Acadiensis

ACADIENSIS

A Post-Mortem on Regional Policy in Canada

Paul Phillips

Volume 21, Number 1, Autumn 1991

URI: https://id.erudit.org/iderudit/acad21_1re03

See table of contents

Publisher(s)

The Department of History of the University of New Brunswick

ISSN

0044-5851 (print)
1712-7432 (digital)

Explore this journal

Cite this document

Phillips, P. (1991). A Post-Mortem on Regional Policy in Canada. *Acadiensis*, *21*(1), 191–199.

A Post-Mortem on Regional Policy in Canada

TEN YEARS AGO IN MY BOOK *Regional Disparities*, I somewhat facetiously referred to an obvious regional development policy — "find oil". It was not quite as simple as that, of course. The mechanism of permanent development was to tax away much of this economic rent and use that money as an investment fund to underwrite industrial development. At the time of writing (1982) when Alberta and Saskatchewan were building up their heritage funds and petroleum prices were still buoyant, this seemed an obvious and viable strategy, at least for those regions where there was promise of significant oil and gas production.

Unfortunately, events over the past decade have made it necessary to question even this qualified version of a resource-based, regional development strategy. It is not only that Alberta and Saskatchewan have squandered much of their heritage funds either in politically motivated and questionable diversification projects which have since failed, or in subsidizing budget deficits rather than levying politically unpopular taxes. Nor is it simply that the rollercoaster of petroleum prices has eliminated most resource rents from all but the most productive of conventional wells. It is rather more complicated than this. Resource-based megaprojects in the absence of a *national* industrial strategy do little to enhance development in peripheral regions and may even be highly destructive of existing economic activity. Furthermore, the neo-conservative (or more correctly, neo-liberal) agenda of global market integration under multinational firm aegis and the consequent abrogation of national policies makes regional development in the periphery problematic at best. This is the message to be gleaned from a number of recently published books that are concerned with regional development and policy in Canada with specific references, or application, to the Atlantic Provinces.

The essence of any economic development proceeding from resource exploitation is diversification around the export base. Primary production itself — whether it be oil, nickel, fish, pulpwood, grain or any other primary industry — can, of course, provide an employment and income base in and of itself; but that base varies both among industries and over time, and unless other industries grow up around that base or supplant that base, a region is destined to stagnate or decline. Some resource industries, such as agriculture, forest products and inshore fishing, are inherently more labour-intensive than others such as petroleum and mining, and this provides a broader base for population-related diversification (personal and government services, trade and repair, light manufacturing for local markets, etc.) Furthermore, being renewable resources (if properly managed), they have no time horizon, so that they create a "permanent" demand for consumer and producer goods in the region. But even these industries are subject to

Paul Phillips, "A Post-Mortem on Regional Policy in Canada", *Acadiensis*, XXI, 1 (Autumn 1991), pp. 191-9.

technological change and reorganizations that reduce labour requirements over time. As the Red Queen dictates, one must run faster and faster just to stay in the same place. In the case of non-renewable resources, the message is clearer and more urgent — diversify or ultimately disappear.

What has been the development experience with the insertion of a large-scale oil industry into a fishing-based region? This was the subject of papers at a conference in 1982 of the Atlantic Association of Sociologists and Anthropologists, collected along with additional articles on Norway and the Atlantic Provinces in J.D. House, ed., *Fish vs. Oil: Resources and Rural Development in North Atlantic Societies* (St. John's, Institute of Social and Economic Research, 1986). The results of European experience reported in this volume are not reassuring, but they are not entirely negative either. There is a definite conflict between the two industries, particularly obvious in the areas of pollution, debris, loss of access to fishing grounds and congestion of harbour facilities. If the fishers are sufficiently *politically* organized, however, regulation and compensating payments from the oil industry to the fisheries can offset these costs; but the less visible, indirect economic costs are more difficult both to identify and also to compensate. These indirect costs are primarily the disruption and inflation of local labour markets and other supply markets to the fishing industry and the public service and infrastructure debts which remain with the local peoples. Consider the following:

