CHAPTER : I

EFFICACY OF CANADIAN REGIONAL INDUSTRIAL DEVELOPMENT APPROACH

SECTION : I

PRE-DREE REGIONAL DEVELOPMENT PROGRAMMES AND ITS ASSESSMENT

This section attempts to give detailed account of the federal policy actions till 1969 and also analyses critically, the ebb and flow of the federal government programmes of regional development in general and industrial development in particular, in Canada.

During the period of confederation upto the mid 1950s (i.e. from the first confederation to the last in 1948 with New Found land), the federal government has no explicit policy of regional development. It dictated its economic policy essentially for the development of the national economy. Before the world wars the principal goal of the national economic policy was growth and not balance in economic development and growth of the country. It was only after the Second World War that the federal government showed greater concern for a regional balance in economic activities. The reason perhaps was that regional differences became much more apparent during these years and the government failed to devise any adequate policy to take care of people's needs of employment in the less affluent provinces of Canada which was intensly felt immediately after the Second World War. At that time the manufacturing base was still narrow and fiscal weaknesses of the poor provinces compelled the federal government to recognize regional economic imbalances. The fiscal weakness of these provinces was highly palpable during the year of depression. Prior to Confederation, "regional" policy was based on staple development in largely autonomous colonies and corresponded roughly to transformation. Mac Donald's National Policy involved the use of tariffs and transportation to forge an integrated national economy. Till 1940 two major developments took place :

1. The establishment of the (Duncan) Royal Commission was to look into the financial difficulties of the Maritime Provinces in 1920s which lead to the Maritime Freight Rates Act and transport subsidies on Maritime Coal shipments to Ontario and Quebec. It establishes that Canada till 1940 had never been preoccupied with regional development; and

2. The Rowell-Sirois Commission was established in 1937 to re-examine "the economic and financial basis of confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years. With the Rowell-Sirois report of 1940 and the stress on fiscal equity, the major emphasis was shifted to compensation (2). The Report prompted federal-provincial grants and eventually, the present equalization payments to low-income provinces, the justification used was not regional development programmes by the provinces but enabling them to provide a national standards of services without above-average levels of taxation for their residents (3). Mostly during the period between 1947 and 1957, the role of provinces as regional advocates was restrained due to the economic and political dominance of the federal liberal government (4). During this period, the normal rate of capital cost allowances on most of the assets they acquired to produce new products and the enterprises located in designated regions (with high unemployment and slow economic growth) was in existence to attract industry in the designated regions and thereby to combat regional disparities. The 1960 budget permitted firms to obtain the double of the same allowance.

The Royal Commission on Canada's Economic Prospects (the Gordon Commission), established in 1957, explicitly recognized the existence of regional disparity in Canada. The Gordon Commission defined the regional problem as a difference or a gap between level of incomes, unemployment or other such key variables of a province and those of provinces or that of the national average. Therefore, a Fiscal Equalization Programme was set up by the Federal government.

It was intended to reduce disparities between regions, to achieve a national standard in public services and at the sametime to equate provincial government revenue. In other words, the aim of this programme was to equalize the standard of living of different region with respect to health, education, welfare and other relevant public services and to adjust regional variations in the revenue base for provincial taxes. From a purely economic point of view, transfers are like negative direct taxes. However, this programme has proved a very weak instrument presumably because it neither boosts up the regional productivity nor reduces the unemployment in those less affluent provinces. Nevertheless, transfer payment program will reduce unemployment not through a direct effect on product demand, but through its indirect effect in raising living standards and thereby weakening the pressure for parity in wages.

The year 1960 witnessed two conflicting trends. One was the development of shared cost programmes and tax-abatements to the provinces to assist largely in social development policies. They reinforced the political and fiscal powers of provinces, which began to act more and more autonomously, shifting the focus of the regional policy to compensation.

The efforts to formulate more specific measures to promote development in the lagging areas of the country, emanated from the work of the Senate Committee on Land Use In its report, the Senate Committee perceived the regional problem as primarily being a problem of agricultural poverty caused by poor soil and water management and small size of farms. On the basis of this analysis, the federal government passed the Agricultural Rehabilitation and Development Act (ARDA) in 1961 which provided joint federal-provincial funding for soil and water conservation projects and land consolidation schemes. These projects and schemes were designed to increase the productivity of farms. With the introduction of the Agricultural and Rural Development Act (ARDA) in 1965, non-agricultural poverty in rural areas was recognized, and accordingly the original program was expanded, while the land-used programme of its predecessor were continued (5).

In order to assist those areas which required more resources than those supplied by ARDA, the Canadian government introduced Fund for Rural Economic Development (FRED) in 1966. This programme covered aspects like land management, education, infrastructure, investment and industrial development especially in the primary sector although tourism and manufacturing were also assisted. The agreements covered regions like Prince Edward Island and parts of New Brunswick, Quebec and Manitoba.

Realising the vision of Gordon Commission into policy the federal government established the Atlantic Development Board (ABD) in 1962. In 1963, it administered a development fund that supported large infrastructure investment projects. The Area Development Agency was set up in 1963 in order to provid incentives to firms located or to be located in designated areas of high unemployment and, till 1965, tax concessions and accelerated depreciation allowances were provided to such firms. In 1965, when the Area Development Incentives Act (ADIA) was introduced the programmes of tax incentives were modified, and a system of capital grants was introduced

In short, throughout this pre-DREE period the federal government stacked abrupt development initiatives one upon another with the assumption that they would substantially remove the regional disparities of the nation. Instead such programmes heightened the disparity between rich and poor provinces. These early attempts at eradicating regional disparities failed to achieve even moderate success for the following reasons :

1. Till the end of the Second World War the federal government dictated its economic policy in the development of the national economy. It did not work for maintaining balance in the country's economic development and growth.
2. The regional policy efforts were directed to compensation to lagging regions in order to equate the standard of living in different regions with respect to health, education, welfare and other relevant public services and to adjust for regional variation in the revenue base for provincial taxes. And very little

effort had been devoted to formulate more specific measures to promote appropriate industrial development in the lagging areas of the country.

3. There was lack of overall strategy for economic development and also of co-ordination among the various departments of the federal government which were responsible for their administration.

