, the federal government is confronted with a number of partially contradictory constraints. In a global context, there is an international distribution of industrial activity corresponding to the process of accumulation as this has evolved. Admidst recurring economic problems throughout much of the 1970s and early 1980s, there has been a major restructuring of industrial activity, as manifest for example through an increasing share of NIC imports into AICs (OECD 1979). At the same time, as a part of the North American continental economy, the Canadian economy must come to grips with structural and locational changes which are occurring at this level. In effect, the ability and flexibility of a specific government to shape its economic environment is circumscribed by its articulation within the global economy. Thus the scope for Canadian economic and industrial development must be assessed within the multidimensional framework of the global and continental economies. Set in this context, the Canadian government is pressed to facilitate industrial expansion, irrespective of its location, in order to meet competitive pressures. Superimposed on the question of the international distribution of industrial development is the internal distribution of industrial activity. Since all provinces are not equally attractive to capital, and because various provincial governments are not able to compete on equal terms for new investment, the federal government has been obliged to initiate some measures which may steer firms and/or investment into lagging regions. However, ascertaining how much investment is to go where is a politically contentious issue. For example, Allan McKinnon, the then Opposition Member for Victoria, B.C., when commenting on the federal government's view of an "equitable" distribution of F-18A fighter aircraft offset work bluntly stated,

> I should like to point out that the unseemingly sight of Members of Parliament from Quebec and Ontario quarrelling over which province will have 50 per cent of the contract and which will have 40 per cent rather dismays Members of Parliament from the far reaches of the country. It does not really impress the people from the four western provinces, the Northwest Territories, the Yukon or the Atlantic provinces, that 10 percent should be considered the normal allotment for those eight provinces and two territories (House of Commons Debates, 16 April 1980, p. 89).

The general conception of Ontario and Quebec as Canada's industrial heartland is itself problematical from Ottawa's perspective. That is, the division of labour between Ontario and Quebec must also be defined. However the provincial interests of Ontario and Quebec are in frequent conflict, as the debate surrounding the spatial distribution of aerospace and automobile production aptly demonstrates (Tupper 1982). For their part, attempts by the peripheral provinces to forge a new division of labour have frequently met with reticent federal support and less than favourable results as evidenced by the experiences of Bricklin in New Brunswick (Tupper 1982), Trident and Saunders Aircraft in British Columbia and Manitoba respectively (Todd and Simpson 1985), and a host of other fiascos relating to industrial development (Mathias 1971). In effect, conflict occurs not only between federal and provincial objectives, but also among the provinces themselves as they relate and compete within the nexus of Canadian political economy. Complicating matters, the federal government has generally been averse to formulating and implementing a comprehensive industrial strategy. This aversion stems as much from the inherent ambiguity and complexity of the task as it does from ideological convictions of the government and bureaucracy (French 1984, Jenkin 1984).

Against this backdrop of a changing international economy and a weak national industrial sector concentrated in central Canada, the various provincial governments have promoted secondary manufacturing through the creation of distinct government departments and through the formation of crown corporations explicitly tailored to industrial development. The particular policy instruments utilized have ranged from general marketing and advertising campaigns, R & D and export promotion programmes, tax incentives (breaks), financial support and provincial government procurement policies (Table 2.4). In the case of Quebec, industrial assistance policies are an important element of the province's general development and political ambitions. In particular, these policies have centred on three main themes: the economic limitations associated with an industrial structure dominated by mature labour-intensive industries and the need to develop modern high-technology industries; the promotion of a Quebecois managerial class through support of small businesses (which are generally run by Quebecers); and a commitment to a strong state role in the economy by way of the creation of public and quasi-public enterprises as a means to achieve development objectives (Tupper, 1982). The Quebec Industrial Development Corporation (QIDC) was established in 1971 and utilizes a number of policy instruments, including preferential and forgivable loans, to assist companies in developing new products and raising capital, as well as to promote industrial rationalization. Indeed, the use of crown corporations has been a salient feature of Quebec's development strategy, especially in the management of the resource sector, with Hydro-Quebec and the James Bay Development Corporation, and the financial sector. With respect to the latter, the Quebec government controls three key financial corporations: the Société Générale de Financement (SGF) which is an investment and holding corporation frequently engaging in joint ventures and holds assets worth some $800 million; the Société de Développment Industriel (SDI) which acts as a vehicle for the delivery of industrial development loans (at concessionary rates) and grants, and has received a specific mandate to offer assistance to firms involved with microelectronics, biotechnology and high-technology service industries; and La Caisse de Dépôt et de Placement (CDP) which manages the Quebec Pension Plan (Jenkin 1984). Typical of many industrial strategies, the Quebec government has loosely set its sights on promoting 'high-tech winners' through expansion of the province's technological infrastructure and capacity.

Ontario established its Department of Industry and Tourism in 1972, and through its Ontario Business Incentives Programs (OBIP) provided, among other things, financial support to manufacturing firms in the province in the form of incentive and interest-free loans and deferred-payment schemes. These assistance programmes were also differentially applied across the province in an attempt to encourage industrial development outside the 'golden horseshoe'.

As Ontario's industrial position in Canada and North America began facing serious problems from the pressure of economic recession and capital restructuring, the provincial government stepped up its industrial assistance role by undertaking a variety of measures designed to facilitate modernization and rationalization of its existing industrial base and attracting new investment. In the words of one government official, "Ontario is going to use more muscle to attract investment....It's not going to be quite so timid vis-à-vis the rest of Canada" (Financial Post, 4 November 1978 p. 30). Towards this end, the Ontario government undertook a "Shop Canadian Program", an export-market development and support programme, a wide-ranging small-business support programme, and the creation of the Employment Development Fund (EDF) and a Board of Industrial Leadership and Development (BILD)[6]. EDF, formed in 1979, had approved grants totalling some $179.5 million to the pulp and paper and manufacturing industries by 1981, including a $23 million grant for Ford to establish an engine plant in Windsor[7]. BILD was introduced in January 1981 and provided for a five-year, $1.5 billion commitment aimed at creating jobs, expanding output and enhancing productivity as well as serving a coordinating role. These grants are expected to secure roughly $2.3 billion in capital-investment commitments over the period ending in 1986. The incessant desire to move into high-technology areas is equally prevalent in Ontario, with government creating the Innovation Development for Employment Advancement (IDEA) Corporation to assist technology-intensive industry with R & D initiatives.

For their part, the remaining provinces have also undertaken a variety of measures to encourage industrial investment. Manitoba, for example, established the Manitoba Development Corporation (MDC) with the intention of promoting and facilitating industrial development in the province through a variety of means, including loan guarantees and equity participation. In addition, the Manitoba Department of Economic Development actively advertises the virtues of a Manitoba location for business investment along such lines as: "Any way you add it up...it says Manitoba". On the strength of strong resource bases, Saskatchewan and Alberta have embarked on development strategies aimed at encouraging manufacturing growth through the use of crown financial institutions such as the Saskatchewan Economic Development Corporation (SEDCO) and the Alberta Opportunity Company (AOC) both of which serve as sources of investment capital, in lender of the last resort role, to provincial firms. The AOC is, in fact, just one instrument in Alberta's $1 billion drive to diversify its economy and attract and foster advanced-technology firms[8]. In the four Atlantic provinces, industrial assistance policies, of one sort or another, numbered nearly 300 during the 1970s (Brewis 1979). With provincial and local governments actively pursuing investment, industrial capital is able to play off one government against the other in order to obtain lucrative subsidies which are used to underwrite the costs of production. Yet, the provinces are caught in a difficult situation, as Manitoba's Industry Minister Eugene Kostyra exclaimed, "It is not a healthy situation to be competing with other provinces. But Manitoba would be foolhardy not to compete" (Winnipeg Free Press, 22 May 1985, p. 1). However, the pursuit of industrial development has often been costly and success elusive, especially for those situated outside the industrial heartland[9]. Where governments have successfully lured firms to invest in their respective jurisdictions, the benefits accruing have not infrequently been limited [10]. It seems reasonable that a spirit of cooperation rather than competition would be more conducive to balanced development.

In conclusion, the formulation and implementation of regional development policy in Canada has remained problematic. Fundamentally, the scope for state action in any policy area is circumscribed by the structural conditions of the role and nature of the state in capitalist economies generally. As a complex institutional system, which in turn serves as a system of political domination the state, acts to preserve and reproduce capitalist relations of production. Given a commitment to private accumulation and a dependence on that process, the state attempts to create and maintain conditions propitious to private accumulation. This function acts as a selective principle for state policy and is a constraint on the range of options open to regional policy. The Canadian state has been particularly committed to its accumulation function which has had implications for regional policy. In terms of state structure, two major constraints have impeded the regional policy process: intragovernment conflict at the federal level, and intergovernment conflict between the provinces and the federal government.

TABLE 2.1

Increase in Regional Unemployment Rate Resulting From A Two Percentage Point Increase in the National Rate, Average Experience, 1953 - 75

Region	Increase in Unemployment Rate (%)	Index (Ontario = 100)
Atlantic	3.7	285
Quebec	2.6	200
Ontario	1.3	100
Prairie	1.7	131
British Columbia	1.9	146

Source: Economic Council of Canada (1977).

TABLE 2.2

Index of Manufacturing Value-Added by Canadian Province

Province	1960 [1]	Year 1970 [1]	1980 [2,3]
	($ value and scaled index;	Canada = 100)	
Newfoundland	141.7 (24.4)	239.1 (25.4)	363.6 (31.5)
P.E.I.	77.9 (13.4)	180. (19.8)	637.0 (23.3)
Nova Scotia	235.9 (40.6)	394. (41.9)	1414.1 (51.6)
New Brunswick	202.6 (45.3)	431.7 (45.9)	1552.5 (56.7)
Quebec	615.1 (106)	964.2 (102.4)	2872.7 (104.9)
Ontario	853.4 (147)	1393.8 (148)	3766.9 (137.5)
Manitoba	319.4 (55)	505.8 (53.7)	1720.6 (62.8)
Saskatchewan	126.3 (21.3)	204.0 (21.7)	824.8 (30.1)
Alberta	262.9 (45.3)	434.4 (46.1)	1519.4 (55.5)
British Columbia	530.4 (91.4)	760.1 (80.7)	2463.1 (90)
Canada	580.4 (100)	941.3 (100)	2739. (100)

1. Calculated from Statistics Canada Catalogue 31-203 Manufacturing Industries of Canada: National and Provincial Areas 1979 and Statistics Canada Catalogue 91-201 Province Populations Figures November 1983.

2 Calculated from Statistics Canada Catalogue 31-209, Manufacturing Industries of Canada: sub provincial areas 1980 and Statistics Canada Catalogue 91-201.

3. Figures represent manufacturing activity only, and not total activity. Head Offices, sales offices etc. are excluded.

TABLE 2.3

Provincial Manufacturing Employment: Foreign and Canadian Controlled Firms: 1975 [1]

Province	Ownership Canadian	(%)	Foreign	(%)
Newfoundland	9649	(73.2)	3537	(26.8)
Prince Edward Island	1694	(79.7)	432	(20.3)
Nova Scotia	20744	(60.5)	13522	(39.5)
New Brunswick	23125	(81.6)	5224	(18.4)
Quebec	310115	(64.6)	169852	(35.4)
Ontario	358279	(45.5)	428822	(54.5)
Manitoba	35985	(71.5)	14348	(28.5)
Saskatchewan	12170	(76.6)	3725	(23.4)
Alberta	34646	(62.1)	21197	(37.9)
British Columbia	78050	(6.52)	41592	(34.8)
	884457	(55.7)	702251	(44.3)

1. Based on 1975 employment data of all establishments which are part of firms with 20 or more employees. The relative importance of foreign control may be exagerated because of the exclusion of small firms which tend to be Canadian controlled.

SOURCE: Statistics Canada Catalogue 13-574.

TABLE 2.4

Provincial Government Procurement Policies, 1981

Newfoundland [a]

- 15 per cent price premium for local supplies, plus benefit/cost analysis (local preferred when benefit is 1.5 times added cost)
- four-tier preference policy on consulting contracts, (for example, by location of office in province)
- overall Canadian preference

Prince Edward Island [b]

- no stated local preference policy
- some informal preferences on local supplies

Nova Scotia

- up to 10 per cent price premium, applied selectively to specific local industries [c]
- general local preference applied to smaller contracts [d]
- restricted to local supplies, if three or more are available, or in other selected circumstances [c]

New Brunswick

- since October 1977, evaluates tenders by both cost and local benefit
- includes subcontracting sources
- restricted to local suppliers, if three or more are available
- some development of local source through "cost plus" contracting and product development assistance

Maritime Provinces [e]

- Council of Maritime Premiers, 12 March 1980 announced changes in purchasing policy of New Brunswick, Nova Scotia and Prince Edward Island to include "regional" value-added in criteria for awarding contracts and purchase of materials
- informally, five to ten per cent premium accepted before contracts granted to out-of-region firms

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TABLE 2.4 continued

Quebec

- ten per cent price premium on contracts exceeding $50,000[c]
- in some circumstances (related to amount of competition within Quebec) restricted to local bids[d]
- restrictions also used for provincial industrial development objectives
- local and Canadian content must be specified; this includes subcontracts

Ontario

- ten per cent price premium to Canadian suppliers, also applied to all provincially funded agencies and industries receiving provincial assistance as of November 1980)
- preference to Ontario firms only when bids competitive[df]

Manitoba

- preference only if price, deliver, quality equal[d]

Alberta

- no local preference in purchasing of supplies, some large contracts (for example, tourism programs) let only to Alberta firms
- on natural resource exploration and extraction permits and leases, firms allowed to tender restricted to those licensed to do business in Alberta
- bidders on certain major projects (tar sands, pipelines) must specify local employment, purchasing[g]

British Columbia

- ten per cent price premium
- "committed" to provincial preference
- may use regional or sectoral unemployment, general health of industry as procurement criteria[cd]

Sources:
(a) Government of Newfoundland, Department of Industrial Development;
(b) Interview with Prince Edward Island official;
(c) Government of Canada, Powers Over the Economy: Securing the Canadian Economic Union in the Constitution, CCMC, Doc: 830-81/036, July 1980, pp.29-31;

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TABLE 2.4 continued

(d) J. Maxwell and C. Pestieau, Economic Realities of Contemporary Confederation, HRI, Montreal, 1980, p. 87;
(e) Council of Maritime Premiers, "Regional Preference in Provincial Purchasing and Tendering Policies," press release, March 1980;
(f) F. S. Miller, Supplementary Measures to Stimulate the Ontario Economy, Government of Ontario, November 1980;
(g) Interview with officials, government of Alberta.

From Jenkin (1984).

NOTES

1. See Miliband Chapter 3. Of equal interest is what is not considered a part of the formal state apparatus in liberal-democracies; for example, the political parties, media and so on which play an important part in the system of power extant in contemporary societies.

2. The continental integration of economic elites has been demonstrated by Clement (1977). However, less well known is the interrelations of American and Canadian defence establishments. Based on information obtained through the Freedom of Information Act, Jockel (1982) demonstrates that not only was the creation of NORAD a blow to Canadian political sovereignty, but the manner in which it was assented to even further undermined that sovereignty. For an interesting and disturbing discussion on this point see, "The Military Establishment and the Creation of NORAD", The American Review of Canadian Studies, Fall, 1982, pp. 1 - 16.

3. For a discussion of the national and continental contraints imposed on Canadian and provincial industrial policy in the context of the aerospace sector see Todd and Simpson 1985.

4. It would be incorrect to assert a complete coincidence of interest between industrial capital and trade and commerce. On the one hand, industrial capitalists were not a unified group, and secondly Trade and Commerce was often in conflict with certain of these factions especially regarding export propensities, initially with national industrialists, and latter with the 'not for export' practices of foreign investors. For an overview of Canadian industrialization, see Williams (1983).

5. The same provisions were extended to the other provinces either at the time of their entry into confederation, or through negotiation as was the case for the prairie provinces in 1930.

6. Ontario, Ministry of Industry and Tourism, Annual Review, 1981.

7. Ibid.

8. Report on Business, April 1985, p. 44.

9. The Saunders Aircraft venture in Manitoba is a case in point.

10. For example, Gulf Oil Corporation received grants and loans totalling \$19 million for the establishment of a \$100 million refinery at Point Tupper on the Strait of Canso. Gulf received these incentives, about \$200,000 per job created, despite Gulf's 1973 profits of nearly \$1 billion. While the purported number of permanent jobs was to be 600, in reality only one sixth of these jobs were created, of which 60 per cent were filled by individuals from outside the region. See Belliveau (1974).

CHAPTER 3

THEORETICAL PERSPECTIVES ON THE REGIONAL PROBLEM

3.0 Introduction

The preceeding Chapter has examined the institutional setting within which regional policy in Canada is nested. By virtue of the institutional structure which has evolved in Canada, regional policy formulation and implementation encountered serious constraints which necessarily inhibit the amelioration of regional disparities. The constraints imposed on regional development policy as a consequence of institutional factors are exacerbated because of disagreement on the root of the regional problem. In so far as there are differing objectives among different interests within Canada, it is not surprising that there are differing opinions as to the nature and causes of the regional problem. "...the fact is that appropriate solutions have been unattainable largely because the causes of the problem are neither simple nor clearly understood" (Lithwick 1982, p. 131). In terms of policy, disagreement on the causes of the regional problem has been manifest by ad hoc measures and little in the way of a systematic approach. While the causes of the regional problem are complex, and undoubtably much confusion and ambiguity exists on what these are, the focal point of the debate is on the role of the market. This debate roughly parallels ideological lines, with pride of place accorded the market on the one hand and, skepticism as to the effectiveness of the market to produce a balanced and quitable distribution of wealth on the other. Basically, the former perspective is in the neo-classical tradition, while the latter is more closely associated with the dependency framework. Invariably, simplified dichotomies as posited here do an injustice to theorectical subtleties of those schools of thought, however, a review of the salient features of them is clearly warranted[1].

3.1 The Staple Tradition and the Orthodox Perspective

While both of the above approaches differ significantly they must inevitably come to grips with the historical legacy of staple production for export. In brief, the staple theory of economic growth - in the Innis-Watkins tradition - assumes that staple exports are the leading sector of the economy and, therefore, determine the pace for economic expansion. The concept of the staple embodies a number of important features; it is a product of the land capable of generating economic rents, it may be produced by a variety of techniques, and there exists, at least initially, an external source of demand. The specific character of the staple conditions the possibilities for, and of, socio-economic development and class formation - the former is exemplified in Innis' The Fur Trade and The Cod Fisheries. The engine of economic growth is the export of staple commodities to meet a foreign source of demand. The key to sustained material prosperity is contingent upon the successful reinvestment of the economic surplus generated from trade. Investment may be directed towards linkage activity (forward, backward, final demand) and/or diversifying away from acute dependence on staple exports. In addition, continued expansion requires an ability to adjust resource allocation to the dictates of the market. "Sustained growth, then, requires resource flexibility and innovation sufficient to permit shifts into new export lines or into production for the domestic market" (Watkins 1963, p. 149). The inability to do so results in a "staple trap"; the overdependence on a staple experiencing diminishing returns or declining rent, and the inevitable outcome of economic decline. Stagnation may also occur as a consequence of specializing in the "wrong" staple, as manifest by the distribution of income, the supply of entrepreneurship, the patterns of demand and supply, the institutional structure, technological change and the social formation[2].

These latter themes of successful shifting of resources according to the "dictates of the market" have a striking resemblance to neo-classical questions of optimal resource allocation, and thus serve as a useful bridge into the current conceptions of the regional problem from a neo-classical perspective. The economic history of Canada reflects the successive exploitation of natural resources for the purposes of export principally to Britain and later to the United States. Regional prosperity was thus dependent on the fortuitous distribution of the "right" kind of staples and changes in transportation. In the Maritimes, with its successive and concomitant exploitation of cod fisheries, forest, and mineral resources, coupled with linkages industries such as shipbuidling, the staples left their economic imprint on the economy, and are extant today. Successful diversification and linkage development was subsequently curtailed as the political and economic implications of Confederaton unfolded (Clow 1984, Phillips 1982). For Quebec, development initially followed the path of the fur trade, and subsequently that of forest resources, agriculture, and finally of minerals. The emergence of capitalist industry in Lower Canada developed along three major lines in the early 1800s: growth of the timber trade (saw mills and shipgoods); the establishment of manufactories and machine shops; and the beginnings of small-scale consumer-goods industries in response to the gradual extension of the domestic market and under the rising French-Canadian industrial bourgeoisie (Ryerson 1968). The legacy of this latter trend is evident in Quebec's labour-intensive mature industries. Similarly, Ontario's development impetus came from the fur trade, forest resources and agriculture, and was later augmented by mineral resources, with a greater export propensity towards the expanding United States. In sharp contrast to much of the rest of Canada (and much of Ontario for that matter) was the development of an industrial economy in southern Ontario, stimulated by its proximity to Canadian and American markets and the national policy and dominated by the influx of foreign direct investment.

