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PhD thesis

Regional Development Theory and Policy:
A Trans-Atlantic Comparison

by

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This book is respectfully
dedicated
to
Joyce Mary
and all the school-girls
of
New Brunswick

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SUMMARY

The purpose of my research was to compare Canadian and British experience with regional economic development policy by examining Scotland as a lagging region within the United Kingdom economy and the Atlantic Provinces as a lagging region within the economy of Canada as a whole.

This thesis is in four Parts. Part I contains a review of the economic theory related to regional development. Part II presents an examination of Scotland's position as a major economic region within the United Kingdom economy, and recounts the history of British regional policy as applied in Scotland since the 1930's, with particular reference to the "growth areas" adopted for Central Scotland in 1963. In Part III, there is a specification of the real nature of the development problem confronting Canada's Atlantic Region, and an analysis of the policy response to which it has given rise in the past. Chapter 16, which comprises Part IV, develops a set of recommendations regarding the future development of, and policy and programs for, the Atlantic Provinces economy.

The argument of the thesis is also in parts, namely, the theoretical findings of Part I and the empirical conclusions of both Parts II and III, all of which are summarized in greater detail in Part IV.

Part I proceeds from a consideration of the place of regional development in economic theory, through a review and analysis of various regional development theories - past and present - to theoretical conclusions on two levels. In technical terms, the conclusion is that effective regional economic development means increasing the complementarity of factor equipment as between two or more regions within a country. The more general, or social, conclusion of Chapter 4 is that regional economic development should

become a long term objective for the nation as a whole, so that residents of all regions can make positive contributions to the economic, social and political life of the nation. Given these two conclusions, the objective of regional policy should be to make each major region as economically self-supporting as possible, and policy, programs and projects should be assessed in terms of this objective.

Part II is in four chapters. Chapter 5 reviews the history of British regional policy for Scotland, which is seen to consist of two elements, namely, physical planning policy and location of industry policy. The Toothill Committee's 1960-61 study of the Scottish economy is also analyzed. Chapter 6 describes the selection process actually used by the Scottish Development Department in choosing the "growth areas" announced in the White Paper on Central Scotland of November 1963. Chapter 7 presents an analysis of changes in manufacturing employment in Central Scotland between 1954 and 1966, and their relevance to the "growth areas". Chapter 8 is an assessment of the important characteristics of the "growth areas" selected in 1963, as well as of their value as a technique for economic development in Central Scotland.

Part III posits that in 1961 the economic base of the Atlantic Provinces economy consisted of Forestry, Fishing, Mining, and Public Administration and Defence, and contends that the objective of policy should be to expand this economic base. Specifically, it is argued that Manufacturing is the sector whose growth should be stimulated in order to achieve this objective. "Growth centres" or "growth areas" are recommended as the best approach to follow in formulating policy, programs and projects to pursue this objective, on the basis of the empirical evidence about Scotland discussed in Part II. In addition, there should be suitable financial incentives available to Manufacturing industries, and firms, which locate or expand their capital facilities in the designated "growth centres".

More specific aspects of a "growth centres" policy for Canada's Atlantic Provinces are elaborated in Chapter 16.

Finally, the respective roles required of the federal and provincial governments in formulating and executing a proper regional development program for the Atlantic Region within the Canadian Confederation, are also described.

CHAPTER 1

The Place of Regional Development in Economics

"Regional economics" has been described by Meyer[1], in its American manifestation, as the postwar creation of a new area of specialization in economics attended by a new professional association, a new journal and some indications of increasing intellectual and academic respectability. The incorporation of "regional development" within the received body of economic theory is even more difficult than is the case with "regional economics" because regional development is the proper concern not only of the economist but of the political scientist, the physical planner, the geographer, and even the sociologist, as well. This may make "regional development" a bit of a bastard; hence the need, for the purposes of the present study, of defining the field to be covered as "regional economic development".

Regional economic development is about the economic development of regions. Two parts of the field, thus defined, may be broadly distinguished, namely, the study of past development and the problems to which it has given rise; and the direction, character, rate and manner of future development which should be fostered. Both involve considerations of public policy. This means the present thesis is essentially a study in political economy at the regional level.

