

140 YEARS OF DISPARITIES: REGIONAL DEVELOPMENT IN THE MARITIMES
PAST, PRESENT AND FUTURE

by

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DALHOUSIE UNIVERSITY

DEPARTMENT INTERNATIONAL DEVELOPMENT STUDIES

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Abstract

The study is an exploration and analysis of regional economic development programs and policies in the Maritimes from the start of confederation to the present day. The study revolves around three major time periods in Canadian history and their influence on the Maritime region. By viewing the Maritimes as one region that has the comparative advantage to compete with the rest of Canada, the study asks the following question: *why, after 140 years, have regional development programs failed in leading to sustained prosperity for the entire Maritime region?* The study concludes that the Federal government needs to create changes in its regional development programs by implementing new policies to break the cycle of poverty.

LIST OF ABBREVIATIONS USED

ARDA	Agriculture Rehabilitation and Development Act
ACOA	Atlantic Canada Opportunities Agency
ADB	Atlantic Development Board
APEC	Atlantic Provinces Economic Council
APEF	Atlantic Provinces Education Foundation
BNA	British North American Act
CHT	Canada Health Transfer
CST	Canada Social Transfer
CMP	Council of the Maritime Premiers
DIPP	Defence Industry Productivity Program
DREE	Department of Regional Economic Expansion
DRIE	Department of Regional Industrial Expansion
ERDA	Economic and Regional Development Agreements
FedDev	Federal Economic Development Agency for Southern Ontario
FLQ	Quebec Liberation Front
FRED	Fund for Rural Economic Development
GDA	General Development Agreement
GDP	Gross Domestic Product
ILAP	Industrial and Labour Adjustment Program
MIT	Massachusetts Institute of Technology
MPHEC	Maritime Provinces Higher Education Commission
NAFTA	North American Free Trade Agreement

OCED	Organization for Economic Co-Operation and Development
PEI	Prince Edward Island
RDIA	Regional Development Incentives Act
TFF	Territorial Formula Financing

CHAPTER 1: INTRODUCTION

From the start of confederation to present day the Maritime Provinces (Nova Scotia, New Brunswick and Prince Edward Island) have been lagging economically to the rest of Canada. In 1866, one year prior to confederation, the Province of Canada (Ontario and Quebec) saw revenues of \$11,052 compared to Nova Scotia of \$1,470 and New Brunswick of \$1,254.¹

Disparities have continued to exist; for example, figure 1 shows that every region in Canada outgrew the Maritimes in Gross Domestic Product (GDP) per capita from 1961 to 1996. Figure 2 illustrates that disparities have not improved since 1996. A closer look at figure 2 shows that in 2008 the Maritimes had a combined Real GDP of \$30,628 which was \$22,186 less than Alberta. Further, a 2010 TD Canada provincial economic forecast showed the Maritimes with an average Real GDP growth of 2.5 percent while Canada had an average of 3.5 percent.² Overall, the Maritimes has experienced lower levels of GDP per capita compared to the rest of Canada for over 140 years.

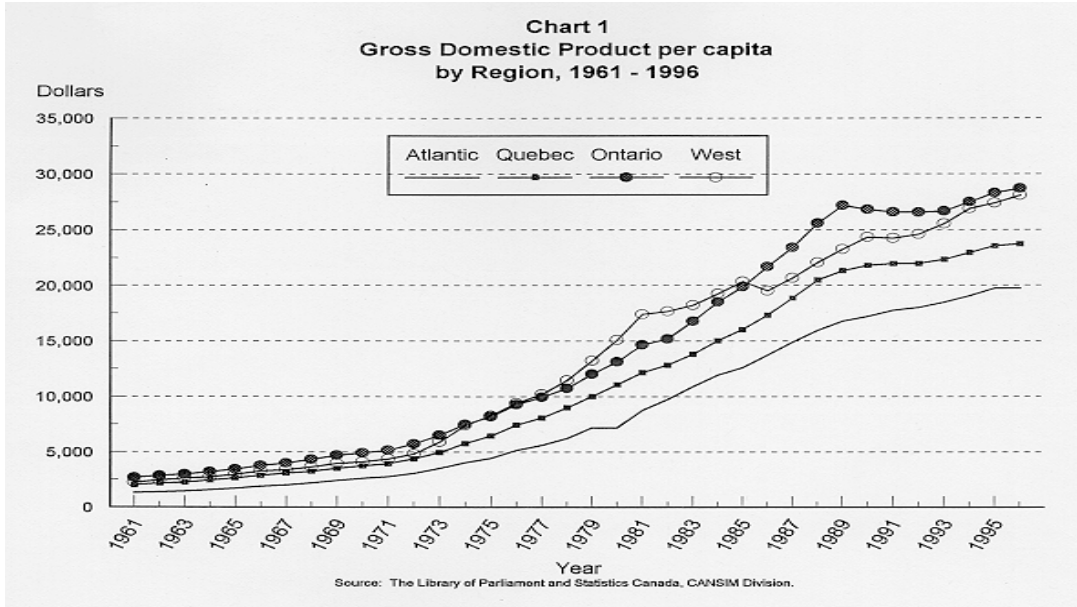
The slow economic growth experienced by the Maritimes led to a rise in unemployment and inter-provincial migration. For example, figure 3 shows that in 2006 Atlantic Canada provinces (i.e. Maritimes and Newfoundland) had the highest unemployment rate.

In addition to high unemployment the Maritimes witnessed a loss in interprovincial migration. For example, table 1 shows that in 2006 PEI, Nova Scotia and New Brunswick had a net migration of -591, -3060 and -3574 respectively.

¹ Donald Smiley. The Rowell/Sirois Report/Book I(Toronto: The Canadian Publisher, 1967) 48.

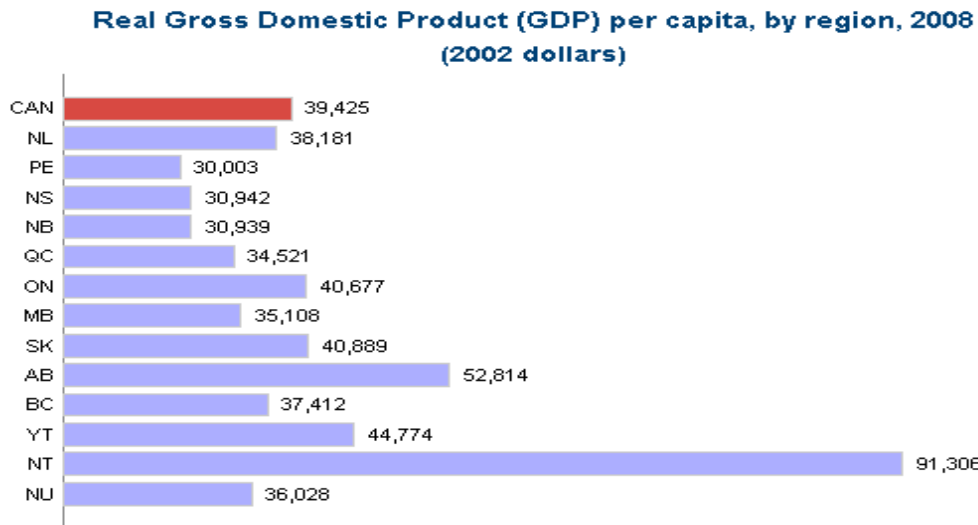
² "Provincial Economic Forecast" TD Bank and Financial Group May 26th 2010, September 5th 2010 <<http://www.td.com/economics/qef/prov0510.pdf>>.

Figure 1: Gross Domestic Product Per Capita by Region, 1961-1996



(Source) Beaumier, Gross Domestic Product per Capita by Region, Regional Development in Canada 3. ³

Figure 2: Real Gross Domestic Product (GDP) Per Capita, By Region 2008 (2002 Dollars)

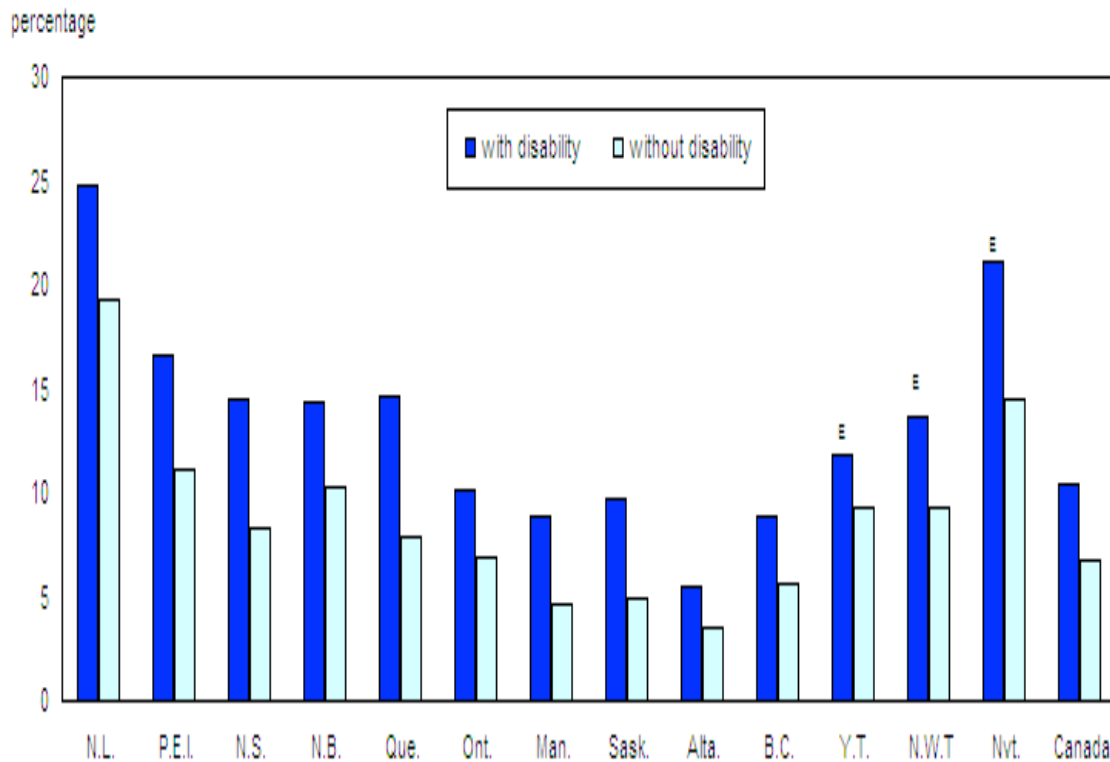


Note: HRSDC calculations based on 1) Statistics Canada. *Gross Domestic Product (GDP), expenditure-based, provincial economic accounts, annual* (CANSIM Table 384-0002). Ottawa: Statistics Canada, 2009; and 2) Statistics Canada. *Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual* (CANSIM Table 051-0001). Ottawa: Statistics Canada 2009. ⁴

³ Guy Beaumier. *Regional Development in Canada* (Economic Division, October 27 1998) 03.

⁴ "Financial Security-Standard of Living" *Human Resources and Skills Development Canada* September 15 2010, September 15 2010 <<http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=26>>.

Figure 3: Unemployment rate by province, territory and disability status, Canada, 2006



Note: Statistics Canada, *Participation and Activity Limitation Survey, 2006*

Source: Unemployment Rate By Province, Territory, and Disability Status, Canada 2006. Statistics Canada.⁵

Table 1: Annual Number of Interprovincial Migrants, 2006

Province of origin	Province of destination									
	N.L.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
	Number									
Newfoundland and Labrador	...	221	1,433	712	266	3,174	270	238	6,827	971
Prince Edward Island	259	...	890	447	123	707	5	40	875	272
Nova Scotia	1,512	611	...	2,313	924	6,470	347	252	7,273	1,609
New Brunswick	537	523	2,596	...	2,227	3,656	117	141	4,842	811
Quebec	261	247	854	1,858	...	19,577	338	298	9,072	4,304
Ontario	4,161	911	7,072	3,621	15,305	...	4,825	2,340	39,486	19,285
Manitoba	250	54	551	215	518	5,027	...	2,782	8,817	4,417

⁵"Unemployment Rate by Province, Territory, and Disability Status, Canada 2006" [Statistics Canada July 24 2008, January 20 2011](http://www.statcan.gc.ca/pub/89-628-x/2008007/c-g/5201142-eng.htm) <<http://www.statcan.gc.ca/pub/89-628-x/2008007/c-g/5201142-eng.htm>>.