4. The Difenbacker style of leadership prevented coherent development of the policy. The resulting deep distrust in bureaucracy further hampered policy planning.

5. The early federal attempts at eradicating regional disparities were designed to deal with agricultural and rural poverty. However the instinct for industrial development was utterly absent in the federal approach till 1962. Even the establishment of the ADB in 1965 in the most poor region of Canada was unable to foster industrial development effectively in Atlantic Provinces because of the following reasons:

    (A) The ADB was not allowed either to provide direct assistance or to design concrete strategy of any kind to attract private industry to locate new ventures in the industrially lagging regions. On this point the ADB was criticised by the Atlantic Provinces Economic Council in a report on the Atlantic Economy published in 1967.

    (B) The ADB never delivered a comprehensive regional development plan for the Atlantic provinces.

    (C) Its spending was never a part of comprehensive plan gearing expenditures toward specific targets. It was rather politically inspired.

SECTION : II

DREE : A FEDERAL STRATAGEM TO DEVELOP INDUSTRIALLY LAGGING REGIONS (YEARS : 1969 - 1983)

Establishment of DREE :

In order to move away from schemes to alleviate rural poverty and encourage rural based development, the establishment of the DREE was necessary. Marchand (1969) added that this new department "was the only way to secure coordination of federal efforts in regional development". Marchand argued that the new policy would consider urban and industrial structures which were required to give a new economic depth and strength to respective provinces. Once this was done, attention could then be given to the economically depressed rural areas.

The first step towards the establishment of the new department in 1969 was the consolidation of all the existing federal agencies and programmes active in the field of regional development and social adjustment under one minister. Although the oldest of these programmes went back to 1935, nevertheless the majority of them were seriously considered after 1960. The vehicle selected for the consolidation was the Rural Development Branch of the Department of Forestry and Rural Development which administered the Agricultural & Rural Development Act (ARDA), the Fund for Rural Economic Development (FRED) and the Maritime Marshland Rehabilitation Act (MMRA). To this necleus were added following agencies and programmes:

1. The Area Development Agency(ADA) from the Department of Industry, responsible for the Area Development Incentives Act;
2. The Atlantic Development Board (ADB) a semi-autonomous agency responsible for fostering economic development in the Atlantic Provinces;
3. The Experimental Projects Branch, formerly the pilot projects Branch of

the Department of Manpower and Immigration responsible for the Canadian Newstart programme;

4. The Prairie Farm Rehabilitation Act (PERA) from the Department of Agriculture.

The Function of the DREE could be classified under FOUR main headings:

1. Planning and Programming :

This involved assessment of problems and identification of possibilities of change and development to develop the means of improving opportunities, and making them effective to slow growth regions. For each region or area, it must be done jointly with provinces concerned and in cooperation with local organization as well as with other federal agencies.

2. Industrial Incentives :

It involved identification of economic activities that had potential for establishment or expansion in the region and development of means to encourage those activities, which include provision of incentive to reduce their capital costs.

3. Infrastructure Assistance :

To provide the incremental social capital which was necessary for better opportunities, economic expansion had to rely on enlarged and improved community services (schools, water supply and sewage systems, roads, parks, etc.) particularly at growth points. Such services were normally financed locally and provincially. But in the slow-growth regions special federal assistance was essential to finance major development efforts.

4. Social Adjustment and Rural Development.

The plethora of uncoordinated agencies and programmes was thus rationalized in the DREE.

INSTRUMENTS OF DREE :

Following were the major instruments of DREE to implement and operate the policies and the incentives in industrially lagging regions :

GENERAL DEVELOPMENT AGREEMENTS (GDAs):

It was the principal instrument of DREE's Regional Development Policy in terms of expenditure, coordinated plannig and programming with the provinces in scarch of viable economic development opportunities. Each GDA provided for subsidiary agreements, which were specific in nature. In them details of the programme were defined : objectives, costs and means of implementation. It also included provision for monitoring and evaluation to ensure consistency with the overall GDA objectives. Subsidiary agreements were often cosigned, cost shared and co-managed by other federal departments in cooperation with the DREE and the provincial government concerned. The actual programmes themselves were run by the provinces. As part of its reaching out to the provinces the DREE shifted a significant portion of its staff to the regions. The GDA's regional development policy was in a way a provincial development policy. A new impetus was given to an old phenomenon called "Province Building" (Steveson, 1981). The GDA was an excellent tool for province-building as they made federalism a truly profitable partnership for the provinces. Ottawa carried a major share of the cost.

*** INDUSTRIAL INCENTIVES :**

The DREE's programmes of industrial incentives were designed to encourage new industrial employment in slow-growth regions of the country. They were administered by the Incentive Division. The Incentive Division also offered information and provide counselling to businessmen interested in establishing, expanding or modernizing industrial facilities. It carried out its functions through two main units :

1 The Industrial Intelligence and Promotion Branch and;

2. The Industrial Incentives Branch.

The role of the Industrial Intelligence Branch was to enable the Industrial Incentives programme to be effectively utilized to stimulate industrial development. To perform this function, the Branch was organized into three sections:

1. The Industrial Intelligence :

The responsibility of this section was to identify industrial opportunities and help in bringing them to the attention of businessmen. The section also undertook initial investigaions into industrial potentials and the definition of specific manufacturing opportunities involving studies carried out both by the Department itself and that in cooperation with the provinces.

2. The Industrial Promotion Section :

It developed and launched a variety of activities designed to identify, locate and contact industrial prospects in addition to responding to specific requets for detailed information and guidance concerning the application of the incentives programmes to particular projects.

3. Community Participation Section.

Out of the two following Incentives Acts, one was monitored and administered so far, while other was enacted and organized by the Incentive Division.

(A) Area Development Incentives Act :

This Act was previously carried out by the Area Development Agency, and was further continued, even after the termination of ADA under the government organization Act 1969 for couple of years by the Incentive Division. Under this programme, grants were directly related to the capital costs of new machinery, equipment and buildings. The amount of grant was based on a rate of one-third of the first $250,000 of capital costs, plus 20% of the next $750,000 plus 20% of any maintaining eligible costs. The maximum grant for any new facility or expansion was set at $5 million. Grants could be taken at the option of the firm as a credit against future income tax liabilities.

