

PART : II

CANADIAN EXPERIENCE

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INTRODUCTION :

Ever since the Union of Upper and Lower Canada in 1841 the balanced regional development has been an implicit objective of the national economic policies. Because the growth of economic activity has been uneven, with surges of expansion, based on the export of particular staples, occurring as the occupation and settlement of particular regions took place. Therefore, the (Duncan) Royal Commission, Rowell-Sirois, the Gordon Royal Commission and others have been emphasizing strongly and cogently the need of the national equity in terms of socioeconomic well being. It has also been observed that the inequalities in the industrial development have been persistent inspite of the government policy actions aimed at correcting such inequalities.

The beginning of industrial development in Canada is not only an important element in understanding Canada's present regional industrial development but it also enables us to digout major causes of uneven industrial development and growth. Canada has five relatively distinct geographical regions with unequal distribution of forests, minerals and agricultural wealth across the regions. The history of the growth of the Canadian economy has been chiefly attributed to the realities of geographical, climatic conditions and accessibility of the place by rail. These are the major determinants of the location of cities and economic activity in Canada in the initial phase of the 20th century. The rapid industrialization in North America also created a market for the vast Storage of minerals and energy resources available in Canada. The growth and shifts in energy from coal to hydro electricity and the discovery of oil and gas in significant amounts in Alberta gave boost to the process of industrialization during the Second quarter of the twentieth century.

The fruits of industrial development reached a few larger urban centres of

a few regions which emerged as the nuclei for industrial development and growth while major portion of the country remained lagging in industrial development resulting in huge chronic unemployment and poor purchasing power. There are convincing reasons why regional industrial development has not received expected attention of the academic community. Objective research studies in effort on regional industrial development efforts in Canada is very little. A number of specialized studies on specific issues of regional development have been carried out, but they have mostly failed to look at regional development from the view of industrialization. Major studies on the regional disparities in economic development have been undertaken by the Economic Council of Canada in 1957, 1977 and 1979, however the earliest systematic analysis was done by Howland (1957), Denton (1966), Chernic (1960), MacInnis (1968), T.N.Brewis (1969), T.J.Courchene (1970), Alan Green (1971), O.J.Firestone (1974), O.F.G Sitwell (1984), William Coffey and Mario Polese (1987), N.H. Lithwick (1987), Muriel Armstrong (1988), Michael Bradfield (1988), Janine Bro (1990) and D.J. Savoie (1987 and 1992). Let us review the major works on regional disparities in economic development in its entirety.

The Economic Council of Canada sponsored several studies designed specifically to define a theoretical approach to the problem. However, the Council concluded its major effort in this area (Living Together, 1977) without producing a suitable theoretical framework. Nail M. Swan (1951) adopts modified laissez fair approach and Activist approach in his study. He concludes that the balance of the theory and the tests together suggests that basically financed fiscal policy might not work well to reduce regional disparities in Eastern Canada. F.Martin, Nail M.Swan and others (1979) recognize that geographical distance and quality of local entrepreneurship play significant role in the diffusion of innovations.

A study by T.N. Brewis (1969) deals with the factors influencing the decision of location of industry and the movement of population. This discussion is followed by the examination of complex concept of region, of factors which contribute to regional growth and the problems involved in its measurement. It focusses on various

reasons advanced for the introduction of regional development policies, to the problem of planning and the evaluation of programs. Various Pre-DREE efforts in the form of income tax exemption and origin, operation and expenditure by Atlantic Development Board have also been analyzed.

Alan G Green (1971) analyzes the relationship between the level of income per capita, the industrial structure of a region and intersectoral versus intrasectoral differences which significantly explain regional income differences.

The edited work of Firestone O.J. (1974) critically assess the regional growth theory and incentive programme of the Federal Department of Regional Economic Expansion. Both Ontario and Saskatchewan are used as examples for testing the hypothesis. Finally by using Ontario as a case study, Firestone concludes that efficient resource allocation and regional development policies never go together.

Courchene T.J has written widely on the subject of regional disparity and whose work reflects the neoclassical assumptions. Particularly Courchene's analysis of the role of government transfer payments is important. Courchene explicitly supports out migration. In a 1970 study he argues that migrant labour should bear the Lion's share of adjustment (1970:551), and in a 1974 address he comes closer to advocating not only the increased out migration but also the actual depopulation of certain development regions (1974 a:26).

Using Rostow's Economic development model Sitwell (1984) discusses different industrial structures and factors affecting location of manufacturing sector. He has given provincewise data of investment and employment as well as investment and population growth. He directs his attention towards the critical assessment of the policy of Federal Government to the development of Canada's Regional Economic Structure.