Saskatchewan	88	33	327	129	225	1,704	2,408	...	13,669	3,498
Alberta	2,501	340	2,972	1,614	2,048	11,608	4,429	9,945	...	26,910
British Columbia	683	103	1,589	839	2,271	12,744	2,121	3,048	28,833	...
Yukon	51	6	32	13	78	121	0	104	551	722
Northwest Territories	118	4	107	86	65	320	145	175	1,505	461
Nunavut	131	6	64	95	98	321	213	28	172	72
Total in-migrants	10,552	3,059	18,487	11,942	24,148	65,429	15,218	19,391	121,922	63,332
Total out-migrants	14,516	3,650	21,547	15,516	37,063	97,747	22,876	22,247	63,756	53,111
Net migration	-3,964	-591	-3,060	-3,574	12,915	-32,318	-7,658	-2,856	58,166	10,221

Note: Revised data for 2006.

Source: Statistics Canada, Demography Division.

Table source: Statistics Canada, 2008, *Report on the Demographic Situation in Canada: 2005 and 2006*, catalogue number 91-209-X.⁶

If disparities in areas such as GDP, unemployment, and provincial migration continue to exist national unity becomes threatened. Consider Prime Minister Trudeau words as quoted by Savoie (1992, p. 32):

Economic equality . . . is just as important as equality of language rights . . . If the underdevelopment of the Atlantic Provinces is not corrected, not by charity or subsidy, but by helping them become areas of economic growth, then the unity of the country is almost as surely destroyed as it would be by the French-English confrontation.⁷

PURPOSE

The purpose of this study is twofold: (1) examine regional development policies and programs by reviewing information from government commissions, academic literature, policy documents, and government organizations; (2) based on the knowledge

⁶ "Annual Number of Interprovincial Migrants, 2006" [Statistics Canada](http://www.statcan.gc.ca/pub/91-209-x/2004000/part1/t/t5-3-eng.htm) November 18 2009, January 30 2011 <<http://www.statcan.gc.ca/pub/91-209-x/2004000/part1/t/t5-3-eng.htm>>.

⁷ Donald Savoie. *Regional Economic Development; Canada Search for Solutions* (Toronto: University of Toronto Press, 1992) 32.

learned from the information above, this study will provide recommendations on how the federal government can create sustainable economic growth for the Maritime region.

This paper argues that in order for the Maritimes to experience regional economic growth they have to focus on the following four items:(1) create growth centers (2) build infrastructure, (3) increase productivity through R&D and; (4) provide tax incentives.

SCOPE OF THE STUDY

Development can take on many forms. Social development, economic development, and human development are all important forms of development. Economic development will be the only form of development addressed in this paper. For the purpose of this paper, the following items will be used as proxies for economic development:

- GDP
- GDP Per Capita
- Unemployment
- Income
- Productivity

The basic premise of this study is as follows: high or rising levels of GDP, GDP per capita, employment, income, and productivity represent economic success while low and falling levels of GDP, GDP per capita, employment, income, and productivity indicate economic failure.

THEORETICAL APPROACH AND OVERVIEW

For the purpose of this paper we will not be using a single theory to examine regional development policies of the past or a single theory on the future.

As Sir Alec Cairncross (1985, p.5) pointed out, the problem with people using economic theories is that:

They are tempted to select problems that lend themselves to sophisticated technical analysis rather than on grounds of practical importance; and become lost

in admiration of the conceptual schemes he has developed without regard to the unrealistic premises on which they are constructed. He may also leave out what really does matter or can only be left out provisionally.⁸

This paper is structured into seven chapters, beginning with the introduction. Chapter two provides a brief history of the Maritimes at confederation and the first policies that governed this nation.

Chapter three draws on the development economist approach. The theory holds that regional disparities are caused by the market and that government intervention is essential.⁹ The chapter provides background information about the programs and policies that were implemented under Prime Minister Trudeau. These years are critical as it was the first time regional development planning came to the forefront of federal government planning.

Chapter four starts by looking at the changes Prime Minister Mulroney made to regional development planning in addition to how regional development planning works today. As explained in chapter four, Mulroney used the neo-classical approach which believes in the necessity of a freely fluctuating market economy.¹⁰

Chapter five looks at the provincial government's role in the region and their positive and negative impact on regional development. Chapter six looks at the information learned in chapter two to five and provides a synopsis of where the federal government went wrong in its policies. The chapter also includes a discussion on outside factors that the government misread or ignored.

Chapter seven summarizes the key research findings from the government policies and builds recommendations on creating a "healthy region" for the Maritimes.

⁸ Alec Cairncross. Economic Theory and Practice (Richard T Ely Lecture, 1985) 5.

⁹ Savoie 7.

¹⁰ Ralph Mathews. The Creation of Regional Dependency (Toronto: University of Toronto Press, 1983) 147.

The recommendations are based on the development economist approach. The development approach suggests that measures such as; capital accumulation, infrastructure, increase in education level and promotion of application of new technology can stimulate growth.¹¹

¹¹ Savoie 7.

CHAPTER 2: CONFEDERATION

Let us be English or let us be French and above all let us be Canadian (Sir John A MacDonald)¹²

Currently, the Maritimes is considered one of the poorest regions in Canada. However, it is important to note that the region did not start as one of the poorest. Although the region was not one of the richest, the economy was thriving. How did a region that once thrived as a strong economy become so poor over the years? The purpose of this chapter is to show how the Maritimes thrived as an economy before confederation and how joining confederation contributed to its demise.

MARITIMES AS A THRIVING ECONOMY

The rise of the Maritimes was in part due to the protected markets for cod in the West Indies which were partly lost by the New England fishermen after the Revolution. Without facing competition from the New England fishermen the Maritime fishing industry soared. Growth in the fishing industry led to growth in other areas as well. For example lumber, potatoes and small manufactures were added to the cargoes.¹³ As a demand for new ships arose the Maritime people found themselves fine-tuning their ship building skills. These combined circumstances positioned the Maritimes as one of “the world’s great commercial Maritime powers, holding fourth place in registered tonnage of shipping”¹⁴ in the mid 1850s.

The Rowell/Sirois Report quoted by Smiley (1967, p.15-16) examined the Maritimes economy in the 1850s as a “highly unified and integrated economy.....It was

¹² “Sir John A MacDonald” [Famous Canadian](http://www.canadaka.net/modules.php?name=Famous_Canadians&action=viewperson&person=217) January 16 2007, May 20 2010
<http://www.canadaka.net/modules.php?name=Famous_Canadians&action=viewperson&person=217>.

¹³ Smiley 15-16

¹⁴ Ibid., 16

impossible to think of the lumber or fishing industries apart from the ship building and carrying trades would compel fundamental and sweeping readjustments in the other occupations”.¹⁵

IMPACT OF CONFEDERATION ON THE MARITIMES

Before discussing the impact of confederation on the Maritime region, it is important to first understand the reasons why the region joined confederation. According to Ralph Mathews (1983, p.99), in order for...

...the central region of British North America to develop it needed its own railway to the sea. Confederation was of obvious economic benefit to central Canada for it would provide a direct land route to the sea for the railway. The leaders of the Maritime Provinces were unable to see equal benefits for their territories and steadfastly opposed confederation. By the 1860s, however they had been convinced that their traditional trade with the north-east United States would be unaffected by confederation and that the proposed railway would give the industries access to the largely unindustrialized regions of Montreal and Quebec.¹⁶

Thus, in 1867 the Maritime region entered into confederation with Central Canada and a new nation was formed.

That same year, the British North America Act (BNA) was passed by the British parliament. The act gave powers to both the federal and provincial parliaments. For example, Section 91 of the BNA gave the federal parliament power over the following:

- Public Debt and Property
- Regulation of Trade and Commerce
- Unemployment Insurance
- Raising of Money by any Mode or System of Taxation.
- Borrowing of Money on the Public Credit.
- Sea Coast and Inland Fisheries
- Saving banks
- Bankruptcy and Insolvency¹⁷

¹⁵ Ibid., 17

¹⁶ Mathews 100

¹⁷“The Constitution Act, 1867” [The Solon Law Archive](http://www.solon.org/Constitutions/Canada/English/ca_1867.html) November 10 2001, January 12 2011
<http://www.solon.org/Constitutions/Canada/English/ca_1867.html>.

Section 92 of the BNA gave provincial parliament power over the following:

- Establishment, maintenance, and management of hospitals, asylums, charities, etc
- Exploration for non-renewable natural resources in the province;
- Development, conservation and management of non-renewable resources natural resources and forestry resources in the province.¹⁸

NATIONAL POLICY

One of the ways the federal government exercised its power was through the creation of a national policy. Speaking in the House of Commons in 1878, Prime Minister John A. MacDonald motioned the following:

this house is of the opinion that the welfare of Canada requires the adoption of a National Policy which by a judicious readjustment of the Tariff, will benefit and foster the agricultural, the mining, the manufacturing and other interests of the Dominion.....will prevent Canada from being made a sacrifice market, will encourage and develop an active interprovincial trade.¹⁹

During the tariff policy Canada expanded in manufacturing and production. For example, the net value of manufacturing production in Canada grew from \$214 million to 1.3 billion in 1923.²⁰ However, as Canada's manufacturing section was growing under the protective tariff, the Maritime Provinces were struggling to keep up. Table 2 shows how in 1920 the three provinces represented 8.8% of Canada's net value however by 1929 it had declined to 6.1%.

Prior to the national policy being implemented the Maritimes population increased by 13.5%. Two years after the policy was implemented the Maritime population only increased by 1.1% in a ten year period.²¹

¹⁸ Ibid.

¹⁹ "1878 John A. Macdonald Moves His National Policy In The House Of Commons" Canada History 2010, December 30 2010 <<http://www.canadahistory.com/sections/documents/federal/macdonaldmoves.htm>>

²⁰ W.A. Mackintosh. The Economic Background Of Dominion-Provincial Relations (Toronto: McClelland and Stewart, 1969) 51

²¹ Ibid., 34

Table 2: Net Value of Production and Percentage to the Total Net Value of Production for the Dominion

	1920		1926		1929	
	Millions of dollars	Percent	Millions of dollars	Percent	Millions of dollars	Percent
Prince Edward Island	24.4	0.7	26.3	0.7	23.5	0.6
Nova Scotia	185.3	5.0	124.2	3.4	129.4	3.3
New Brunswick	115.3	3.1	91.0	2.5	87.4	2.2
Total	325.0	8.8	241.5	6.6	240.3	6.1

Source: Mackintosh, Net Value of Production and Percentage of the Total Net Value of Production for the Dominion. The Economic Background of Dominion-Provincial Relations. 83²²

Mackintosh (1969, p.153) commented on the national policy also known as the protectionist policy for the Maritimes by explaining:

the protectionist policy had been a new factor, not one which antedated the developed of Maritime industries....while accelerating the decline of the old export industries, the protectionist policy offered enlarged Canadian markets for coal and steel and a few specialized manufactures. Through these industries Nova Scotia shared in the expansion associated with western settlement but the share was proportionately less than that of Central Canada or of British Columbia.²³

As the protectionist policy accelerated the collapse of the Maritime economy the federal government focused development on the West. As the Rowell-Sirois Report quoted by Smiley (1967 p.96) observed:

The rapidity of economic development in the early years of the century was only made possible by the wholehearted efforts and lavish assistance of governments. The bringing of the western wheat lands within reach of the international market in less than a decade involved large additions of transportation facilities which private enterprises could not have supplied so quickly; and indeed would not have dared to embark on, without public assistance.²⁴

²² Ibid., 83

²³ Ibid., 153

²⁴ Smiley 96.

SUMMARY

This chapter has looked at the brief history of the Maritimes before and after Confederation specifically the chapter is focused on how the national policy might have contributed to the decline of the Maritimes economy. Prior to the 1960s the federal government focused on national growth to the detriment of regional growth. For instance, from 1867 to 1968 Canada experienced significant growth. In 1867 the federal Government revenue was 13.7 million. In 1966 the revenue had grown to 7,677.2 million.²⁵ Through this growth the Maritimes continued staggering behind the rest of Canada. As shown in Table 3, the three Maritime provinces continually ranked last in personal income per capita.