(B) Regional Development Incentives Act:

This was the DREE's second major development programme, administered under RDIA Act and the DREE Act. The objective of this programme was to create jobs and to encourage capital investment. Under this financial assistance was provided in the form of incentive grants and loan guarantees to business and industry willing to establish, expand or modernise their facilities in certain designated regions of the country.

The Act provided incentives of two types :

(1) Primary incentive for companies which wanted to expand or modernize existing plants and additional or secondary incentive for companies which established new facilities to undertake new product expansions. The primary incentives would not exceed 20% of the approved capital costs of the projects or $6,000,000 whichever is less.

(2) The secondary development incentive would not exceed the sum of 5% of the approved capital costs of the project plus $5000 for each job created directly in the operation

The Act further provided that a grant combining a primary and secondary incentives would not exceed (a) $30,000 for each job created directly in the operation, (b) $12,000,000 or (c) one-half of the capital to be employed in the operation, whichever is less. These incentives were not the subsidies supposed to be continued. They were made available to industries with a view to offsetting the initial disadvantage of their investment in the areas where additional employment was badly needed. The

Act was amended in December 1970 to provide for loan guarantees. These loan guarantees may be extended to selected new commercial operations like Hotels, Wearhousing, Convention centres, Reservation facilities, Freight handling, Shopping centres and Business offices as well as to manufacturing and processing industries. These guarantees would not exceed 90% of the borrowings plus interest, and were subject to the fee payable to the Receiver General.

Special Area Incentives :

The incentives available under the RDIA were extended to secondary industry in the areas other than the designated regions of the regular programme. The size of the incentive grant depended upon : (1) Location, (2) Type of projects, i.e. modernization or expansion, and new plant or new product expansion and (3) Other jobs to be created directly in the facility in view of above projects and other requirements. The Special Area Programme together with the new regional incentives programme, would encourage industrialists to set industries into regions where they would not go otherwise (6).

The department expanded a good deal of efforts in the form of promotional activities including general advertising, direct mailing campaign, speaking engagements, provision of descriptive literature and visual aids, etc, in making the incentive programme known to potential investors and in helping selected communities in the slow-growth areas to identify and exploit their potential for industrial development. Beyond this, the department also worked directly with provincial governments by contributing to joint industrial studies and by making financial assistance available to support certain key projects like :

(1) New Brunswick Multiplex Corporation Limited (2) The Canada-Manitoba Gimli Agreement (3)The Atlantic Management Institute (4) The New Foundland and Labrador Development Corporation Limited.

In 1972 the agreement was launched by the federal government with the government of New Foundland and Labrador to create a Federal Provincial Development

Corporation in that province. The aim of the corporation was to assist small & medium sized businesses providing industrial intelligence, management advisory services, project information and loan and equity financing.

Discussions were initiated with the government of Nova Scotia on the establishment of a special development corporation in the Halifax-Dartmouth Area. It was anticipated that such a corporation might combine a pool of equity capital with top quality business management so as to encourage more rapid development in the Halifax-Dartmouth Area. Special assistance was provided to the government of Manitoba for the creation of an industrial park at Gimli to help offset the economic setback that followed the closure of the military base there.

In 1974 the RDIA was revised and province-wide areas of Canada were identified for assistance. These areas were New Foundland, Prince Edward Island, Nova Scotia, New Brunswick, Manitoba, Saskatchewan, Quebec (excluding Montreal-Hall corridor) and the Northern part of Ontario.

Decentralization of RDIA Administration :

Provincial Director General decided on all cases investing upto $500,000 in capital costs and 40 jobs, while Regional Assistant Dy. Minister was authorized to approve all cases involving capital costs of between $500,000 and 1.5 million and up to 100 jobs. As a result more than 70% of the decision were taken outside Ottawa. Till 1976 Alberta and British Columbia were not covered as designated areas under the regional development incentives programme.

The sluggishness in business investment has been one of the main weaknesses of the provincial economy during the last quarter of the 20th century. Therefore, the Bureau of Business and Economic Development (BBED) was established in the later part of 1980. The function of BBED was to identify manufacturing sectors, products and firms that would exhibit good growth potential in both domestic and overseas markets.

Special Investment Tax Credit Programme :

On the recommendation of the Minister of DREE a 50% special investment tax credit programme was announced in the October 1980. This was made available mainly in those areas of the country in which the 5% of the population suffered from high family unemployment and low per capita income. Eligible costs of assets acquired primarily for use in manufacturing or processing activities was allowed 50% credit. Which could be claimed as a reduction in the income-tax payable to the federal government.

Local Economic Development Assistance Programme (LEDA) :

This programme was first implemented in 1980-81 to support small and medium sized communities experiencing slow growht and high level of umemployment persistently. Its objective was to involve them directly and actively in stimulating employment in private sector through local enterprises.

From the above discussion, it thus, appears that the DREE favoured industrialization in industrially lagging provinces.

EFFICACY OF DREE INCENTIVES PROGRAMME:

During the DREE period i.e. 1969 to 1983 the core feature of the programmes was their focus on foundation work for industrial development in industrially lagging regions by their emphasis on boosting investment, by removing structural impediments affecting private economic initiative, and by providing supportive infrastructure and incentives. Therefore, in order to assess the efficacy of the major industrial incentive programme of the DREE, the Table: II.1 (A) and II.1 (B) needs to be considered. The data of these Tables give an idea of the pattern of distribution of industrial incentives (introduced by the DREE) in the year 1971, 1976-77, 1979-80, 1981-82, 1982-83 and 1983-84.

During 1971, Quebec, Nova Scotia, New Brunswick, Ontario and Manitoba captured higher share in terms of incentive offered under RDIP where as Saskatchewan, New Foundland, Prince Edward Island and British Columbia remained at the bottom of the list.