> In Shetland severe problems were experienced by the processing side of the [fishing] industry, with some firms losing many of their staff [male and female] to the construction work at the Sullom Voe terminal. A few firms actually had to close down because of labour shortages.... The main competition for labour has been onshore rather than offshore.[1]

and

> There has been considerable oil-induced investment in infrastructure which will remain with the benefit of local people such as new roads, harbour facilities, schools, health centres and recreation facilities. However, there is a slight sting in the tail of these "benefits", because they have not been directly paid for by the oil industry, and the local authority has a huge debt burden of £150 million due to providing this infrastructure [only forty per cent of which was provided by the oil industry].[2]

Nevertheless, at least in theory these negative impacts could well be bearable and

1 G.A. MacKay, "The Conflicts Between the Oil and Fishing Industries in the North Sea", in House, *Fish vs. Oil*, p. 27.

2 Andrew Blackadder, "The Shetland Economy", in House, *Fish vs. Oil*, p. 49.

indeed dwarfed by the positive effects of induced secondary development in industries supplying the petroleum industry, processing the petroleum, or supplying consumer goods and services to the primary producers.

Yet the evidence from the North Sea is again somewhat negative. In his survey of the impact of the oil industry on the rural region of Scotland, McNicoll concludes that "most oil expenditures have been made directly outwith the local area and hence have provided no stimulus to regional income or employment". Further, what purchases that have been made have either been of such an oil-specific character as to create an enclave economy with little local linkages, or have been of the low level services "with little or no demand for the products of traditional basic sectors". As a result, the output multipliers for the oil industry were reported to be only around half those of the fishing and fish processing industries.[3] For Norway there is less specific information available but, despite much greater government support for developmental linkages, the indication is that oil does not create additional jobs, just different jobs, simply shifting the labour market. "But the net employment effect can also be negative" if the fishing industry is undermined with the loss of some of its more skilled workers.[4]

There is a further negative impact of a *potential* oil and gas industry — that faith in the positive developmental impact of energy megaprojects will divert government's attention away from developing alternative strategies and policies for indigenous regional development. Certainly this was the experience with the Buchanan government in Nova Scotia which, James Bickerton points out in his new study, *Nova Scotia, Ottawa, and the Politics of Regional Development* (Toronto, University of Toronto Press, 1990) became "increasingly diverted [from other development models] by the prospects in the 1980s of a resource-based development strategy, especially energy-related resources".

What does all this portend for Canada's Atlantic Region, which has pinned so much of its hope on the developmental impacts of offshore oil and gas? This assessment is specifically taken up in two papers in *Fish vs. Oil*, House's own brief contribution, "Fish is Fish and Oil is Oil: The Case for North Sea Comparisons to Atlantic Canada", and Patricia Marchak's summary overview, "The Staple Trap". House develops a very interesting comparative framework between the political economy of a "strong staple" (oil) and that of a "weak staple" (fish). The strong staple, indispensable in the modern world and upon which regional governments have become dependent for revenues, but controlled by global corporations, takes precedence over the weak staple which becomes dependent on government subsidization. "Inexorably, *to the extent that free market forces are allowed to hold sway*, the interaction between the oil and fishing industries will be dominated by the former" (p. 135, emphasis added). It should be noted

3 I.H. McNicoll, "Scottish Rural Areas", in House, *Fish vs. Oil*, pp. 12, 19-21.

4 Svein Jentolf, "Is There a Conflict", in House, *Fish vs. Oil*, p. 121.

that House's analytic framework, and his conclusions, are just as applicable to export agriculture in the oil-producing provinces of Western Canada.[5] Marchak draws the obvious conclusion: "unless an industrial strategy is actively developed and implemented for purposes of diversifying the economic base, staples economies remain staples economies until the staple is exhausted or rendered obsolete" (p. 180). This is particularly so when the staple expansion takes place under multinational corporate control where surplus and linkages are captured in the centre, not in the periphery. Only if development and surplus are controlled and utilized in the resource region is it possible to break out of the "cycle of dependency".