Table 3: Regional Levels Of Personal Income Per Capita (in current dollars) 1927-1963

Provinces	1927	1947	1963
	\$	\$	\$
Ontario	509	981	2,025
British Columbia (including Territories)	535	980	1,966
Alberta	509	923	1,750
Saskatchewan	449	818	1,749
Manitoba	455	875	1,721
Quebec	378	709	1,521
Nova Scotia	299	676	1,302
New Brunswick	277	609	1,167
Prince Edward Island	248	477	1,115
Newfoundland	1,009
Provincial Average	407	783	1,532

Source: Regional Levels of Personal Income Per Capita (in current dollars) 1927-1963. Canada Year Book 1969. 1126²⁶

However, in the 1960s the federal government started to focus on regional growth as well as national growth. The following chapter will focus on the regional development policies

²⁵ Canada One Hundred 1867-1967 (Ottawa: Queen's Printer, 1967). 305

²⁶ Canada Year Book 2009 (Statistics Canada, Minister of Industry, 2009) 1126

and programs implemented by the federal government for the first time in the 1960s and into the Trudeau years.

CHAPTER 3: TRUDEAU YEARS

This chapter discusses the regional development policies and programs implemented by the federal government for the first time in the 1960s and into the Trudeau years.

In 1960 the federal government budget was the first of many measures to combat regional disparities. Parliament passed the Agriculture Rehabilitation and Development Act (ARDA) in 1961 with the task to “alleviate and correct the incidence of low incentives in agricultural areas through federal-provincial programs to increase small farmers’ output and productivity”.²⁷ Two years later the federal government introduced The Atlantic Development Board (ADB). The ADB recommended development projects to the government and undertook research and planning for the regional economy. The ADB subsequently transformed into an operational board with a capital fund of 150 million dollars to finance regional development work. Over half of the fund was used on highway construction and water and sewage systems.²⁸ ARDA, ADB were pioneer programs as they broke the ground for regional development planning in Canada; however they did not go far enough.

In 1965 the federal government established the Fund for Rural Economic Development (FRED). The FRED program was the most comprehensive and systematic effort ever taken in Canada for regional planning and development. However, FRED also did not go far enough. As stated by Savoie (1992, p.31-31) the Economic Council of Canada noted the following in 1966:

A favourable national environment may not in itself ensure balanced regional participation. It called for a stronger commitment on Ottawa’s part to developing

²⁷ Standing Senate Committee on National Finance: Government Policy and Regional Development 68

²⁸ Fifth Annual Review The Challenges of Growth and Change 173

slow-growth regions...It looked at the advantages of establishing a new line department, but recommended against such a course, opting instead for a strong coordinating capacity within the central machinery of government.²⁹

DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

ADRA, ADB and FRED were not coordinated in a way that would bring order to the clutter of federal programs thus DREE was created to create one department that would find new solutions on how to solve regional disparities.³⁰ Trudeau argued that the establishment of “DREE was necessary to achieve real coordination . . . of our endeavors and undertakings in such a worthy and vital sphere in respect of our country’s future”.³¹

Jean Marchand a prominent Liberal out of Quebec was put in charge of DREE. Marchand stated that “for some years to come, something like 80 percent of new expenditures earmarked for regional development should be spent east of Trois-Rivieres. Only ‘modest and controlled’ expenditures should be directed elsewhere”³².

DREE started by implementing the “growth pole concept” as the new policy. According to Ralph Mathews (1983, p.43), the Growth pole theory implies:

The formation of growth centers, large urban areas capable of providing the labour force and the infrastructure services that such massive industrial developments require. This in turn implies a transformation of the traditional society, primarily by the migration of excess labour to the new centers and by the cultural effect of an urban and industrialized centers on the region as a whole.³³

Ottawa implemented the growth pole concept through two new programs: (1) the Special Areas Program and (2) the Regional Development Incentives Act (RDIA). The RDIA empowered DREE to subsidize firms for investing in the less developed regions of

²⁹ Savoie 31-32

³⁰ Standing Senate Committee on National Finance: Government Policy and Regional Development 68

³¹ Savoie 39

³² Ibid., 32

³³ Mathews 43

Canada by offering cash grants. Cash grants would lower the cost of setting up production, and compensate the investor for locating to an economically weak area.³⁴

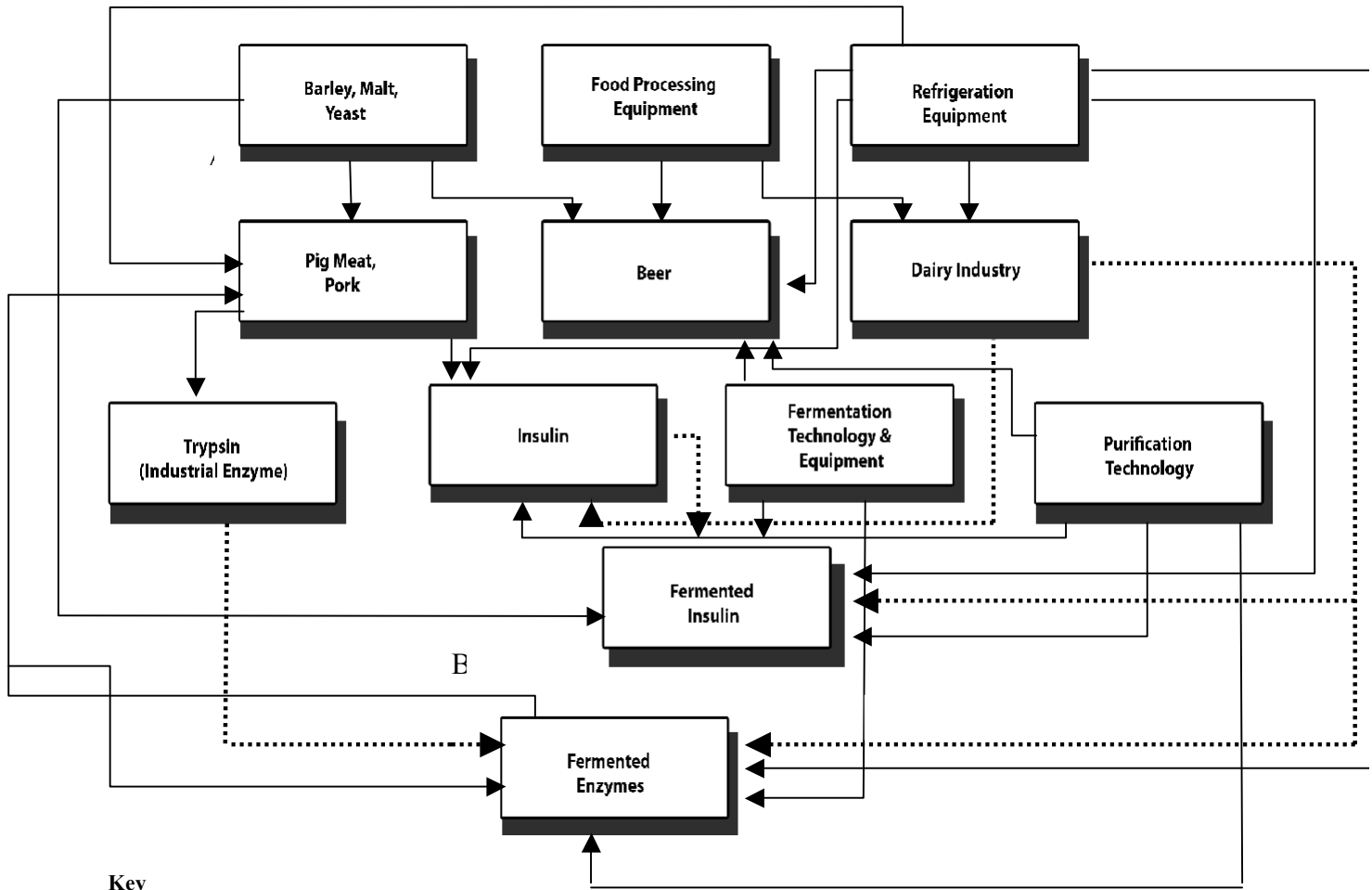
Under the growth pole theory DREE focused on twenty-three areas. However, the following six areas received the bulk of attention and were expected to see faster industrial growth than the other areas: Halifax, Saint John's, Saint John, Moncton, Quebec City, and Trois-Rivieres.³⁵ As Michael Porter (1990, p.148-149) explained in "The Competitive Advantage of Nations" focusing on larger areas makes such areas the focus point of growth. As these areas grow industries and companies come together and form clusters that will become linked through vertical (buyers/suppliers) or horizontal (common customers, technology, channels, etc.) relationships.³⁶ An example of how clusters can be effective is provided in figure 4, which includes a number of international competitive industries in Denmark.

³⁴ David Usher. Some Questions about the Regional Development Incentive Act (Canadian Public Policy: 1975) 557.

³⁵ Donald Savoie. Politicians and Approaches to Regional Development: The Canadian Experience (University of Moncton) 218

³⁶ Michael Porter. The Competitive Advantage of Nations (New York: The Free Press, 1990) 148-149.

Figure 4: Partial Clustering of Competitive Industries in the Danish Economy



Key

- A Barley, malt, and yeast are used as the nutrient soup for growing organisms and for fermented insulin and fermented enzymes.
- B The initial demand for detergent enzymes comes from slaughterhouses.
- C Insulin and Enzyme producers sourced skilled workers from the dairy industry.

Solid line = Supply Relationship

Broken line = Common Technologies or Common Inputs.

Source: Porter, Partial Clustering of Competitive Industries in Danish Economy. *The Competitive Advantage of Nations*. 150³⁷

³⁷ Ibid., 150

EXPANSION OF DREE

In the beginning DREE only operated in Quebec east of Trois-Rivieres. However, events in the 1970s led to the expansion of DREE in Quebec.

Quebec separatist movement was beginning to grow and hit a boiling point in 1970. By October 5th 1970, the FLQ (Quebec Liberation Front) had committed over 200 criminal acts including thefts, robberies, hold-ups and bombings and were responsible for six violent deaths.³⁸ However on October 5th and 10th of the same year, the FLQ kidnapped James Richard Cross a British Trade Commissioner and Pierre Laporte the Immigrant and Labour Minister for Quebec. To ensure the safety of the people and to stop the FLQ, the federal government on October 16th brought in the War Measures Act.³⁹ With the death of Pierre Laporte and over 307 Quebec citizens arrested under the War Measure Act fear of separation grew in Quebec and the rest of Canada.⁴⁰

As a result of the separation movement, MPs from other areas around the country wanted to see Montreal included in DREE to show Quebec citizens they had a beneficial place in Canada.

As a result of government pressure Marchand placed the city in a special designated area known as region "C." This designation meant that Montreal would not see the same advantages that the eastern part of Quebec or the Maritimes would receive. Montreal would be granted maximum incentives of up to 10% of approved capital cost, plus \$2,000 for each direct job it would create to attract industries to the region. The rest of Quebec was receiving 25 percent and \$5,000. The Maritime region received the most

³⁸ "The October Crisis Appendix D: Chronological Order 5 October to 29 December 1970" McGill January 10 2011 < <http://www.mcgill.ca/files/maritimelaw/D.doc> > 1.

³⁹ *Ibid.*, 10

⁴⁰ *Ibid.*, 11-21

by providing up to 35 percent of capital cost to the companies and \$7,000 for every new job created.⁴¹

Even though Montreal was at a disadvantage, it clearly capitalized on the new funds that DREE brought to the table. From 1971 to 1972, 360 incentive grants were accepted by different firms in Montreal, which resulted in capital expenditures of 225 million dollars and the creation of 14,000 new jobs. Atlantic Canada, although offering better rates to companies, only saw 129 incentive grants accepted and a capital expenditure of 48 million dollars and slightly less than 5,000 new jobs created.⁴²

After four years, DREE came under criticism by the government for showing favoritism to the East. Those opposed to DREE criticized the department for having no solid evaluation prepared to demonstrate that its programs had contributed to the economic development of Eastern Canada.

As a result of the Liberals winning a total of 6 out of 68 seats West of Ontario in the 1972 federal election,⁴³ Don Jamieson in 1973 was appointed the Minister of DREE. Under Jamieson leadership DREE abandoned the growth pole concept and focused on development opportunities. DREE pursued “viable” opportunities whether they were in urban centre’s, such as Halifax or small rural communities, such as Port Hawkesbury. Priority was still given to slow growing areas however, DREE expanded outside of Atlantic Canada and Quebec.⁴⁴

⁴¹ Savoie 46

⁴² Ibid., 47

⁴³ “History Of Federal Riding Since 1867” Parliament of Canada February 1st 2011, February 1st 2011 <<http://www2.parl.gc.ca/Sites/LOP/HFER/hfer.asp?Language=E&Search=Gres&genElection=29&ridProvince=0&submit1=Search>>.