During fiscal year of 1976-77 industrially affluent provinces like Ontario and Quebec enjoyed greater share in terms of accepted offer and estimated amount of incentives. The data also reveals that, even after five years of the incentives programme needy provinces like New Foundland, Prince Edward Island and Saskatchewan were not able to command substantial share in terms of accepted offers and estimated amount of incentives. This position continued till 1982-83. This clearly indicates that flow of private investment in Atlantic provinces and Saskatchewan was inadequate. Further, in order to get clearer picture, regarding the flow of investment, the flow of incentives and the expected employment to be generated from these two flows; following ratios have been worked out on the basis of the Tables:II.1(A) and II.1(B): (1) Investment per offer (Table : II.2(A)).. (2) Incentives per offer (Table : II.2(B)) (3) Employment per offer (Table : II.2 (C)) (4) Investment per job (Table : II.2(D)) and (5) Incentives per job (Table : II.2(E))

The main facts emerging from the ratio analysis of the Table: II.2 (A to E) are as follows:

1. Higher Investment per offer and per job along with higher incentive per offer and per job which resulted into higher employment per offer. Ontario (1971 and 1979-80), Alberta (1971), New Brunswick (1976-77 and 1981-82) and British Columbia (1982-83) are striking instances.

Contrary to the above, Nova Scotia (1971 and 1976-77), Ontario (1976-77), and New Foundland (1981-82) were the cases with higher level of incentives per offer and per job with higher level of investment per offer and per job which would not generate higher level of manufacturing employment. However, lower investment per offer and job along with lower incentive per offer and job lead to higher employment as in New Foundland (during 1976-77 and 1979-80), Quebec (1976-77), and Ontario

(1981-82). Therefore, in almost all the regions, higher investment and incentive were not necessarily required to boost manufacturing employment at significant level.

In the case of Ontario, though it grabbed higher share of incentives, the incentive programme of the DREE played hardly any role in increasing manufacturing employment, which was already substantial. Similarly, in the case of New Foundland, during 1976-77 and 1979-80, higher employment was generated without substantial amount of incentive and investment. Nevertheless, during 1981-82 although with higher access of incentives and investment, the DREE incentive programmes proved very weak in generating substantial employment in industrially lagging province of Atlantic reigons (New Foundland). Therefore, it is a point of debate whether the DREE incentive programme was indeed necessary. This also tends to reflect overall absence of consistent strategic framework in the programme.

2. Higher investment and incentive per job but lower per offer which does not mean higher level of employment. This hypothesis turned out to be exclusively true without any exception in case of Saskatchewan (1976-77), Quebec (1981-82 and 1982-83), New Foundland (1982-83), and Prince Edward Island (1982-83). This signifies the capital intensive nature of the investment made during the respective period in the above regions. For Quebec, its secondary sector was found to be far too heavily involved in slow growth and low wage industries. Consequently, Quebec would find it increasingly difficult to create new jobs in manufacturing sector.

3. Higher incentive per offer but lower per job with lower investment per offer and per job which generates significant employment. Quebec was the only striking example for the year 1971 to support the hypothesis, notwithstanding Quebec responded differently from 1971 for rest of the DREE years.

The federal government intended to raise employment opportunities in the industrially poor regions through the DREE instruments. Nonetheless the data analysis reveals that throughout the DREE period, both incentives and investment were allocated heavily in favour of Ontario and Quebec.Hence both of them realized higher manufacturing job where as New Foundland, Prince Edward Island, Saskatchewan, etc. were hadrly benefited by the incentives programme. This implies that the DREE instruments were unable to waterdown the existing structural deficiency in the industrially lagging regions. Table: II.3 provides a more realistic picture in terms of DREE expenditure on different provinces. This table indicates that interms of industrial incentives, Quebec, New Brunswick, Manitoba, Ontario and Nova Scotia were top five provinces together enjoying 87% share from 1976-77 to 1982-83. These five provinces also remained top five provinces in terms of industrial incentives as a percentage of total DREE expenditure (except in 1982-83 instead of Ontario, Alberta was among the top five provinces). However, interms of total DREE expenditure, except New Foundland (for 1976-77 and 1979-80) and Saskatchewan (for all the years taken for analysis), New Brunswick, Nova Scotia and Quebec remained on top of the list. This table tends to mirror the dominance of industrially affluent provinces like Ontario and Quebec over the industrially poor provinces like New Foundland, Prince Edward Island, etc.. Saskatchewan grabbed higher share in total DREE expenditure and not in industrial incentives, this implies that the DREE made more contribution in sectors other than manufacturing and processing. While Quebec remained at the top in terms of both industrial and non-industrial funds given by the DREE. Despite little faith of the federal government in the capacity of Quebec to affect the regional pattern of the economy during the DREE tenure growing turmoil in Quebec lead Ottawa to divert major policy efforts to forestall the separatist movement.

The information on joint DREE-Province spending between 1969 and 1980 in sub-provincial areas reveals that the more developed areas within slow growth provinces received greater part of the funding. For instance, in New Brunswick, where Saint John, a more developed and industrialized area receive more funding than Miramichi which is economically depressed.

The RDIA programme could not direct the industries to the less favoured areas. It provided assistance to the Special Areas. In fact between 1969 and 1975, the designated growth poles within the Atlantic region as a whole received a smaller percentage of manufacturing employment than did other communities. Further, most industries attracted by it were of the "foot loose" type, offering few backward and forward linkages within the region (Hayter and Storey, 1979).

The RDIA approach had three basic flaws :

1. the pressure to implement the programme in more and more areas to make it impotent;
2. there was considerable political fallout when grants were extended to rich multinational, and even more fallout when it was thought that the grants simply encouraged the relocation of existing plants from Central Canada;
3. finally, the pace and effectiveness of RDIA in alleviating regional disparities was entirely dependent upon investment decisions of the private sector (7).

From this it emerges that, Dan Usher is right in his comment that the RDIA does not specify how the receipients of subsidies are to be selected or how much subsidies are to sanctioned (8). David Springate (1972) finds that regional incentives grants had relatively little influence on the investment decisions of large firms. He concludes that the grants produced few changes with respect to timing, size or technology of other project. Yet another evaluation made by Carlton Dudley (1974) suggests that the incentives grants were not sufficiently generous to offset the added operating cost of locating the project in slow-growth regions.