William Coffey and Mario Polese (1987) in their edited study, examine the role of the federal government in decentralization of economic activities from the larger

urban centres to the smaller centres. They investigate the causes of regional concentration sources of employment with special emphasis on service industry, effects of factor shifts on the demand for labour and the regional distribution of corporate ownership.

N.H Lithwick (1987) in his highly organized study, which is based on extensive study made for the Royal Commission on the Economic Union and Development, splits forty years of postwar era into six subperiods on the basis of the phases of federal government policy. He is critical of measures introduced by the DREE, more precisely the GDA approach.

Muriel Armstrong (1988) identifies the regional disparities and the mobility of labour as major economic problems in Canada. He critically examines the regional development programmes of the federal government.

A study of Michael Bradfield (1988) points out different measures of disparities and discusses different theories of regional development. Although he starts with the generally accepted assumptions about a competitive market economy, he also examines imperfections which reduce its effectiveness and which imply other means to solve regional problems.

Janine Bordie's Study (1990) indicates that historical background inherited by Canadian Economy is one of the important cause for regional inequality. The study further presents a brief account of different theoretical approaches like market theories of uneven spatial development, dependency theory, interventionist theories and growth pole theories. Analysis of this study seems to underline the significance of critical assessment of DREE's performance as a major federal tool to attain one of the important national goals.

Finally, the latest and revised study of D.J. Savoie (1992) aims at defining and analysing regional development programmes and policies in Canada over the years. The first part of Savoie's study deals with federal provincial considerations in regional development. The second part explores various government programmes in regional

development and the forces that shapes these efforts while the third part assesses the effectiveness of these regional development programmes and proposes new ways of studying regional economic disparity. In brief, Savoie provides an excellent summary and critique of the various regional policies which have been pursued by the federal government.

From the above studies it appears that no serious and exclusive attempt have been made to analyse and assess the problem of regional disparity in industrial development and to indicate policy measures introduced from time to time by the federal government to reduce it. Most of these studies presented an account of the theories of development and either critically review the efforts of the federal government in totality or touch one of the schemes introduced by the federal government, such as, transfer payment scheme, migration of excess workforce, DREE's performance with little data base etc.

The conventional view from the public finance literature (e.g. Musgrave, 1959) asserts that equity should ultimately be a federal responsibility (1). Therefore the present work proposes to review the experience of the intervention by democratic government with very different philosophical pursuasion. The chapters in this part of the study are as follows:

* The FIRST chapter exclusively deals with the programmes introduced by the federal government till 1969, and the federal regional industrial development policy in the form of a industrial incentive program introduced after 1969 to reduce regional disparities in industrial development. In order to facilitate this task, it is convenient to split the era into three sub periods as follows:

1. PRE-DREE period i.e. Till 1969.
2. DREE period i.e. 1969 To 1983.
3. DRIE period and onwards i.e. 1983 onwards.

Following this classification the First Section of the chapter provides a sketchy view of the federal government programmes introduced before 1969. It then

critically assesses the performance of the federal government to reduce regional disparities.

The Second Section offers a detailed account and critical assessment of the DREE incentive programmes to bolster industrial development in the backward regions of Canada.

The Third Section presents a comprehensive and analytical account of the DRIE incentive programme. It then focuses briefly on the restructuring of the DRIE into decentralized form of policy actions with objective of reducing regional disparity

* The Second Chapter examines whether the Federal Business Development Bank and Small Businesses Loans Act (both are frontline federal tool to finance small businesses in Canada) have effectively catered to the persistent financial needs of the small businesses, especially in regions with geographical adversities. The thrust of this chapter is to examine the anatomy and efficacy of the FBDB and SBLA as significant sources of funds for small businesses which would create a milieu in the industrially lagging provinces in which private entrepreneurs can be attracted.

* The Third Chapter throws light on the pattern of industrial development in the regions of Canada. It also explores the relationship between the pattern of industrial development in the regions of Canada and the federal programmes introduced before and after 1969 to foster industrial development in underdeveloped regions. It also poses a question, Are DREE and DRIE incentive programmes and other related federal efforts effective enough to attract private entrepreneurs towards industrially lagging regions ?

In brief, the present research pursue the study, How federal effort in the form of DREE, DRIE and other related policy actions can best foster the balanced industrial development in all regions of Canada.

Data in support of this study are chiefly derived from the following sources

1. Statistics Canada.

2. Annual Reports: Department of Regional Economic Expansion and Department of Regional Industrial Expansion.

3. Annual Reports: Federal Business Development Bank and the Small Businesses Loans Act.

Since province is virtually an inevitable unit of federation it is used as a unit of analysis throughout the study.