⁴⁴ Ibid., 57

GENERAL DEVELOPMENT AGREEMENT

As DREE changed its focus away from the growth pole concept it began a new approach known as the General Development Agreement (GDA). According to Harley McGee (1992, p.38)

In simple terms, the GDAs were intended to be effective federal-provincial instruments for the enhancement of provincial and regional economies, planned around the comparative advantages jointly identified as existing in those provinces and regions. The GDAs would meet their objectives by strengthening the existing economic base, removing impediments to growth, and creating new economic opportunities.⁴⁵

Through the GDA approach, DREE was granted the following authority; to share the cost of a subsidiary agreement up to 90 percent for Newfoundland, eighty percent for Nova Scotia and New Brunswick, sixty percent for Quebec, Manitoba, Saskatchewan, and fifty percent for Ontario, Alberta, and British Columbia.⁴⁶ No GDA was signed with Prince Edward Island as the province had already signed a fifteen-year development plan with Ottawa in 1969.

Jamieson quickly pushed GDAs: signing six GDA's with the provinces during an eight-week period between February and March 1974.⁴⁷ Between 1974 to 1982, over 130 subsidiary agreements were signed which accounted for roughly six billion dollars, with the federal governments' share costing around 3.3 billion.⁴⁸ Examples of how GDAs were used to support the Maritimes include, mineral development, special projects for the

⁴⁵ Harley McGee. Getting It Right: Regional Development In Canada (Montreal: McGill-Queen's University Press, 1992) 38

⁴⁶ Ibid., 53

⁴⁷ Savoie 59

⁴⁸ Ibid., 60

Halifax-Dartmouth area, the Strait of Canso and Cape Breton, dry-dock development, and special measures for Sydney Steel Corporation.⁴⁹

DECLINE OF DREE AND GDA

In the beginning Marchand warned that regional development programs must be designated to special areas. Originally, Marchand envisioned roughly eighty percent of DREE funds being placed east of Trois-Rivieres. However, by the time DREE was disbanded in 1982 it covered ninety-three percent of the Canadian land mass and over half of the population. The only regions not designated for special region assistance were the Toronto area, Edmonton, Calgary and Vancouver.⁵⁰

As DREE expanded its outlook and included many other regions in Canada it began to face criticism. For example, the Council of Maritime Premier stated the following in a letter to the Prime Minister: “the spread of DREE’s activities across the country carried the danger of dilution of effort and of reduced resources for the Atlantic region”.⁵¹ As table 4 indicates, in 1969/70 Atlantic Canada received 53.5% of DREE spending while in 1982/83 Atlantic Canada received 33.3% of DREE’s expenditures.

In 1979 Pierre De Bane became the head of DREE and pushed for a complete overhaul. In three short years, De Bane was able to convince the finance minister that a new tax credit program was necessary to attract investment in slow growth regions.⁵² However on January 12, 1982, Trudeau cut De Bane’s period short as he announced that DREE as it existed should end. The end of DREE gave way to a new Department of Regional Industrial Expansion (DRIE) that would combine the regional objectives of

⁴⁹ Ibid.

⁵⁰ Beaumier 210

⁵¹ McGee 113

⁵² Beaumier 81

DREE and the national economic development objectives of Industry, Trade and Commerce.⁵³

Table 4: DREE Expenditures Patterns, All Programs

Year	DREE Atlantic	DREE Canada (\$ '000)	Atlantic as a percentage of Canada
1969-70	111 654	208 828	53.5
1970-71	174 490	317 708	54.9
1971-72	141 419	328 060	43.1
1972-73	153 786	348 134	44.2
1973-74	163 460	404 235	40.4
1974-75	195 406	413 884	47.2
1975-76	207 785	458 472	45.3
1976-77	207 734	445 493	46.6
1977-78	198 645	497 778	39.9
1978-79	204 798	506 570	40.4
1979-80	226 759	561 298	40.4
1980-81	201 569	594 520	33.4
1981-82	183 338	573 578	32.0
1982-83	129 662	389 161	33.3

Note: DREE annual reports 1975-76 through 1982-83

Source: McGee, DREE Expenditures Patterns, All Programs, Getting It Right. 41⁵⁴

In 1984, the Progressive Conservatives, led by Brian Mulroney, campaigned to change regional development policy and shed some light on the failure of DREE. In one election campaign stop in the Maritimes, Mulroney stated he “would have no hesitation to inflict prosperity on Atlantic Canada”.⁵⁵ On Election Day Mulroney won twenty-one out of a possible twenty-five seats in the Maritimes, whereas Conservatives had only won eleven seats the previous election.⁵⁶ In the next chapter we will discuss the regional development programs that were implemented during Mulroney time.

⁵³ McGee 120

⁵⁴ Ibid., 41

⁵⁵ Ibid., 98

⁵⁶ Howard Penniman. Canada at the Polls 1984: A Study of the Federal General Election. (AEI American Institute for Public Policy Research 1988) 192-193.

CHAPTER 4: MULRONEY AND ACOA

During the early years of Mulroney's leadership as Prime Minister, the government continued down the same path of regional development as the Liberals. However, Mulroney in 1986 put his own stamp on regional development from his Speech from the Throne when he announced that his government would establish the Atlantic Canada Opportunities Agency (ACOA). The Government explained its decision by stating that:

Regional disparity remains an unacceptable reality of Canadian life . . . It is time to consider new approaches, to examine how our considerable and growing support for Canada's region can be used more efficiently, more effectively and with greater sensitivity to local conditions and opportunities. The new agency would not be a part of DRIE or associated in any ways with the department.⁵⁷

ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA)

The restructuring of regional development policies in 1987 emphasized new policy in decentralization of administrative and policy functions away from Ottawa and towards the regions. Regions began to be in charge of their programs as they would develop policies according to the needs of the region instead of applying the same program or policy approach throughout the country.⁵⁸

In establishing ACOA, Mulroney consulted with over 100 Atlantic Canadians, including provincial premiers, federal cabinet-ministers from the region, and a cross section of people in business, labour, and academia.⁵⁹ On June 6th 1987, Mulroney unveiled ACOA. In doing so, he announced that the headquarters would be in Moncton, and made known that \$1.05 billion would be dedicated to ACOA. This announcement

⁵⁷ Ibid., 115

⁵⁸ Beaumier 10

⁵⁹ Savoie 119

was over and above all other federal commitments and expenditures levels in the region.⁶⁰

ACOA legislation allowed it to have independence from Ottawa as it was given the authority to plan, coordinate and implement economic development measures in the region, which included full authority to promote economic opportunities. According to the Atlantic Canada Opportunities Agency Act, ACOA

works to create opportunities for economic growth in Atlantic Canada by helping businesses become more competitive, innovative and productive, by working with communities to develop and diversify local economies, and by championing the region's strengths in partnership with Atlantic Canadians. It plays an important role in developing and supporting policies and programs that strengthen the region's economy.⁶¹

Mulroney geared ACOA towards the private sector with a strong emphasis on small business and aspiring entrepreneurs.⁶² To illustrate the impact of small business on the economy, consider the following facts: between 2000 and 2005, "93% of jobs created by firms in Atlantic Canada were attributed to small businesses".⁶³

By turning to the private sector to combat regional under development, comparative advantage will be determined by the marketplace; rather than government trying to pick winners based on non-market criteria. Comparative advantages occur in the Maritimes when businesses are able to engage in production at a lower opportunity cost than other business in other regions. Examples of the Maritimes comparative advantages according to the KPMG's 2006 study of "Atlantic Canada Advantages: Your Gateway to Success" listed the following:

⁶⁰ McGee 152-153

⁶¹ "2010-2011 Estimates Part III; Reports on Plans and Priorities" ACOA November 13th 2009, August 1st 2010 < <http://www.tbs-sct.gc.ca/rpp/2010-2011/inst/aco/aco00-eng.asp>>1

⁶² Savoie, 127

⁶³ Ibid., 17

- Atlantic Canada is close to lucrative markets-strategically located between the United States and Europe
- Atlantic Canada infrastructure brings businesses even closer together with a world-class, high speed digital telecommunications network, year round ports, major air cargo routes and fast, high-bulk land transportation
- Under the North American Free Trade Agreement (NAFTA), Atlantic Canada has access to the world's largest free-trade area-400 million consumers-and nearly a billion dollars of trades crosses the Canada-U.S. border every day
- Atlantic Canada labour cost are a full 21% than the U.S. average
- Atlantic Canada employees are loyal and dedicated. Their absenteeism and turnover rates are among the lowest in North America, resulting in lower recruitment and training cost
- Atlantic Canada has more university students per capita than any other region of Canada
- Electricity costs in Atlantic Canada are the lowest within the G7 countries. Atlantic Canada has a competitive, reliable and plentiful energy supply (hydro, nuclear, coal, gas and oil) with a capacity of more than 14,000 MW⁶⁴

ACOA witnessed immediate success in its first two years of operation. Close to 500 applications with total project costs of approximately \$338 million had been approved by March 31st 1988. By year end of 1988, activity in the Atlantic region had ballooned to over 5,000 approved projects involving some \$500 million of federal commitment.⁶⁵

Although ACOA was successful it had its limitations. According to Savoie (1992, p.136), ACOA saw little success in its mandate to improve coordination between the various economic actors in the region. Also, ACOA failed in its attempt to improve its advocacy mandate.⁶⁶ Most importantly, the expenditures used by ACOA did not generate the desired growth. As table 5 demonstrates, in 1990 Atlantic Canada had not shown the growth that was expected in the beginning of the 1980s. The region was still behind the

⁶⁴"Atlantic Canada Advantage: Your Gateway to Success" ACOA December 18 2008, April 7 2010
<<http://www.acoa.gc.ca/English/investment/InvestmentHome/Pages/MainInvestmentHome.aspx>>.

⁶⁵ McGee 155

⁶⁶ Savoie 136

rest of Canada. For instance in 1990 the Maritimes GDP per capita was \$17 827, while the Canadian average stood at \$24 548.

Table 5: Nominal value of GDP per capita, labour productivity and labour-market related variables, 1990

Provinces	GDP per Capita (\$)	GDP per hours worked	Hours worked per Pop 15+	Hours Worked Per Job	Jobs per Pop 15+	Pop 15+ to Pop
N.L	15 949	25.6	808.1	1 840.5	0.44	0.77
P.E.I	16 616	20.8	1 034.3	1 826.0	0.57	0.77
N.S.	18 681	24.2	969.6	1 771.0	0.55	0.80
N.B.	18 184	25.5	904.4	1 778.1	0.51	0.79
Que.	21 892	27.6	987.6	1 726.1	0.57	0.80
Ont.	27 465	30.4	1 132.2	1 758.0	0.64	0.80
Man.	21 881	26.4	1 062.1	1 713.2	0.62	0.78
Sask.	21 077	24.5	1 133.2	1 792.8	.063	0.76
Alta.	28 760	30.2	1 247.4	1 830.1	0.68	0.76
B.C	24. 113	29.2	1 035.2	1 736.0	0.60	0.80
Canada	24 548	28.9	1 073.0	1 756.7	0.61	0.79

Source: Nominal Value of GDP per capita, Labour Productivity and Labour-Market Related Variables, 1990. 14. ⁶⁷

ACOA limited success could be attributed to several factors however the most important attribute could be the fact that ACOA competes with other regional development programs in Quebec, Northern Ontario, and Western Canada. In fact, competition has grown over the years as more regional development programs have sprung up across the nation. The most recent was in 2009 when Prime Minister Harper launched FedDev, a Federal Economic Development Agency for Southern Ontario in response to Ontario’s economic challenges. At the time he provided a budget of 1 billion over 5 years for FedDev.⁶⁸ Table 6 indicates that the budget spending for ACOA in 2010-2011 and 2012-2013 is 382.1 million and 296 million respectively. This is significantly

⁶⁷“Interprovincial Differences In GDP Per Capita, Labour Productivity And Work Intensity: 1990-2003” Statistics Canada February 2005, February 1 2011 <<http://dsp-psd.pwgsc.gc.ca/Collection/Statcan/11-624-M/11-624-MIE2005011.pdf>>.

⁶⁸ “FedDev Ontario: Federal Economic Development Agency for Southern Ontario” FedDev September 16 2010, September 16 2010 <<http://www.feddevontario.gc.ca/eic/site/723.nsf/eng/home>>.

lower than the one billion budget of FedDev. When one looks at the spending budget of both agencies, it is apparent that ACOA faces stiff competition.