It has been observed that the RDIA programme had a built-in-capital bias which went against objectives of the programme which is job creation. The RDIA grant as it was pointed out, lowered the cost of capital more considerbly than it lowered the costs of labour. In other words, firms were encouraged to place emphasis on new plants and new equipments, rather than on creating more employment. On the basis of his analysis of the programme, R. Woodward (1975) concludes that "DREE" failed to achieve the objective of creating of new jobs, it rather incurred higher cost per new job created, by continuing with the subsidies which are consistent with their goals (9). Similarly, the evidence from the econometric studies forced J.Douglas May to conclude that the measures of investment incentive were not that successful in meeting the stated political objectives (10). The argument of Clyde Weaver also positively supports the conclusion drawn by May. He opins that the Regional Incentive Policy was in direct conflict with international theory which emphasized the need for concentrating resources in "propulsive industries" located in selected growth centre. The government distributed its industrial incentives to any manufacturing firm regardless of whether it was propulsive or not (11).

The DREE does not have an overall development plan by which it is trying to force or cajole private investment. It does not have the element of incentive (RDIA), that is, an amount of grant above that required just to compensate for the location penalty. Another structural characteristic contributing to a reduced influence of the RDIA programme is the restriction on the maximum amount that may be paid per job. The limit of $30,000 per job is not attractive enough for some capital intensive firms to move some of the slower growth regions of the country.

A study of F.C.Miller (1984), by using inter-provincial input-output analysis, concludes that it cannot be stated with certainty that DREE grants have been successful in significantly increasing employment in the Atlantic Provinces, one important conclusion which has drawn by this study is that RDIA subsidies have had much less success in creating employment in the Atlantic Provinces than DREE had claimed. In brief, this study gives more support to the view that the grants have done more to provide windfall profits to business firms than to achieve their primary goal of creating jobs in the Atlantic Provinces. Dunning (1981) has classified as product and enterprise-related factors that are likely to have an impact on the effectiveness of regional incentives when applied to a multinational enterprise. The product related variables include; (1) the skill or/and capital intensity of the production process, which may influence the size of the break-even subsidy. The higher is the capital intensity of production, the greater will be the size of the subsidy equivalent to incentive, provided the incentive is capital based. However, the results will be opposite, if the incetives are labour based. (2) The extent to which the production process is subjected to the economies of scale at the plant level. When such economies of scale are relatively smaller than the size of the market surrounding the firm's regional centre of production, the tendency to decentralize activities in response to regional incentives becomes stronger. (3) The physical characteristics of the product such as bulk, or weight to value-added ratio. (4) The age and/or uniqueness of the product. In the initial phase of development of the product, the tendency is to locate production facilities near innovative centre of the enterprise. This tendency is rarely found in assisted regions.

The RDIA programme has failed to disperse the location of multinationals away from the Central Canada because of the following reasons :

1. Relatively higher degree of research intensity and excess advertising budgets in case of multinationals tend to make locational requirements of at least some of their functions less flexible; (2) Economies of scale are considered admittedly and probably more important for multinational enterprises. From this one may conclude that the industrial incentives to big businesses may no longer constitute the appropriate cornerstone for Canada's regional policy for industrial development.

Foreign investors concentrate their investment only in those sectors of the economy, and selected commercial centres, which would assure them of greatest economic advantages and political stability. And Canadian business dominated by foreign investors prefer more lucrative location of the selected commercial centres in Ontario of Alberta and Quebec which are rich in oil and hydro-energy. These decisions about location, were thus chiefly guided by the considerations other than those of incentives and grants programmes propogated by the federal government.

By and large the DREE's grants did not affect the areas in which companies made their own choice for plant location. In the cases of the companies which do not consider areas specified by the DREE for plant location, the DREE is not able to disperse or direct manufacturing activities to such places on a broad scale. The

DREE's message was not believed by some and has not been used as a basis for action by most. This is mainly because the choice of location should be governed more by "sound business judgement" rather than by "government intervention".

It is possible that centrally located corporations may institute policies of local price wars, local price cutting and restrictive practices in order to prevent new firms from getting a foothold and also to drive out existing competitors, or to soften them up for a profitable merger. Such parochial private corporate strategy often limit or rather hinder the influence of the industrialization programme of the DREE and thereby restrict the employment opportunities. Nonetheless, a tiny firm has relatively little scope for influencing the technological, economic, political and social environment in which it operates. Thus, for small companies factor of location is more important than those of incentives and grants. Therefore, they prefer location in the Central Canada where all the required facilities are available along with huge market. The promise for grants and industrial incentive programmes with the condition of dispersing the location away from Central Canada has utterly poor influence on the location pattern of small companies. Donald Savoie (1992) rightly admitts that regional economic development has been influenced more by the continental forces of resource endowment and proximity to markets than by the policy of the government.

The patchwork of local and national incentives can often create red tape, duplication between governments, and confusion in the private sector. Most incentives tend to replicate existing industrial structure in lagging areas and, therefore, do not solve the structural problems of the depressed areas. The civil servants in charge of administering the RDIA must decide which among the set of all contemplated investment projects would be profitable and viable. One might argue that the judgement of civil servants as to what will ultimately be profitable might be worse than that of the businessmen whose livelihood solely depends on his right decision. However, firms contemplating investment in the designated areas have an incentive to misrepresent profitability with view to obtaining a grant or increasing its amount.

It is astonishing that there is no judicial review and no legal assessment that a firm can resort to when it feels that a request for a grant has been rejected for wrong reasons.

In excersing discretion in awarding grants, seemingly no attempt is made to formally modify the industrial structure of a region : there is no strategy or plan relating to structure.

The GDAs - a second vitally important instrument of the DREE - was criticised by the government back-benchers including those from the Atlantic provinces. GDAs viewed by them as instruments substantially financed with federal funds but clearly favouring the political profile of provincial governments (11). Provincial governments in the Atlantic region have complained that they were losing their preferential access to DREE funds. Neverthless, provincial governments are more reluctant to promote the growth at the sub- provincial level or in regions within provinces. On the whole, provincial governments have not defined their efforts of economic development within a regional context. Many see sub-provincial, regional development as a drag on provincial economies, whereas many argue that regional development constitutes a drag on the national economy. With the introduction of the GDAs there evolved an all-embracing and unexceptionable the oretical framework which was essentially non-selective and hardly a guide for action. The goals and objectives of the GDAs were extremely broad and yet of little benefit.

One provincial minister said that trying to determine who proposed what under GDA programmes is somewhat like "grabbing smoke". A federal minister further added : "attempting to stop a proposed subsidiary by the time it comes to me is like attempting to perform an abortion nine months after conception".