A notoriously difficult problem is to find a generally acceptable definition of what constitutes a region. The word has many connotations and geographers, in particular, have been wont to spend a good deal of effort in delineating various types of region. Given the diversity of disciplines from which "regional" analysts are drawn, plus the fact that the boundaries of both political and

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[1] John R. Meyer, "Regional Economics: A Survey", A.E.R., March 1963.

administrative units have seldom, if ever, been established by reference to any standard, let alone theoretically sound or homogeneous, set of criteria, it is not surprising that a generally agreed basis of a proper definition for a region is its suitability for analyzing, and attempting to remedy, the particular problem at hand. The definition used here, therefore, is in accord with that proposed by Joseph Fisher:

> "...the most helpful region in many instances is what might be called the economic development region .. (where) .. the emphasis is on the development of policies, programs and actions to move the region from where it is economically toward pre-determined objectives."[2]

Although this may appear to be an overly simple definition, which does not seem to say very much, it is a useful concept covering, as it does, any region to which policy measures may be applied in the attempt to achieve various economic objectives. In regional studies attention is frequently focussed on those regions, which, by virtue of their having become problems, have had some history of backwardness or decline. The regions to be given particular attention here - Scotland, and the Canadian Atlantic Provinces - both conform to this general definition of regions. Each, moreover, is a major economic region within the national economy to which it belongs.

To recapitulate, the present study is of the economic development of major economic regions which, for various reasons have not kept pace with the rest of the country of which they comprise parts and are, therefore, economically lagging regions. The examination here is limited to such regions within economically "advanced" nations although, of course, the problem of regional retardation is certainly not confined to them.

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[2] J.L. Fisher, "Concepts in Regional Economic Development Programs", Papers and Proceedings Reg. Sci. Assoc., 1955, 1, W6.

Objectives of the Thesis

The present study has several, related objectives, as follows:

(1) to review the evolution and present state of economic theory relating to regional economic development. This review is presented in the concluding section of this chapter, and in Chapter 2.

(2) to outline the theoretical aspects of policy for regional economic development (Chapter 3), and to consider its essentially social purposes (Chapter 4).

(3) to describe the emergence in Britain of regional policy for Scotland, especially during the postwar period. This description is contained in Chapters 5, 6 and 7.

(4) to review the adoption, and to assess the significance, of the "growth areas" approach to policy for Scotland, in 1963. These matters are covered in Chapter 8.

(5) to describe and to assess the nature of the economic problems confronting Canada's main lagging region, the Atlantic Provinces (Chapters 9 and 10).

(6) to review and to assess the evolution of regional economic policy for the Atlantic Provinces during the recent past (Chapters 11 - 15).

(7) to draw conclusions based on the theoretical considerations discussed in Part I (Chapters 1 - 4) and the lessons to be derived from Scottish experience with regional policy, which can be applied to the Atlantic Provinces, and, on this basis, to outline a suitable policy for the economic development of Canada's Atlantic Provinces.

The approach to be followed in the thesis is a comparative analysis of Scottish and Canadian regional development problems and policy. What basis, it may fairly be asked, is there for comparing these two "regions" in different countries?

There are, of course, a number of similarities between Scotland and the Atlantic Provinces. Both are subject to a Parliamentary form of government on the British model although, as parts of a federation, the Atlantic Provinces have greater powers to adopt "provincial" programs. At the same time, the existence of a Secretary of State for Scotland and the conduct of certain programs at Edinburgh, means that Scotland bears a closer resemblance to the Atlantic Provinces than other British regions like the Northeast, the South West, etc.[3]

Each region contains roughly 10 per cent of the national population. Unemployment in both regions displays a tendency to rise at times to "twice the national average".

Both areas are major economic regions in their respective countries, clearly large enough to be suitable for the application of a comprehensive development program.

Within their own countries, both "regions" are some distance away from the main population, and decision-making, centres.

Similarities such as these make Scotland and the Atlantic Provinces reasonable subjects for comparison. But the existence of a number of differences must also be noted. For example, consider the following:

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[3]The same is true of Wales, and to a still greater extent, of Northern Ireland.

- Scotland is a much older economy than the Atlantic Provinces, and it has a correspondingly longer experience with regional policy. Far from making comparison invalid, however, this greater experience is perhaps the best argument of all for analyzing Scotland's record with regional development, since regional policy in Canada has emerged largely within the past ten years and there is thus little direct experience to guide it.

- Industry is much more important in Scotland than in the Atlantic Provinces. One is an industrialized economy, the other is not. This must be borne in mind when the relevance of policy in one region to the other, is being assessed.

- Generally speaking, Scotland is a "mature" economy suffering the effects of technological change on her industrial structure, while the Atlantic Provinces are perhaps best characterized as an "underdeveloped" economy.