Table 6: Activity Planning Summary Table

Strategic Outcome: A competitive Atlantic Canadian economy.					
Performance indicator					Five-year Target (2008-2009 through 2012-2013)
Increase in Atlantic GDP for every dollar of ACOA expenditure in direct support of business (under review)					\$4.50
Program Activity	Forecast Spending 2009-10 (\$ millions)	Planned Spending (\$ millions)			Alignment with Government of Canada Outcomes
		2010-2011	2011-2012	2012-2013	
Enterprise Development[2]	197.8	174.3	161.3	161.4	Strong Economic Growth
Community Development[3]	157.9	160.4	89.3	87.2	Strong Economic Growth
Policy, Advocacy and Coordination	13.7	11.5	11.5	11.4	Strong Economic Growth
Internal Services	40.4	35.9	36.0	36.0	
Total Planned Spending	409.8	382.1	298.1	296.0	

Source: Activity Planning Summary Table. 2010-2011 Estimates Part III Report on Plans and Priorities. 03⁶⁹

As ACOA faces competition from across Canada its results have been hampered. Table 7 shows the positive impact ACOA has had on the region as P.E.I, Nova Scotia, and New Brunswick encountered GDP expenditure based growth of \$2 195, \$15 352 and \$12 602 from 1994 to 2008. Thus under ACOA; PEI, Nova Scotia, and New Brunswick GDP expenditure based growth grew 87.06%, 83.21% and 82.44% in fourteen years however in the same time period Canada witnessed a GDP expenditure-based growth of 106.90%. ACOA policies/programs have created growth in the region however as similar agencies

⁶⁹ "2010-2011 Estimates Part III Report on Plans and Priorities" 3

and policies work in larger urban areas ACOA cannot bring the Maritimes to par with Canada.

Table 7: Gross domestic product, expenditure-based, by province and territory, 1994 to 2008 (millions)

	1994	1998	2000	2004	2008
Canada	770,873	914,973	1,076,577	1,290,906	1,602,474
Newfoundland	10,264	11,176	13,922	19,407	31,458
P.E.I	2,521	2,981	3,366	3,983	4,761
Nova Scotia	18,667	21,401	24,658	29,853	34,209
New Brunswick	15,286	17,633	20,085	23,672	27,288
Quebec	170,478	196,258	224,928	262,761	301,479
Ontario	311,096	377,897	440,759	516,106	587,905
Manitoba	25,958	30,972	34,057	39,748	50,886
Saskatchewan	24,480	29,550	33,828	40,796	64,323
Alberta	88,041	107,439	144,789	189,743	291,662
British Columbia	100,512	115,641	131,333	157,675	199,214

Note: Dollar amounts in current prices.

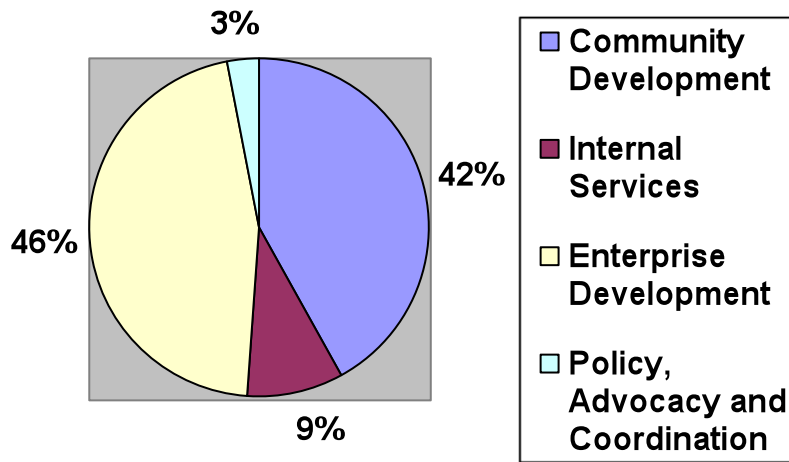
Source: Statistics Canada, CANSIM table 384-002.⁷⁰

SUMMARY

This chapter has looked at the impact Mulroney has had on regional development by the implementation of ACOA in the Maritime region. While ACOA has had mixed results, its policies and programs are still governing regional development planning in the Maritimes today. ACOA today is still focusing on the same areas as it did twenty years ago. As seen in figure 5, the majority of spending goes to enterprise development and community development as they receive forty-six and forty-two percent of spending, respectively.

⁷⁰ Canada Year Book 2009 106

Figure 5: Planned Spending By Program Activity 2010-2011



Source: Planned Spending By Program Activity 2010-2011. 2010-2011 Estimates Part III; Reports on Plans and Priorities. 11⁷¹

The previous chapters have focused primarily on national programs and their impact on regional development. The next chapter shifts focus from national to provincial governments by looking at how the provincial governments have contributed to regional development.

⁷¹ibid., 11

CHAPTER 5: PROVINCIAL GOVERNMENTS IMPACT

The Canadian Constitution assigns not only the federal government the responsibility of regional development but also gives the responsibility of economic development to the provinces. Under the heading Equalization and Regional Disparities, Section 36, the Constitution states:

Parliament and the legislatures, together with the Government of Canada and the provincial governments are committed to:

- a) Promoting equal opportunities for the well-being of Canadians;
- b) furthering economic development to reduce disparity in opportunities;
- c) providing for essential public services of reasonable quality to all Canadians⁷²

According to Savoie (1992, p.14) “provincial governments own their natural resources and control most determinants of human resources and land use. Therefore, they play a significant role in influencing regional development”.⁷³

PROVINCIAL GOVERNMENT POSITIVE INFLUENCE

Working Together

Nova Scotia, New Brunswick, and PEI are the smallest provinces in Canada. In order to compete with larger provinces the provincial governments have worked closely together. In 1954 the Maritimes provinces and Newfoundland created a new phase in cooperation by establishing the Atlantic Provinces Economic Council (APEC).⁷⁴

Examples of APEC impact on the region include the following:

- In 1966 New Brunswick and PEI allocated their shares of federal funds for a new medical facility to be built at Dalhousie University.

⁷²“Constitution Act 1867 to 1982” Department of Justice Canada April 5 2010 , April 5 2010<http://www.constitutioncanada.com/annex_e.html#III>.

⁷³Savoie 14

⁷⁴“Mandate” Atlantic Provinces Economic Council 2011, February 15 2011 <<http://www.apec-econ.ca/Mandate.asp>>.

- The cost of upgrading the Halifax School for the Blind was shared amongst the provinces.⁷⁵

In 1972 the Maritimes formed the Council of Maritime Premiers (CMP). CMP was the first agency of its kind to provide effective legal framework for cooperation among provinces. The goal of the Council is to ensure maximum coordination of the activities of the governments of the three Maritime provinces, and their agencies.⁷⁶ Notable success from CMP has been:

- Co-operation in education through the Atlantic Provinces Education Foundation (APEF) and the Maritime Provinces Higher Education Commission (MPHEC);
- Co-operation in emergencies providing services.
- The implementation of an Atlantic Procurement Agreement removing trade barriers among the Atlantic governments on purchases of goods, services, and construction.⁷⁷

Although the Maritime Provinces are working closely together, they are still separate entities with separate agendas. As Alex Campbell, former premier of PEI, points out in referring to Atlantic Canada, “We are four separate, jealous and parochial provinces. We fight each other for subsidies.”⁷⁸

By working together, the Maritimes provinces have been successful in the betterment of the region. The most notable areas of success have been wind power and tidal energy.

Wind Power

⁷⁵ Ian McAllister. *Working With The Region* (Halifax: Dalhousie University, 1997) 78

⁷⁶“CMP Background” *Council of Atlantic Premiers* 2011, March 1 2011 <<http://www.cap-cpma.ca/default.asp?mn=1.62.4.27>>.

⁷⁷Ibid.

⁷⁸Savoie 176

On February 1, 2007 the Nova Scotia government brought into effect the Renewable Energy Standard. At the time Nova Scotia had 41 turbines which accounted for 1% of electricity in the province.⁷⁹ As Nova Scotia government stated the “strong winds that sometimes buffet coastal Nova Scotia are a tremendous renewable energy resource”.⁸⁰ Thus the provincial government will invest over \$1 billion in renewable energy by 2013.⁸¹ The investment will translate into over three hundred commercial wind turbines, producing 581 megawatts of wind which will provide enough electricity for 175 000 homes.⁸² In explaining why investing in wind power is so important, the provincial government has stated the following:

- Wind energy is local. It is not purchased or imported from outside of the province; it is a natural, domestic source of energy. Creating local investment and creating a demand for local labour.
- Wind energy is clean and green. Every megawatt of wind power installed reduces our greenhouse gas emissions by as much as 2,500 tones per year.
- The cost of wind energy is competitive with traditional sources of energy, and cheaper than most other forms of renewable energy.⁸³

Tidal Energy

In addition to investing in wind energy the region is investing in tidal energy. Over 100 billion tones of seawater flows in and out of the Bay of Fundy which is more than the

⁷⁹“What’s Happening Today?” Government of Nova Scotia June 29 2009, March 1 2011, <<http://www.gov.ns.ca/energy/renewables/public-education/wind/whats-happening.asp>>.

⁸⁰“Nova Scotia Renewable Public Education In Wind Energy” Government of Nova Scotia October 26 2009, March 1 2011 <<http://www.gov.ns.ca/energy/renewables/public-education/wind/>>.

⁸¹“Renewable Energy-Promoting Growth In Nova Scotia” Government of Nova Scotia March 11 2009, March 1 2011 < <http://www.gov.ns.ca/energy/renewables/public-education/wind/promoting-growth.asp>>.

⁸²“Renewable Energy-Promoting Growth In Nova Scotia” Government of Nova Scotia March 11 2009, March 1 2011 < <http://www.gov.ns.ca/energy/renewables/public-education/wind/promoting-growth.asp>>.

⁸³“Why Wind Energy” Government of Nova Scotia March 11 2009, March 1 2011 <<http://www.gov.ns.ca/energy/renewables/public-education/wind/why-wind.asp>>.

combined flow of the world's freshwater rivers.⁸⁴ US-based Electric Power Research Institute identified the Bay of Fundy as the most potent site for tidal power generation in North America. When fully developed, the new in-stream tidal technology has the potential to generate 300 megawatts of green, emission free energy from only two locations in the Bay of Fundy. This will be enough energy to power close to 100 000 homes.⁸⁵ To capitalize on the comparative advantage the Nova Scotia government has done the following:

- Sponsored a \$250 000 Strategic Environmental Assessment to help identify the potential impact of these devices on marine life, fisheries and many other factors.
- Created a streamlined policy framework for developers
- Invited developers from around the world to demonstrate in-stream tidal devices through a common demonstration facility in the Minas Channel area of the Bay of Fundy.⁸⁶

As the Maritimes is blessed with 11 108km⁸⁷ of ocean coast line, the region recently has been successful in using this comparative advantage to its fullest by investing in wind energy and tidal energy for the future of the provinces. Through working together and focusing on the comparative advantages of the region the provincial governments are contributing to the success of the region.

Although wind power and tidal energy are success stories for the Maritime region, some areas such as tourism, research and development have been lagging.

GOVERNMENT MISTAKE

Tourism

⁸⁴"Nova Scotia Renewable Public Education In Tidal Energy" Government of Nova Scotia January 29 2006, March 1 2011 < <http://www.gov.ns.ca/energy/renewables/public-education/tidal.asp>>.

⁸⁵Ibid.

⁸⁶Ibid.

⁸⁷"The Atlas of Canada" Natural Resources Canada March 1 2011, March 1 2011 <<http://atlas.nrcan.gc.ca/auth/english/learningresources/facts/coastline.html>>.

In 2009 the Canadian Tourism Industry reported that 15.6 million international visitors made trips to Canada with visitors spending approximately \$11.5 billion. This resulted in a total tourism GDP of 29.0 billion or 2.0% of Canada's GDP.⁸⁸ Table 8 illustrates the importance tourism has had on the Maritimes. The Table shows that in 1998 PEI, Nova Scotia and New Brunswick had a share of total tourism GDP of 3.0%, 2.6% and 1.9% respectively. PEI and Nova Scotia were above the Canadian average. The two provinces had the second and third highest provincial share of total tourism GDP behind British Columbia.

Tourism in 1998 played a significant role in the Maritimes economy however if the provincial governments would focus on the tourist sector the advantages could be even greater.

An example of the provincial governments ignoring the tourism sector can be seen in table 9 in 1982, when the Maritime region was the only region in Canada not to use GDA's to improve the tourist industry.