An equally important outgrowth of national policy was the settlement of the Great Plains region and the development of the wheat economy[3]. Together, railway, immigration and land policies paved the way for the production of wheat for export and domestic markets in the prairies. The development of the wheat economy provided central Canada, and to a lesser extent eastern Canada, with frontier investment opportunities and a market for manufactures. With wheat as the prairie region's principal economic base, mineral and energy resources were continually developed and the economy shifted its economic structure. In British Columbia, the extension of the CPR to the Pacific provided for a resource bonanza. Forestry and mineral resources were exploited for export, and have continued to prime the engines of growth. "British Columbia is now the hewer of wood and a drawer of minerals, par excellence, natural resources have made B.C. one of the 'have' provinces" (Phillips 1982, p. 44).

In general then, the Canadian economy is characterized by the uneven distribution of resources - be they "right" or "wrong" staples - across the nation. At various times and to varying degrees, regional economic fortunes have risen and fallen with the rent-generating capabilities and market fluctuations of the staple in which they were specialized. Through time, and in response to changing conditions, the regional economies altered the composition of regional output by diversifying and developing linkages [4]. The regional problem therefore must be considered not only as one reflecting the problems associated with staple production, but also as one reflecting the structure and performance of the economy as a whole as it has evolved in the world economy. With respect to the former, the existence of relatively large resource endowments does not ensure sizable regional incomes. For example, the four Atlantic and four Western provinces have larger natural resource endowments than either of Quebec and Ontario, as measured by value of primary

Nova Scotia and New Brunswick. In the case of Quebec and PEI, below-average levels of capital per worker significantly contributed to poorer productivity. However, the most significant contribution to productivity differences was "management, technology, and other factors" which accounted for roughly a third of the observed variations of provincial economies generally, and an even greater share of the variations in manufacturing. Among these other factors, plant size, capacity utilization, management, R & D, and adoption of new technology were in varying degrees noted as contributing to productivity differences. In terms of the latter, a study on the interregional diffusion of innovations in Canada suggests that,

> ... technology lags could account for a substantial portion of the residual productivity gaps between Ontario and the other provinces. The proportion would be over one-third of the gap in the case of the Atlantic region, somewhat under one-third for British Columbia and the Prairies, and most of the gap for Quebec (Martin et al 1979, p. 151).

Labour productivity is a major element in determining the level of provincial income per worker and provincial economic growth rates, but ascertaining the factors which underpin productivity differences is difficult. On the one hand, productivity is a function of technical factors such as capital per worker, industrial structure, labour quality, technological developments and so on, as was illustrated. At the same time however, less technical but possibly equally important factors such as labour attitudes (motivation) and the nature of labour-management relations also affect productivity levels. Indeed, in a comprehensive examination (including 17 variables ranging from reduced R & D efforts to government regulation and taxation to the rise in energy prices) of the slowdown of productivity growth in the US, Denison (1979) concludes, "what has happened is, to be blunt, a mystery....Seventeen suggested reasons for the slowdown....no single hypothesis seems to provide a probable explanation of the sharp change after 1973" (p.4, 145). In view of these findings, Bowles, Gordon and Weisskopf (1983) have suggested a social model of productivity which emphasizes how people in the production process (workers, management, technical support, etc.) affect productivity independently of the "technological" environment of the workplace. While differentiating among the myriad of factors which influence productivity is problematic, ascertaining whether regional productivity differences are the cause or the consequence of regional stagnation is equally troublesome. To this end, historical explanations of the development process are essential.

In addition to these productivity factors, regional income differences are also a result of the extent of regional urbanization (owing to agglomeration economies) and accessibility to markets (in the case of the Maritimes) have also contributed to the regional problem. Although supply-side considerations are unquestionably critical in understanding regional problems, regional disparities are also underpinned by secularly and cyclically weak regional aggregate demand in Atlantic Canada, Quebec, and British Columbia (Economic Council of Canada 1977).

The neo-classical interpretation of regional prosperity views the allocation of resources via the unfettered forces of supply and demand as the fundamental means to sustained growth. It follows then that impediments to the operation of market forces are the key to regional disparities. The interventionist state is, therefore, often targeted as a cause of market failure and distorting factor prices. Increasing encroachment on the part of government into the market is thus viewed as an impediment to efficient regional adjustment and inimical to long-term growth prospects regionally and nationally. "The failure to submit the provinces and regions to the discipline of the market has exacerbated regional disparities and has tended to rigidify our industrial structure" (Courchene 1981, p. 506). In particular the expansion of equalization payments is argued to have created conditions of "transfer" dependency. That is, the so-called "have-not" provinces have become fiscally dependent upon intergovernmental transfers from the federal government, in the form of equalization payments, for economic growth, as manifest by their greater-than-average share of government-sourced income. As a consequence, observed regional disparities occur principally in the sphere of market-sector incomes, since intergovernment transfers are designed to ensure relatively equal access to basic public services across Canada. By alleviating the various provincial governments from assuming the full burden of their policy actions, it is argued that transfer payments induce initiatives which frequently run counter to long-run growth[5]. Moreover, to the extent that transfers subsidize firms, as is the case with Canadian energy prices, the result is again to preclude the necessary factor adjustments and thus undermine national industrial vitality and competitiveness. Consequently, "the present regional disparities represent not only a regional equilibrium but to a large extent they reflect a policy-induced equilibrium" (Courchene 1981, p. 509).

The general thrust on the policy front is to create a fluid structure which will facilitate the efficient and rapid allocation of resource into industries consistent with factor prices. Implicit and critical in this respect, is getting the prices "right" so that market signals are clearly transmitted and reflect relative comparative advantages. This entails a number of contentious issues which have important political consequences. In particular, the relationship between regional income levels and labour mobility has been hotly debated. In terms of the former, the basic argument is that wage levels should reflect the relative scarcity of labour and its marginal product. The problem is that government intervention, both federal and provincial, has caused wage rates to exceed their marginal product resulting in increased unemployment, and reduced economic performance. By getting the prices "right", that is, by reducing the wage rate, existing firms will be encouraged to hire more labour, and new firms will be attracted to capitalize on lower wage rates.

There are a number of problems associated with attracting low-wage industries. On the one hand, their continued viability is frequently contingent upon the continued existence of low wages leading to the institutionalization of regional income disparities (Matthews 1981). On the other hand, offshore competition for labour-intensive industries and those segments of the production process characterized by labour intensity, would appear to limit the possibilities of attracting and maintaining these types of activity. The continued existence of low-wages is itself questionable when those industries which are responsible for them are adjacent to high-wage, often capital-intensive industries (Woodfine 1983). In order to maintain a low-wage structure, firms may seek out locations which possess not only minimal wages, but also favourable labour laws and unorganized labour. Michelin's negotiated concessions extracted from the Nova Scotian Government are illustrative of the negative consequences of this approach[6]. Indeed wage rates embody a political dimension and their reduction entails costs which are not equitably distributed across society. Notwithstanding the above, the possibility of combining high-wages and high-employment levels may prove difficult.

A second important aspect of the market adjustment process involves labour mobility. The failure of market forces to efficiently balance labour supply and labour demand as derived from the underlying distribution of resources is seen as an important cause of regional disparities. Inevitably, be it directly or indirectly, market adjustments entail spatial adjustments of the labour force. Thus policy measures designed to create an economic environment in which factors are allowed to flow freely to "points" of highest return - equating supply and demand - have spatial ramifications for labour. Out-migration is a major mechanism in which excess labour supply adjusts to labour demand in order to achieve full-employment. That is, workers in low-income and high-unemployment regions move, theoretically and generally in practice to more prosperous areas (Courchene 1970). In effect, migration requires not only push factors (low-incomes and high-unemployment in the sending region), but also pull factors, i.e. "a condition necessary for a person to make the decision to migrate to another region is that he perceive the existence of an employment opportunity in that region" (Grant and Vanderkamp 1976, p. 3). This latter consideration has two important policy implications. First, it indicates the importance of the friction of distance as this influences the nature and magnitude of information perceived by the individual which, in turn, has implications for the temporal and spatial elements of the migration process. In other words, the speed of the adjustment process and the destination of migrants depend on the information they receive about possible opportunities. Hence, fostering these flows is an important element of the adjustment process. Secondly, it emphasizes the critical importance of the existence of opportunities in other regions, a point which underscores the necessity of an expanding national economy as a prerequisite to structural change via labour mobility (Courchene 1981, Grant and Vanderkamp 1976, Matthews 1981, Woodfine 1983).

There are a number of limitations associated with out-migration as a mechanism to combat regional imbalance. In the first place, the outcome of the labour adjustment mechanism may not yield the desired results, once the aspatial and static world of neo-classical economics is abandoned. The net impact of the migration process reflects the complex interaction of positive, balancing, and negative, imbalancing, forces. There is, "a continuing trade-off between the 'static' equilibrating effects of migration on the one hand, as posited by the neo-classical adjustment model, and the 'dynamic' disparity-increasing effects of migration on the other...." (Polese 1981, p. 524). In terms of the latter, the problem is that migration is a selective process which favours particular demographic and occupational groups (Cebula 1979, Shaw 1975). Especially prone to migration tendencies are the young members of the labour force, the better educated and those individuals occupying jobs in the financial, professional and white-collar occupations (White and Woods 1980)[7]. The effectiveness of labour mobility in adjusting labour supply and demand depends on the types of opportunities available and the nature of the unemployment problem. An implication arising from the selective nature of migration is that labour embodies capital and, thus, has varying productive capacities. The migration of different types of labour concomitantly involves the transfer of future wealth-generating resources and capacity, with the implications for regional balance implied therein. In addition to these supply side considerations, there are also demand-side effects of migration. Obviously a corollary of decreasing labour supply involves decreasing regional aggregate demand. To what extent the post-migratory level of regional demand is able to sustain full employment depends on a number of factors, including marginal propensities to consume, consumption patterns, investment levels and so on.

At the individual level, the migration process may not benefit migrants as assumed. Using 1965-71 Canadian data for one-move migrants, and in concert with the precepts of the human capital model of migration, "the testing process and final estimates show that it is very difficult to detect a significantly positive effect of migration on income within a five-year time horizon" (Grant and Vanderkamp 1980, p. 398). On the positive side is the finding that individuals with low initial incomes captured the greatest migration payoffs. However in light of the exclusion of multiple-move migrants, this finding may exaggerate actual positive gains, since return migrants are not considered. While these results are limited to a five-year time horizon, they certainly act as a proviso in asserting the purported benefits of migration as measured by income payoffs.

A second limitation associated with labour mobility is that the traditional economic relationship between regional income differentials and migration may not be as strong as projected. In their study of migration in Canada for the period 1965-71, Grant and Vanderkamp (1976, p. 88) concludethat, "The overall impression is one of a labour market adjustment process that works in the right direction; but the adjustment is rather sluggish and by no means the caricature of frictionaless market adjustment". For the subsequent period, 1971--76, the Maritime provinces, despite a less than buoyant economic conditions, experienced net in-migration

(Simmons 1980). This tendency may reflect the influence of return migration stimulated by a national economy crippled by stagflation and government-demand stimulation, via transfers, resulting in insufficient regional wage differentials. This latter point is the thrust of the transfer dependency interpretation of inadequate adjustment caused by poorly conceived government policy. From a different perspective, migration flow, to central Canada in prosperous times, and back to the periphery in less prosperous times, are indicators of the "industrial reserve army" status of the Maritimes in the Canadian economy (Veltmeyer 1978).

In part the sluggishness of the adjustment process alluded to previously may be attributed to additional factors influencing the migration process [8]. For example, Cebula (1979), assuming the absence of money illusion, argues that the cost of living is an important determinant of migration behaviour[9]. In addition to economic factors, cultural factors also impinge upon the migration process. In the Canadian context, the lower levels of migration to and from Quebec supports the contention that cultural factors play an important role in the migration process. It is of significance that such cultural distinctions and the 'rigidity' they impose have a ramifying effect on the national adjustment process, and to the Maritimes in particular, inasmuch as they experience an additional distance cost, both in terms of resources required to move and in terms of diffused information flows, by virtue of Quebec's geographic position.

In addition to the above limitations, migration and the labour adjustment process entails broad social costs. Ideally, from the neo-classical perspective, all costs should be accounted for in the price mechanism; in reality not all costs can be marketable, as in the case of social costs. To compensate, a social safety net is generally advocated, the retention of government transfers in a restructured format, in order to facilitate smooth adjustment and distribute the costs of adjustment from the individual to society. However, even if most of these costs could be shared equitably and practically, the desired adjustment from an economic and regional policy perspective may not be socially and/or politically acceptable. That these political and social factors impose a serious 'constraint' on the policy process and the adjustment process is evident in the Canadian case. Specifically, the decided importance of fostering urbanization, i.e. rural-urban migration theoretically underpinned by growth-pole conceptions, as a policy initiative to ameliorate regional disparities is illustrative of this point. The attempted imposition of an economic development plan for the Eastern Quebec parishes, based on the Higgins-Martin-Raynault Report (1970), calling for the rationalization of resource-based industries and the closure of roughly one third of the parishes in the region, was quickly quelled amidst massive popular resistance (Gagnon 1982). Social, political and planning constraints have been noted in resettlement schemes in the Gaspe Region (Brewis 1978), Kent County N.B. (Phidd and Doern 1978) and Newfoundland (Matthews 1983)[10]. Moreover, in the context of province-building Canadian federalism, it should come as no surprise that provincial premiers are usually averse to advocating active out-migration from their respective provinces. As such, the political sensitivity of labour mobility was implicit in the emergence of the 'stay option' in Manitoba[11].

It is perhaps worthwhile to briefly comment on the ECC's own perceptions on the historical record concerning regional disparities. In 1965, the ECC noted that over a period of 40 years, various forces have been working towards an improved balance of growth and economic prosperity in the Canadian economy, forces such as the "significant" redistribution of population, "far-reaching" adjustments in the structure of economic activity at the national level and public policy aimed at greater equalization of regional incomes. Judging from the selection of superlatives describing these changes, the Council has obviously expressed a vote of confidence in the market which was performing in a "significant" way to fulfilling the end of fostering "far-reaching" change in ameliorating regional disparities. Yet, in the same paragraph and over the same period, the Council bluntly stated that "the regional problem in Canada has remained essentially unchanged" (p. 139). Ironically, the Council then argued, "the importance of unrestricted freedom of movement on the part of productive resources within the national and regional economies clearly emerges" (p. 140). Twelve years later the Council would again concede, "that no amount of juggling with statistics can lead any reasonable person to deny that economic well being is sharply affected by the region in which one happens to be born or brought up. In short, disparities are real" (1977, p. 212). With a disappointing historical record, alternative perspectives on the regional problem appear germane.

The problematic of the neo-classical perspective is to allocate scarce resources, the factors of production, among a myriad of uses in an efficient manner in order to maximize output. To this end, the model is a static analysis, set in the present within a (partial) equilibrium context. Fundamentally, the neo-classical perspective is predicated on the assumption that the market, based on a number of assumptions, generates first best outcomes; that is, maximum output produced most efficiently. The process of growth is perceived in a marginal context, and generally seen as cumulative and flexible. As the analysis is set in the present, the institutional structure is generally assumed away or held constant. In so doing, the model concedes much in the way of explanation in terms of social and political factors as these impinge upon the allocation of resources. Thus, within the above framework, explanations of why growth does not occur generally boil down to market rigidities or failures. In the context of the Maritimes, this has been translated into familiar phrases such as: "geographically remote", "socially backward", and "failure to adjust or industrialize because of an 'inability to adapt to technological change"'. Implied in these causes is the notion that the problem rests entirely within the region and, thus, there is a naturalness or inevitability attached to regional underdevelopment. The conventional panacea often amounts to a quick jaunt through the production function in search of missing factors - capital, technology, human capital - which yields by simple reduction and subtraction the reasons why stagnation has occurred. If the answer does not appear to lie in the variables of production, then of course, there are the parameters - tastes and preferences, economic man, etc.[12]. While,

> ... all these explanations contain useful insights into the nature of underdevelopment in Atlantic Canada (or elsewhere)...they share common weaknesses as explanations of such an all-pervasive and deep-rooted historical problem as the process of regional development (Frank, 1978, p. 20).

In particular, historical problems must be placed within a historical context, and within the general political economy. The persistence of the regional problem in Canada and the limitations associated with the neo-classical perspective has led to a rethinking of the basis of the problem consistent with the above considerations. A promising avenue of thought is that associated with dependency theory (Barrett 1980, Matthews 1983). A brief overview of the dependency paradigm is in order, to be followed by a brief critique and an overview of its relevance to the Canadian context.

3.2 A Dependency Perspective

The dependency school does not exist as a unified body of theory, rather it is a general view encompassing a broad and historical perspective. The major impetus behind the dependency school is the experience of, and subsequent theorizing in, Latin

America and the Caribbean. In contradistinction to previous theories of underdevelopment, the central insight of the dependency writers was to call attention to the necessity of linking both the AICs and the underdeveloped countries into the same development problematic. As a part of this "world system", the AICs of today were never underdeveloped, more correctly they were undeveloped. The dependency framework may be delineated into two basic perspectives; external dependence and dependency as a conditioning factor (Roxborough 1979). The external dependence perspective conceptualizes dependency as a relationship between two structures as manifest, for example, through trade relations.

In contrast,

> By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies and between these and world trade assumes the form of dependence when some countries (the dominant ones) can expand and be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or negative effect on their immediate development (Dos Santos, 1970, p. 231).

The subjection of one economy by another entails two important dynamic articulations. On the one hand, there is the external articulation between economies which roughly parallels that of external dependence. This external relationship is a function of the world capitalist system and it is characterized by a polarized structure with the dominant-exploiting industrial economies set against the dominated-dependent economies of the

Third World (frequently specialize in primary product and cheap manufactures production)[13]. This structure is based on a particular division of labour between them and is characterized among other things by unequal exchange, and more recently balance of payment problems[14]. The sum total of these problems places serious constraints on peripheral development (see for example Lipietz 1984).

On the other hand, there are internal articulations within the dependent economy. Frank conceptualizes these interactions in terms of metropolis-satellite relationships which are present at virtually all levels of spatial abstraction and which are, at least implicitly, transmogrified into social relations. The fundamental relation between the metropolis and the satellite is the transfer of the economic surplus (value) from the latter to the former, and at the level of production, the appropriation of surplus-value by the capitalist (though again this is not clearly specified).

> A whole chain of constellations of metropoles and satellites relates all parts of the whole system from its metropolitan centre in Europe to its farthest out-post in the Latin American countryside (Frank, 1973, p.105).

> The metropolis expropriates economic surplus from its satellites and appropriates it for its own economic development. The satellites remain underdeveloped for lack of their own surplus (Frank, 1969, p.9).

The internal structure of these economies is marked by a modern sector which is distinguished by high incomes usually derived from: control of high productivity activities, transfers secured from these activities through state control, monopolistic or oligopolistic control of low productivity sectors often by entrenched institutions, e.g. plantations, and income from abroad.

The elites in the modern sector are integrated into the international economy and maintain a "comprador" status. As well, there is a (increasing?) marginalized sector of the population characterized by low incomes and high un(and/or under) employment, and is systematically constrained in terms of access to a reasonable living standard. The elite factions are also frequently associated with the operations of the large multinational corporations whose activities, especially industrial, are typified by high import propensities of capital goods and technology, low export propensities (except in the case of export platforms), induced demand patterns (both materially and ideologically speaking) and major surplus losses to the host country. The technological and productive capacity of the peripheral country therefore tends to be, either directly or indirectly, under foreign control and ownership. Together the internal and external articulation of the dependent economy effectively impedes development. In contrast to dualist arguments, the internal structure of the less-developed economies is not argued to consist of distinct and exclusive sectors, i.e. modern vs traditional, rather, there is a functional articulation within these economies which facilitates dependent capitalist development[15].

The dependency school has correctly dispelled the linear or stages notion of development; be it Rostow's stages theory or that of Marx - the bourgeoisie "creates a world after its own image"[16]. That is, the expansion of capitalism, through trade, did not _ipso facto_ bring about capitalist development. However, while the dependency school has undeniably contributed to the understanding of underdevelopment, it could not, by virtue of its terms of reference, capture the dynamic of "the development of underdevelopment" (Brenner 1977, Kay 1975, Laclau 1971). Indeed, the explanations presented, while recognizing the symptoms, frequently ended up in circularity (O'Brien, 1975). The failure to transcend the sphere of exchange - the expansion of trade - and the economic determinism implied therein, precluded systematic understanding of the problem. By conceding that Third World countries were capitalist by virtue of their trade relations with capitalist countries, the dependency theorist's failed to explore the implications of the nature of the relations of production which were historically emerging from this interaction [17]. "Hence, they did not see the degree to which patterns of development or underdevelopment for an entire epoch might hinge upon the outcome of specific processes of class formation, of class struggle" (Brenner, 1977, p. 91).