Theoretical Underpinnings

Against this background, the purpose of this chapter is to consider what economic theory can offer as a basis for regional economic development. Economic theory, however, is not itself a coherent, interrelated whole. There is, for example, the well-known general distinction between macroeconomics and microeconomics: this distinction is reflected also in the tendency for professional economists to talk of problems of "aggregation" and "dis-aggregation". Such talk, of course, arises from the fact that these two main parts of economic theory have not as yet been successfully integrated. Of the two, macroeconomics provides more of the stuff of regional economic development than microeconomics although some aspects of microeconomics, in particular the behaviour of industrial firms in making location decisions, certainly cannot be ignored. Another factor in the proliferation of "branches" of economic theory has been the tendency for theoretical developments to arise in response to contemporary problems in the real world. Just as the theory of international trade first developed, in its welfare aspects at least, as a reaction against merchantilist beliefs in protectionism, so too the Keynesian theory of income and employment determination came about as a response to the severe unemployment of the Great Depression and the inadequacy of government policy in alleviating it. The evolution of economic theory in response to important policy issues also helps to explain why, for example, monetary theory has benefited greatly from contributions by British economists working in a tradition of financial institutions with important economic roles while trade theory has been, at least since Ricardo and Mill, more often the prerogative of Scandinavian economists by virtue of their countries' unashamed dependence on foreign trade. Similarly, American economists bound perhaps by a generally greater allegiance to the market mechanism and the virtues of competition, seem to have paid special attention to the theory of the firm. One implication of this process of evolution in several directions, often in response to contemporary and sometimes "local" problems, is that economic theory constitutes a received body of knowledge which, although it is sometimes referred to as "doctrine", has not in fact come to us from infallible authority. This point is, of course, well recognized by theoretical economists actually engaged in the continuing effort to test existing theoretical hypotheses and to formulate new ones.

There are, then, several branches of economic theory. Some of these touch one another when the wind blows. Others, however, are only related to one another by virtue of their belonging to the same tree: even in a hurricane they remain out of contact with one another.

Regional economic development can be related in some, usually relevant, way to most of these branches. Regions trade with one another, hence some of the theorems of international trade theory may be applied to regions with appropriate modifications. A well-known example of this approach is Bertil Ohlin's Interregional and International Trade in which, indeed, he characterises international trade as one special case of interregional trade. Theories of economic development may also be applied to regions as well as to countries providing the regions are big enough - a criterion which each of the major economic regions with which I shall be concerned, satisfies. Income and employment levels are presumably determined by the same sort of factors in the short run that neo-Keynesian theory teaches us to observe at the national level. And so on. As Meyer has noted, the "almost unavoidable temptation ... is to assert that it (regional economics) is simply all of economics scaled to whatever level is required to adequately measure or forecast economic activity for a specific geographic area".[4] The temptation must be avoided, however, if regional economics is to retain a distinct character of its own. This is even more the case with regional economic development than with the "regional economics" surveyed by Meyer, since regional economic development is somewhat narrower in scope and, being related particularly to development or development policies, more specific in purpose.

It would be most helpful to have a theory of regional economic development. Although, as we shall see, a number of partial theories have been suggested which suit particular circumstances rather well and justify certain lines of policy action more or less successfully, a general theory of regional economic development has not so far evolved to cover different sorts of circumstances and accordingly prescribing various lines of policy. Such a theory, of course, would be no mean feat for even the most skilled theoretician to develop. That it has not evolved is perhaps essentially because regional economic development is a relatively new field and those involved in it, whether economists or not, have been mainly concerned with attempts to solve practical problems.

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[4] Meyer, OP. CIT., p. 20.

However that may be, it will be necessary here to consider instead the contributions which the main, conventional branches of economic theory have made, or may make, to regional economic development. Which of these are more important than others? Which offer the greatest promise of future refinement and/or empirical testing? Above all, can they someday be integrated into a general theory of regional economic development? To examine these questions, I shall review the "borrowings" from the main, conventional branches of economic theory which have guided regional economic development, particularly regional development policy, in the past. In Chapter 2, I shall consider how far regional development economists have gone towards providing a theory of regional economic development; the limitations to be noted will represent gaps in the available theory which might, presumably, be filled eventually. Then, in Chapter 3, I shall develop certain of these available theories as "working assumptions" to provide a theoretical framework for the present study. In Chapter 4, the social justification for regional development is discussed.