Regional policy of industrial development designed by the DREE has ignored the importance of local strengths, local entrepreneurs and the idea of community enterprises. The recent theory of local development implicitly assumes that divergence will occur unless specific programmes are created to support local entrepreneurship, the government policy, however, cannot create entrepreneurship. Regional policy for local development on the other hand is much more demanding because of its focus on human resources. But the basic drawbacks of the policy is that with low education and low job skills,it becomes difficult for natives to participate in the high-paying jobs that have been created as a result of the policy. The relative high qualifications required for most government jobs put them at a disadvantage as against the well-educated non-natives.

The DREE Act was short and incomplete, and it formed a long-term perspective which was hopelessly inadequate. There was no indication, for example, of whether an increase in income levels in slow-growth regions, greater productivity, or even higher employment levels should be specifically pursued. The geographical dimension of special areas was not laid out, even in broad terms. While developing its new policy direction, formulating the growth-pole concept, or in determining how it ought to be implemented, the DREE had hardly consulted the province. The purpose of referring the history of region is not to open old wounds but to direct ones attention to the basic truth : explicit regional policy will not succeed in reducing regional disparities if national economic policy goes against the interest of these regions. The DREE's rational and problem-centred approach and its bureaucratic style that went with it has made its cooperation with other provinces much more difficult (12). This is because of their distance from Ottawa. The general mandate of DREE for regional development, also implies that federal officials tend to stress long term structural issues in their proposals and analysis of sub-agreements. Provincial officials, in contrast, tend to stress short term, or more immediate development projects such as the attractions of a single major investment to the province. Until recently, Ottawa had no central agency either to co-ordinate the planning of industrial policy or to determine its federal provincial priorities in this area.

Courchene contends that one of the unanticipated consequences of cost sharing agreements between the federal and provincial governments is that poorer provinces are enticed into expensive programmes which may not be in their best interest. Simply because this is the only way in which they become eligible for federal assistance. Courchene laments that "some of the provinces find themselves in such dire straights that they are literally forced into resorting to such measures. Courchene believes that the present system of transfer payments perpetuates an imbalance in trade and population, between "the haves" and "haves-not" regions of Canada.

Unfortunately, the GDAs precluded the creation of interprovincial economic policies by which economic integration of the Canadian economy could have been achieved. Indeed, throughout the GDA period the provincial governments continued to implement the policies of procurement, transportation and marketing which promoted their own jurisdiction to the detriment of the other (13). Further, other federal departments such as transport, energy, mines and resources, industry, trade and commerce saw themselves as having a national mandate and were unwilling to divert the resources or the programmes corresponding to GDA programme objective to lagging regions as they considered them to be parochial (Lithwick, 1982 b; 131). Political control of regional development policy by the federal liberals was further weakened by the elaborate federal provincial bureaucracies which were required for the operation of the GDAs. In the Pearson years, the key policy control seemed to be vested with the bureaucratic level, although till now, both federal and provincial bureaucrats were pulling the strings.

The study of these issues by David Springate indicates that many businessmen think grant offers as worth about the same anywhere in the designated regions. For this reason companies often dismiss consideration of possible grants in view of their investment decisions. The fact is that very few firms consulted the DREE before deciding about the location within the selected areas. The DREE was generally consulted after they decide about the plant location and the timing. Further some companies also reject the possible influence of the grants much early in the decision process.

There is no provision made "to market" the DREE programme. Hence it is confined to the developed areas of the nation. Economic Council of Canada points out that RDIA expenditure, or total DREE transfers to the private sector, amounts to only about 3% of the total federal grants and subsidies.

Decentralization of the DREE entails potential drawbacks. At the policy level, decentralization can lead to inconsistencies in imparting the programme across the country and raise new problem of control and accountability in its fromulation and decision making.

The idea of Mega Projects failed to materialize the regional development goal and thus, like the ET of Canadian politics proved a short lived farce.

British Columbia's Premier, Bill Bennett, often claims that the federal policies for regional development are ineffective and hence should be dropped (15). Premier Hatfield of New Brunswick says that efforts in regional development are in reality mere compensation for the bad policies that favoured industrially developed regions years ago and still continue doing so (16).

Finally, the DREE's operation raises several fundamental issues : new investment and new jobs in a region may, through competitive pressure make other jobs and investment obsolete . Roy George in his book "targeting High Growth Industry" argues that neither the federal government nor any of the provincial governments has followed a consistent strategy of concentrating on industries and thought to have particularly good prospects of growth. Indeed, George argued "they have devoted much more resources to rescuing mature industries in distress".

SECTION - III

DRIE : FEDERAL MYOPIC GAMUT OF REGIONAL INDUSTRIAL DEVELOPMENT POLICY.

The DREE's operation raised certain fundamental problems and lost its spatial economic focus. The federal government did not want to move with such a parochial tool. Canadian regional industrial development would have to be reformulated if the Canadian economy was to regain its economic potential. During 1983, the Departments of Industry and Trade and Regional Economic Expansion (DREE) was amalgamated to form the new DRIE. The obejctives of the DRIE'S programme, which reflects its mandate, are (a) to boost up overall industrial, commercial and tourism activities in all parts of Canada and (b) in the process, to reduce economic disparity across the nation.

To accomplish these objectives the department.

* establishes and administers programs to carry out the government policies.
* works with business and labour organizations, provincial governments and the academic community.
* provides financial, marketing and technical information to businesses.
* extends direct financial assistance, when necessary.

The DRIE creates an environment in which Canadian firms can acquire competence to survive in the international market. It aids them

* in adjusting to changing market conditions;
* in developing new products, processes and services;
* in establishing the capacity to produce these goods and services;
* in marketing these goods and services at home and abroad.

The DRIE pursues its objectives through an array of functions in the form of funded programmes and non-funded programmes.

FUNDED PROGRAMMES :

Private industrial projects are supported through a series of programmes - implemented by the department, under which funding is provided to major projects of a long-term nature with multi-year cash flows. These programmes are related to key industrial sectors :

(1) Capital and industrial goods,

(2) Consumer goods,

(3) Service industries,

(4) Small Businesses and

(5) Tourism.