Both House and Marchak emphasize the importance to regional development of the supremacy of policy (or a strategy) over "free market" forces. This raises two questions: what is the appropriate concept of a viable region in the current global environment; and secondly, is it possible to have a development strategy or any national policy that runs counter to that of multinational capital? These are issues that are raised directly or indirectly by the various authors from Canada and Australia who took part in an industrial geography workshop at Simon Fraser University and which are collected in *Industrial Transformation and Challenge in Australia and Canada* (Ottawa, Carleton University Press, 1990), edited by Roger Hayter from Simon Fraser and Peter Wilde from the University of Tasmania. The regional perspective of this collection is a long way from that of House or Bickerton; it takes as its subject the Pacific Region (perhaps more commonly referred to as the Pacific Rim) encompassing all the countries whose borders are lapped by the waves of the Pacific. What currently gives this massive collection of diverse countries, economies and cultures its regional identification, according to McGee, is the "economic incorporation" which is "characterized by increasing interdependence, specialization and the growth of the control of transnational corporations based in Japan, the US and Europe within the region".[6]

The issue is raised repeatedly throughout the book for both Canada and Australia (the policy dilemma in the two countries is essentially identical) as to whether such small nations can have a national or regional development policy, in the absence of which internal disparities and inequalities are bound to grow; or whether they must, in McGee's words, "catch on the coattails of the super economies", Japan and the United States. He concludes that "given the current dominance of the supereconomies in the Pacific economic system Canada and

5 I have developed this theme in a paper presented to the Canadian Plains Research Centre — Gorsebrook Institute Conference on the Constitutional Future of the Prairie and Atlantic Regions of Canada, University of Regina, 8-10 November 1991, "The Canadian Prairies: One Region or Two".

6 T.G. McGee, "The Changing Pacific Economy: Challenge to the Post-Industrial Economy", in Hayter and Wilde, *Industrial Transformation*, p. 12.

Australia have few choices but the coattails approach" (p. 24). However, not all the contributors to this volume accept the primacy of global market forces and their inevitable effects on increasing internal inequality. Those who resist such resignation place the blame on the failure of domestic policy, in particular our reliance on resource exports, our blind acceptance of multinational capital, and our failure to develop an industrial strategy into which Canada's regions could be integrated. All of these policy failures are linked to the "coattails" strategy embodied in the Canada-US trade agreement:

> It is generally accepted that Australia and Canada have largely preferred to accept "the rules of the world economy" with respect to trade, investment and technology and have foregone alternatives which would have given them greater control over their national economies and global roles. Moreover, it is argued by many...that the limits to discretionary behaviour imposed by this "internationalist strategy" compound over time. Certainly, as a result of this strategy, the global roles of Australia and Canada, as indicated by export structures, have remained remarkably specialized over long periods of time. Indeed, the stability of their export structures stands in sharp contrast to the experience of most other advanced and rapidly industrializing countries.[7]

In short, despite the decades of at least lip-service to regional policy in Canada, the judgement is that we have had very little success in escaping from regional "staple traps". This should come as no surprise to residents of the Atlantic Region. However, this structural rigidity, and the rise of neo-conservative ideology in economics and politics, have contributed to an increasing disregard for the spatial dimensions of economic policy. This is explicit in the MacDonald Commission Report, which argues that the federal government should leave "place prosperity" to the provinces and concern itself only with "person prosperity"; that is, concern itself only with interpersonal transfers and not with interregional transfers.[8] Canada's commitment to regional development policy has indeed been both short and shallow.

The original 19th-century National Policy — a transcontinental railway, immigration and western settlement, and protective tariffs — was in fact very much an explicit regional development policy. In his fine, exhaustive study of regional policy and Nova Scotia, Bickerton notes that the policy was in fact initially successful as far as the Maritimes were concerned. It was the erosion of

7 Roger Hayter and Peter Wilde, "Concluding Statement", *Industrial Transformation*, p. 298.

8 Iain Wallace, "The Canadian Economy: A Geographer's Assessment of the MacDonald Royal Commission Report", in Hayter and Wilde, *Industrial Transformation*, pp. 224-5; see also David Walker, "Canada's Internal Core-Periphery Structure", pp. 46-51.

the policy and the opening up of the region to the vagaries of the "free market" that brought decline to the region (from which it has never recovered) and branch plant status with respect to Central Canada. In Central Canada, the failure to adapt the National Policy to the imperatives of industrial consolidation and technical change brought branch plant status and technological dependence with respect to the United States. As Bickerton states, "Canada's adoption of a course of 'dependent development' implied not only a long-term reliance on foreign capital and foreign-owned technology (with its attendant drawbacks), but immediate and direct regional costs as well" (p. 39). As the *national* policy eroded or was made ineffective by the growing preponderance of multinational (mainly American) capital in Canadian growth industries, no new *regional* development policy was put in its place.[9] Indeed, after the turn of the century there was a growing sentiment, at least among the political and economic elite, for less state intervention, particularly at the federal level, and more reliance on the market to direct the economy. At the same time more fiscal responsibilities were unloaded on the provinces. Whatever other merits this course of action might be claimed to have had (and it is difficult in retrospect to see any), for Canada's poorer regions it was a disaster.