The Emergence of Regional Policy

Like the older branches of economics, regional economic development has been a response to policy problems. It has appeared in the form of policies to alleviate problems associated with the backwardness or decline of particular regions. Here too such theories as exist have followed from attempts to deal with contemporary practical problems. Indeed, the recent emergence of regional economic development can be explained partly by the fact that governments in the economically advanced countries have only lately been able to turn part of their attention away from national, and therefore more pressing, problems of unemployment and slow growth. In a sense, regional economic development had to await greater success with national economic policy than had been achieved prior to World War II. Meyer dates the emergence of regional economics in the United States from the early postwar years, and in Canada regional aspects of development were first discussed seriously only in the middle fifties.[5] Similarly, although the problem

[5]R.D. Howland, Some Regional Aspects of Canada's Economic Development, a study for the Royal Commission on Canada's Economic Prospects, is really the first attempt to analyze regional difficulties in a national context.

of the Italian South had been recognized and received considerable attention in the historical literature, it was not until 1950 that the Cassa per il Mezzogiorno was established and 1954 before the "Vanoni Plan" was formulated.[6] In Britain, however, where the Depression of the 1930's had fallen with particularly harsh effects upon those regions which had been first affected by the Industrial Revolution several decades earlier and were therefore more vulnerable to industrial decline, regional problems had been met somewhat earlier. As a consequence, regional policy had its first, explicit beginnings in Britain and the evolution of regional economic development theory can be traced to Britain in the middle thirties.[7]

Regional policy thus first arose in the United Kingdom in response to the heavy unemployment experienced in certain, largely industrial regions of the British economy especially affected by the decline in the world industrial economy. It was not essentially a policy for regional economic development as I have defined it, but it was a regional policy. Its roots were perhaps mainly in social concern for the individuals displaced from work and the hardship thus imposed on them. Although it was later to be given a degree of economic justification by Keynesian theories of income and employment determination which gave government the major responsibility for increasing aggregate demand sufficiently to eliminate unemployment, it is doubtful whether the Keynesian influence would have been strong enough in the middle thirties to carry regional policy into respectability if it had had to do the whole job itself. Indeed, regional policy came into being much

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[6]An excellent review of postwar Italian literature on the problem of the South is contained in P. Giani, "Recent Italian Works on Theories of Economic Development", in Banca Nazionale del Lavoro, Quarterly Review, March 1960, No. 52. He notes that in the early postwar years Italian economists were strongly influenced by Anglosaxon, especially Keynesian, theories of full employment.

[7]Meyer's article on "Regional Economics", by its lack of reference to non-American experience, is unsatisfactorily incomplete.

sooner than the Keynesian remedy became acceptable to the politician with sole opportunity to put it into effect.[8] Regional policy was born of the social desire in Britain to alleviate the plight of the large numbers of industrial workers, particularly on Clydeside in Scotland, in Northeast England, and in Wales, who had become unemployed when the shipbuilding and heavy engineering industries were severely affected by the decline in world production and trade. Although the explicit purpose of the Special Areas legislation of 1934 was to encourage new industrial location in such areas,[9] this was seen largely as an extension of social welfare policy to shield the unemployed from the full consequences of the industrial and trade depression.

A second factor in the emergence of regional policy was added a few years later by the administrators of the Special Areas legislation; again, however, the basis of this further justification for regional policy was laid quite outside the boundaries of economic theory. In his 1936 annual report Sir Malcolm Stewart, the Special Areas Commissioner for England and Wales noted the tendency for new industrial enterprises which could have absorbed idle labour in the Special Areas, to locate in the South-East of England, especially in Greater London. He therefore proposed a general embargo, subject to certain exceptions, on further factory construction in the Greater London Area. The Commissioner's concern was directed at the inability of the Special Areas to attract new industry unless something drastic

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[8]The resistance to Keynesian economics lasted rather longer in the United States, in fact until the 1962 "tax cut" program of the Kennedy administration.

[9]At first the Commissioners' powers were limited to persuasion and exhortation, improving water supply and sewerage, clearing sites, removing slag heaps, and establishing small holdings. Before long, however, financial assistance to the establishment of industrial undertakings including the provision of factories for letting, was added.

were done to prevent the most favoured regions from attracting the lion's share of new enterprises. He recognized an imbalance of advantages for new industry in favour of London and sought redress simply by having it made illegal for further expansion to occur in the region with the greatest apparent advantage.