In contrast to the centre where the capitalist mode of production is dominant and virtually exclusive, the periphery is characterized by a capitalist mode which is dominant but not necessarily exclusive. In other words, the capitalist mode of production did not completely transform these social formations: rather, pre-capitalist formations (relations of production) may be articulated and highly functional to the dominant capitalist mode. Critically, the nature of these social formations entails important consequences for surplus extraction, the productivity of labour and, by extension, economic development. Whereas pre-capitalist modes of production are characterized by the extraction of absolute surplus-value, the capitalist mode of production differs in its systematic tendency to unprecedented economic development by way of the expansion of relative surplus-value (Brenner 1977).

Specifically, the creation of absolute surplus-value involves the extension of the duration of the working day beyond the socially necessary labour time required for the reproduction of labour[18]. In contrast, the creation of relative surplus-value entails the reduction of necessary labour-time (for a given working day). This reduction is achieved through increased labour productivity, a decline in the value of labour-power, and in particular through the increased application of constant capital to the labour process, a rising organic composition of capital c/v. There is, in effect, a radical transformation of the labour process and moreover, far-reaching changes in the social formation as a whole.

> When surplus-value has to be produced by the conversion of necessary labour into surplus-labour, it by no means suffices for capital to take over the labour-process in the form under which it has been historically handed down, and then simply to prolong the duration of that process. The technical and social conditions of the process, and consequently the very mode of production must be revolutionised (Marx 1977, pp. 298-99).

Thus,

> The production of absolute surplus-value turns exclusively upon the length of the working day; the production of relative surplus-value revolutionises out and out the technical processes of labour, and the composition of society (Marx, 1977, p. 477).

With the engine of capitalist accumulation fueled by the continual reinvestment of an ever-expanding surplus, capitalist development in the periphery is constrained by the limiting effect of the production of absolute surplus-value and a leakage of the surplus. Further downward pressure on wages in underdeveloped countries serves to maintain the extraction of absolute surplus-value and, thereby, precludes a shift towards relative surplus-value production and the development implications which could possibly ensue.

The Canadian economy ostensibly shares a number of tangible similarities with that of the underdeveloped countries. In many respects, the rethinking of the Canadian development problematic arose out of the parallel concerns of the high levels of foreign direct investment in the economy, and the country's staple tradition. The 'new' perspective conceptually placed Canada within a metropolis-satellite (or hinterland) framework under the auspices of American political-economic hegemony (Levitt 1970). Initially the forefront of the debate was the truncated nature of much of the manufacturing sector in Canada, which was dominated by American multinational corporations (The Gordon Report 1957, Canada1972, Britton and Gilmour, 1978)[19]. The cumulative effect of a high degree of foreign penetration was a manufacturing sector characterized by, among other things, a generally weak export propensity, particularly in those areas embodying a major technological component (Williams 1983); a high import propensity (Statistics Canada 1981); and limited linkages to the national economy (Britton and Gilmour 1978). More importantly, the high degree of foreign ownership in the Canadian economy resulted in the alienation of control over the allocation of resources and the integration of the Canadian economy into a continental division of labour structured around the dictates of American capital. In effect, Canada had been relegated into a position of technological dependence and a supplier of resources to American industry. The new "mercantilism" of foreign direct investment (industrial capital) had effectively recolonized Canada; "Canada moved from colony to nation to colony" (Innis, 1956, p. 405).

Notwithstanding the apparent similarities between Canadian and Latin American dependent development, the imposition of the dependency paradigm into the Canadian context has been somewhat remiss in coming to grips with the fundamental distinctions betwen the two cases. In contrast to the experiences of Latin America, wage rates in Canada were high, reflecting Canada's status as a white-settler colony, the availability of land, proximity to the American labour merket (where wages were even higher), and the nature of class struggle as manifest in unions (Williams 1976). Collectively these factors placed limits on the downward pressure on wages necessary for capital accumulation. As a consequence, capital accumulation was based on relative, as opposed to absolute surplus-value production, and a rich, though small, internal market emerged. Buttressing the high-wage structure of the Canadian economy and the tendency towards the production of relative surplus-value, was the liberal democratic commitment of the Canadian state, again in sharp contrast to the authoritarian nature of those existing in Latin America. Moreover, the Canadian state was to forge an important role in the facilitation of capitalist expansion within the nexus of American capital and, for its part, foreign capital was to assume a unique role in Canada. "Foreign capital is legally and socially in place in Canada as a hegemonic class force, one which is directly implicated in regional conflicts on both sides in the name of the national interest" (Panitch 1981, p. 35). The implication is not that the Canadian state is a mere appendage of American capital rather, the historical trajectory of development in Canada emerged out of the complex of social forces reflecting the internal differences within the factions of capital, between capital and labour, and through the actions of foreign capital.

In spite of these obvious distinctions, the dependency perspective is useful insofar as it centres the debate around the historical and imperial context of Canadian development. A useful and important starting point for the discussion of the evolution of the regional problem in Canada is national policy. National policy formulated in the nineteenth century in fact embodied a range of policies designed and related to the extension and consolidation of British North America into a viable nation-state. By virtue of its mandate, the range of policies had important regional dimensions and consequences. The union of British North America meant integrating the diverse cultural interests of Canada east and west, and the divergent economic interests of the Maritimes and the Canadas. National policy owes its existence to the dissolution of the British Imperial (Economic) System and the negative implications for the empire of the St. Lawrence which was based on this sytem (Phillips 1979). The Confederation of the British North American colonies in 1867 stemmed from internal and external pressures (Ryerson 1968). Internal pressures arose from the growing native capitalist industry requiring a domestic market. External pressures were exerted in the form of British Imperial objectives and the desire for a link to the Pacific. The failure to unify jeopardized both objectives, as Galt bluntly stated, "The question is simply one of confederation...or of ultimate absorption in the United States" (cited in Ryerson 1968, p. 310). Faced with annexation by its rapidly expanding neighbour, colonial union, particularly from the perspective of central Canadian interests, offered the possiblity of capitalist accumulation within British North America and independence from United States expansionism.

The possibilities and prerequisites of independent capitalist development under the auspices of central Canadian interests were in fact forseen by these interests.

> It is an empire we have in view, and its whole export and import trade will be concentrated in the hands of Canadian merchants and manufacturers if we strike for it now....If we let the west go to the United States, if the rest of the continent outside Canada and the Atlantic provinces acknowledges the sway of the Republic, we should be unable to contend with her. Our ultimate absorption would be inevitable (George Brown, cited in Ryerson 1968, p.321).

The regional vision of the proposed union entailed "internal colonialism" with the "imperial" centre residing in the board rooms of the Canadas[20].

Thus, the survival of British North America necessitated union, but successful union required an economic foundation in the form of a common market and a profitable outlet for central Canadian capital, and to a lesser extent that of the Maritimes. The creation of this economic basis was the substance of national policy. It consisted of four important and interdependent dimensions: Confederation, the construction of a transcontinental railway, the settlement of the western frontier, and protection of the common market. As the constitutional element of the national policy, Confederation provided an important financial basis for the debt-ridden Canadas. The twine which would bind the nation was the transcontinental railway. To the east, a railway link between the Maritimes and the Canadas was a prerequisite to the former's assenting to union. To the west, incorporation of the western territory as a hinterland of the east was predicated on substantive claims to the territory based, in turn, on the CPR. However, construction of the railway faced formidable obstacles in terms of overcoming arduous terrain, and a financial burden, which necessitated British support.

The long-run viability of the railway required two essential ingredients: settlement of the western frontiers, and protection from American intrusion into the north-west. The two ingredients were supplied, or at least provided for, prior to the completion of the railroad, and form the last two elements of national policy. The provision for immigration into, and settlement of, the north-west was achieved through the Homestead Act of 1872. Protection from American penetration involved two instruments. The protection of eastward traffic was accomplished through the monopoly clause of the Canadian Pacific Railway charter, and through the construction of a southern route in close proximity of the international boundary. In terms of westward traffic, the legislation of the 1879 National Policy Tariffs protected the market of the west for eastern output. The tariff provided protection to Canadian financial and industrial capital. In terms of the former, the exploitation of the western frontier, specifically the wheat economy, was managed by the financial, railway and trading interests of central Canada. For its part, industrial capital benefited from the extension and protection of a small, relative to the United States, but none the less lucrative domestic market. The crisis of 1873 resulted in American producers "dumping" their wares into the Canadian market in order to realize surplus-value from excess production. Such practices undercut emerging Canadian manufacturers and necessitated some sort of protection in order to ensure a manufacturing presence in Canada, given the intrinsic advantages accruing to southern producers. In effect, the national policy and its defensive protectionism entailed a conflation of interests among Canadian trading, railway, and industrial capital with British finance and Canadian labour, and was made possible by these interests.

Undeniably, national policy successfully accomplished its primary objective of creating a national economy under central Canadian hegemony. However, the historical trajectory of Canadian economic development was set within the sands of shifting imperialisms, that of traditional British imperialism and that of nascent American imperialism. Initially the two imperialisms were mutually consistent, and left a lasting imprint on the course of nation building. In particular, two constraints were imposed on the pattern of Canadian industrial development. As a former colony of Britain, and heavily dependent on British finance, Canada's primary role within the empire was to provide cheap staples, in particular food stuffs, for the motherland. With the wealth of the country based on staple production, the power of the merchant interests was strong. As such, the demands of staple trade and investment were paramount, placing the demands of industrialization in a subordinate position. Concomitantly, the American industrial empire was rapidly expanding with its horizons unencumbered by Canadian nationalism. The lucrative Canadian market was viewed as an extension of the American market, and provided an outlet for American goods. Canadian manufacturers were generally less profitable than their American competitors, owing to the latter's head start, larger home market, and the high wage nature of Canadian labour (relative to Europe although generally lower than those prevailing in the US). In a generally inferior competitive position in relation to American industrial capital, recurrent crises and the resulting successive waves of continental centralization and concentration of capital effectively converted the Canadian manufacturing sector into a branch-plant economy. Moreover, as American industrialism expanded, the demand for Canadian resources increased, pulling Canada's trade links in a continental, as opposed to imperial, direction.

In view of the predominance of the staple economy and the strength of American industry, industrialization in Canada assumed a secondary position in Canadian development, and evolved on a largely derived basis in the context of the continental economy. The Canadian market did offer opportunities for Canadian manufacture, be it by Canadians or foreigners. Servicing of this market under the aforementioned constraints was most feasibly achieved through the "painless" creation of an "instant" manufacturing sector, albeit one which was technologically dependent on American industry. This path was consistent with internal economic priorities and continental realities, as well as being politically consistent with the global policies of Downing Street. As Galt had argued;

> We have tradesman who make goods similar to the Americans, but not to Sheffield: and if our duty operates as encouragement to manufacturers, it is rather against the American than the English manufacturers (cited in Williams 1983, p. 35).

And Tupper reiterated,

> In ceasing to be dependent on foreign sources (of industry)...and by the development of her great natural resources...Canada may hope to attain a more prosperous position and become a source of strength to the British Empire (Loc cit, p. 35).

The industrial strategy chosen was that of import substitution within and for the Empire.

The pursuit of import-substitution-industrialization (ISI), and the subsequent infiltration of American foreign direct investment are often argued to result from entrepreneurial failure and/or the merchantilist nature of the capitalist class (Levitt 1970, Naylor 1975). Both view the key to capitalist development as the success of the entrepreneur. In so doing, the capitalist class is dichotomized into industrial and financial factions, with the former being the engine of growth. However this dichotomy may be somewhat suspect, as financial capitalists did enter into industrial pursuits where profitable opportunities presented themselves, and were part and parcel of continental finance capital (Panitch 1981). But, given the parameters (i.e. the predominance of staples) within which Canadian industrialization was taking place, the outcome of continental accumulation was Canadian industrial dependency.

Also partially misleading is the claim that the National Policy Tariffs were the cause of foreign direct investment. On the one hand, the record of branch-plant establishments in Canada suggests that these claims are over zealous (Phillips 1979). On the other hand, while the tariffs undoubtedly influenced the investment decisions of American producers, it alone was insufficient.

> It is important that all such legislation - involving patents, tariffs, industry incentives and 'made-in-Canada' rulings - would not have been enough to 'force' investments by American manufacturing firms in Canada...unless American companies desired to sell in Canada and unless the market was there (or could be created), Americans would not have invested (Wilkins 1974, pp. 143-4).

Regionally, the national policy had a prominent and lasting effect. In all its aspects, national policy, explicitly or implicitly, entailed a particular division of labour within Canada. To the west, the expansion of the railway and concomitant increase in settlement on the prairies paved the way for the wheat economy. In terms of industrial activity, the protected Canadian market became the preserve of central Canadian manufacturers. In concert with the exigencies of ISI American foreign direct investment spilled over into Canada in search of markets and resources (Table 3.2) (Wilkins 1970, 1974). Regionally, foreign direct investment in manufacturing became concentrated in central Canada (Ray 1971). Linkages were forged between United States metropolitan centres and central Canada, especially Toronto. As a result, some 200 of the country's largest enterprises are foreign subsidiaries and the corporate industrial core of Canadian economy rests squarely in Toronto, with 200 of the nation's top 500 firms headquartered there (Financial Post 500, 1984). In total, Quebec and Ontario account for 350 of the top 500 office headquarters.

The Maritime provinces did not slot into the national political economy in an easily defined fashion. Structurally, the Maritime economy was directed towards the sea-going trade of the North Atlantic, and consisted of a world-class merchant marine, shipbuilding and lumber industries, fisheries, agricultural production and a growing secondary manufacturing sector oriented towards the domestic market. The principal economic stimuli emanated from the British Isles, with the British West Indies and the United States also playing an integral role in the region's economic fortunes. While the dissolution of the mercantilist system and the loss of free access to the American market presented problems for the region, in the mid-1880s, New Brunswick, Nova Scotia, and Prince Edward Island remained relatively prosperous sea-going economies largely divorced from the continental and crises-plagued situation of the Canadas. Initially, Confederation did not alter this basic trading pattern. Importantly however, union with the Canadas placed the region within a new political economic context which resulted in increasing competition between Canadian and Maritime producers, increased presence of Canadians in the Maritimes, and an eventual reorientation of the Maritime economy. Confederation, therefore, represented the clash between alternative development models - continentalism versus Maritime trade.

The 1874-79 depression had important ramifications for the development of the Maritime economies. With stagnating staple exports, and increasing competition from American manufacturers, protectionist pressures were echoed throughout the Maritimes as in the Dominion at large. The introduction of the tariff coincided with improving staple markets, and industrial expansion began. An import-substitution programme stimulated the creation and expansion of a number of national industries. In the Maritimes the national market provided opportunities in older industries, such as sugar refining, and in newer ones, as was the case in textiles (Acheson 1972). The scale and level of manufacturing establishments were designed with the prospects of access to the Canadian market. With the only commercially-viable coal and iron deposits in the Dominion, the Maritimes seemed about to experience the virtues of a national economy. Yet when attention shifted towards providing manufacturers for the interior, investment patterns shifted away from the traditional sectors of the economy. Moreover, the shift to industrial pursuits were often initiated and carried out by traditionally staple and merchant interests. The decade of the 1880s witnessed the evidently successful expansion of secondary manufacturing industry, and the reorientation of the Maritime economy towards the continent (Acheson 1977). But the sea-going ties of the Maritime economy eroded in favour of the railway and marine linkages to Montreal. Rather than being unable to shift resources out of "wood, wind and water", the Maritime economy began the transition towards an industrial economy[21].

The successful and complete transition to an industrial economy was precariously predicated on the Maritimes' continued access to the central and western Canadian markets. These markets, however, resided within the jurisdiction of a state over which Maritime industrialists did not have control. Thus, there were serious political constraints in terms of lobbying for favourable policy changes necessary for successful transition. In addition, Maritime manufacturers possessed two significant organizational disadvantages relative to their central Canadian competitors (Acheson 1972). First, these producers faced formidable financing problems, as most ventures were community based and relatively scattered throughout the region. There existed limited possibilities for raising large amounts of capital necessary for large industrial pursuits since capital markets wre not well developed. In contrast, central Canadian manufacturers had access to large organized capital markets. Secondly, the distribution system into their target markets was controlled by their Montreal competitors. In total, these constraints placed Maritime industry in a difficult position relative to central Canadian interests, particularly with the advent of economic crises.

The late 1880s and early 1890s again witnessed the crippling effects of economic recession. With stagnating export markets and continued "imports" from central Canada, the trade balance of the Maritimes soon became an imbalance. The National Policy Tariffs had stimulated overexpansion of industrial capacity in Canada, but with stagnant markets excess capacity meant cut-throat competition among Canadian, Maritime, and American producers. Continued profitability demanded restricted competition and supply among industrial producers, which entailed rationalization of industrial capacity. Continental and national centralization and concentration of capital resulted in the alienation of control of much of Maritime industry. By 1914 the Maritimes had become a branch-plant of Montreal capital. Industrial restructuring of capital was paralleled by financial restructuring; after 1896 the Maritimes became an area of "surplus savings" for the Dominion (Frost 1982)[22]. The consolidation of the Nova Scotia Steel Company into the Montreal- and London-controlled British Empire Steel Corporation in 1920 marked the beginnings of the road to deindustrialization. "Maritime consciousness of economic stagnation and relative decline within the Dominion of Canada...assumed the stature of certainty and reality in the 1920s" (Alexander, 1978, p.48). While manufacturing output declined steadily the region received a boost from its traditional markets in Britain and the United States. However, the region became locked into a "staple trap" and dependent upon federal government support while paradoxically becoming a purveyor of economic surplus to other regions. For example, Kuuisto and Williams (1974) in the case of the gypsum industry, controlled by foreign capital, demonstrate how Nova Scotia gypsum has reached American manufacturing plants at about $1.50 per ton less than US domestic sources. If, however, the same gypsum had been sold at the US domestic price, then the surplus accruing to Nova Scotia would have increased by approximately $100 million since 1957. Moreover, by virtue of multinational corporate "transfer pricing" the Nova

Scotia Government has received minimal tax revenues, averaging about $263,000 per year, or just over $5 million for the period 1955-1973.

The reasons why Maritime development did not successfully complete the transformation to a fully-fledged industrial economy are complex and manifold and as yet not fully understood. In 1885 the Maritime economy appeared poised on the verge of industrialization. Some five years later its precarious position was exposed and the threshold became distant. The centralization and concentration of continental and national capital clearly had deleterious consequences for the region. However, this general explanation of the development of Maritime underdevelopment must be supplemented with more concrete analyses. To this end, questions of geographic accessibility and national transportation policies (Forbes 1977) and the 'nationalization' of the banking system (Frost 1982) suggest partial avenues of explanation and imply a need to concretely examine the role of the state in these processes[23,24]. At the same time, explanations concerning the spatial outcome of capitalist accumulation must incorporate the nature of the relations of production as these have evolved in concert with the process of accumulation. "In every case, it is class relations which clearly become pivotal: the question of the transformation in relationship to economic development" (Brenner, 1977, p.27). Explanations of regional decline citing entrepreneurial failure, (for example Acheson 1977 and George 1970), inevitably raise more questions than they attempt to answer. For example, George (1970) asserts that one reason for the poor quality of entrepreneurship in Nova Scotia is due to the greater proportion of Nova Scotian industry, relative to Ontario and Quebec, in the hands of individuals or partnerships as opposed to incorporated companies[25]. In part, this may reflect the resilience of independent commodity production to the penetration of capital, or be a consequence of that penetration. In any event, the nature of the relations of production has important implications for regional development (see for example Fairley 1985).

The process of capitalist expansion and its penetration of regional economies does not necessarily result in the generalization of capitalist class relations. On the contrary capitalist relations of production may be articulated to, and even accentuate, non-capitalist relations of production or only partially transform pre-existing relations of production. In all these cases the penetration of capital into new region, and the nature of class relations which emerge, are functionally integrated to the expansion of capital generally. Veltmeyer (1978) argues that the tendency for the rate of profit to fall under capitalist accumulation results in an uneven development of class and regional conditions; "the expanded reproduction of capital at one pole (the centre) both requires and creates on the other (the periphery) conditions for a mass of 'free' labour held in reserve...."(p.96). In this context, Atlantic Canada functions as an "industrial reserve army" for capitalist development at the centre, i.e. central Canada. The function of this pool of labour is primarily to reduce wage rates at the centre in order to offset the falling rate of profit[27]. Whereas the centralization and concentration of capital resulted in the rapid expansion of wage-labour at the centre, the Atlantic provinces' class system evolved along a different path reflecting the specific form of the penetration of capital and the conditions of surplus-labour which resulted. The nature of capital accumulation in the primary sectors of the economy resulted in the displacement of labour from these sectors producing a mass of surplus-labour.