The Second World War, of course, rescued the country both from the economic depression, and also from the constitutional straitjacket imposed by decentralized spending responsibilities unmatched by comparable tax bases. The centralization of economic powers during the war and the adoption of Keynesian fiscal and monetary policies after the war to some extent mitigated these problems.[10] But what really established a new era was the long post-war economic boom, the growth dividend which allowed the Canadian government to develop the "redistributive state" which included, among other measures, tax equalization payments to the provinces, personal transfer payments (old age pensions, unemployment insurance, family allowances and the other social programmes such as medicare), and post-secondary education which have become integral to Canadian society (and which are now under attack).[11]

The evolution of the redistributive state, including regional development policy and the institution of the Department of Regional Economic Expansion (DREE) and its precursors, is indirectly the subject of the political autobiography

9 See Bickerton, *The Politics of Regional Development*, chs. 2 and 3, for a more detailed analysis of federal and provincial regional policies prior to the Second World War.

10 One should, in the manner of Joan Robinson, refer to these policies as "bastard Keynesian" rather than "Keynesian" which refers to the more fundamental Keynesian prescription of socializing the investment decision, though not investment itself.

11 For an excellent overview of the rise and fall of the redistributive state in Canada, see the paper by Jim Silver, "Globalization: Constitutional Considerations", presented to the Canadian Plains Research Centre - Gorsebrook Institute Conference on the Constitutional Future of the Prairie and Atlantic Regions of Canada, University of Regina, 8-10 November 1991.

by one of its principal architects, Tom Kent's *A Public Purpose: An Experience of Liberal Opposition and Canadian Government* (Montreal, McGill-Queen's University Press, 1988). In Kent's view, it was the intellectual and political ossification of the Liberal government under C.D. Howe and Louis St. Laurent that brought Diefenbaker and his populist hordes to Ottawa in 1957 and 1958 which, in turn, prompted the organization of the Kingston conference to establish new intellectual roots for the Liberal Party. One of the two key contributions to that conference was Kent's paper on social security, which included a political agenda listing somewhat restrictive proposals on medicare, social and unemployment insurance, education and training, cities and housing, pensions and regional development. It should be noted that, except for regional development and urban renewal, the agenda was primarily directed at "person equity" rather than "place equity".

What is perhaps surprising is that in the rather short period that Mike Pearson was Liberal prime minister and Tom Kent his principal advisor (only five years, from 1963 to 1968, and always with a minority government), Kent's Kingston agenda was largely achieved — even more surprising perhaps given Pearson's ineptness and indecision, and the brokerage politics of the Liberals that always demanded concessions to the big-business right wing.[12] But while the "person prosperity" programmes were well advanced, the regional programmes remained in their infancy; "co-operative federalism", by which was meant joint federal-provincial decision-making and implementation of social programmes, had been achieved, only to fall victim later to Pierre Trudeau's imperious will.

The ascension of Trudeau to the leadership of the Liberal Party and to the prime minister's office brought regional policy to the fore and, in the process, Kent to the position of the first deputy minister of the new Department of Regional Economic Expansion, at least briefly until he came into conflict with Trudeau's right-wing economic policy.[13] DREE, however, was never accepted by the Ottawa mandarins, it never had a significant budget, its industrial development grants were constantly criticized by academics, businessmen and politicians, and it ultimately became a political pork-barrel for the Liberals in Quebec. When it failed to deliver Trudeau the votes it was axed. And yet I have the sense that it was more important, and perhaps more successful, than it has been credited with. At least regional inequalities did not increase — although Bickerton shows that this can be credited to the personal transfers and social programmes which had far more fiscal and income impacts on the low-income regions than did the

12 For the most part, of course, the Liberals had the support of the NDP in the social agenda. Indeed, as Kent recounts, his agenda was seen as stealing the NDP's programme.

13 In a private telephone conversation in the early 1970s, a prominent Liberal cabinet minister told me that when the cabinet was split, Pearson always came down on the left side of the question, Pierre Trudeau always on the right side.

regional programmes themselves.