⁸⁸"Tourism Snap Shot: 2009 Year-In-Review" Canadian Tourism Commission 2010, March 5 2011
<http://en-corporate.canada.travel/sites/Corporate/images/pdf/Research/Stats-figures/Year-in-review-facts-figures/Tourism%20Snapshot%20-%20Year%20in%20review/YearInReview_2009_eng.pdf>.

Table 8: Provincial and Territorial Tourism Satellite Accounts: 1998

1998								
	Tourism spending		Tourism GDP			Tourism employment		
		1996 to 1998		1996 to 1998	Share of total GDP		1996 to 1998	Share of total employment
	\$ millions	% change	\$ millions	% change	%	'000	% change	%
Canada	45,887	15.6	19,462	18.4	2.3	532.9	6.5	3.7
Newfoundland and Labrador	664	16.7	232	17.7	2.3	6.3	5.9	3.4
Prince Edward Island	213	13.0	80	6.5	3.0	2.8	2.6	4.6
Nova Scotia	1,362	18.1	500	17.5	2.6	17.3	6.9	4.2
New Brunswick	814	14.8	302	10.9	1.9	10.7	5.0	3.4
Quebec	8,922	13.2	3,875	16.2	2.1	104.3	4.9	3.2
Ontario	17,012	16.7	7,361	20.7	2.1	195.4	6.9	3.5
Manitoba	1,519	16.0	661	17.7	2.3	18.7	5.8	3.4
Saskatchewan	1,252	12.5	489	16.0	1.8	15.9	5.0	3.2
Alberta	5,281	18.9	2,300	20.6	2.3	62.2	9.3	3.9
British Columbia	8,592	14.5	3,563	16.5	3.4	97.1	6.2	5.1
Yukon	123	1.8	46	6.1	4.4	1.0	0.7	6.8
Northwest Territories and Nunavut	134	7.5	53	9.9	2.1	1.1	-2.2	3.7

Source Provincial and Territorial Tourism Satellite Accounts. The Daily.⁸⁹

⁸⁹"Provincial And Territorial Tourism Satellite Accounts" *The Daily* June 25 2003, March 5 2011
<<http://www.statcan.gc.ca/daily-quotidien/030625/dq030625d-eng.htm>>.

Table 9: Distribution of Planned DREE Federal GDA Commitments at February 1982, By Region (Millions of Dollars)

Sector	Atlantic		Ontario		West		Canada	
Resources	-	-	2	15	3	69	5	84
Infrastructure	-	-	1	8	1	25	2	33
Industrial	5	85	1	100	3	84	9	269
Tourism	-	-	2	30	1	12	3	42
Spatial	3	40	2	40	10	377	15	457
Urban	1	50	-	-	1	40	2	90
Planning	1	4	-	-	1	5	2	9
Technology	5	209	-	-	1	50	6	259

Source: McGee, Distribution of Planned DREE Federal GDA Commitments at February 1982, By Region.⁹⁰

As the Atlantic Provinces ignored investing GDA into tourism, the results have had a negative effect on the region. As table 10 shows the Atlantic region is not attracting interest from international visitors who are planning a trip to Canada in the next two years. In fact the region never places higher than the 5th most attracted region to international visitors.

Table 10: Destination Preferences: Canadian Destinations Likely to Visit

Destination Most Likely to Visit	UK (n=833)	Germany (n=834)	Japan (n=785)	China (n=1123)	Mexico (n=1125)	US (n=2128)	Canada (n=3 047)
Ontario	46	47	44	41	48	36	13
British Columbia	29	25	35	48	23	32	37
Quebec	7	8	6	3	19	14	10
Alberta	11	6	8	4	6	7	10
Atlantic Canada	3	5	4	2	1	7	24
Northern Canada	2	6	3	0	2	3	4
Saskatchewan/Manitoba	1	3	0.3	2	1	1	2

Source: Destination Preferences: Canadian Destinations Likely To Visit. Global Tourism Watch Year 3.⁹¹

⁹⁰McGee 94

Despite the lack of government commitment, the tourist sector is having a significant impact on the Maritimes. If the provincial government would have invested in the tourist sector the impact could be even greater.

Research and Development

In stressing the importance of research and development (R&D), the Economic Council of Canada stated the following in 1968:

The stock of scientific and technological knowledge, measured in terms of scientific and technical manpower and publications, is now doubling about every 10 years and that 90 percent of the entire scientist and engineers who have ever lived are alive today. Expenditures on research and development (R&D) in almost all western countries have been growing much faster than total national production.⁹²

Surprisingly in the same year, the Maritime region expenditure on R&D was thirty-five percent below the national figure, and seventy-eight percent behind Ontario.⁹³

In an address to the Annual Conference of First Ministers in 1987, the Premier of Ontario David Peterson explained how Alberta, BC, Saskatchewan and Ontario increased their spending on R&D. He also noted that R&D is the most advanced form of education.⁹⁴

After countless warnings from the Economic Council of Canada, and prominent people such as the Premier of Ontario, the three provincial governments of the Maritimes continue to ignore R&D. For example, in 1987 the Premier of New Brunswick, McKenna noted that “we, like our Atlantic neighbours, are at the lower end of the R&D scale”.⁹⁵

⁹¹“Global Tourism Watch Year 3: Summary Report 2009” Canadian Tourism Commission 2009, March 5 2011 <http://en-corporate.canada.travel/sites/Corporate/images/pdf/Research/Market-knowledge/Global-tourism-watch/Mexico/Mexico_GTW_Yr3_EN.pdf>.

⁹²Fifth Annual Review The Challenges of Growth and Change 30

⁹³Savoie 256

⁹⁴Annual Conference of First Ministers (Toronto: November 26 and 27 1987) 10

⁹⁵*Ibid.*, 16

Twenty years later the region was still at the lower end of R&D. As table 11 reveals that in 2007 the Maritimes were still at the lower end of spending on Gross Domestic Expenditures on Research and Development. Further, PEI, New Brunswick ranked last in terms of Gross Domestic Expenditures on Research and Development per capita with Nova Scotia ranking 5th among the provinces.

Table 11: Provincial statistics and their relationship to gross domestic expenditures on research and development, 2007

	Provincial Gross Domestic Product		Gross Domestic Expenditures on Research and Development		Population		Gross Domestic Expenditures on Research and Development	
	millions of dollars	Percent	millions of dollars	Percent	thousands	percent	Ratio	dollars
Canada	1,532,944	100	29,170	100	32,379	100	1.90	891
Newfoundland and Labrador	29,226	2	262	1	509	2	0.90	515
Prince Edward Island	4,490	0	58	0	138	0	1.29	420
Nova Scotia	32,933	2	501	2	937	3	1.52	535
New Brunswick	26,993	2	314	1	745	2	1.16	422
Quebec	297,384	19	7,824	27	7,658	23	2.63	1,022
Ontario	585,723	38	13,601	47	12,718	39	2.32	1,069
Manitoba	48,718	3	585	2	1,187	4	1.20	493
Saskatchewan	50,811	3	441	2	994	3	0.87	444
Alberta	256,915	17	2,403	8	3,472	11	0.94	692
British Columbia	191,598	12	2,935	10	4,275	13	1.53	687

Source: Provincial Statistics and their Relationships to Gross Domestic Expenditures on Research and Development, 2007. Statistics Canada.⁹⁶

Michael Mandel (2011) in the Bloomberg Business week explained that the advantages of R&D “is simple: R&D has a very high, very uncertain payoff.”⁹⁷ As provinces across Canada continue to invest in R&D, the Maritimes have been hesitant.

⁹⁶“Provincial Statistics And Their Relationship To Gross Domestic Expenditures On Research And Development: 2007” Statistics Canada December 8 2009, October 1 2010. <<http://www.statcan.gc.ca/pub/88-221-x/2009001/t063-eng.htm>>.

⁹⁷Michael Mandel, “The Cost And Benefits Of Research And Development Spending” Bloomberg Business Week 2011, February 18 2011 <http://www.businessweek.com/the_thread/economicsunbound/archives/2005/07/the_cost_and_be.html>.

The Maritimes need to increase spending on R&D just to be at par with the rest of Canada. If the Maritimes continue to fall behind the Canadian average, they will not have the opportunity to reap the very high, payoff that could come from R&D.

SUMMARY

The provincial governments of the Maritimes have had both positive and negative effects on regional development. Through working together and focusing on their comparative advantages the Maritimes has developed in some areas such as wind power and tidal energy. However, the provinces have also been unsuccessful in other areas such as tourism and R&D.

In order for regional development to work, provincial governments must make a contribution. However, as the federal government is the major spending power it is the most important player in regional development. The following chapter will return its focus back on the federal government by looking at areas the federal government has miscalculated in regional development planning.

CHAPTER 6: WHY REGIONAL DEVELOPMENT HAS FAILED

Federal government has had an enormous role in regional development malfunction. Since governments involvement in regional development in 1961 the gap between Atlantic Canada GDP per capita and the rest of the country has widened (see figure 1 in chapter 1).⁹⁸

This chapter looks at four major factors, which the federal government has miscalculated in development. Specifically, the chapter discusses the following: transfer payments, lack of patience, focus of federal government and government expenditures.

TRANSFER PAYMENTS

The Rowel-Sirois historical investigation in 1937 makes “clear that in our integrated national economy, created for the most part through the initiative of the federal government, the material gains and burdens are differentially distributed among the provinces and regions”.⁹⁹As Beaumier (1998 p.2) points out, the

Commission (Rowel-Sirois Commission) found that, as the provinces had different capacities for providing services, Canadians could not expect the same levels of services from each province at uniform national tax rates. It was suggested that the fiscal capacity of Canadian provinces be equalized through the transfer of funds from the richer regions to the poorer regions... The result was the now familiar system of equalization payments which are made to the disadvantaged provinces.¹⁰⁰

In the fiscal year of 2010 and 2011 the federal government will be providing provinces and territories with 65 billion dollars in transfers. This is an increase of 13.1

⁹⁸Beaumier 3

⁹⁹Smiley 4-5

¹⁰⁰Beaumier 2

billion since 2005-2006. For the 2010-2011 fiscal years the Maritimes will receive 6.197 billion or 10.11% of the transfer payments.¹⁰¹

There are four main transfer programs in Canada: (1) the Canada Health Transfer (CHT), (2) the Canada Social Transfer (CST), (3) Equalization, and (4) Territorial Formula Financing (TFF). This paper focuses on the equalization aspect as it is the largest federal program intended to eliminate regional disparities in Canada.¹⁰²

Equalization is built to enable “less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation”.¹⁰³ The purpose of equalization can be found in the Canadian Constitution; which states that Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.¹⁰⁴

Equalization entitlements are determined by measuring provinces’ relative abilities to raise revenues - known as “fiscal capacity”. According to Michael Holden (2008) equalization payments are calculated as followed: “on a weighted three-year moving average, lagged two years. Actual payments for any one province in 2008-2009,

¹⁰¹“Federal Support to Provinces and Territories” Department of Finance Canada February 24 2010, March 25 2010 < <http://www.fin.gc.ca/fedprov//mtp-eng.asp#NovaScotia>>.

¹⁰²Standing Senate Committee on National Finance: Government Policy and Regional Development 31

¹⁰³“Federal Transfer to Provinces and Territories”

¹⁰⁴“Equalization Program” Department of Finance February 15 2010, March 25 2010 < <http://www.fin.gc.ca/fedprov/eqp-eng.asp>>.

for example is the sum of 50% of its entitlements as calculated for the 2006-2007 fiscal year, 25% of its entitlements in 2005-2006, and 25% of its entitlements in 2004-2005”.¹⁰⁵

In 2008-2009, PEI was the largest recipient of equalization on a per capita basis, with payments of \$2,310 per head while Newfoundland was the lowest at \$313.¹⁰⁶ The advantage of equalization payments for the provinces is that they are unconditional. This means that the provinces are free to spend the funds according to their own desire and do not have to worry about backlash from the federal government.

Table 12 highlights the importance of transfer payments to the Maritimes. In 2009-2010 transfer payments to Nova Scotia, PEI and New Brunswick respectively made up 38.50%, 44.30% and 41.40% of revenue for the provincial governments budget. On the other hand, transfer payments to Alberta were only 14.80% of the provinces revenue.