In contrast to the centre, concentration and centralization of capital in the industrial sector of the Atlantic economy reduced the absorption of the surplus-labour released from the primary sectors. Thus, between 1900 and 1931 some 300,000 of the region's inhabitants were forced to migrate. Similarily, between 1961 and 1969 in excess of 150,000 Maritimers left the region destined principally for Ontario[28]. With respect to much of the remaining population, there exists on the one hand, labour employed in the monopolistic sectors of primary production and, on the other, a mass of surplus population as indicated by high unemployment levels. In terms of the latter there is the floating reserve composed of workers whose employment patterns fluctuate with the short-run demands of capital, be it at the centre or the periphery. In addition, there are latent and stagnant reserves consisting of semi-proletariats, independent petty commodity producers (e.g. inshore fisherman), as well as those individuals at the margin of society. Together, these groups provide capital with a flexible (in the sense of not having to pay for the reproduction of labour), and accessible supply of relatively inexpensive labour to facilitate accumulation and place downward pressure on wage rates generally.

In essence, Veltmeyer assesses the nature of regional class formation and structure from the perspective of national accumulation and its differential regional manifestations. While providing a useful framework, a still deeper analysis of specific processes is required. Veltmeyer's categorizations of surplus population neither suffice to describe the actual relations of production extant in their sectors nor do they give sufficient weight to the origins and resilience of these relations. Thus, rather than merely stressing the general process of under-development, attention should also be directed towards stressing, "the importance of regional class structures and the outcome of specific class struggles to the specific trajectory of a region's capitalist development" (Bickerton, 1982, p. 201). For example, Antler (1979) demonstrates how the specific process of class formation and not geographical factors established the structural framework for Newfoundland's underdevelopment in the nineteenth century. In particular, the introduction of the "truck system", based on a series of Newfoundland Supreme Court rulings between 1817 and 1828, led to the establishment of a system of exchange (exploitation) whereby surplus generated in the fishing industry was almost entirely appropriated by the merchant class and, subsequently, exported, thereby truncating capitalist development. The "truck system", based on barter, institutionalized a system characterized by merchants supplying many household low-productivity enterprises as opposed to a few high-productivity ones[29]. Without access to the surplus, direct producers were unable to expand their operations and increase productivity and therefore were confined to marginally productive enterprises. Moreover, Antler estimates that Newfoundland's 1884 capital endowment could have been from 167 per cent to nearly 300 per cent greater than the $1.2 million actually recorded had it not been for a steady export of capital from the region. Thus Antler concludes,

> Nineteenth-century Newfoundland remained underdeveloped through the mid 1880s, not because economic surplus was not generated in Newfoundland, but rather because the surplus that might otherwise have been utilized for industrialization was exported. It appears that Newfoundland's class structure, rather than her geography, accounted for her poverty (p. 197).

In summary, the underpinnings of the regional problem are complex and not clearly understood. The two perspectives outlined both offer useful insights into various aspects of the problem. The neo-classical perspective, set in the short-run, views the market as the most effective means of allocating resources in an efficient and equitable fashion. By extension, regional problems emerge and persist as a result of market failures. In contrast, the dependency perspective does not accord the market pride of place as the most efficient and equitable arbiter of the allocation of resources. The regional problem is but one manifestation of the overall accumulation process, and cannot be understood in the abstract, i.e. as the workings of an atomistic market. Rather the question of regional disparities, must be analysed from a historical perspective and with specific reference to the social formation within which accumulation occurs. Many of the causes of regional disparities identified by the proponents of the neo-classical perspective are valid (e.g. productivity differences, transfer dependency) and must be addressed in proposals to ameliorate these inequities. However, these factors are arguably consequences and not causes of the regional problem, and must be historically examined. Ultimately the size and control of the economic surplus must be considered in any serious analysis of regional disparities. Together, theoretical ambiguity, or at least ideological inhibitions, concerning the basis of regional disparities and the institutional constraints discussed in Chapter 2, have worked to shape the form and direction of Canadian regional policy. It is these policies which will be discussed in the following chapter.

TABLE 3.1

Contributions of Industrial Structure and Output Per Worker to Variations in Labour Productivity by Province 1970 - 73[1]

	Contribution: Industry Structure	Contribution: Output per Worker	Difference between Provincial and National Labour Productivity
	(Percentage difference between province and Canada)		
Total Economy			
Newfoundland[2]	6	-15	- 9
Prince Edward Island	-16	-24	-40
Nova Scotia	- 1	-22	-23
New Brunswick	1	-19	-18
Quebec	1	- 8	- 7
Ontario	1	3	4
Manitoba	- 3	- 8	-11
Saskatchewan	-12	11	- 1
Alberta	- 4	18	14
British Columbia	1	9	10
Canada	0	0	0
Goods-producing Industries[3]			
Newfoundland	- 2	-17	-19
Prince Edward Island	-35	-19	-54
Nova Scotia	- 1	-29	-30
New Brunswick	- 1	-26	-27
Quebec	2	-16	-14
Ontario	3	4	7
Manitoba	- 7	-11	-18
Saskatchewan	-27	18	- 9
Alberta	- 7	37	30
British Columbia	3	12	15
Canada	0	0	0

.....continued

TABLE 3.1 continued

Manufacturing [4]			
Newfoundland	2	-24	-22
Prince Edward Island	2	-35	-33
Nova Scotia	1	-27	-26
New Brunswick	- 1	-20	-21
Quebec	- 6	- 7	-13
Ontario	3	6	9
Manitoba	- 8	-11	-19
Saskatchewan	2	6	8
Alberta	2	4	6
British Columbia	0	9	9
Canada	0	0	0

1. Based on Statistics Canada data.

2. Estimates for the total economy relate to 11 major industries: agriculture, forestry, fishing, mining, manufacturing, construction, transport and utilities; trade; finance insurance, and real estate; community, business and personal services; and public administration.
3. Goods-producing industries include agriculture, forestry, fishing, mining, manufacturing and construction.

4. Based on analysis of 20 manufacturing industries.

Source: Auer (1979).

TABLE 3.2

American Direct Investment in Canada

Estimates of U.S. Direct Foreign Investment

Year	Total U.S.	Total U.S. FDI in Cda (& Nfld)	of which manufacturing
1897 [a]	635	160	55
1908 [a]	1638	405	155
1914 [a]	2652	618	221 [e]
1919 [b]	3380	814	400 [f]
1929 [b]	7553	1657	820 [g]
1940 [c]	7000	2103	943 [h]
1950 [d]	11.79	3.58	1.90
1960 [d]	31.82	11.18	4.83
1970 [d]	78.18	22.79	10.06

Notes

a. Source: Wilkins (1970) Table V.2, figures are book value in million U.S. dollars.
b. Source: Wilkins (1974), Table 111.1, figures are book value in million U.S. dollars.
c. Source: Wilkins (1974), Table V111.2, figures are book value in million U.S. dollars.
d. Source: Wilkins (1974), Table X111.2, figures are book value in billion U.S. dollars.
e. Includes pulp and paper $74 millions
f. Includes pulp and paper $100 millions
g. Includes pulp and paper $279 millions
h. Includes pulp and paper $308 millions

NOTES

1. The Economic Council of Canada summarizes the neo-classical, Keynesian, Regional Science, Staples, and Developmental approaches to the problem of regional disparities. All these approaches emphasize different aspects of the problem yet all share the general assumption of the sanctity of the market and differing roles of the state in combating the problem.

2. It would be incorrect, or at least misleading, to accuse staple theorists of necessarily implying that only one social formation may coincide with a particular staple, although at times this seems to be the case.

3. The use of the term "outgrowth" reflects Fowke's analysis that, "Although by no means clearly foreseen in the early decades of the national policy, effective occupation of the central plains as required for the preservation of Pacific frontage and a doorway to the Orient eventuated in the establishment of the wheat economy" (p. 282).

4. For example, the changing structure of the prairie economy is examined in the inaugural issue of the Western Economic Review, 1982.

5. For example, if a provincial government legislates a high minimum wage and at the same time has high unemployment, Ottawa compensates by increasing unemployment insurance and welfare transfers.

6. These concessions centered on the amendment of the provinces Trade Union Act - the "Michelin Bill" - which impedes unionization of interrelated plants.

7. Grant and Vanderkamp (1976) indicate individuals associated with logging, farming, mining and construction have high mobility rates, while production workers and craftsman tend to low mobility rates. However a note of caution is advisable, as the interaction of education, occupation and social status is not completely understood: see White and Woods (1980).

8. The actual disentangling of the causal elements of human migration is itself problematic. For example, in discerning the relative immobility of a particular ethnic group or race which happens to be poor, the influence of social cohesion, perceived discrimination at the destination (as a repulsive factor) may in practice be difficult to differentiate. Even determining how different economic factors influence the migration process may be difficult. See for example Cebula (1979), Chapter 3.

9. That British Columbia is characterized by high incomes, high unemployment and consistent net in-migration indicates the possibility of money illusion; although the impact of quality of life factors are probably present.

10. While I have basically treated general migration and resettlement similarily, the two are theoretically different. In particular, resettlement schemes are an attempt to proletarianise (create a pool of wage-labour) particular segments of the population. I maintain that the points made however remain valid.

11. The "stay option" essentially called for bringing employment opportunities to workers as opposed to expecting labour to migrate.

12. What is alluded to here are so-called explanations of underdevelopment which appeal to the nature of the individual or of a particular society. For example, Boeke (1953) argues that eastern society is molded by "fatalism and resignation" whereas the more developed western world is founded on reason. Similarily, "the most characteristic economic phenomena in the eastern society such as the enormous density of population, the dualist development of agriculture with its large landed estates alongside crofter farmsteads, the direct foreign investments, the labour and wages problem...all these matters find their simple explanation in the eastern premise of the limitedness of needs" (p.40). And again, "as a general rule the eastern male dislikes routine" (p.41), in contrast of course to assembly line workers who relish their servility to the conveyor belt. These types of arguments - "dualism" - find expression in developed countries as well, as is commonly the case in dealing with the native Indian question, or in the so-called "backwardness" of petty commodity producers (e.g. fisherman, farmers) who resist their alienation from the means of production. For a discussion of dualism, see J. H. Boeke, Economics and Economic Policy of Dual Societies, New York, 1953.

13. The Third World does not of course, exist as a unified and homogeneous entity. In fact, there is a tremendous diversity among the so-called Third World or "South" countries as is graphically evidenced by a comparison of the NICs and such countries as Tanzania, El Salvador, etc.

14. In terms of industrialization, the division of labour between North and South may be delineated into two general forms. The first form, "bloody Taylorization" involves the production of labour intensive manufactures based on the "super-exploitation" of labour. "Bloody Taylorization" typified many NICs during the late sixties and early seventies, and is currently extant in places such as Morocco

and the Philippines. The second form, "Peripheral Fordism" is evident in Mexico, Brazil, and numerous Southern and Eastern European countries. Fordism is an accumulation system denoting two relatively distinct though interrelated phenomena; radical and constant change in the labour process incorporating workers "know-how" (i.e. intensive accumulation), and the continual adjustment of mass consumption to increasing productivity (expanding markets). It is "peripheral" because the higher order functions of the labour process (conception) reside in the centre, and because it is dependent on the access to centre markets for its maintenance (see Lipietz 1982, 1984).

15. The distinction between underdevelopment and dependent capitalist development merely draws attention to the possibilities of accumulation in the periphery albeit in a defined and restricted way. "In fact, dependency, monopoly capitalism and development are not contradictory terms: there occurs a kind of dependent capitalist development in the sectors of the Third World integrated into the new forms of monopolistic expansion" (Cardoso, 1972, p.89). See also Lipietz (1982; 1984).

16. Marx K. and F. Engels, Manifesto of the Communist Party, Progress, Moscow, 1977, p.47.

17. The preoccupation with exchange denied to dependency theorists the theoretical wherewithal to differentiate between a country like Canada and one like Chile or Cuba.

18. For a thorough elaboration of the following points, see Marx (1977), Parts 3, 4, and 5.

19. Truncation may be defined as, firms which do not perform the complete range of functions necessary to design, develop, manufacture and market a given product. Although this characteristic need not be confined to foreign firms, the term truncation is generally applied to foreign firms.

20. Internal colonialism is a subnational parallel to imperialism as applied between nation-states, and is frequently characterized by a particular division of labour whereby the region serves as a market for centre output and a supplier of primary products to the centre. The economic surplus generated in the periphery is appropriated by the centre to facilitate its own expansion.

21. For example: between 1880 and 1890 the industrial growth rate of Nova Scotia exceeded that of all other provinces in eastern Canada, with industrial output increasing 66 per cent, as compared to 51 per cent for Ontario; the comparable increases for St. John and Hamilton over the same

period were as follows:

	St. John	Hamilton
Industrial capital	125%	69%
Industrial workers	118%	48%
Value of output	98%	71%

See Acheson (1972).

22. Frost (1982) has documented this evolution for the Bank of Nova Scotia.

TABLE 1

Loans and Deposits, Maritimes Branches, Bank of Nova Scotia 1881 - 1910

Year	Loans ($)	Average Rate of Interest on Loans (per cent)	Deposits ($)	Ratio Loans/Deposits
1881	1,373,981	6.82	2,132,406	1.629
1882	4,251,802	6.74	2,769,408	1.535
1883	4,357,909	6.63	3,021,982	1.442
1884	4,571,670	6.56	3,275,416	1.395
1885	3,818,938	6.84	2,737,087	1.395
1886	3,737,437	6.91	2,837,864	1.317
1887	4,030,314	6.86	3,289,581	1.225
1888	3,937,310	6.97	4,655,745	.971
1889	4,310,288	7.18	4,610,545	.934
1890	4,545,940	6.93	4,934,039	.931
1891	5,323,962	7.00	5,156,692	1.032
1892	5,281,662	7.22	5,241,811	1.006
1893	5,062,173	7.32	6,201,596	.973
1894	5,654,287	7.22	5,464,430	1.035
1895	6,412,012	7.12	6,342,651	1.054
1896	5,658,204	7.07	6,594,592	1.046
1897	6,838,160	7.02	7,119,857	.952
1898	4,858,481	6.90	8,149,338	.572
1899	4,963,760	6.79	9,194,293	.540
1900	5,459,952	6.41	10,770,234	.506
1901	5,741,979	6.24	12,491,658	.460
1902	5,637,779	6.43	13,924,245	.398
1903	5,718,153	6.74	14,908,843	.454
1904	7,641,391	6.64	16,247,624	.462
1905	7,663,753	6.60	19,972,131	.472
1906	7,377,877	6.49	15,364,399	.450
1907	7,354,411	6.74	15,684,543	.469
1908	6,351,099	6.96	15,635,772	.406
1909	6,619,966	6.73	16,351,431	.405
1910	7,717,629	6.78	17,635,452	.438

Source: Compiled from Statistical Records, 1881 - 1914, Bank of Nova Scotia Archives.

TABLE II.

Loans and Deposits, Non-Maritimes Branches
Bank of Nova Scotia, 1882 - 1910

Year	Loans ($)	Average Rate of Interest on Loans (per cent)	Deposits ($)	Ratio Loans/Deposits
1882	165,068	9.27	34,264	4.818
1883	377,502	8.54	54,143	6.972
1884	432,798	6.58	63,423	6.824
1885	173,378	5.27	27,335	5.906
1886	872,474	6.03	3,266	267.138
1887	1,245,237	6.98	53,774	23.211
1888	1,847,327	5.69	49,331	38.456
1889	2,456,277	5.91	44,785	28.971
1890	2,708,111	5.71	201,325	13.477
1891	2,656,676	5.85	259,668	10.255
1892	2,126,058	5.07	266,610	11.814
1893	3,511,446	6.63	418,690	8.391
1894	3,727,579	4.95	400,808	9.300
1895	3,827,240	5.53	906,044	4.224
1896	4,500,199	5.83	1,465,847	3.070
1897	4,957,126	5.54	1,535,408	3.235
1898	6,219,664	4.80	1,774,650	3.505
1899	7,636,064	5.84	2,121,351	3.434
1900	8,857,392	5.94	2,444,732	3.636
1901	10,040,819	5.49	3,316,756	3.027
1902	11,569,243	5.78	4,846,316	2.387
1903	11,678,673	6.90	5,187,686	2.276
1904	11,662,266	6.23	5,845,724	1.995
1905	13,160,139	6.32	7,334,880	1.782
1906	15,344,418	6.17	8,739,549	1.756
1907	17,990,339	6.65	10,818,095	1.649
1908	17,710,223	6.53	13,533,681	1.309
1909	21,098,330	6.14	16,909,643	1.248
1910	25,039,285	6.40	19,852,645	1.291

Source: Compiled from Statistical Records, 1881 - 1914, Bank of Nova Scotia Archives.

23. Of particular importance in the case of transportation policy was the shift from flexible rate structures designed as, "an instrument of national and regional development, (their) primary function being the provision of competitive access for Maritime products in Central Canadian markets" (p.61), to rigid and symmetrical (uniform across Canada subject to certain exceptions) rates whose purpose was, "to protect railway's profits... and to assuage the westerners' sense of grievance" (p.67) see Forbes (1977).

24. The creation of a national financial market in concert with the tendencies of the concentration and centralization of capital resulted in the restructuring of the Maritime banking system. Whereas in 1900 there were 13 banks in the region, by 1910 only three remained; the Bank of Nova Scotia, Bank of New Brunswick (which was amalgamated with the Bank of Nova Scotia in 1913), and the Royal Bank (which was the Merchants Bank of Halifax). In addition to numerous failures and intraregional amalgamations, central Canadian banks moved into the regionl through takeover of local banks, for example, the Bank of Montreal acquired the People's Bank of Halifax (1905), People's Bank of New Brunswick (1907) and the Exchange Bank of Yarmouth (1903). Similarly, the Canadian Bank of Commerce acquired the Halifax Banking Company (1908) and the Merchants Bank of Prince Edward Island (1906). See Frost (1982), footnote 92, p.29.

25. George (1970), p.109. In 1962, for example, individuals and unincorporated partnerships accounted for 51.7 per cent of Nova Scotian industry versus 42.9 per cent for Ontario and Quebec, measured as a per cent of total establishments. The implication for industrial development is that this form of business organization tends to "settle down over the years into a complacent rut".

26. The coexistence of capitalist and precapitalist modes of production is generally conceptualized as the articulation of modes of production, see Aidan Foster-Carter, "The Modes of Production controversy" New Left Review, No.107, 1978, pp.42-77. While often considered at the level of national development, the articulation of modes of production perspective (which really arises from any examination of class relations and thus is not unique) has gained currency in regional contexts as well, see for example Barrett (1980) and Lipietz (1980).

27. Simply, the industrial reserve army is an accessible supply of cheap labour, which may assume one of three basic forms, floating, latent and stagnant. For a discussion of these forms see Marx (1977), Chapter 25, Section 4.

28. For the period 1956-61 Ontario received 40.7 per cent, 46.9 per cent, 42.2 per cent, and 46.9 per cent of emigrants from P.E.I., Nova Scotia, New Brunswick, and Newfoundland respectively. See Veltmeyer (1978).

29. Antler draws the analogy between the structure of production of the Newfoundland fishing and Joan Robinson's analysis of agricultural production under the conditions where the landowner views his land as a simple source of income. Robinson argues,

> In order to have no trouble with cultivation, the landlords let out the land to tenants, the rent being a traditional proportion, say, half, of the grow output of the land. The landlord has no direct control over the work that the share croppers do. Tenants have neither the means nor the motive to maintain the productivity of the land, while the landlord can get his income without bothering about it. In these conditions, the greater the number the workers on his estate, the larger is the landlord's return. The landlord gains most when the holdings are so small and the level of intensity of cultivation so high as to maximise output per acre, i.e., the marginal product of an additional tenant would be zero (cited in Antler, 1979, p.193).

CHAPTER 4

THE EVOLUTION OF CANADIAN REGIONAL POLICY.

4.0 Introduction

In view of the conceptual background presented in the previous two chapters, this chapter will discuss the evolution of Canadian regional policy. The focus of the discussion will herein be confined to explicit regional policy at the federal level.

In the case of the Canadian state the accumulation function has tended to dominate state activity. The range of policies encompassing national policy in the post-Confederation period were on the one hand, political in the sense of nation-building and, on the other, a grand design to facilitate capitalist accumulation in Canada under the auspicies of central Canadian interests.
Together, immigration, tariff and transportation policies led to the creation of a Canadian common market and laid the foundations for national accumulation. At the same time, these policies shaped the spatial pattern of accumulation within the nation. The resulting and evolving division of labour witnessed the growth of an industrial heartland centred on the Montreal-Windsor axis and reserved resource-production for the peripheral areas of the country. The dominance of the accumulation function in the process of nation-building, the division of labour among the regions, and

the tendencies towards centralization and concentration of capital soon created problems. While Canadian Confederation, "extended successfully from coast to coast and a viable national economy was forged", it did not "produce a unified, independent, regionally balanced, economic policy-making unit" (Phillips 1979, p.8). Thus, if Confederation and subsequent national policy can be viewed as political actions designed to foster capital accumulation, then as the spatial contradictions of this process became apparent, the need for legitimating policies became imminent. In light of the expanding role of the state in Canada generally, and the need to create some semblence of balanced national development and harmony, regional policy emerged and evolved.