Main vehicles of the DRIE for Direct Funded Assistance :

1. The Economic and Regional Development Agreements (ERDAs) which provide a framwork for cooperation and consultation on matters relating to economic development in each province. Development opportunities in which the federal and provincial governments can participate are identified, and federal and provincial planning, policies and programmes are coordinated. The ERDAs are broadly based agreements for ten-years covering all relevant policies and programmes of economic development. The agreements provide for measures which involve exisiting policies and programmes, as well as new initiatives. Overall coordination and management of the ERDA process is the responsibility of the coordinators of Federal economic development.

2. The Industrial and Regional Development Programme (IRDP) which was introduced in July 1983 to promote regional industrial development through direct financial assistance to private sector initiatives. It made the assistance available to the main phases of a cycle of typical corporate production such as industrial development climate, innovation, establishment, modernization or expansion, marketing and restructuring. A number of the progammes of the former departments were subsumed by the IRDP. Such programmes were : (1) Enterprise Development

Programme (EDP) (2) Support for Technology Enhanced Productivity (STEP) (3) Cooperative Overseas Market Development Programme (COMDP) (4) Institutional Assistance Programme (IAP) (5) Regional Development Incentives Programme (RDIP) (6) Montreal Special Area Programme (MSAP).

The revised IRDP was a streamlined version, typifying the intention of the government to re-orient federal support towards the private sector and towards those activities and regions which were in greatest need of support and which were having greatest prospects of return in terms of job creation and value added for money.

3. Defence Industry Productivity Programme (DIPP):

The DIPP provides financial assistance to industrial firms involved in production of defence or defence related products for export. Its aim was to develop and sustain the technological capability of the Canadian defence and related civilian industries The programme operated under international agreements for defence development and production sharing.

4. Small Businesses Loans Programmes (SBLA):

This programme was established under the Small Businesses Loans Act, makes term loans available to small Canadian businesses to finance a wide range of capital expenditures. The loans, guaranteed by the federal government bear maximum interest rates as per the prime rate of the charter banks plus one percent. The maximum term of the loan prescribed was ten years.

5. Other Programmes :

1. Industry and Labour Adjustment Programmes.
2. Western Transportation Industrial Development Programme.
3. Shipbuilding Industry Assistance Programme.
4. Native Economic Development Programmes.

In short the DRIE is the centre of expertise of the federal government in the industrial, commercial and tourism sectors of the national economy.

Among the programmes mentioned above ERDA, IRDP and SBLP are the major ones as they are macro in nature and having nationwide application and influence on the process of regional industrial development. Therefore they constitute the core of the analysis. The main task of the ERDAs was planning and identification of development opportunities as well as consultation and cooperation on matters relating to economic development in each province. To facilitate this task, ten-year agreements providing measures were to be signed.

With respect to the federal goal of reducing regional disparity in industrial development the ERDA suffered from major flaw. Recent press releases on the ERDAs - sponsored initiatives indicates that the comparative advantage is still favoured by the governments. A cursory look at the mix of subsidiary agreements sponsored even within single province under the ERDAs reveals that the formulation of the programme was governed by a 'B' budget process than by a regional development theory. The slow growth provinces were convinced that 'discriminatory' nature of the federal policies had obstructed their development. Moreover, like the GDAs, the goals and objectives of the ERDAs were extremely broad and of little benefit.

IRDP : INDUSTRIAL AND REGIONAL DEVELOPMENT PROGRAMME

The IRDP was implemented in July 1983. The objective of the programme was to promote regional and industrial development by assisting private sector initiatives. It aimed at improving economic return and sustained growth and international competitiveness. The assistance was provided to business through contributions and repayable contributions.

Two types of applicants were eligible for support : (a) commercial operations, consisting of manufacturing or processing operation could apply under the innovation, establishment, and modernization/expansion elements (b) eligible persons, essentially non-profit organizations, carrying on activities in support of commercial operations, could apply under the innovation and marketing elements. Although the programme was national in scope, the financial assistance was made available in all regions of Canada on the basis of FOUR TIER groups into which census divisions were classified :

* TIER - I : consisted of the most developed census divisions of the country where approximately 50% of the population lived.
* TIER - II : comprised census divisions that were next in the line of the development scale and were accounted for approximately 30% of the population.
* TIER - III : covered relatively less developed areas and accounted for approximately 15% of the population.
* TIER - IV : included the least developed areas in which not more than 5% of the population resided.

Financial assistance under the IRDP is scaled in proportion to the level of a tier group in which the eligible project is located, i.e., the higher was the tier level, the greater would be the possible assistance. The designaions of tier groups were made according to the "development index". This was a measure of economic disparity in the country based on the indicators of income, unemployment and provincial fiscal capacity in 260 of Canada's census divisions as provided by Statistics Canada.

To address the possible short-term economic downturn in a Tier-I census district, the programme provided for assisting establishment and modernization/ expansion elements. It was equivalent to that of a Tier-II census districts when the average ratio of unemployment insurance beneficiaries exceeded working-age population in the census district, by one percentage point, the national average for any consecutive six months.

Since June 5,1987, the responsibility of administering and delivering all IRDP projects with eligible costs of $20 million or less in the Atlantic provinces has been transferred to the Atlantic Canada Opportunities Agency (ACOA). For the Western provinces, this responsibility has been transferred to the Department of Western Economic Diversification (WED) since August 4, 1987.

: EFFICACY OF DRIE :

This research is primarily confined to the study of policies and programmes formulated and implemented for industrial development in industrially lagging regions. Therefore, it is concerned with the IRDP, the ERDAs and other related vehicles of funded programmes of the DRIE. In order to measure the impact of industrial incentives programme of the DRIE, the Table II.4 provides pertinent information on the financial assistance given by the DRIE to each province.

This Table reveals that from 1983-84 to 1988-89 more requests were entertained and corresponding more financial assistance had been given to New Brunswick, Quebec, Prince Edward Island, Alberta and New Foundland (1984-85). Although in the history of regional development programme Prince Edward Island had remained almost an oblique region, the last decade has witnessed a more organized approach by the federal policy makers in the light of regional development programme. Tourism has added as one of the major components in the regional development policy after the termination of the DREE. Prince Edward Island is in all respects a good place for tourism development. Quebec though industrially affluent, has been favoured by the federal government under the threat of separatist movement, while Alberta was favoured for its character of energy richness.