Table 12: Federal Transfers as a Percentage of Provincial Revenue (2009-10)

	Federal Transfers	Provincial Budget	Transfers (% of Budget)
NL	995	5,946	16.70%
PE	628	1,419	44.30%
NS	3,255	8,446	38.50%
NB	2,746	6,631	41.40%
QC	15,229	62,650	24.30%
ON	18,565	96,409	19.30%
MB	3,782	10,134	37.30%
SK	1,606	10,027	16.00%
AB	4,970	33,541	14.80%
BC	7,685	39,190	19.60%

Source: Federal Transfers as a Percentage of Provincial Revenue (2009-2010). Government of Nova Scotia.¹⁰⁷

¹⁰⁵ Michael Holden, “Canada’s New Equalization Formula” Parliamentary Information and Research Service: Library of Parliament November 10 2008, February 18 2011

<<http://www2.parl.gc.ca/Content/LOP/ResearchPublications/prb0820-e.pdf>>.

¹⁰⁶ Ibid.

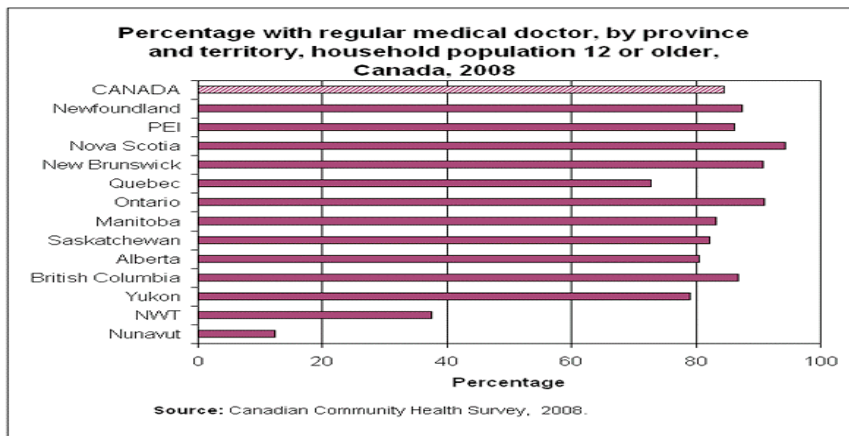
¹⁰⁷ “Federal Transfer Payments” Government of Nova Scotia 2010, January 30 2011

<<https://backtobalance.ca:44305/2010/12/federal-transfer-payments/>>.

Transfer agreements have been successful in lessening regional disparities in public service. As Figure 6 shows, the percent of population with a regular medical doctor is higher in the Maritime Provinces than the average Canadian in 2008. In fact, Nova Scotia had the highest percent in all of Canada.

Although some level of success can be seen from transfer payments, many problems still exist. As Ontario Premier McGuinty stated: “I haven’t chatted with any premier that thinks equalization is working well. That’s a part of the Canadian condition.... Developing consensus on how to fix it—that’s nearly as complicated as amending the Constitution.”¹⁰⁸ According to Savoie (1992, p.207) transfer payments “have not reduced employment opportunities, earned income per capita, and in the economic weight of each region, as measured by GDP. But they were not intended to do this”.¹⁰⁹

Figure 6: Percentage with regular medical doctor, by province and territory, household population 12 or older, Canada 2008



Source: Percentage with regular medical doctor, by province and territory, household population 12 or older, Canada 2008. Having a Regular Doctor 2008.¹¹⁰

¹⁰⁸ Lee Greenberg. “Equalization Payments A Failure: Report” Winnipeg Free Press February 25 2010, January 30 2011 <<http://www.winnipegfreepress.com/canada/equalization-payments-a-failure-report-85325207.html>>.

¹⁰⁹ Savoie 207

¹¹⁰ “Having a Regular Doctor 2008” May 26 2010, April 7 2010 <<http://www.statcan.gc.ca/pub/82-625-x/2010001/article/11102-eng.htm>>.

Transfer payments and equalization payments have not eliminated the gaps of income disparities. In 1866, one year prior to confederation, the Provinces of Canada (Ontario and Quebec) saw revenues of \$11,052 compared to Nova Scotia of \$1,470 and New Brunswick of \$1,254.¹¹¹ One hundred and forty two years later (see Figure 2); the three Maritimes Provinces in 2008 had the lowest GDP per capita with an average of \$30,628 compared to the Canadian average of \$39, 425.¹¹² Transfer payments have been ineffective in propelling the Maritime region in terms of income to the rest of Canada.

Mulroney wanted the private sector to become a part of developing the Maritime region, but at the same time, he interfered with markets by providing equalization payments. For example, transfer payments have made the “have not provinces” less attractive by enabling the provincial government to hire more employees at a higher wage rate. This has caused an increase in the wage cost of private sector employee.¹¹³

Holden (2008) stated “equalization is a federal transfer payment program designed to smooth out the differences in revenue-generating capacity across the provinces”.¹¹⁴ Although equalization may have been designed to create equality between the provinces; it has created a dependency factor for the Maritimes. As table 13 showed transfer payments represent roughly 40% of revenues for the Maritimes.

Overall, federal transfer payments may not have been designed to fix income disparities however they are impacting the market place and have left the Maritimes in a state of dependency which is one of the main reasons regional development has failed.

¹¹¹Mackintosh 48

¹¹²“Financial Security-Standard of Living” Human Resources and Skills Development Canada September 15 2010, September 15 2010 <<http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=26>>.

¹¹³ Standing Senate Committee on National Finance: Government Policy and Regional Development 31

¹¹⁴ Holden

LACK OF PATIENCE

“If we don’t change direction we’ll go to where we’re going” (Chinese Proverb)¹¹⁵

According to the Parliament of Canada the average duration of a majority government in Canada is four years and six days while a minority government’s average is one year, five months and nine days.¹¹⁶ As government changes so do the promises the government makes. This sometimes brings in different policies and programs in a short period of time as governments look for quick results. The following is a brief timeline by the Royal Commission on Canada Economic Prospect since 1957 to 1995.

1957-Royal Commission on Canada’s Economic Prospect (Gordon Commission) identified regional development as a separate economic issue

1961-Agricultural and Rural Development Act: to alleviate and correct the incidence of low incentives in agricultural areas through federal-provincial programs to increase small farmers’ output and productivity.

1962-Atlantic Development Board: to advise on measures and to assist projects related to the economic development of the Atlantic Region

1965-Area Development Agency: to alleviate chronic high unemployment by attracting manufacturing and processing firms to locate or expand operations in areas of high unemployment through capital cost allowances, income tax exemption and cash grants

1965-Manpower Mobility Program: to provide relocation grants to unemployed workers.

1966-Fund for Rural Economic Development: to develop plans to deal with problems of concentrated and severe rural poverty that could not be effectively dealt with under the more general ARDA approach.

1968-Fund for Rural Economic Development was cancelled

1969-Area Development Agency was disbanded

¹¹⁵Working with the Regions 13

¹¹⁶“Federal Election Trivia: Majority and Minority Government” Parliament of Canada March 5 2011, March 5 2011
<<http://www2.parl.gc.ca/ParlInfo/Compilations/ElectionsAndRidings/TriviaMajorityMinority.aspx#1>>.

1969-The Government created the Department of Regional Economic Expansion (DREE), which implemented a regional development policy based on the growth pole theory

1972-Don Jamieson is appointed head of DREE

1974-Decentralization of federal regional development efforts was begun. The General Development Agreement (GDA) were signed with the provinces.

1978-Cabinet established a new central agency, the Ministry of State for Economic and Regional Development (MSERD). The ministry was established in late 1978 to coordinate and direct economic development policy and to manage the economic policy 'expenditure envelope'

1982-1983-DREE was amalgamated with the Department of Industry Trade and Commerce to create the Department of Regional Industrial Expansion (DRIE). The GDA system evolved into the Economic and Regional Development Agreement (ERDA). The Industrial and Regional Development Program was created to promote regional development at the same time as industrial expansion.

1984- MSERD abolished

1987-The federal government announced the creation of regionally based development agencies for Eastern and Western Canada. The Ministry of State for Science and Technology was merged with the industry support component of DRIE to form a new department, the Department of Industry, Science and Technology (IST)

1988-IRDP was allowed to lapse

1991-Creation of a separate regional development agency for Quebec

1991-No federal central responsibility for coordinated regional development in Canada

1995-The Department of Industry Act, recognizes the jurisdiction of the Ministry of Industry over the three economic development Agencies; ACOA, WD and FORD-Q.¹¹⁷

As seen in the timeline above, the frequent change in policies stem from a lack of patience. Without seeing economic results, the federal government continues to change policies. For example, four years after DREE implementation of the growth pole concept

¹¹⁷Beaumier & Standing Senate Committee on National Finance: Government Policy and Regional Development 68

the government scrapped the program.¹¹⁸ Savoie (1992, p.208) points out the problem with constant changes as:

Frequent changes of policy and organizational direction have posed another difficulty. Before a thorough assessment of one approach could be initiated, a new one would take its place. Insufficient time had elapsed to determine the effect of a particular program on a given sector. With a new policy announced, officials had little interest in assessing a program that was now history.¹¹⁹

FEDERAL GOVERNMENT FOCUS

History has shown that the federal government has focused its attention on larger metropolitan areas that will put/keep them in power. Also, history has taught us it is rare for a public policy to have a positive impact on everyone. If a government depends on a certain area for support that a policy may have a negative effect on, it is unlikely the policy will be adapted.¹²⁰ The Maritimes are at a disadvantage with its small population as come election-day it becomes insignificant. Currently, the House of Commons consists of 307 seats. PEI, Nova Scotia and New Brunswick combined have a total of 25 seats. Ontario holds 106 seats followed by Quebec at 75.¹²¹

As we saw in Chapter 2, from the start of confederation, the federal government's focus has been on other regions. In the beginning the federal government focus was to grow Ontario and Quebec. Afterwards, the government shifted its focus to the western provinces to bring the wheat lands within reach of the international markets. This created

¹¹⁸ Savoie 77

¹¹⁹ *Ibid.*, 208

¹²⁰ Gerald Meier. *Emerging From Poverty* (New York: Oxford University Press, 1984) 228

¹²¹ "House of Commons-Members" *Parliament of Canada* August 16 2010, September 15 2010 <<http://webinfo.parl.gc.ca/MembersOfParliament/MainMPsCompleteList.aspx?TimePeriod=Current&Language=E>>.

prosperity in the Western Provinces and Central Canada however; it had no positive impact on the Maritimes.¹²²

In 1969, Prime Minister Trudeau called for economic equality and DREE was formed. Eighty percent of DREE expenditures earmarked for regional development would be spent east of Trois-Rivieres.¹²³ After four years of the federal government focus on the Maritimes and part of Quebec, other provinces, which as mentioned above, have more seats in the house, also wanted development assistance. Thus after four years, the federal government allowed other regions into the program. When DREE was disbanded it covered ninety-three percent of the Canadian land mass.¹²⁴

EXPENDITURES

According to Savoie (1992), the federal governments purchases over 20 billion worth of goods and services annually. Unfortunately for the Maritimes this 20 billion is not spent equally across the region as eighty percent of all federal contracts are placed with firms in Central Canada.¹²⁵ For example in 1982-1983, the defence budget spent in Canada was 5.4 billion of which 47% was allocated to Ontario.¹²⁶

The Department of Agriculture spent 66% of its resources in Ontario and Quebec, while Atlantic Canada received only 2% of the budget. Another example is in 1980-1981, Industry Trade and Commerce had a total expenditure budget of \$298,987,833 of which Ontario and Quebec jointly received \$180, 246, 047 whereas the Atlantic Provinces received thirty three million.¹²⁷

¹²² Ibid., 107

¹²³ Savoie 32

¹²⁴ Beaumier 210

¹²⁵ Savoie 171

¹²⁶ Ibid., 172

¹²⁷ Ibid., 213

SUMMARY

Overall, this chapter has looked at four factors that have been ineffective in bringing the Maritimes economy to par with the rest of Canada. The chapter has looked at transfer payments, lack of patience, focus of the federal government and government expenditures. As government continues to offer transfer payments it creates a situation of dependency for the receiving provincial governments. Further, as federal government continues to change its policy and focuses on larger regions by providing more federal contracts; small regions such as the Maritimes are at a disadvantage.

The next chapter pulls information learned from the previous chapters and provides recommendations that could help the Maritime region move forward and raise its economic status.