4.1 The Formative Years

The Depression of the 1930's stimulated the need for a significant change in the role of the state in capitalist countries. Regionally, this demand emanated from the differential spatial impact of the Depression and the need for the state to intervene to offset some of these problems. In terms of regional policy, two important initiatives were undertaken in Canada by the federal government. First, the dual effects of depressed export markets and unfavourable weather served to decimate the "wheat economy" and create severe rural strife. By December 1932 export prices of farm products were 30 per cent of their July 1929 level. Concomitantly, provincial per capita incomes in Alberta, Saskatchewan and Manitoba declined by 61, 72 and 49 per cent respectively as opposed to 48 per cent for the country as a whole[1]. In view of the prairie experience, the federal government legislated the Prairie Farm Rehabilitation Act (PFRA) in 1935. The PFRA was a joint federal-provincial programme providing for the "rehabilitation of drought and soil drifting areas in the Provinces of Manitoba, Saskatchewan and Alberta" through the promotion of improved, "systems of farm practice, tree culture and water supply that will afford greater economic security"[2]. The necessity to make provision for the rehabilitation of agricultural lands in the west was partly attributable to the problems resulting from an over zealous Dominion Lands Policy. That is, the provision of homesteads to settlers was not based on land or climatic survey data, hence marginal and/or wholly unfit land was frequently settled. Not surprisingly therefore, 40 per cent of Canadian homesteaders failed to "prove-up" and secure title to their land between 1870 and 1927, and many who remained endured sustained hardship (Fowke, 1957). Thus, the PFRA was at once an extension of Dominion Lands Policy and an explicit regional policy measure. As part of the former and, thus, a part of National Policy, the PFRA in conjunction with credit policies served to decrease costs of prairie-farm production which, in turn, were passed on to Canadian and foreign consumers. As a regional policy, the PFRA was designed to alleviate rural poverty through improved farm management and efficiency. In contrast to other policies aimed at the prairies, for example, the Canadian Wheat Board (1935), the PFRA represented a developmental approach to a regional issue. However, the effect of the act was discriminatory in that the relatively well-off farmers were in a more favourable position to utilize and gain from the various programmes under the Act.

The second important initiative undertaken by the federal government with profound, albeit implicit, regional implications was the establishment of a Royal Commission on Dominion-Provincial Relations - the Rowell-Sirois Commission (1937) [3]. The Commission was asked to examine a number of issues relating to the constitutional allocation between the federal and provincial governments of revenue sources and governmental burdens, and to judge the suitability of these in view of new and changing demands on the state system in Canada (Book 1, p.10). The Commission explicitly recognized the regional problem extant in Canada, and concluded, "The striking fact in the commission's study of Canadian conditions is that many provinces, whose financial position is not the result of emergency conditions, are unable to find the money to enable them to meet the needs of their citizens" (Book 2, p. 269). It is of significance that the Commission invokes the principle that all provinces should be able to provide for their citizens a basic level of services, roughly commensurate with that available in Canada as a whole, without undue financial burden on the provinces. The Commission recommended the redistribution of wealth by the Dominion Government by way of equalization payments - national adjustment grants - made to the provinces. The onset of World War II and subsequent peacetime reconstruction, delayed the imposition of the recommendation.

The most significant development from the perspective of regional policy formulation prior to World War II was the emergence of the "welfare state" in Canada. During the 1930s there was an expansion of state sponsored social security programmes, for example, the 1935 'Bennett New Deal' package of 'reform' legislation included provisions for unemployment insurance (although the Judicial Committee of the Privy Council judged the Bennett scheme unconstitutional in 1938), minimum wage-maximum hours laws, public works programmes, as well as a variety of other measures. In effect, the Canadian state, under political and economic pressure,assumed a greater responsibility in assuring at least a degree of social equity. From this national, or aspatial, responsibility it was a short step to assume a regional one as well. None the less, the centrality of accumulation remained undaunted (Finkel 1977). As the then Liberal Finance Minister, Charles Dunning clearly articulated,

> We must follow policies which will enable it [private enterprise] to work in accordance with its essential principles. The most important of these principles is that decisions as to whether the individual shall spend and consume or shall save and invest or shall save and hoard one left to the individual's own initiative. If therefore the answers to the questions as to whether plants are to be built or extended, new houses are to be created and industry is going to expand or to stagnate, depend upon the decisions of tens of thousands of individuals who are free agents and not regimented sheep, it follows that governments must pursue policies which create confidence rather than fear and uncertainty, which give leadership and guidance and encouragement rather than stifle initiative and paralyze new enterprise (cited in Finkel 1977, p. 364).

The post-war reconstruction period witnessed the Liberal

Government of Canada embark on a loosely Keynesian macro-economic path ostensibly designed to maintain, "high and stable employment and income and a greater sense of public responsibility for individual economic security and welfare", though maximizing economic growth underpinned much of economic policy (Wolfe 1978)[4]. Committed to promoting economic expansion through increased private capital investment, this policy framework incorporated a continental outlook, a variety of non-regionally differentiated investment incentives (e.g. Capital Cost Allowance scheme introduced in 1949), a tariff policy designed to encourage the expansion of Canada's secondary manufacturing sector, as well as social-welfare policies. Economic expansion, principally stimulated by the export of resources to the growing US economy (especially as a result of the Korean War), progressed rapidly throughout much of the 1950s.

Concomitant with this expansion was a major influx of foreign capital into Canada and, as a result, control of the manufacturing and mining sectors shifted from a position of majority Canadian ownership to majority foreign--principally American--ownership. However, in the midst of buoyant economic conditions the structural weaknesses inherent in this path of development were overlooked and regional concerns were at best secondary and implied. There were exceptions however. For example, the Maritime Marshland Rehabilitation Act (MMRA) assented to in 1948 was a policy aimed at reclaiming some 80,000 acres of marshland for conversion to agricultural production. As was previously the case with the PFRA , the focus of the programme was confined to improving physical resource use and largely ignored the greater demands of rural development. As well, regional concerns were frequently expressed in the evolving context of federal-provincial discussions, especially in terms of revenue sharing.

By the late 1950s the convergence of a variety of factors provided the impetus for a directed, though limited, approach to regional problems. Specifically, in 1957 four key political and economic factors surfaced which served as catalysts to federal initiatives in terms of regional policy. First, the federal-provincial tax-sharing agreement of 1957 signified an important commitment on the part of the federal government to provide and maintain a flexible scheme in which to equalize the fiscal capacities of the poorer provinces. Secondly, the Royal Commission on Canada's Economic Prospects (the Gordon Commission) released its final report and provided the rationale for a direct state role in addressing regional issues. The Commission argued that Canada's economic prosperity during the 1950s had been based on the export of natural resources to the United States. Yet, while the resource sectors expanded, other sectors of the Canadian economy were in decline. Consequently, the Canadian economy was characterized by structural deficiencies which were inimical to long-run growth prospects. Moreover, the Commission projected that, "particular regional problems of economic growth...will tend to be concentrated in the Atlantic Provinces and in the north" [5].

These problems stemmed from poor economic structures as indicated by a disproportionately large number of people engaged in marginal activities, i.e. subsistence farming, fisheries and logging, and by substantially lower levels of business investment per capita and per member of the labour force. In addition, inferior infrastructure in the Maritimes inhibited the region's future growth potential. Given the assessment of the nature of the regional problem, the need to improve infrastructure facilities and overcome capital and labour supply problems was emphasized. Significantly, the Commission argued:

> The costs involved in providing these needed services, however, would seem to be beyond the financial competence of the provincial governments concerned. In view of this, we suggest that the Federal Government agree to contribute a substantial sum for capital projects in the Atlantic area....The purpose would be to cover the costs of necessary capital investment, some or all of which would normally be the responsibility of the provincial government (The Gordon Report 1957, p. 412)

In effect, the Gordon Commission held that the federal government should not only be responsible for aspatial personal and intergovernmental fiscal transfers under social and equalization policy, but also it should take a positive role in creating economic opportunities across the nation. The shift in emphasis from issues of stabilization to issues of future growth potential implied a shift in policy focus from short-run adjustment to long-run problem solving.

The third factor was the change in the federal government; namely, the election of a new Conservative government under the leadership of John Diefenbaker. Suspecting a political bias, the Diefenbaker Government received the Gordon report with reservation and at least initially proceeded to replace its long-run policy implications with ad hoc interventions for short-run and immediate political advantage (Careless 1977). Significantly, Diefenbaker's personal affinity towards disadvantaged regions and rural areas, coupled with strong support in these areas, provided the political basis necessary for the emergence of Canadian regional policy. Finally, the election of the Diefenbaker Government was occasioned by the onset of the 1957-62 recession, which constitutes the fourth key factor stimulating the emergence of regional policy. Whereas economic policy throughout the 1950s was set in a loosely Keynesian framework, by 1960 the underpinnings of increasing unemployment were diagnosed not as an insufficient level of demand, but rather as a consequence of international factors and supply-side factors (including technological change and rapidly increasing labour supply). As a result, Keynesian economic management was rejected and replaced by a more extensive and positive government role in the economy which extended well beyond that of Keynesian design (Campbell 1983). Both budgetary and non-budgetary economic policy placed a greater emphasis on supply and structural factors with the objective of revitalizing the Canadian economy in the long run. As a part of the general shift in focus of economic policy and the role of the government in the economy, the government also rejected the conventional approach to problems of differential regional growth, that of a passive acceptance of market outcomes. In as much as previous economic policy had little to offer in terms of dealing with structural factors affecting economic growth, it was equally remiss in dealing with the regional distribution of economic activity. Thus, in seeking to encourage a more balanced distribution of economic activity, the Diefenbaker Government intervened directly in the regional economies; in a word it introduced explicit regional policies.

All told, the formative years of regional policy witnessed the gradual shift from the preoccupation with nation-building under the National Policy to a greater appreciation of regional concerns as evidenced in the reports of royal commissions and various federal-provincial agreements. While undeniably the majority of policy initiatives remained essentially national in focus and geared to national accumulation, the changing role of the state in the economy generally provided an important basis for direct federal action in terms of regional policy. Besides, after 90 years of building a "national" economy, with the existence of regional disparities firmly documented and the rationale for direct federal invention to alleviate these disparities in place, the federal government would have inevitably been compelled to act. Indeed, if the notion of a national economy and a national government were to have any substance, then at least a federal presence in combating regional disparities was required. The conjuncture of events in 1957 merely provided an appropriate point of departure.

4.2. The Emergence of Regional Policy in Canada: 1961 - 1968

Given its political basis, the Diefenbaker government turned its attention towards the problems of rural poverty. In particular the government lent a sympathetic ear to the findings of the Senate Special Committee on Land Use.

> There is no doubt that in every province there are numbers of farmers whose incomes are below a reasonable minimum....The causes of the situation are numerous and complex. They include: poor soil; topography and soils not easily adopted to modern farming methods; inadequate size of the farm unit; lack of capital; lack of initiative or management ability on the part of the farm operator [6].

From the myriad of presentations, the Senate Special Committee expressed the need for a national land-use policy and immediate action in order to ameliorate those areas experiencing severe economic hardship. Heeding the advice of the Committee, the government assented to the Agricultural Rehabilitation and Development Act (ARDA) in June 1961. Administered through the Department of Agriculture, the first agreements under the ARDA programme were signed in 1962 with project agreements following in fiscal year 1963-64. The agreements consisted of joint federal-provincial cost-sharing arrangements and over the first two-and-a-half years the federal government allocated some $50 million towards the programme, although only two thirds of this amount was actually spent.

In terms of programme content, ARDA was ostensibly designed to undertake projects providing for the alternative uses of marginal or minimally productive agricultural lands as well as development of new opportunities for increased income and employment in rural areas, and conservation of soil and water resources. While the basic objective of these programmes was to improve the standard of living of the small farmer, the Act also recognized that agriculture in Canada was undergoing technological changes that necessitated adjustments on the part of the rural population. Indeed, the government realized that increases in farm output alone were insufficient to alleviate the rural problem, rather the bill attempted to address the fundamental difficulty involved in the risk of overproduction of food in the world. The government also realized that the implications of adjustment were not politically palpable. That is, central to the question of rural adjustment was the need for rationalization in the agricultural sector. The rationalization process entailed farm consolidation and the displacement of many individuals from the land; a proposal hardly favourable to a government with strong rural support. Not surprisingly, therefore, the initial emphasis of the ARDA programme was confined to resource and alternative land-use projects, a course which avoided many of the politically sensitive issues of rural adjustment.

A change in the federal government, some ministerial juggling, and the experience gained from earlier agreements, paved the way for a more comprehensive approach towards ARDA and was symbolized in the name of the Act being changed to the Agricultural and Rural Development Act (1966). A second set of agreements were signed in 1965, which called for an annual federal commitment of

$25 million over a five-year period. In addition, ARDA's coverage was extended to all rural areas and its emphasis shifted away from purely resource considerations towards the facilitation of rural adjustment consistent with technological change and market conditions. Adjustment, of course, meant the promotion of rural migration and farm consolidation, a direction which compelled ARDA to broaden its scope and shift its activities in the way of manpower training and population migration in rural areas.

Also in 1966, and arising out the ARDA experience, was the creation of the Fund for Rural Economic Development (FRED)[8]. In contrast to ARDA, the FRED mandate explicitly called for a comprehensive approach to rural development. Specifically, the programme was a joint federal-provincial initiative designed to promote economic and social development of rural areas characterized by low incomes and poor adjustment, but which had a "reasonable potential" for economic development. Whereas the ARDA programme extended to all rural areas, the FRED programme delimited a number of "special rural development areas" across Canada [9]. In each of these areas, both levels of government jointly formulated a comprehensive rural development programme,

> Consisting of several development projects, that are designed to promote the social and economic development of special rural development areas and to increase income and employment opportunities and raise living standards in the area, and that makes provision for participation by residents of the area in the carrying out of the programme[10].

These agreements were signed in 1967 and ran until 1977 [11]. Among the various programmes undertaken, three general areas may be identified: human resources, natural resources, and infrastructure. The initial budget allocation of $50 million was subsequently amended to $300 million, with some $1 billion allocated in total over the programme's life by federal and provincial governments (Brewis 1978). In relation to previous regional development programmes, the FRED programme signified an important step in regional planning insofar as it seriously attempted to produce a comprehensive approach to regional development. All levels of government - federal, provincial, and local - and local residents were called upon to cooperate in the planning process, and a wide-range of policies were undertaken with the objective of facilitating adjustment. Whereas ARDA, MMRA, and PFRA concentrated on resource improvement as a means to improving rural conditions, FRED extended this approach by attempting to secure alternative incomes for those displaced in the process of adjustment.

The FRED programme encountered a number of serious problems. Despite the rhetoric, little in the way of detailed and consistent plans were formulated; rather, critical projects, time frames, cost-benefit analysis were generally vaguely specified if at all (McAllister 1978)[12]. To the extent that plans were discernible, they were not integrated or coordinated with other federal-provincial policies and objectives. For example, in the Manitoba Interlake programme, FRED officials were actively promoting an industrial park at Selkirk as an alternative employment centre for the area's residents. The FRED programme put the infrastructure in place and assumed that industrial incentives would provide the necessary pull for potential private sector investment. The area eligible for incentives, however, was subsequently extended to include Winnipeg; thus effectively nullifying FRED's programme while serving to further promote the abandonment of the Interlake. As was typical, 'planned' rural rationalization and adjustment resulted in the break-up of rural communities and social disruption with little in the way of development[13]. Indeed, in the words of one cynical planner, "The Interlake area was chosen because it was a beautiful laboratory. That says something about the planning process itself"[14].

In general, regional policy initiatives concerned with agricultural and rural areas evolved from a largely piece-meal process to a more comprehensive consideration of the problem of rural development. Virtually without exception, the fundamental objective underpinning these programmes, though often denied, was to facilitate the rationalization of the agricultural sector consistent with technological changes and market pressures. In terms of funding, the amounts actually allocated to these programmes were relatively small and largely diffused over a large spectrum of projects and regions.

While attention was initially directed at the problems confronting rural areas, regional policy dealing with industrial activity was not overlooked. In 1963 the federal government enacted the Department of Industry Act which provided for the establishment of the Area Development Agency (ADA). The ADA was placed under the jurisdiction of the Department of Industry with the objective of fostering economic development in "designated areas" characterized by chronic and high levels of unemployment. Originally, the ADA was conceived as a possible coordinating body for economic and industrial development, but its role became tied to the administration of the industrial incentives programme aimed at attracting manufacturing industries into the designated areas. The ADA approach was essentially ad hoc as little effort was undertaken to ascertain the nature of problems confronting the designated areas or to coordinate its work with other provincial and federal objectives and policies. The selection of the designated areas reflected the overriding concern with establishing a positive government image in areas experiencing economic hardship and not with the long term development of these areas. Ironically, employment opportunities created through the ADA in Ontario exceeded those in the Atlantic Provinces by nearly 2000 jobs for the 1963-67 period (Brewis 1969). At best, the ADA and its regional mandate remained a residual part of the Department of Industry whose primary constituency resided largely in the industrial heartland of southern Ontario. The relationship between the ADA and the Department of Industry was in itself representative of the relationship between national industrial growth and regional growth, and the role of the state in capitalist economies in general, as was articulated by the Minister of Industry.

> In a free economy such as we have, the final decisions about investments in plants and machinery are made essentially by private enterprise and the

> owners of private and corporate funds. The final decisions about the location of new industries are made at the same time. We believe that this system is the proper one and we see the role of the government to be that of providing a favourable environment that contains selective measures and assistance, but within which the private sector can develop efficiently and at an acceptable rate...I would like to place the Area Development Program properly into this context. This is not a program to promote the industrialization of an economy. It is not a program that promises new industry for every nook and cranny of our territory. It is one small part of the government's over-all economic policy to ensure an acceptable rate of growth of our national output and of employment opportunities for our citizens. In effect, we are talking here about a program which has the relatively limited objective of making sure that some of our economic growth takes place in areas where there is a long-standing short fall in opportunities for employment and income for people who live there [15].

The fate of the Atlantic Development Board (ADB) basically paralled the experience of the ADA. Established in December of 1962 by an Act of Parliament, the objective of the ADB was to, "Inquire into and report to the Minister upon measures and prospects for fostering the economic growth and development of the Atlantic region"[16]. The conceptual basis of the Board differed from that of the ARDA, FRED and ADA in two fundamental ways. First, the mandate of the Board was confined to the problems and the needs of the Atlantic region only [17]. Secondly, the ADB was conceived as a federal planning and coordinating body and did not possess any budgetary responsibility [18]. Subsequent amendments to the Act in 1963 and 1966 provided for the creation of the Atlantic Development Fund (ADF) with credit extended to the amount of $100 million and later increased to $150 million [19]. The ADF served a largely "gap-filling" function in the sense that if other departments and/or agencies could not provide the necessary funding for a particular project then the ADB could allocate the required funds from the ADF to fill this need. Thus, to the advisory function of the board was added the budgetary responsibility of the ADF.

Under the Diefenbaker Government the ADB was outside the mainstream of Cabinet decision-making and lacked the budgetary 'clout' necessary to stimulate federal action. Hence, the ADB was in a weak bureaucratic and political position in which to act as a coordinating and planning body. With the return to power of the Liberals in 1963, the ADB was elevated into the centre-fold of government decisionmaking, augmented with financial persuasiveness through the provision of the ADF, and placed under the authority of J. W. Pickersgill (an M.P. from Newfoundland) then Secretary of State. From its new vantage point, the ADB's function shifted from a planning and advisory role, to the extent that one existed, to a body preoccupied with the administration of the ADF (Careless 1977). In this latter capacity and through the personal influence of Pickersgill, the ADB's primary focus was on funding various infrastructure projects throughout the region. By virtue of the ADF's "gap-filling" function, the ADB could side-step its coordinating functions, avoid political conflicts (with other departments) and provide a lucrative and discretionary 'bank' account from which to finance politically-attractive projects. With respect to its planning role, the ADB did not create a planning division until two years after the Board's formation and by the time of the ADB's dissolution in 1969, virtually no progress had been made in the formulation of a general economic development strategy or in the coordination of policy measures directed at the region (Brewis 1969, Careless 1977).

4.3 The "Formalization" (sic) of Regional Policy: 1969 - 1984.

By 1968 the winds of change were again blowing in Canada with significant implications for the evolution of Canadian regional policy. Three main phases may be identified in the contemporary period: 1969 - 72; 1974 - 81 and 1982 onwards.

The initial period is characterized, first and foremost, by the creation of the Department of Regional Economic Expansion (DREE) in 1969. At the federal level, the establishment of DREE was a response to two main factors. First, the evolution of Canadian regional policy during the 1961 - 68 period exposed a number of serious limitations in the federal government's largely ad hoc approach. Almost without exception, uncoordinated policy measures and bureaucratic inefficiency worked at cross purposes with programme effectiveness and objectives. There was an unambiguous need for a rational and integrated framework in which to place the organizational and economic elements of regional policy. Insofar as regional programmes remained under the authority of sectoral ministries largely unresponsive to spatial demands, programme effectiveness was limited. In this context, the creation of DREE was a logical extension of the regional policy experience.