The data of Table II.5 reflects almost reverse results observed in overall regional development. Inspite of really needy regions like New Brunswick, New Foundland & Nova Scotia, Ontario, British Columbia and Quebec remained as major beneficiaries of the grants and contributions given by the DRIE to develop manufacturing, tourism etc. However in the initial phase, i.e during 1985-86, both New Foundland and Manitoba were among the top five provinces to receive higher grants and contributions.

Surprisingly both were on the bottom of the list during 1988-89. This reveals that federal incentives and grants programmes were firmly based on the philosophy that corporate decision must ultimately prevail and that the state must limit itself to offering lures to businessmen.

The above analysis reveals the fact that following the same criteria that the DREE adopted the DRIE continued favouring backward pockets of the developed provinces.

Though the IRDP appeared on paper as generous as the earlier policies, and even considerably more flexible it was not so largely in practice. Because the grant system, which was earlier based on a fixed formula system, was changed and tied to a set of maximum participation levels. Allegations were made by some provinces and corporations that the actual offers were being manipulated for political purposes. It was possible, for instance, for a Nova Scotia firm to be offered a greater proportion of the assistance for locating its new facility in a Tier-II area of Ontario than the proportion it could have got for doing so in poorer Tier-III area of Nova Scotia. Regardless of the IRDP, assistance to a province like Nova Scotia was to be reduced to half the amount in the first 18 months of its existence (17).

Regional officials of the DRIE have reported that the programme has favoured the Tier-I region, more developed regions of the country more than any other region. Because in remote slow-growth areas risk factor is greater than that in Southern Ontario. Secondly, potential development initiatives are not evident in slow-growth regions. Moreover, in underdeveloped regions entrepreneurs get very limited scope for economic circumstances.

For this economic reason the indigeneous supply of entrepreneurs is deficient. One possible method of meeting the situation is the impact of foreign entrepreneurs. Since one aspect of the vicious circle is a lack of productive private investment opportunities because of the narrow domestic markets private investment by internationals cannot alleviate the situation.

The political environment in which the DRIE operated, buffeted and shaped their organization and their activities to the point that neither the Federal government nor the DRIE had a clear mandate of theoretically defensible development for allocating assistance or for managing its initiatives.

The pattern established, for instance, by disbursements under the IRDP fund suggests that politicians and bureaucrats did not follow the criteria laid down provided formally in the programme. Priorities were conspicuously absent from the legislation and regulations that created the IRDP. For these reasons, in the actual operation of the programme, a considerable power of discretion has been vested in the hands of bureaucrats and, in cases of larger grants, with politicians. Perhaps the bureaucracy was getting indulged in its own preference for a particular type of projects or particular sectors of the economy and in doing so the tier criterion could not be observed fairly.

None of the official descriptions of IRDP have included a thorough discussion of the importance of particular industrial sectors on the basis of which priorities might be determined. Initial findings suggest that several sectors, including food and beverages, chemical products and traditional manufacturing (eg. textile & clothing) were treated rather severely, and that electrical and electronics products was a favoured sector. In other words, projects - namely 'new facility' and 'innovation' received more generous allocations than others. However, many of the officials of the DRIE utilized host of other programmes to ensure equality in regional development. Yet their efforts failed to show any palpable results in redistributing economic policies.

The DRIE through IRDP has failed to recognize that firms in the largest centres of lagging regions need more assistance of different nature from those granted to firms in comparably urbanized census divisions in growing regions. Many worthwhile projects in the lagging regions failed as of assistance was not made available at a crucial stage of growth.

ERDAs another vitally important DRIE vehicle are the agreements made by the two higher levels of government about the industries and the regions which have no direct inputs of its own.

A 1987 review of the IRDP and the ERDAs programmes by the House of Commons Standing Committee on Regional Industrial Expansion reveals a consensus in the regions on several aspects of the operations of the DRIE Canada : (1) there were complaints that the programmes did not respond to the needs of the region because no standard practices were followed when these programmes were designed, and applications for funding were evaluated. Without local input in the process, it was felt that unworthy projects were funded and locally worthwhile proposals were ignored. (2) The second difficulty with the DRIE programmes is that the programme attempts to satisfy two separate objectives: industrial promotion and regional development. In the case of less developed regions, it appears that the DRIE is dominated in its decision-making process by sectoral concerns Hence, more funding and assistance were provided for industrial development than for regional development (18)

From this it infers that the federal government still lacks an institutional mechanism capable of addressing questions of industrial strategy. The greater attention to independent federal action, combined with the attempt to create stronger linkages with regional economic factors, seems likely to provoke hostility among the provinces and would intensify federal provincial conflicts. Further, in combining its roles of regional and industrial development effectively, the process of encouraging certain types of industrial activities is seriously weakened by a parallel effort to ensure a balanced regional distribution of that activity.

The Senate Committee on Regional Development has argued that the poorest regions of the country could well wind up worse off with the DRIE.

In brief, the analysis suggests that the DRIE has a much narrower mandate than the DREE had. It is a sectoral department with the programme orientation that also does not readily accomodate sub-provincial development. At best, it can deliver some industrial and tourism initiatives in certain areas.

Consideration of the evidence and arguments suggests that the obvious tasks were not undertaken in lagging regions and that regional strengths were not used as tools to improve the structure of regional economies. The residents of the depressed / lagging regions felt that federal assistance should be made available to small scale resource-based projects and that the selection of projects should be carried out by local officials. However, the economic consequences of the division of powers and of regional differentiation of the economy has made the national policy even more difficult.

The reorganization and transfer of the responsibility of administering and delivering all IRDP projects for the Atlantic Provinces to the ACOA and those for the Western Provinces to the WED, in 1987, reflected federal dissatisfaction with the DRIE's ability to make a significant impact on regional disparities.

On the whole, what Canada had adopted was an emasculated form of "growth" ideas and policy makers in Canada have never seemed to place much importance on the temporal factor in their earnest concern to lure jobs to unprivileged regions. The core concepts of growth poles were ignored. The federal government through programme initiated under the DRIE, failed to create an atmosphere conducive to potential development initiatives in the industrially lagging regions. Therefore, the evaluation of the industrial incentive programmes - one of the major tools - to disperse location of industry from affluent to lagging areas, lead to, by and large, unfavourable conclusions.

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