CHAPTER 7: CONCLUSION

The previous chapters have shown that the Maritimes for the past one hundred and forty years have been the lowest in terms of GDP per capita, productivity, and earned income per employment. Further the chapters have highlighted additional issues faced by the region such as high unemployment, provincial migration and increased government dependency. If changes are not made the trend will likely continue. As table 13 shows, in 2011 Canada will grow its REAL GDP and Nominal GDP from 2010 while Nova Scotia will see a decline.¹²⁸

Table 13: ECONOMIC ASSUMPTIONS (BUDGET)

Canada			Nova Scotia		
Indicators	2010	2011	Indicators	2010	2011
Real GDP	2.7%	3.1%	Real GDP	1.9%	1.2%
Nominal GDP	4.7%	5.4%	Nominal GDP	4.4%	2.7%
CPI Inflation	1.8%	2.4%	CPI Inflation	1.6%	1.8%
Employment	0.8%	1.9%	Employment	1.2%	0.3%
Unemployment	8.7%	8.1%	Unemployment	8.6%	9.0%

Source: Spence. Economic Assumptions (budget). BMO Capital Markets Government Finance Seminar. 09.¹²⁹

In the 1980s the Minister of energy Marc Lalonde commented “What offshore oil and gas provides (in Atlantic Canada) is the opportunity for an accelerated, more dramatic turnaround than would otherwise have been thought possible”.¹³⁰ These glorious years of the Maritimes never materialized.

¹²⁸Roy Spence. “BMO Capital Markets Government Finance Seminar” May 5th 2010, March 9 2011
<<http://www.gov.ns.ca/finance/site-finance/media/finance/presentations/NSPresentation-2010.pdf>>. 9

¹²⁹Ibid., 9

¹³⁰Savoie 85

In arguing how to achieve economic growth, Richard Harris, as quoted by Kent (1997, p.122-123) wrote:

Economist traditionally categorize economic growth as being driven by four alternative set of factors. First, growth driven by the accumulation of larger amounts of physical capital (or more bluntly, machines) per workers. The second type, referred to as Smithian growth, is that due to productivity gains driven by increases in market size, an increased division of labour, and larger-scale production which accompanies such specialization . . . the third type of growth is knowledge based growth . . . a combination” of new technology and the accumulation of skills by the labour force lets economies escape the law of diminishing returns.¹³¹

The following chapter looks at how the Maritimes can achieve economic growth and close the economic disparity gap. Specifically this chapter looks at four areas. First it looks at the idea of reintroducing the growth pole concept, as the idea was scrapped before reaching its full potential. Secondly, the chapter discusses how building the infrastructure can contribute to regional development. Thirdly, the chapter argues by increasing productivity through R&D the Maritimes can create meaningful employment which can lead to sustainable growth. Finally, the chapter looks at providing tax incentives to attract industries to the region.

GROWTH POLE

As discussed in chapter three the growth pole concept was formed in Ottawa in 1969 and disbanded in 1974.¹³² The chapter showed the growth pole concept focusing on twenty three areas with a major focus on six cities. In order for this concept to be successful the federal government should focus on fewer cities. Specifically the governments should focus on Saint John, Halifax, Moncton and Charlottetown. However,

¹³¹ Kent 122-123

¹³²Beaumier & Standing Senate Committee on National Finance: Government Policy and Regional Development 68

as Saint John and Halifax have the greatest potential, the federal government should primarily focus on these two areas.

By creating two major urban centers in the region, the goal would be to create a cluster of industry. *The Competitive Advantage of Nations* showed how the London region is prospering in the UK because “of its advantage demand for many goods and services, its clusters of supporting industries and the presence of highly skilled labour pools, among other consideration”.¹³³

To create a cluster of industries in the heavily urban centered population the federal government needs to enhance government contracts in the region. Government contracts should only be allocated to the four main growth centers. As we learned in chapter six, the federal government purchases over twenty billion of goods annually with eighty percent of all federal contracts being placed with firms in Central Canada.¹³⁴ For the region to grow, the provincial governments need to receive its fair share of contracts.

By implementing the growth pole concept the Maritimes would create two large urban centers with the hope of competing with the other major centers in Canada. Further, the creation of two large urban centers would allow Maritime citizens the chance to work in their home province.

INFRASTRUCTURE

The Standing Senate Committee on National Finance stated that “a basic measure of any level of development in a region and a determinant of its economic potential is its infrastructure”.¹³⁵ An example of the importance infrastructure can have on a region is

¹³³Porter 158

¹³⁴Savoie 171

¹³⁵Standing Senate Committee on National Finance: Government Policy and Regional Development 37

how the construction of the trans-Canada rail system was critical to the success of Western agriculture.¹³⁶

Building infrastructure in the Maritimes is not a new idea. The Royal Commission on Canada's Economic Prospect (Gordon Commission) reported in 1957 that a bold and comprehensive approach was needed to resolve the underlying problems in the Atlantic region. One of these measures included a federally sponsored capital-project commission to provide infrastructure facilities to encourage economic growth in the region. The commission was created under a Liberal government however, while the commission was in its research stage the Liberal government lost power. By the time the commission completed its studies it had to report its findings to a Conservative government. The Conservatives ignored the findings mainly because the ideas were originated by the Liberals¹³⁷

Table 9 showed that Atlantic Canada was the only region in Canada not to invest GDAs into infrastructure. As the Standing Senate Committee on National Finance noted, infrastructure development is clearly an essential component of economic development and it can, if wisely employed, lead to economic growth. The development strategy for the less developed region must include infrastructure.¹³⁸ By building the infrastructure of the Maritimes and focusing the majority of infrastructure projects in the larger urban centers, the Maritimes will become more productive. As a result of increased productivity, the Maritimes will be able to compete with other regions in Canada and around the world.

¹³⁶Ibid., 37

¹³⁷Savoie 27-28

¹³⁸Standing Senate Committee on National Finance: Government Policy and Regional Development 37

PRODUCTIVITY

The Maritimes are trapped in a vicious economic circle. According to the Standing Senate Committee on National Finance, the role of government is to break the trap and improve productivity of the less developed areas.¹³⁹ The Organization for Economic Co-Operation and Development (OECD) echoed the sentiments when it stated that “productivity is the most important source of long-term prosperity for a region”.¹⁴⁰

According to ACOA, a number of factors contribute to lower levels of productivity in Atlantic Canada, such as “lower trade exposure, less research and development (R&D) spending, lower levels of worker training and managerial skills, and under-investment in machinery and equipment (technology adoption)”.¹⁴¹

Consider the statistics shown in table 14 for example, the Maritime Provinces are at the bottom of Gross Domestic Expenditure spending on Research and Development from 1994 to 2006.

Table 14: Gross Domestic Expenditures on Research and Development, by province and territory, 1994, 1998, 2002 and 2006 (\$ millions)

	1994	1998	2002	2006
Canada	13,341	16,088	23,531	28,715
National Capital Region	789	811	1,015	1,098
Newfoundland and Labrador	108	119	153	262
Prince Edward Island	17	24	31	70
Nova Scotia	265	311	400	502
New Brunswick	134	155	211	271
Quebec*	3,495	4,325	6,681	7,595
Ontario *	5,940	7,421	10,426	12,685
Manitoba	311	283	454	558

¹³⁹Ibid., 48

¹⁴⁰“2010-2011 Estimates Part III; Reports on Plans and Priorities” 13

¹⁴¹“2010-2011 Estimates Part III; Reports on Plans and Priorities” 7

Saskatchewan	239	279	435	465
Alberta	966	1,174	1,709	2,412
British Columbia	1,067	1,107	1,949	2,644
Yukon, Northwest Territories and Nunavut	10	5	4	28

*Excludes federal government expenditures for work done in the National Capital Region.
Source: Statistics Canada. CANSIM table 358-0001. ¹⁴²

To end the cycle of poverty, the Maritimes need to invest more in R&D.

According to the United States Congressional Budget Office:

Consensus has formed around the view that R&D spending has a significantly positive effect on productivity growth, with a rate of return that is about the same size as (or perhaps slightly larger than) the rate of return on conventional investments. ¹⁴³

The “2009 Canada Year Book” furthered the point on the importance of R&D spending as it noted that:

Scientific research and innovation can improve our lives and make Canada a more competitive country. Countries with a well supported science sector can get ahead economically by being the first to reap the benefits of new scientific technologies. ¹⁴⁴

TAX INCENTIVES

One of the measures the federal government has tried in attracting business to the region is to provide cash grants. For example, in the Cape Breton region “some 30 million was poured out over a four year period mainly to American firms to induce them to set up factories in Cape Breton.” (Savoie 1992, p.182). ¹⁴⁵

Massachusetts Institute of Technology (MIT) and Harvard conducted a survey where they asked manufactures what location factors they considered to be crucial in

¹⁴² Ibid., 347

¹⁴³ “R&D And Productivity Growth: A Background Paper” The Congress of the United States: Congressional Budget Office June 2005, March 9 2011 <<http://www.cbo.gov/ftpdocs/64xx/doc6482/06-17-R-D.pdf>>.

¹⁴⁴ Canada Year Book 343

¹⁴⁵ Ibid., 182

their businesses. The results included the quality of direct government services such as roads as well as an educated workforce backed by effective training programs. The study indicated that these factors were mentioned twice as often as direct financial aid.¹⁴⁶

ACOA invests over hundreds of millions of dollars yearly in cash subsidies in trying to attract companies to the region.¹⁴⁷ However, this approach is ineffective. As witnessed by the Cape Breton example, four years after American firms received their cash grants “virtually all had failed and almost nothing remained” (Savoie 1992, p. 182).¹⁴⁸

Former Premier Frank McKenna of New Brunswick expressed his concerns over cash grants by stating the following:

These programs tend to foster industries where least-cost production is important, where education and new skills are of less concern and where labour functions are routine. In today’s world these types of industries have difficulty competing with Taiwan, Hong Kong and Korea.¹⁴⁹

Cash grants will not have much impact on economic growth if they are targeted at inefficient businesses that would prefer to locate elsewhere.

Mintz and Smart (2003) recommended that Atlantic Canada replace ACOA cash grants with broad based universal tax cut.

The cut applies more generally and neutrally so that many taxpayers are given incentives to work, make investments and heighten productivity...with neutrality, the economy can best reach its potential as businesses and entrepreneurs allocate resources to their most economically productive uses rather than to those favoured by the tax system.¹⁵⁰

¹⁴⁶ [Annual Conference Of First Ministers 2](#)

¹⁴⁷ Mintz and Smart 16

¹⁴⁸ Savoie, 182

¹⁴⁹ [Annual Conferences of First Ministers 1](#)

¹⁵⁰ Jack Mintz and Michael Smart. “Brooking No Favourites: A New Approach To Regional Development In Atlantic Canada” [C.D. Howe Institute](#) December 3 2003, March 8 2011 <http://homes.chass.utoronto.ca/~msmart/commentary_192.pdf>. 12

By providing tax incentives in the region, the Maritimes will be able to attract sustainable companies that would prefer to locate in the region and can grow the region. Instead of attracting companies that do not want to be there.

CONCLUSION

The paper began with the introduction of the study. The paper provided a brief history of the Maritimes at Confederation, and the first economic policies that governed this nation. Background information was provided on the regional economic development programs and policies that were implemented under Prime Minister Trudeau. These years are critical as it was the first time regional development planning came to the forefront of federal government planning. Following Prime Minister Trudeau policies and programs the paper looked at the changes Prime Minister Mulroney made to regional development planning. After an understanding of regional development policies from a federal perspective the paper looked at the provincial government's role in regional development. Finally, the paper looked at where the federal government went wrong and provides recommendations.

Overall, the paper has shown that regional development in the Maritimes has failed and continues to fail. However, it is not too late to save the region. According to Harris, quoted by Kent (1997, 122-123) "economic growth occurs through the productive gains that are driven by increases in market size, an increase of division of labour and large scale production".¹⁵¹ Harris also noted that knowledge based growth is vital as new technology and the accumulation of skills by the labour force lets economies escape the law of diminishing returns.¹⁵²

¹⁵¹ Kent 122-123

¹⁵² Ibid.

Based on the study conducted the paper has made four recommendations. Firstly, the paper has urged the Maritime region to bring back the growth pole concept. By remerging the growth pole concept into regional development, the market size will expand. As the Maritimes focus on creating clusters of industries in the growth centers and place government contracts in the region, larger scale production can occur. Secondly, for larger production to occur, the region will need to build its infrastructure to compete with other regions in Canada and the world. As the MIT and Harvard survey above showed, a stronger infrastructure will also be more beneficial in attracting companies to the region instead of providing cash grants. Thirdly by investing in R&D, the region will not only be productive but will reap the rewards the new technology creates. Finally, rather than using cash grants the federal government should look at using tax incentives to entice business to the region. If the federal government focuses on (1) creating growth centers (2) building infrastructure, (3) productivity by increasing R&D and; (4) providing tax incentives, and the Maritime region would be able to create sustainable economic growth.

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