The second factor leading to the creation of DREE was the political importance attached to national unity by the newly-elected Liberal Government. The recognition that an integrated and comprehensive approach to regional development was required was not novel as was evident in varying degrees by the Gordon Report (1957), the Senate Special Committee on Land Use (1964) and through ARDA, FRED, and the ADB. However, regional programmes were tacked onto the various line ministries and, thus, generally overlooked or treated in a politically expedient fashion. In effect, there was no political basis to elevate regional concerns onto the policy agenda in a meaningful fashion. This defect was partly responsible for the rise of "Trudeaumania" and the election of Pierre Elliot Trudeau as Prime Minister in 1968. A central concern of Trudeau's administration was national unity, and regional disparities were inimical to unity: as Trudeau stated, "If the underdevelopment of the Atlantic Provinces is not corrected ... then the unity of the country is almost as surely destroyed as it would be by the French-English confrontation" [20]. To this end, the creation of DREE served a dual political role with respect to national unity. The new department could be utilized to ameliorate regional poverty and discontent, and it could be utilized as an effective weapon in dealing with the Quebec question. In order to achieve these ends effectively, the administration of regional development programmes would have to be extricated from the restrictiveness of the existing federal departmental structure. The establishment of DREE, therefore, represented the "institutionalization" of regional development issues at the cabinet level (Phidd and Doern 1978). Moreover as a distinct department, under the authority of a politically- strong Minister, Jean Marchand, DREE could facilitate Trudeau's centralist conception of Canadian federalism. That is, DREE could potentially provide a strong and visible federal presence in regional development which could counter the centrifugal pressures of the province-building.

As part of the Government Organization Act, DREE was created to deal with matters relating to "economic expansion and social adjustment in areas requiring special measures to improve opportunities for productive employment and access to those opportunities"[21]. The areas targeted by DREE for special assistance were areas experiencing an "exceptional inadequacy of opportunities for productive employment" and were designated "special areas". DREE's mandate called for the formulation, implementation and coordination, in conjunction with the various departments, branches and agencies of the federal government and in cooperation with the provinces, of economic expansion and social adjustment plans for the designated special areas. From a logistical perspective, DREE was intended to fulfil two functions: a coordinating role and a means to consolidate and rationalize the existing spate of regional development programmes. In terms of the latter, DREE acted as an umbrella department consolidating all existing federal agencies and programmes active in the area of regional development under the jurisdiction of a single minister, including: the PFRA, MMRA, ARDA, ADA, ADB, FRED, the Cape Breton

Development Corporation (DEVCO), the Atlantic Provinces Power Development Act (APPDA) and Canada New Start. In concert with the precepts of Programme-Planning-Budgeting-System (PPBS) of management, DREE sought greater efficiency in federal expenditures directed at regional problems and eliminated or rationalized many of the programmes under its wing. In order to execute these functions and to be consistent with the centralist philosophy of the Trudeau Government, DREE's organizational structure was highly centralized.

With respect to policy, DREE's strategy during the 1969-73 period consisted of three interrelated programme areas[22]. Fundamentally DREE was committed to the idea that development was to be fuelled by private capital. As such, DREE programmes were designed, on the one hand, to provide the necessary social capital to create conditions favourable to private investment and to facilitate social and economic adjustment consistent with this objective. On the other hand, DREE attempted to induce private capital into disadvantaged regions. In terms of industrial development, the Area Development Incentives Act (ADIA) and the Regional Development Incentives Act (RDIA) were utilized to attract industry to invest in slow-growth regions of the country with the objective of creating continuing productive employment[23]. In addition to the above, there were a number of other joint federal-provincial initiatives, e.g. the New Brunswick Multiplex Corporation. The second major programme area was social adjustment and rural economic development. Programmes in this context were designed to facilitate access to productive employment opportunities in slow-growth regions and specifically rural areas. This objective was pursued both through increasing productivity and efficiency of resource use and in assisting in social adjustment. Finally, the third major programme area was infrastructure assistance. These programmes were aimed at providing the necessary social capital for the attainment of social and economic adjustment and industrial development. In addition, DREE also had a planning function although initially this activity was rather limited relative to the foregoing.

As elicited from expenditures, there were a number of notable trends in federal regional development policy over the period 1966-73 (Table 4.1). First, there was significant increase in the total amount allocated towards regional policy with the election of the Trudeau Government, as expenditures increased some 90 per cent over the previous year. Secondly, there was a substantial increase in regional development expenditures aimed at attracting and supporting industrial development. Prior to 1969 - 70 infrastructure assistance and social adjustment and rural economic development programmes dominated federal expenditures, constituting over 80 per cent of total outlays. Between 1968 - 69 and 1969 - 70 industrial assistance expenditures increased by $41.6 million or 184 per cent and thereafter acccounted for roughly a third of the DREE budget. Finally, in terms of the spatial distribution of expenditures, DREE's activity generally reflected Trudeau's political concerns, as the Atlantic Provinces and Quebec received the lion's share of federal outlays (Table 4.2). Of particular significance was the increased federal presence in Quebec. In terms of per capita DREE expenditures, Quebec's share increased 368 per cent, from $4.24 in 1969-70 to $19.88 in 1972-73 (Table 4.3). That DREE had a specific political mandate with respect to Quebec is further demonstrated by MacNaughton and Winn (1981). Based on an analysis of RDIA expenditures in two inter-election periods, the authors verify that the discretionary allocation of RDIA grants targeted Social Credit ridings, as these ridings received greater allocations than warranted on the basis of economic need [24]. The purpose of targeting these ridings was to eliminate the Social Credit challenge to Liberal dominance in Quebec. In so doing, the Liberals would be able to act as the sole elected representatives of Quebec and, therefore, the only national party in a true position to confront separatist aims [25].

Despite its mandate to promote a broad and coordinated approach to the problem of regional disparities, the initial phase of DREE's evolution was highly politicized and remiss in its function as a planning and coordinating body. While expenditures expanded rapidly over the 1969-73 period, all that resulted was a series of ad hoc, unintegrated economic and social development projects which served as a form of political appeasement (Phidd and Doern 1978). In part this preoccupation with piece-meal projects was a consequence of an inadequate amount of time in which to formulate comprehensive development plans and a reflection of DREE attempting to establish its organizational role. As a coordinating body, it was unable to achieve sectoral consistency and cooperation. The Department's approach to regional development was also highly criticized. In particular, DREE adopted an uncompromising "technocratic-reformist" perspective based on economic rationality and at the expense of social considerations and federal-provincial cooperation (Bickerton and Gagne 1984, Matthews 1977). In promoting increased efficiency and productivity, the Department's focus shifted from a rural development to an urban-industrial development; as evidenced by the selection of urban growth-pole strategy.

> In practice this strategy led to policies and programs that produced benefits for a small select group of regional entrepreneurs and perhaps some workers, while reducing overall labour requirements in rationalized industries and encouraging the depopulation of rural areas in favour of designated urban growth poles (Bickerton and Gagne 1984, p.78).

In the case of the industrial incentives programme, studies indicate that the DREE grants frequently constituted a windfall gain to recipient firms and were biased in favour of capital (Atlantic Provinces Economic Council 1971, Springate 1973, Woodward 1974). In terms of federal-provincial relations, the dominant centralism of the Trudeau Government was also reflected in DREE's approach. Its centralized structure and technocratic-reformist position often resulted in a take it or leave it attitude towards the provinces. Not surprisingly, the provinces rejected this 'Ottawa knows best' attitude and occasionally called for increased transfer payments rather than DREE funding.

The stimulus for a 'new' approach to regional development derived from factors internal and external to DREE. Internally, there was the general dissatisfaction with the existing framework and direction of regional policy. In 1972, the Department undertook an internal policy review of the existing approach. Among the findings and recommendations, there was expressed a desire to redirect and reorganize DREE [26]. In terms of direction, the current focus on problem regions and short-term problem amelioration was rejected in favour of a more extensive and flexible approach centred on exploiting regional "development opportunities". In terms of organization, a decentralized structure was advocated. However, the most significant observation stemming from the review process was that DREE's programmes, "Were not in themselves enough to alter the trend toward increased concentration of economic activity in the industrial heartland of the country" [27].

Of perhaps greater importance was the influence of external political pressures on the conception and structure of DREE. The elections of 1972 witnessed a highly regionalized voting pattern, with the Trudeau Liberal Government experiencing little electoral support in the West and the Maritimes. In terms of development, discontent was not confined to these regions as virtually all the provinces embarked on some form of independent development policy. It was obvious that the centralized DREE approach was ineffective in promoting a sense of cooperation and balance in Canadian federalism. Post-electoral political pressures confirmed the need to reorganize and redirect DREE. In particular, the Western

Economic Opportunities Conference in July 1973 clearly pointed to the need for a more balanced approach towards Canadian economic development - especially in terms of industry. These external political pressures provided the political basis for the changes outlined in the Department's internal review.

In response to these internal and external pressures, DREE's organizational structure and policy direction shifted considerably after 1974. The organizational structure was decentralized in order to facilitate a flexible and accommodating relationship with the regions. The conceptual basis of DREE's policy was expanded in the sense that a multidisciplinary and multidimensional perspective was advocated and extended to all parts of Canada where economic activity was lagging[28].

> It calls for the identification and pursuit of major development opportunities by means of a coordinated application of public policies and programs, both federal and provincial, in cooperation with elements of the private sector where appropriate[29].

The basic planning objectives highlighted are the identification of obstacles and specific opportunities to economic development in slow growth regions, and the formulation and implementation of federal and provincial policies which will provide general support for the development of lagging regions.

In order to facilitate the implementation of the "development opportunities" strategy, the federal government supplemented its policy arsenal with the introduction of General Development Agreements (GDA). The federal government and each of the provinces (with the exception of Prince Edward Island which was already covered by a comprehensive FRED agreement) signed a ten-year GDA. The GDA provided a flexible and formal framework in which to encourage a coordinated and cooperative approach aimed at realizing the social and economic development potential of the various provinces and slow-growth areas. Each GDA included a statement of objectives, a broad strategy to achieve these objectives based on an analysis of the province's socio-economic position, authority to enter into actual programmes and projects, and criteria for the implementation of the development strategy through specific programmes and projects. As a formal framework, the GDAs did not detail actual programmes or the allocation of resources towards these; rather, the GDAs provided for Subsidiary Agreements (SA) which in turn provided for the identification and implementation of specific projects and programmes agreed upon by federal and provincial authorities, and means by which these were to be achieved. There were three general types of SAs: those which coordinate existing government programmes in support of a specific development opportunity; those which provide specific support unavailable through other government programmes; and those which establish continuing programmes to fill gaps in the existing range of government programmes[30]. Funding for the SAs was on a sliding federal-provincial cost-sharing basis. Contingent upon the specific consideration, DREE was authorized to share in the cost of these agreements subject to the following constraints: up to 90 per cent for Newfoundland; 80 per cent for Nova Scotia and New Brunswick; 60 per cent for Quebec, Manitoba, Saskatchewan, the

Yukon and Northwest Territories; and 50 per cent for Ontario, Alberta and British Columbia. In terms of actual content, the SAs ranged from spatially-based programmes, e.g. Halifax-Dartmouth Area Development, to sectoral programs, e.g. industry, tourism; to industry-specific programmes, e.g. pulp and paper in Ontario, as well as infrastructure provision and assistance and planning arrangements.

The expenditure patterns after DREE's reorganization reflected the influence of the pressures leading up to the reorganization. In terms of spatial distribution of aggregate expenditures, the West received a greater share of absolute spending relative to the previous period (Table 4.4). At the end of 1973-74, the West received 14.4 per cent of DREE outlays whereas by 1980-81 spending in the West reached 30.3 per cent. On a per capita basis the Maritime provinces received the greatest emphasis from DREE (Table 4.5). None the less, Quebec still remained a major beneficiary of DREE, especially in terms of industrial incentive grants. In 1981-82, Quebec received nearly 60 per cent of the total industrial incentive outlays and approximately 300 per cent more than the Maritime Provinces (Table 4.6). Programme expenditure also closely reflected the new emphasis of DREE, as subsidiary agreements accounted for greater than 50 per cent of the departments budget after 1976-77 (Table 4.7). DREE's other programmes, including the RDIA, generally received a reduced emphasis during the 1974-81 period. The relative decline in the industrial incentives portion of the department reflects the generally poor economic conditions existing throughout the period.

Offsetting the decline of RDIA aid to regional industrial expansion was the introduction of two regionally sensitive tax incentives in the late 1970s (see Doherty 1981). First, in the March 1977 Budget, the federal government revised its Investment Tax Credit (originally introduced in the 1975 Federal Budget) so as to increase the rate of credit on the purchase of new buildings or equipment for those areas designated under the RDIA (to 7.5 per cent) and the Atlantic provinces and Gaspé Region (to 10 per cent) versus 5 per cent for the nation as a whole. The 16 November 1978 Federal Budget increased the scope and significance of the investment tax credit, with the "national rate" increased to 7 per cent, RDIA areas increased to 10 per cent and the Gaspé Region and Atlantic provinces upped to 20 per cent. Further, the Investment Tax Credit for Scientific Research Expenditures also contained a 10 per cent premium for scientific research carried on in the Atlantic provinces and Gaspe Region (although for a Canadian controlled private corporation which qualified for the small business deduction a 25 per cent credit was applied across Canada). With respect to the Investment Tax Credit, the estimated regional benefit for manufacturing investment in 1978 and 1979 was $352 million, well in excess of RDIA outlays during the same period (Lithwick 1982). Subsequently, the October 1980 Budget introduced a Special Investment Tax Credit programme covering approximately 5 per cent of the Canadian population and targeted towards areas of particular economic hardship. The second important regionally sensitive tax credit introduced in the late 1970s was the Employment Tax Credit Program. Initiated in March 1978, the programme provided employers with a credit against income taxes payable of $2.00 per hour per employee for the Atlantic provinces and the Gaspe region; $1.75 per hour for other DREE designated areas; and $1.50 for the rest of Canada.

The most significant trend occurring during the late 1970s and early 1980s was in total expenditures which indicated the federal government's uneasiness with regional policy and growing concern for the national economy. Relative to total federal government programme outlays in 1981-82, DREE expenditures amounted to roughly 1.1 per cent and only 8.9 per cent of the economic development envelope in that same year[31]. In nominal terms, the DREE budget increased from $424 million in 1973 to $630 million in 1980-81, or by roughly 49 per cent[32]. In real terms, however, DREE experienced an actual decline in its budget (Lithwick 1982). Relative to 1970-71, DREE's budget decreased 11.5 per cent by 1980-81, and actual expenditures in fact decreased in nominal terms between 1980-81 and 1981-82. The emerging trend in total DREE expenditures formalized what was becoming increasingly clear throughout the federal government's experience with explicit regional policy - that regional economic development was dependent on and could not be divorced from national development.

By 1981, the political and economic context of DREE's existence had changed substantially and the winds of change were again gusting. While the GDA framework represented a positive measure in terms of formulating, implementing and administering a regional development strategy, and in incorporating provincial input into the entire process, it could not transcend the fundamental constraints placed upon it. DREE was neither able to conceive and coordinate a balanced regional development strategy, nor was it able to reconcile the growing differences between the provinces and Ottawa. Indeed, the possibility of forwarding an effective and coordinated regional development strategy was virtually precluded by the absence of a national (industrial) development strategy within which the former could be placed. Politically, the GDA framework was inimical to a strong and visible federal presence in the regions. Moreover, the election of the Parti Quebecois in 1976 and eroding federal-provincial relations undermined DREE's political basis as an instrument of national unity.

From an economic perspective the national economy was performing poorly and experiencing serious structural problems (see Table I). Whereas growth in real GNP averaged 5.5 per cent over the 1966-73 period, the corresponding figure for the 1974-80 period was only 2.9 per cent. Concomitant with the decline in the rate of growth was a climb in the rate of unemployment from an average of 5.1 per cent during the 1966-73 period to 7.2 per cent in the following period. Moreover, relative to its OECD counterparts, Canada's competitiveness was seriously eroding as average productivity growth between 1974-80 was nil, substantially lower than the 1.5 per cent average for OECD member countries as a whole. While the economic situation throughout the 1970s was less than encouraging, the 1981-82 recession plunged the economy into even deeper economic malaise. Real GNP and productivity growth actually declined, and unemployment jumped to 9.3 per cent while inflation sat at 11.7 per cent. Overall, Canada's economic performance lagged behind that of the other AICs. To complicate matters, the basis of national accumulation was being undermined as increasingly aggressive provincial governments were balkanizing the Canadian common market. With swelling unemployment and slow growth, provincial governments throughout the 1970s competed amongst each other, and with the federal government for new industrial investment (recall Chapter 2). Inasmuch as regional policy was predicated on secular growth of the economy, its basis was seriously challenged. The case for regional policy was further eroded by the relative ineffectiveness of this policy, which, "In relation to the vast amount of time, money, and effort that has been devoted to the task...success in achieving a better regional balance has been disappointing" (Economic Council of Canada, 1977, p. 3). Indeed, that DREE allocated over five billion dollars towards alleviating regional disparities with little or no appreciable effect certainly called into question the usefulness of the existing approach to regional policy - especially in a period of national economic decline. As manifest by the decline in real DREE budgets, the question of regional development was subordinate to revitalizing the national economy. Only to the extent that national and regional economic objectives were consistent, could regional policy expect to achieve a prominent position in the mainstream of the federal government's economic policy. While DREE undoubtably "institutionalized" regional policy considerations at the federal level, it was not formally integrated with the key economic departments of Finance and Industry, Trade, and Commerce. Indeed, Simon Reisman, the deputy minister of Finance in 1972, saw regional development as a basically social policy designed to simply redistribute the benefits of market generated growth. Moreover, the introduction of regional distribution into industrial development policy was seen as contrary to the basic realities of economic geography and to confuse social and economic policy (French 1984). However in 1982, in a set of circumstances somewhat reminiscent of the Diefenbaker years, i.e. the seemingly ineffectiveness of conventional economic policy and the political and economic necessity for change, the Liberal Government decided to embark on an ambitious economic development strategy, which like the Diefenbaker era, would have important implications for regional policy. Indeed, the proposed strategy, ostensibly offered the promise of coalescing national and regional development.

The possibility of integrating national and regional policy into a development strategy presented itself by virtue of the fortuitous distribution of natural resources across the country and Canada's changing position in the global economy. After nearly a decade of economic turmoil, the structural problems of the Canadian economy necessitated substantial economic adjustment. As an extension of the historical pattern of capital accumulation in

Canada, the economic strategy selected by the Liberal Government called for a state- (federal government) managed industrial development and diversification based on and around an expanding resource sector[33]. Specifically, the leading edge of the federal government's proposed strategy was the exploitation of natural resources, especially energy, via a variety of widely distributed large-scale mega-projects, with estimated investment totalling some $440 billion by the year 2000 (Table 4.8). Dependent on this expansion was the development of secondary manufacturing through the supply of inputs necessary to facilitate resource and infrastructure development, and through vertically-integrated processing of primary resources. In addition, resource-led expansion was to be complemented by an industrial strategy centring on export-oriented and locationally-flexible high-technology industries, such as nuclear technology, aerospace, communications, electronic-data processing, retailing and urban-transportation equipment. The implications for the regions were potentially significant.

> The traditional Canadian economic balance between have and have not provinces is shifting, largely under the impetus of present and forecast resource developments in the West and offshore of the Atlantic Provinces. For the first time in our history every region of the country, and not just those that traditionally have been well-off, is faced with major opportunities for development[34].

To accommodate the ascendency of regional development into the mainstream of national accumulation, the federal government announced the 'Reorganization for Economic Development' on 12 January 1982[35]. DREE was formally dissolved and its activities were allocated to new departments. DREE's policy and coordinating functions were added to the existing Ministry of State for Economic Development (MSED) to form the Ministry of State for Economic and Regional Development (MSERD) in order to ensure that regional concerns are elevated to a top-priority position in all economic decision-making by the Cabinet. Also formed at the cabinet level, was the Cabinet Committee on Economic and Regional Development (CCERD) which was given responsibility for the economic and energy envelopes, as well as the newly created Regional Fund. The Regional Fund was established in order to manage monies made available from the gradual expiry of GDAs and was designed to promote economic development in the regions through support of special initiatives outside of the basic programme network. Existing GDAs were to be honoured and the general framework retained, albeit subject to changes in order to simplify them.

The programme aspects of DREE were amalgamated with the industry, small business and tourism components of the Department of Industry, Trade and Commerce to form the Department of Regional and Industrial Expansion (DRIE), so as to enhance the coordination of industrial policies and balanced regional growth. With the introduction of the Industrial and Regional Development Act in mid-1983, the federal government attempted to synthesize former IT and C and DREE programmes under DRIE. Specifically, the Industrial and Regional Development Programme (IRDP) was established, "to provide assistance for industrial development in all regions of Canada"[36].