In any case, regional policy — the prosperity of place — had long been abandoned by the Liberal government even before the election of the Mulroney Conservatives who were not only opposed to a spatial redistribution of activity on grounds of perceived market efficiency, but also on purely ideological grounds — philosophic opposition to the redistributive state. This ideological stance, of course, extends not only to regional programming but also to the other aspects of the redistributional state — personal transfers, tax equalization and shared cost social programmes (Established Programme Funding or EPF). Restrictions on these programmes alone will tend to reverse the limited economic development convergence that occurred in the 1960s and 1970s between Canada's regions.

The attack on the redistributive state, which coincides with the global restructuring of capital in the international crisis of Fordism in the last two decades, has particularly severe implications for the Atlantic Region. As the editors of another recent volume suggest, "With the exception of a few multinational corporate enclaves, capitalism within the region is itself largely dependent on state subsidies and transfers, and on the aggregate demand generated directly or indirectly by state expenditures on goods and services". This compounded crisis has prompted new patterns and institutions of resistance. These forms of resistance, however, have remained fragmented in terms of consciousness, expressing, variously, populist, socialist and gender-conditioned responses. It is these various patterns and institutions of resistance that are the subject of Bryant Fairley, Colin Leys and James Sacouman, eds., *Restructuring and Resistance: Perspectives from Atlantic Canada* (Toronto, Garamond Press, 1990), a collection of papers that originated in a 1985 conference at Queen's University. In many respects, it is a successor, even an extension of, the earlier collection *Underdevelopment and Social Movements in Atlantic Canada*, first published in 1979.[14]

The individual studies concentrate on the three primary resource industries dominated by petty producers or independent commodity producers: fishing, agriculture and pulpwood harvesting. In fact, almost half the volume is devoted to the fishing industry alone and how it has responded to the restructuring and crisis that has been endemic in the industry for some time. What makes any simple Marxist analysis of the conflict and resistance to international capital somewhat problematic is that, for the most part, we are not dealing with waged workers in conflict with capital over the price, conditions and location of work (with the major exception of the fish plant workers). Rather the focus is on the terms of trade of petty commodity production. The centre of conflict is not the labour market but the commodity market, in which relative market power is the relevant variable determining the distribution of surplus. This theme has a long

14 R.J. Brym and R.J. Sacouman, eds., *Underdevelopment and Social Movements in Atlantic Canada* (Toronto, 1979).

history going back to the control of trade by the merchant classes of St. John's, Halifax and Saint John.

What is central to the current restructuring is the penetration of international industrial capital in these industries, utilizing monopoly control of processing facilities to control the terms of trade and extract the surplus. The problem is that the processors themselves have little control over the final product markets which are relatively competitive, particularly given international subsidy competition in the food industries. The competitive pressure is then passed on to the processor who uses its market power to pass it on to the primary producer. In the case of the fish processing plants, the competitive pressure devolves on the plants. They respond in classic manner by segmenting the work force on the basis of gender, thereby transmitting the economic pressures and competitive insecurities into low wages and insecure jobs for the plant workers, particularly the women, and in this way conditioning the class response along gender lines.[15] Thus, it is argued, the focus of struggle among the primary producers tends to revolve around the state and management of the resource and the market, while among plant workers it takes the more general character of gender-conditioned class. The former, however, do not visualize the conflict in class terms but in populist terms, embodying "pre-capitalist values in the name of 'the people'" (p. 18).

What has this to do with the greater issue of regional development and regional policy in Canada? The simple answer is a great deal. Given that the Atlantic Region's basic industries can be described (in House's terms) as weak staples with minimal surpluses, in the current crisis the region becomes increasingly dependent on the redistributive state just at a time when that state is being dismantled in the name of "the market" and "international competitiveness". Since the origin of this policy is seen to be Ottawa's policy-making, political alienation takes a regional form harking back to pre-capitalist, "small-is-beautiful", and often right-wing populist political shapes. A very similar development is taking place in Western Canada. The fact that the policy prescriptions that come from this alienation tend to encourage the destruction of the redistributive state, and thus are counterproductive, remains hidden behind the myth of the free market.

PAUL PHILLIPS

15 See in particular the two chapters in this volume by Martha MacDonald and Patricia Connelly, "A Leaner, Meaner Industry: A Case Study of 'Restructuring' in the Nova Scotia Fishery", and "Class and Gender in Nova Scotia Fishing Communities".