The IRDP is the federal government's principal means to deliver direct federal assistance to industry across Canada, and replaced the RDIA in the area of regional support[37].

> Intended to support private sector initiatives, IRDP is aimed at projects, industries and technologies with the greatest potential for economic return, sustained growth and international competitiveness[38].

Reflecting concerns about revitalizing the Canadian industrial sector generally, the IRDP provides an extensive assistance package (grants, financing, and loan guarantees) spanning all phases of a typical corporate production cycle including; the general industrial development climate (e.g. human capital development and information diffusion), the innovation stage (through the underwriting and socialization of risk), the establishment, expansion and/or modernization of physical plant, marketing, and restructuring of the firm. In all cases, the spatial dimension is incorporated through a regionally differentiated level of assistance[39]. Based on employment, income, and fiscal capacity indicators, a "development index" is calculated for Statistics Canada districts in order to ascertain the extent of economic need in those areas and the amount of assistance potentially offered. On the basis of development index values, all districts are arranged into "Tier Groups", with:

> Tier Group IV covering not more than 5 per cent of the population of the provinces and encompassing those districts, that, as ranked under the development index, require the greatest assistance in creating opportunities for economic growth;

Tier Group III, comprising not more than 15 per cent of the population of the provinces, and includes these districts, that, as ranked under the development index, require the greatest assistance, after those areas covered in Tier Group IV, as well as the Yukon and NWT;

Tier Group II, comprising not more than 30 per cent of the population of the provinces, and includes those districts, that, as ranked under the development index, require the greatest assistance, after these districts covered in Tier Groups IV and III; and

Tier Group I which covers the rest of Canada.

In contrast to the RDIA, the IRDP is somewhat more selective in its approach, since it is "aimed at projects, industries and technologies with the greatest potential for economic return" whereas the RDIA was simply aimed at attracting manufacturing investment (and not necessarily that with the greatest potential for economic return) into slow-growth areas in order to create jobs. As well, whereas the RIDA was essentially geared to most manufacturing and processing industries, the IRDP also extended assistance to the service sector, including tourism.

In order to facilitate federal-provincial coordination and cooperation, the MSERD was to establish a decentralized system of regional offices headed by a senior executive called a Federal Economic Development Coordinator (FEDC). Each regional office was to have four main functions: to provide an improved and regionally sensitive information base for decision-making by the CCERD; to give regional officials of sector departments a better understanding of the decisions and objectives of the Cabinet; to better coordinate the implementation of government decisions affecting economic development in the regions, and to develop regional economic policies for consideration by Cabinet. While the stated objectives obviously advocated communication between Ottawa and the regions, it is also evident that Ottawa fully intended to maintain the guiding hand in terms of the direction of development policy.

Ostensibly the dissolution of DREE, and the creation of the MSERD and DRIE potentially represents the "formal" integration of regional development concerns into the mainstream of national economic development policy. Whether this "ascendency" into the mainstream of national economic policy is a genuine attempt to foster balanced regional growth or merely a means to politically obfuscate the demotion of "regional" is open to debate. There are however, a number of reasons for skepticism on this account. In the first place, given the government's dependence on accumulation and the ailing state of the Canadian economy, the primary concern of government policy will undoubtably be to renew the basis for national accumulation. In effect, therefore, sustained national accumulation is a prerequisite of regional development to the extent that the latter is dependent on state support. As the former Minister of Finance Allan MacEachen clearly stated, "The best thing we can do to fight [regional] disparities is to strengthen the overall economy"[40].

The proposed resource-led development strategy does appear to offer some promise of regional development at least in the short run. That is, employment generation will no doubt be high during the construction phase of the various resource projects. However, the long-term growth and employment prospects are dependent on minimal leakages in terms of the derived demand for investment goods, and a fortiori, the successful reinvestment of the surplus generated in the resource sectors into productive activities in Canada. This latter factor is the most contentious and elusive. On the one hand, it assumes control over resource development which invariably leads to federal and provincial government disputes and, moreover, calls into question the ownership of the means of production. To the extent that the success of the government's proposed strategy hinges on the actions of private capital (domestic and foreign), then the desired outcome appears tenuous, given the historical legacy of Canada's articulation in the continental economy. At the same time, the breakdown of the National Energy Programme is perhaps illustrative of the limits of state-led development policy. On the other hand, success of this strategy in the long run is predicated on reinvesting the surplus into productive activities in Canada. Whether this investment actually benefits all regions, or only a few, remains to be seen. Again, the issue of control and appropriation of the surplus generated in the resource sector is at issue as is the possibilities for new investment.

In terms of regional-industrial investment, there are also grounds for skepticism as to the legitimacy of the federal government's renewed commitment to fostering balanced regional development through the IRDP, given the recent record of federal policy. First, the former centrepiece of regional-industrial policy, the RDIA, barely accounted for 3 per cent of the aid that went from the federal government to private business[41]. Secondly, former Department of Industry, Trade and Commerce (IT and C) expenditures have overwhelmingly benefited central Canadian firms, thus furthering industrial concentration in central Canada. For example during the 1975-80 period between 72 and 83 per cent of IT and C Industry and Trade programme expenditures annually went to Ontario and Quebec (Jenkin, 1984). As illustrated in Table 4.9, the regional bias of IT and C resulted in estimated programme outlays of some $2.2 billion in support of Ontario and Quebec businesses. In view of these figures it is not surprising that IT and C has been called "central Canada's DREE" by disenchanted regional interests. All told, between 1975 and 1982, Ottawa has poured roughly $2.6 billion of industrial support into Ontario and Quebec firms through the RDIA and IT and C's Industry and Trade programmes. In contrast, the regions (including the relatively prosperous provinces of Alberta and British Columbia) received approximately $0.9 billion over the same period. Thus not surprisingly regional concentration of Trade and Industry programme expenditures continued immediately following the creation of DRIE (Table 4.10). Again, Ontario and Quebec received the vast majority of expenditures, $317 million or 81.2 per cent during fiscal year 1982-83. In stark contrast, the four Maritime provinces received a dismal $25 million or 6.5 per cent of Trade and Industrial programme outlays. These figures are not in themselves surprising, since IT and C programmes adopted a "passive" approach in the sense that they relied on existing firms to come forward for support.

A more significant indication of the federal government's perception of "balanced" regional development is the regional distribution of programme support designed to facilitate structural adjustment of the economy. In an economic environment characterized by increasing international competition, capital restructuring, and slow productivity growth the importance of fostering technological change for national and regional prosperity has been emphasized (Economic Council of Canada 1983, Malecki 1983, Science Council of Canada 1984). In general, the key to future industrial growth is seen to be contingent on adjusting to the demands of technological change. Among other things, this entails developing new "high-technology" enterprises, new processes which improve productivity, and encouraging firms in older industries to incorporate new technology in order to enhance competitiveness. Consistent with the pattern of industrial support programmes generally, federal policy in the area of technological support has abetted industrial concentration.

In terms of IT and C support of R & D directly undertaken by industry, between 1978 and 1980 no less than 91 per cent of programme expenditure went to Ontario and Quebec (including the National Capital Region), while 0.7 per cent, or a scant $0.9 million, reached the Maritimes (Table 4.11). With respect to the Enterprise Development Programme (EDP) which,

> ... provides assistance to manufacturing and processing firms to increase their viability and international competitiveness. The program encourages innovation in the design and development of new or improved products or processes and helps companies adjust to changing competitive circumstances,[42]

the same pattern of regional concentration emerges (Table 4.12). Again the Maritime share of important structural adjustment support amounts to a meagre 2 per cent of programme outlays, while central Canada consistently receives in excess of 80 per cent (with the exception of 1978-79). The record since the formation of DRIE does not fare much better (Table 4.13). While the Maritime provinces did receive a large share of adjustment assistance loans, their share of the other programmes listed reflects the pattern extant prior to the creation of DRIE. Although all Canadians (and regions) are expected to contribute towards the defence of the nation-state, evidently they are not expected to share in the industrial "benefits" of that task, notwithstanding the obvious implications of using defence firms for regional development (see for example Lovering 1985)[43]. Specifically the Defence Industry Productivity Programme (DIPP) is designed to provide,

> ... financial assistance to industrial firms involved in the production of defence or defence-related products for export, in order to develop and sustain the technological capability of the Canadian defence and related civilian industries[44].

While ostensibly aspatial, greater than 86 per cent of DIPP outlays were destined for central Canada, and the wealthiest four provinces received nearly 94 per cent (Table 4.13).

In partial contrast to the preceeding programmes (in as much as these have relied exclusively on private initiative) the DIPP programme by virtue of government control over defence markets, calls into question the federal government's real willingness to take a positive role in fostering regional industrial development.

Whereas other governments have utilized military procurement to foster regional development, via compensatory industrial offset agreements with explicit regional targets, e.g. Belgium, the Canadian government has opted not to incorporate explicit regional quotas as part of these agreements (with the partial exception of Manitoba)[45]. Instead the Canadian government has advocated "competitive bidding" among Canadian firms. Yet, by the end of 1982 roughly 95 per cent of F-18 offset work accrued to Ontario (71 per cent) and Quebec (24 per cent) (Financial Post, 4 June 1983). Perhaps more telling is the amount of special aid (bailouts?) which has been granted to central Canadian firms since the "Reorganization for Economic Development"; for example, Massey Ferguson has received $126 million, Maislin Trucking $34 million (loan guarantee), and more than $2 billion has been ploughed into Canadair and De Havilland since 1982. In fact the more than $2 billion allocated to the federal government's two airframe firms is nearly double the amount of monies allocated through regional industrial assistance programmes, i.e. RDIA and ADIA since 1966[46]. As a part of its "target" industry strategy, Ottawa underwrote aerospace R & D to the tune of $145.76 million per year between 1981-83, at least 90 per cent of which occurs in central Canada (Aviation Week, 3 September 1984). Further to this "target" industry strategy, on the strength of a $165.2 million federal grant, Ottawa announced the establishment of a Bell-Textron helicopter plant at Mirabel, Quebec in 1983 (Aviation Week, 17 October 1983)[47]. That the Mirabel site was selected instead of a proposed Chatham, New Brunswick site merely underscores the federal government's indifference towards extending its role in ameliorating regional disparities through state sponsored regional industrial development. At the same time, the Mirabel decision seemingly reified the regional bias of the so-called locationally flexible high-tech industries. Moreover, in so far as the IRDP continues to be predicated on "private sector initiatives", i.e. a "passive" approach to regional industrial development, then DRIE is effectively endorsing the status quo in terms of regional industrial concentration, given the historical pattern of industrial investment in Canada.

At this point it is worth recapitulating the central thrust of national policy as proposed by the now-defeated Liberal government.

> Canadian economic development in the 1980s will be dominated by two realities: the continued development and expansion of the resource-based industries and the revitalization of industrial capacity towards specialized international competitiveness; these two forces create new regional dynamics in the federation....[48]

In view of the evidence, "Reorganization for Economic development" amounted to nothing more than a repackaging of what has come to pass as national (and regional) policy, that is, resource development in the peripheral provinces with industrial development largely reserved for central Canada. While the strength of Alberta and British Columbia may well be enhanced through the 1980s, the position of the Maritimes is unlikely to improve. Jingoism aside, the formation of DRIE and the MSERD serve as symbollic gestures designed to "re-legitimize" economic development consistent with the historical trajectory of accumulation in Canada.

TABLE 4.1

Regional Development Expenditures

$Million (%)

Year / Programme Area	Industrial Incentives	Social Ajustment, Rural economic Development	Infrastructure Assistance	Development Planning & Administration	Total
1966-67 [1,2]	1.2 (2.0)	17.7 (31.1)	38.1 (66.9)	---	57 (100)
1967-68 [2]	15.4 (17.8)	33.2 (38.4)	37.9 (43.8)	---	86.5 (100)
1968-69 [2]	14.6 (15.6)	41.3 (44.1)	37.8 (40.3)	---	93.7 (100)
1969-79 [3,4]	56.2 (31.3)	71.2 (39.7)	39.8 (22.2)	12.1 (6.7)	179.3 (100)
1970-71 [3]	62 (23.8)	76 (29.2)	107.1 (41.1)	15.4 (5.9)	260.5 (100)
1971-72 [3]	105.5 (34.2)	88 (28.5)	96.1 (31.1)	18.8 (6.1)	308.6 (100)
1972-73 [5]	129.8 (34.4)	125.9 (33.3)	96 (25.4)	26.2 (6.9)	377.8 (100)

1. Most regional development programmes initiated in the early 1960's were only beginning their major expenditures undertaken in the later 1960's.

2. Phidd and Doern (1978).

3. DREE, Regional Development Programs (1973).

4. The creation of DREE.

5. DREE, Regional Development Programs (1973). The figures are estimates.

TABLE 4.2

Cumulative Expenditures Five Year Period 1969/70 to 1972/73

Distribution by Province All Programmes

Province	BUDGETARY Expenditures ($Million)	BUDGETARY % of Canada Total	LOANS Expenditures ($Million)	LOANS % of Canada Total	TOTAL Expenditures ($Million)	TOTAL % of Canada Total	% OF Population in Canada
Newfoundland	113.8	10.1	77.8	35.2	191.6	14.2	2.44
P.E.I.	55.4	4.9	10.9	5.0	66.3	4.9	0.52
Nova Scotia	126.6	11.2	39.8	18.0	166.4	12.4	3.64
New Brunswick	161.3	14.3	30.9	14.0	192.2	14.3	2.94
EAST	457.1	40.5	159.4	72.2	616.5	45.8	9.54
Quebec	303.9	27.0	53.1	24.0	357.0	26.5	27.76
Ontario	66.1	5.9	--	--	66.1	4.9	35.85
CENTRE	370.0	32.8	53.1	24.0	423.1	31.4	63.61
Manitoba	68.7	6.1	4.6	2.1	73.3	5.4	4.54
Saskatchewan	67.7	6.1	1.5	0.7	69.2	5.1	4.20
Alberta	68.6	6.1	2.2	1.0	70.8	5.3	7.58
British Columbia	28.3	2.5	-	-	28.3	2.1	10.29
WEST	233.3	20.8	8.3	3.8	241.6	17.9	26.61
Non-Allocated	65.8	5.9	-	-	65.8	4.9	-
TOTAL	1126.2	100.0	220.8	100.0	1347.0	100.0	99.76

Source: DREE, Regional Development Programs (1973).

TABLE 4.3

Per Capita Expenditures Total DREE Programmes

Budgetary (Dollars)

Province	1969-70	1970-71	1971-72	1972-73[1]	Percentage Increase
Newfoundland	23.33	72.65	50.07	69.85	199.40
P.E.I.	92.93	116.99	132.03	151.46	62.98
Nova Scotia	33.99	26.74	49.46	49.90	46.80
New Brunswick	36.06	88.14	62.04	66.85	85.38
EAST	35.11	62.24	58.35	66.79	90.23
Quebec	4.24	9.49	16.63	19.88	368.86
Ontario	2.62	1.61	2.16	2.18	16.79
CENTRE	3.34	5.10	8.56	10.38	210.78
Manitoba	16.41	15.31	17.07	20.64	25.77
Saskatchewan	15.76	17.64	19.31	20.52	30.20
Alberta	10.14	7.63	4.85	19.31	90.43
British Columbia	2.24	2.65	4.83	3.07	37.05
WEST	9.19	8.76	9.31	13.45	46.35
CANADA	8.42	12.08	14.14	17.31	105.58

1. Estimate.

Source: DREE, Regional Development Programs (1973).

TABLE 4.4

Provincial Distribution of DREE Expenditures

Provinces	1967-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982 83 [2]
Newfoundland	34749	62482	35405	37569	50947	68391	66192	56222	60951	61967	77626	48063	48063	29960
P.E.I.	10613	14753	17710	19556	19553	22801	34133	36590	33509	30410	29765	33009	22875	19734
Nova Scotia	36327	32818	42898	52112	35022	40790	42552	48608	45224	52911	51293	56871	64990	38173
N.B.	29965	64437	45406	44544	57938	63424	60960	59761	52426	52754	66840	63044	54011	40451
Quebec	25502	78574	113863	115262	167071	122143	113961	105076	164087	171990	179132	167590	182763	127198
Ontario	19759	12412	16937	19158	12692	18846	38385	27184	26195	22590	28893	34564	48509	28992
Manitoba	16131	16339	17854	24399	14824	28459	31178	36838	34943	28303	37051	57803	45465	37925
Sask.	14834	17010	18126	13818	16711	26804	40028	43553	42681	45950	49398	76838	71433	58347
Alberta	16173	13086	9018	17058	25298	16069	17747	16325	17410	17327	12140	17631	12087	16362
B.C.	4775	5197	10843	4653	4179	6157	9388	8783	13817	15612	27925	38475	29983	14692
Other [1]	10701	13099	16787	16730	20109	24670	28957	30733	33492	34216	30690	35906	42673	34488
Total	219529	330807	344847	364864	424344	438554	483481	469678	524735	534030	590753	629844	615592	450167

1. Includes expenditure for head office, Atlantic Development Council, Atlantic and Western Regional Offices, N.W.T. and Yukon.

2. The Department of Regional and Industrial Expansion was formed; the PFRA was subsequently transferred to the Department of Agriculture.

Source: Compiled from DREE Annual Reports

TABLE 4.5

Per Capita DREE Expenditures by Province

Province	1981 1982	1980-81	1979-80	1978-79	1977-78	1976-77	*1975-76	1971-72	1970-71	1969-70
Newfoundland	71.62	82.88	134.25	108.16	108.36	100.82	*94.95	50.07	72.65	23.33
P.E.I.	186.28	265.56	240.03	248.65	278.55	309.48	173.31	132.02	116.99	92.93
Nova Scotia	76.29	66.71	60.23	62.59	54.13	58.67	50.43	49.46	26.74	33.99
New Brunswick	77.20	89.16	94.71	75.45	76.38	88.24	80.54	62.4	88.14	36.06
Quebec	28.26	26.59	28.44	27.35	26.12	16.85	17.22	16.63	9.49	4.24
Ontario	5.29	4.03	3.38	2.66	3.13	3.29	2.49	2.16	1.61	2.62
Manitoba	44.00	56.21	36.07	27.48	33.88	36.06	21.31	17.07	15.31	16.41
Saskatchewan	72.91	79.28	51.06	48.24	45.58	47.27	22.93	19.31	17.64	15.76
Alberta	5.24	8.51	5.87	8.73	9.16	8.88	9.73	4.85	7.63	10.14
British Columbia	10.80	14.59	10.63	6.11	5.53	3.56	3.89	4.83	2.65	2.24
Total	25.06	26.24	24.75	22.63	22.53	20.43		14.14	12.08	8.42

1. Average annual per capita expenditure for the 1969-76 period.

Source: DREE Annual Reports

TABLE 4.6

Spatial Distribution of Industrial Incentive - Expenditures ($000)[1]

Province	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Newfoundland	3167	1440	1183	3968	5533	4379	1912	4385
Nova Scotia	9624	9372	7022	4862	10857	11400	7500	9596
P.E.I.	829	1944	3127	1330	2143	1970	2143	1605
New Brunswick	9618	11326	5945	3451	11794	10336	7055	9213
	23238	24082	17277	13611	30327	28085	18610	24799
Quebec	33122	33332	33125	33459	53404	63943	74745	87113
Ontario	13606	7817	6736	6696	8451	5208	11692	6320
Manitoba	5269	9481	6204	6383	11137	9666	14875	16039
Saskatchewan	4702	2232	3392	3261	2859	6430	5809	3219
Alberta	5721	4695	697	1749	816	2225	191	3606
B.C.	879	115	216	2157	1619	2120	785	1330
Other				80	16	36	307	15
Total	86537	81754	67692	67396	108629	117763	127014	142756

1. Includes statutory payments for loan guarantees under the RDIA

Source: Compiled from DREE Annual Reports.

TABLE 4.7

DREE Annual Expenditures by Programme Area

$Million (%)

Programme Year	Subsidiary Agreements		RDIA		Other		Admin		Total
1981 - 82	$342	(55.5)	$127	(20.6)	$83	(13.6)	$63.4	(10.3)	$615
1980 - 81	327	(51.9)	117.8	(18.7)	131	(20.8)	54	(8.6)	630
1979 - 80	360	(60.8)	108.6	(18.4)	77	(13.1)	45.5	(7.7)	590
1978 - 79	318	(59.5)	67.4	(12.6)	104	(19.5)	45	(8.4)	534
1977 - 78	297	(56.6)	67.7	(12.9)	116	(22.1)	43.5	(8.3)	525
1976 - 77	196	(41.8)	81	(17.4)	153	(32.5)	39	(8.3)	470
1975 - 76	180.6	(37.4)	86.5	(17.9)	178.5	(37)	37.8	(7.8)	483

Source: Compiled from DREE Annual Reports

TABLE 4.8

Summary of Inventory of Major Projects to the Year 2000

(Millions of Dollars)

Sector	Multi-provincial or undetermined	Atlantic	Quebec	Ontario	Manitoba	Sask	Alberta	B.C.	Yukon NWT
Conventional Hydro-carbon Exploration & Development	2,500	11,500					700	250	63,200
Heavy Oil Development						1,750	40,985		
Pipelines	27,090	1,185						890	2,475
Processing & Petrochemicals		500	3,100	985		1,300	12,205	10,415	
Electrical Gen. & Trans.	620	29,870	66,335	38,475	10,375	3,160	20,250	29,710	100
Forest Products		310	1,210	1,665			1,200	3,325	
Mining		1,010		4,100	500	3,065	3,230	5,625	1,505
Primary Metals Prod.		1,025	1,300	1,410	500			2,000	
Transportation		420	2,315	450			955	1,885	300
Manufacturing	8,575	400	175	4,080			150		
Defence	4,825	280							
TOTAL	43,610	46,500	74,435	51,125	11,375	10,175	79,675	54,100	67,610
% OF TOTAL EXPENDITURES	9.9	10.6	17.0	11.7	2.6	2.3	18.2	12.3	15.4

Source: Canada, Economic development in the 1980's (1981).

TABLE 4.9

Comparitive Programme Expenditures on Manufacturing
($000)

Year	IT and C Industry and Trade Programme Total[1]	IT and C Industry and Trade Expenditure in Ontario and Quebec[2]	RDIA Expenditure[3] Total	RDIA Expenditure[3] excluding Quebec & Ontario
1981-82	776865	602070	127014	40577
1980-81	449315	348219	117763	48612
1979-80	395838	306774	108629	46774
1978-79	285147	220989	67396	27241
1977-78	278511	215846	67692	27831
1976-77	324726	251663	81754	40605
1975-76	314815	243982	86537	39809
Total	2825217	2189543	656785	271449

NOTES:

1. Compiled from IT and C Annual Reports.

2. Expenditure in Ontario and Quebec estimated by averaging the per cent distribution of IT and C Industry and Trade programme expenditures to Ontario and Quebec, i.e. 72-82 per cent between 1978-80, cited in Jenkin (1984).

3. Compiled from DREE Annual Reports.

TABLE 4.10

DRIE: Industry, Trade and Commerce Programme Expenditures 1982-83
$000(%)

Province	Trade and Industrial Programmes[2]		Total[3]	
Newfoundland	3866	(1.0)	3939	(0.7)
Nova Scotia	4081	(1.0)	4125	(0.8)
P.E.I.	1744	(0.5)	3218	(0.6)
New Brunswick	15745	(4.0)	15784	(2.9)
Maritimes	25436	(6.5)	27066	(5.0)
Quebec	136127	(34.9)	137222	(25.3)
Ontario	180820	(46.3)	187596	(34.6)
Manitoba	5348	(1.4)	143208[4]	(26.4)
Saskatchewan	2424	(0.6)	4527	(0.8)
Alberta	6982	(1.8)	8603	(1.6)
British Columbia	33346	(8.5)	33474	(6.2)
Total	390579		542600	

NOTES:

1. While the Department of Industry, Trade and Commerce and programme aspects of DREE were merged to form DRIE, the new department still reported the respective expenditures separately.

2. These include a variety of programmes, including: Defence Industry Productivity Programme, Enterprise Development Programme, Small Business Investment Grant Programme, Contributions to promote export sales, among others.

3. The total column also includes Tourism programmes, Grains and Oilseeds programme, as well as expenditures in the two territories and outside of Canada.

4. The magnitude of the Manitoba figure reflects $137589000 expenditure under the Grains and Oilseeds Programme.

Source: Derived from DRIE, Annual Report 1982-83.

TABLE 4.11

IT and C Support of Industry R and D[1]
$million (%)

Region	1978-79	1979-80	1978-80
Atlantic	0.2 (0.4)	0.7 (1.0)	0.9 (0.7)
Quebec (excluding Hull)	25.2 (46.4)	36.5 (49.6)	61.7 (48.2)
Ontario (excluding Ottawa)	21.9 (40.3)	25.1 (34.1)	47.0 (36.5)
National Capital Region[2]	3.3 (6.1)	4.4 (6.0)	7.7 (6.0)
Priaires	1.9 (3.5)	3.2 (4.3)	5.1 (4.0)
British Columbia	1.9 (3.5)	4.4 (6.0)	6.3 (4.9)
Total	54.3	73.6	127.9

NOTES:

1. Science related expenditures of IT and C in support of R and D directly undertaken by industry.

2. National Capital Region (NCR) is the Ottawa-Hull area.

Source: Derived from Ministry of State Science and Technology, Federal Science Activities 1982-1983.

TABLE 4.12

Regional Distribution of Enterprise Development Programme Expenditures fiscal years 1977-78 to 1981-82
$000 (%)

Province	1977-78	1978-79	1979-80	1980-81	1981-82
Newfoundland	22	301 (1)	617 (1)	50	517
P.E.I.	95 (1)	167	422 (1)	387 (1)	421
Nova Scotia	15	90	1332 (2)	1107 (1)	679
New Brunswick	55	468 (1)	106	305	352
Maritimes	187 (1)	1026 (3)	2477 (3)	1849 (2)	1969[2]
Quebec	3221 (18)	4688 (12)	13770 (16)	47943 (49)	35262 (30)
Ontario	12143 (68)	21689 (55)	59544 (71)	36850 (38)	62662 (54)
Manitoba	587 (3)	942 (2)	1420 (2)	1998 (2)	9534 (8)
Saskatchewan	180 (1)	495 (1)	1096 (1)	1106 (1)	1320 (1)
Alberta	560 (3)	1315 (5)	1890 (2)	3115 (3)	3685 (3)
British Columbia	1122 (6)	3934 (23)	3833 (4)	5339 (5)	4725 (4)
Total	18000	39539	84031	98200	119158

Source: Compiled from Tarasofsky (1984).

TABLE 4.13

Regional Distribution of Selected DRIE Programmes 1982-83
$million (%)

Province	Programme Expenditure							
	A		B[2]		C[3]		D[4]	
Newfoundland	0.1	(-)	0.2	(0.2)	-	(-)	4.8	(1.0)
P.E.I.	2.4	(0.4)	0.4	(0.4)	-	(-)	1.6	(0.3)
Nova Scotia	27.0	(25.9)	1.0	(1.0)	1.4	(0.8)	9.1	(2.0)
New Brunswick	7.4	(7.1)	0.8	(0.8)	-	(-)	11.9	(2.6)
Maritimes	34.9	(33.5)	1.4	(2.4)	1.4	(0.8)	27.4	(6.0)
Quebec	18.0	(17.3)	22.2	(22.2)	58.4	(32.2)	159.8	(34.9)
Ontario	44.3	(1.3)	40.8	(40.8)	98.5	(54.4)	100.4	(21.9)
Manitoba	1.4	(1.3)	2.7	(2.7)	8.7	(4.8)	12.9	(2.8)
Saskatchewan	-	(-)	1.5	(1.5)	1.4	(0.8)	29.1	(6.4)
Alberta	0.2	(0.2)	2.6	(2.6)	1.1	(0.6)	42.1	(9.2)
British Columbia	5.3	(5.1)	26.9	(26.9)	11.7	(6.5)	84.6	(18.5)
Total[5]	104.1		99.1		181.2		458.1	

NOTES:

1. Adjustment Assistance Loan Insurance Authorizations.

2. Innovation Authorizations under the EDP.

3. Project Authorizations under the Defence Industry Productivity Programme (DIPP).

4. Loans under the Small Business Loans Act.

5. Total includes commitments in the Yukon and Northwest Territories.

Source: Compiled from DRIE Annual Report 1982-83.

NOTES

1. The Rowell-Sirois Report, Book I.

2. 25 - 26 George V, c. 23, 17 April 1935.

3. The Rowell-Sirois Commisson was established on 14 August 1937 and submitted its final report - The Rowell-Sirois Report - in three volumes in 1940.

4. Canada, White Paper on Employment and Incomes, King's Printer, Ottawa, 1945, p.59.

5. Royal Commission on Canada's Economic Prospects Final Report (The Gordon Report), Ottawa, 1957, p.401.

6. Proceedings of the Special Committee on Land Use in Canada, 21 March 1957, p.172.

7. Cited in Brewis (1978).

8. The FRED programme also reflected the influence of the BAEQ, which undertook regional development initiatives in Quebec.

9. These included: Prince Edward Island, the Manitoba Interlake, Northeast New Brunswick, the Mactaquac Area of New Brunswick, and the Lower St. Lawrence, Gaspé and Iles-de-la-Madeleine Area of Quebec.

10. 14 - 15 Elizabeth II, c. 41, 11 July 1966.

11. Initially placed under the authority of the Minister of Forestry, after 1969, FRED was administered by DREE.

12. McAllister primarily looks at the FRED programme in P.E.I. In contrast, the Interlake plan in Manitoba did appear to have some limited successes in this context. See Nickel (1975).

13. See for example Copes and Steed (1975).

14. Nickel (1975) p.3. Nickel's "Confessions of Planners" offers some interesting discussion with respect to the FRED Interlake programme in all its aspects.

15. Standing Committee on Industry, Research and Energy Development, minutes of Proceedings and evidence, no. 10, 18 October 1966, p. 265 - 266).

16. 11 Elizabeth II, c 10, 20 December 1962.

17. Previously the Gordon Commission recommended the creation of a Capital Projects Commission for the Atlantic Provinces or some other appropriate agency which could prepare an overall coordinated plan for the region and secure full support of the provincial governments involved. A primary function of this agency however was to be the management of federal infrastructure expenditures in the region rather than an ongoing advisory body. See the Gordon Report, 1957, Chapter 19.

18. In many respects the ADB was the federal counterpart to the APEC which operated at the regional level.

19. 12 Elizabeth II, c. 5, 31 July 1963 and 14 - 15 Elizabeth II, c. 31, 11 July 1966.

20. Cited in Phidd and Doern (1978), p.324.

21. 17 - 18 Elizabeth II, c. 18, 18 March 1969.

22. DREE, Regional Development Programs, Ottawa, 1973.

23. The ADIA was phased out by 1973, and the RDIA remained the major industrial incentives programme.

24. The two inter-election periods examined were: October 1969 - October 1972, and November 1972-July 1974.

25. By the 1980 election, the Social Credit Party did not elect a single member to the House of Commons.

26. DREE, A New Approach, Ottawa, 1976.

27. Ibid, pp. 14 - 15.

28. Subject to changing circumstances, the areas initially selected included: all of the Atlantic Provinces, Quebec, Manitoba, Saskatchewan, the northern and some eastern parts of Ontario, parts of Alberta outside of Calgary and Edmonton, and parts of British Columbia outside the lower mainland and Victoria.

29. DREE, The New Approach, Ottawa, 1976, p. 19.

30. The distinction between the last two is basically in time frame. The second type is to provide special assistance of a one-time only nature, whereas the third type is to provide continuing, long-run support.

31. DREE, Annual Report 1981-82, and Department of Finance, Economic Review 1983.

32. DREE, Annual Reports.

33. Economic Development for Canada in the 1980's, Department of Finance, Ottawa, 1981.

34. Office of the Prime Minister, "Reorganization for Economic Development" Ottawa, 12 January 1982, p.3.

35. Ibid.

36. 29-30-31-32 Elizabeth II, c. 160, 29 June 1983.

37. The RDIA was officially terminated in December 1984.

38. DRIE, Industrial and Regional Development Program, n.d.

39. For example, regionally differentiated support varied as follows for innovation support and new plant establishment.

	Maximum level of Assistance (%)			
IRDP Aspect	Tier I	Tier II	Tier III	Tier IV
Innovation Support	50	60	75	75
New Plant	--	35	50	60

In terms of other aspects of the IRDP, assistance also varied. Interestingly, a provision in the IRDA allowed Tier I districts to be eligible for assistance if economic conditions in particular areas deteriorated relative to the national average.

40. Proceedings of the Standing Senate Committee on National Finance, First Session, Thirty Second Parliament, No. 17, 2 December 1982, p. 24.

41. Three per cent figure is from ibid, No. 12, 4 November 1980, p.12.

42. IT and C, Annual Report 1978-79, p. 4. The EDP was established in 1977 to rationalize the previous spate of programmes (e.g. PAIT, PEP etc.) designed to revitalize Canada's sagging industrial sector.

43. The point here is not to advocate increased defence expenditures (i.e. "militaristic Keynesianism"), but only to point out that all nation-states will invariably continue to have at least a nominal level of military expenditure which could be potentially earmarked for regional development.

44. DRIE, Annual Report 1982-83, p.22.

45. In particular, Boeing and Sperry-Univac established manufacturing facilities in Winnipeg as a part of industrial offset packages associated with Canadian government procurement of Boeing 707 and Lockheed Aurora Aircraft respectively. See Todd and Simpson 1984.

46. Using nominal figures approximately $1.2 billion had been allocated through the ADIA and RDIA programmes between 1966-67 and 1982-83.

47. Total investment for the project was set at $400 million, of which the Canadian and Quebec governments are to contribute $165.2 and $110.2 million respectively, and Bell to make up the difference (Aviation Week, 17 October 1983).

48. Economic Development for Canada in the 1980s, Department of Finance, Ottawa, 1981.

CHAPTER 5

Conclusions: Regional Policy in Perspective

Emerging out of national policy was a distinct spatial distribution of economic activity across Canada. With an emphasis on fostering economic expansion, under the auspices of private capital, the combination of immigration, tariff and transportation policies led to the formation of the Canadian common market and laid the basis for national capitalist accumulation. The resulting and evolving pattern of development witnessed the expansion of an industrial heartland centred in the southern portions of central Canada and an extensive resource hinterland extending to the east and west. The preoccupation with facilitating economic growth in concert with the principles of private enterprise has since remained the centre-piece of Canadian economic policy. The unfolding of the accumulation process, while being profitable for Canadian merchant financial, and industrial interests as well as foreign capital, did neither provide all individuals with socially acceptable incomes nor employment opportunities. In particular, the frequency of low incomes and limited employment opportunities displayed a distinct regional pattern, with the Atlantic provinces especially notable in this respect. It is in the above context that the question of regional disparities became an important element of Canadian political economy.

For much of Canada's existence as a nation-state explicit regional policies aimed at stimulating a reasonable degree of spatial balance of the distribution of economic activity were absent. However, in view of the regionally differentiated nature of the accumulation process, social and political pressures compelled the federal government to take measures to offset the more negative consequences of regional economic imbalance. With the emergence of the "welfare state" in Canada, and indeed as an eventual outcome of that emergence, the institutional preconditions for the emergence and evolution of regional policy were set in place. The scope and direction of this evolution has been conditioned by the institutional constraints within which regional policy has been formulated. First and foremost in this respect is the role and nature of the state in capitalist economics generally and its specific role in Canada. The capitalist state, as a political force, attempts to create and maintain conditions for capitalist accumulation (accumulation function) while at the same maintaining social stability (the legitimation and coercive functions). The state's relationship to the accumulation process is guided by a number of functional conditions, of which its own dependence on accumulation acts as the most powerful constraint criterion on the policy formulation process.

In Canada the desire to create and maintain conditions propitious to capitalist accumulation, in concert with the interests of central Canadian capital, has dominated state policy. In this context, regional policy has emerged principally as a response to the regionally differentiated pattern of Canadian accumulation. Its basis as a response to national economic expansion entails a number of consequences for the evolution of regional policy. On the one hand, it implies a subordination to central thrust of economic policy. The subordinate status of regional policy in turn conditions the form and content of this policy. In effect, the requirements of the development path pursued by the federal government, that is to say, capitalist development, circumscribes the potential policy options for regional policy. From this perspective, regional policy is potentially precluded from addressing questions of the structural underpinnings of the regional problem in so far as these are a consequence of the development path pursued. Thus regional policy is essentially confined to dealing with the "symptoms" of the problem in a fashion which assumes the existing development path. Complicating matters in the Canadian context is the organizational structure of the state, which in the first place is structured, in its federal government format, towards facilitating national accumulation and secondly, is characterized by strong provincial governments that have important powers and varying interests in the area of economic development. This latter factor implies the need for cooperation among the various governments, although in practice this has been difficult to achieve. Further complicating matters is the theoretical complexity and ambiguity of the problem itself. Together, the institutional environment and the analytic complexity of the problem worked to shape regional policy in Canada.

The evolution of regional policy in Canada has witnessed the progressive transformation of this policy through a number of phases. After a lengthy period of almost exclusive emphasis on aspatial economic growth policies, economic and political pressures converged in the late 1950s and resulted in the emergence of federal policies explicitly concerned with fostering regional development. Initially, policy initiatives on the part of the federal government addressing the regional problem were politically expedient ad hoc measures generally focused on physical resource problems or simply outright support for areas experiencing particular economic hardship. From this limited basis, regional policy evolved into a more comprehensive and extensive development programme. Prior to the formation of DREE in 1969, regional policies were administered by the existing sectoral departments of the federal government whose mandate typically was narrowly defined and directed towards national accumulation. In effect, regional policy concerns were a marginal aspect of the federal government's accumulation activity. None the less, political and social pressures continued to work to elevate regional considerations closer to the mainstream of federal policy.

The election of Pierre Elliot Trudeau in 1968 elevated the issue of national unity onto the centre stage of the political agenda and opened the door for a new approach to the problem of regional disparities. The formation of DREE in 1969 symbolized the institutionalization of regional development into the federal decision-making apparatus, and consolidated the existing set of regional policy measures under one roof with the expressed intent of fostering a coordinated and comprehensive approach to regional development. Regional policy up to the dissolution of DREE underwent a series of changing emphases, including a shift from a rural-poverty to an urban-industrial focus, a greater role in the west, and a redefinition of its target area from a "worst-first" perspective to the universalistic consideration of "development opportunities". This latter shift reflects a change in the conceptual basis of DREE from a predominately welfare perspective to one governed more closely by economic rationality and, thus, more closely in tune with national accumulation and economic adjustment. None the less, as a department devoted to a coordinated and comprehensive approach in the amelioration of regional disparities, and as an instrument of national unity, DREE's success was at best limited. While DREE institutionalized regional concerns at the Cabinet level, it did not "formalize" these concerns within the mainstream of the state's accumulation function in a way in which national and regional development could be integrated into a coherent framework. The integration of national and regional economic development policy, however, was systematically precluded both by the absence of a national economic strategy and by the rigid organization structure of the federal government.

The culmination of the institutional and conceptual transformation of regional policy into the mainstream of national economic policy seemingly occurred with the dissolution of DREE and the creation of the MSERD and DRIE in 1982. The transformation of DREE into DRIE and the MSERD was occasioned by the announcement of a "new" economic development strategy. The economic strategy selected by the Liberal Government called for a state-managed industrial development and diversification scheme based on and around an expanding resource sector. In partial contrast to earlier periods, the specific resources to be developed -

principally energy - were widely distributed across the country so as to offer the possibility of growth in all regions. Yet in terms of fostering balanced regional industrial development necessary to ease regional discontent, the proposed Liberal strategy was conveniently vague. Indeed, placed in perspective, this was not surprising. After nearly a decade of economic malaise characterized by declining international competitiveness and capital restructuring, the problems of the economy as a whole necessitated adjustment in order to arrest economic decline and renew the basis for national growth. Predicated on secular growth of the economy, the basis of regional policy was seriously eroded. As manifest by the decline in real DREE budgets, the question of regional development was subordinated to revitalizing the Canadian economy. In a manner reminiscent of the UK experience, industrial adjustment policies seemingly entail a distinct regional bias in favour of the existing favoured industrial regions. That is, in so far as these policies rely on private initiative, and are formulated in an aspatial context, they are essentially endorsing the existing regional distribution of industrial activity. Seen in this context, the formation of DRIE and the MSERD represented more a repackaging of the conventional development paradigm in Canada (resource development in the regions and industrial development in central Canada) than a *bona fide* attempt to foster balanced regional development, and possibly further shifted the conceptual basis of regional policy away from social and regional considerations towards national economic growth.

In the past, major shifts in regional policy have been occasioned by major changes in the political and economic environment; viz, the emergence of explicit regional policy during the Diefenbaker years, and the creation of DREE with the election of Pierre Trudeau. Whether the 1984 defeat of the Liberals and the election of the Mulroney Conservative Government, with its Canada-wide support, will again trigger a renewed commitment to regional development remains to be seen and is dependent on renewed national growth. If the historical record serves us correctly, the Mulroney Government's faith in the private sector to generate national and regional prosperity is certainly, at least in terms of the latter, of dubious origin. At the same time, the breakdown of Liberal's dirigiste resource - industrial development strategy clearly indicates the problems and limitations of planning the pattern of development in capitalist economies, as well as the political "costs" of extending the state role in the economy. In any event, the prospects for regional development and policy are not only dependent on national economic expansion, but equally and ultimately on a political commitment to ensure an equitable and reasonable standard of living for all individuals. This, in turn, raises a number of questions, the most obvious of which is the compatibility of social equity and regional balance with capitalist accumulation.

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