The issue was debated in Parliament in 1937. Afterwards the Government established a Royal Commission under the chairmanship of Sir Montague Barlow. The concern about congestion, and thus the first official recognition of "congested" regions in British regional policy, became explicit in the Commission terms of reference:

> "to enquire into the causes which have influenced the present geographical distribution of the industrial population of Great Britain and the probable direction of any change in that distribution in future";
>
> "to consider what social, economic or strategical disadvantages arise from the concentration of industries or of the industrial population in large towns or in particular areas of the country";
>
> "and to report what remedial measures if any should be taken in the national interest."

The Commission reported in August 1939 and its report was published in January 1940.[10] It stated, (and note the sequence of considerations as listed), "the disadvantages in many if not most of the great industrial concentrations alike on the strategical, the social and the economic side do constitute a serious handicap and even in some respects dangers to the nation's life and development and we are of the opinion that definite action should be taken by the Government towards remedying them."

Agreed in this general conclusion, the members of the Commission divided on how to put it into specific effect. The majority recommended the establishment of a National Industrial Board

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[10] Royal Commission on the Distribution of the Industrial Population, Report, Cmnd. 6153, London: H.M.S.O., 1940.

charged with responsibility for dispersing industry from the congested areas, including the Greater London area immediately, and developing a better balance of industry in the different regions. .

The minority report went further and recommended a new Ministry with powers to research into and control the location of industry throughout Great Britain, and to promote and supervise the planning of the country for industrial, agricultural, residential, and recreational requirements.

Neither the majority nor the minority report could be acted upon in legislation during the War. They were to influence the sort of regional policies introduced, however, in the postwar period. And whatever the validity of the concern about over-congestion in the most prosperous regions, there is little doubt that the various measures for restraining expansion in such areas have been a necessary condition for the successful pursuit of policies to stimulate economic development in the lagging regions.

Regional and National Policy

Whether real or only alleged,[11] this "congestion" provided a means for setting regional policy within the framework of national policy, a change which increased the respectability of the measures for assisting the Special Areas. Moreover, the change was to be carried several steps further in the postwar period, through the system of industrial development certificates (I.D.C.'s), to provide an essential source of new industrial ventures whose location could be diverted to the less prosperous regions. The "congestion" was described mainly in its physical aspects, and even though the results envisaged were seen to have possible economic and social consequences, there was no explicit justification drawn from economic theory.

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[11] See A.E. Holmans, "Industrial Development Certificates and Control of the Growth of Employment in South-east England," Urban Studies, November 1964. Holmans argues that further development in the South-east is by no means circumvented by congestion.

The first direct and explicit link between regional policy and economic theory was drawn in 1944, first in the White Paper on Employment Policy, and then in Lord Beveridge's Full Employment in a Free Society. The White Paper meant official Government approval for regional policy, of course. By then, however, regional policy had become an accepted government responsibility. The War, moreover, had played an important part in broadening the basis of its justification from what, in the 1930's, had been essentially social welfare and physical planning considerations. For one thing, effective demand had been maintained at the full employment level. At the same time, the War had also forced a substantial shakeout of manpower throughout the British economy - one result of which, incidentally, was a postwar shortage of coal miners. Against the background of full employment and unusual occupational mobility, the British authorities also gained some valuable learning experience with locating munitions factories in the more remote regions of the British economy. Although this policy was prompted more by strategic considerations than anything else, its successful execution under extreme wartime conditions was probably of critical importance in building up the British confidence in relocation of industry as a tool of regional development policy.

Nevertheless the White Paper clearly brought regional policy under the Keynesian umbrella and thereby exposed it to increasing scrutiny by economists. This scrutiny was prosecuted most often at this stage in terms of the Keynesian analysis. What, then, did Keynesian theory contribute to the analysis of regional problems and more especially, to the evolution of a theory of regional economic development?

The full employment policy enunciated in the 1944 White Paper treated regional policy as a special case of the more general measures to be carried out at the national level. Unemployment nationally was to be avoided through the maintenance of an adequate level of aggregate demand. For the more difficult regions these national measures were to be reinforced by further special provisions:

(1) the location of new enterprises would be influenced so as to diversify the industrial composition of areas particularly vulnerable to unemployment;

(2) obstacles to the transfer of workers from one area to another, and from one occupation to another, would be removed;

(3) training facilities would be provided to fit workers from declining industries for jobs in expanding industries.

Thus regional policy became more or less a logical extension of the national policy for full employment, involving only some additional means of reducing unemployment regionally beyond those required nationally. Apart from particular physical and social welfare aspects, the policy at the regional level was conceived largely, if not entirely, against the national economic objective of full employment. No examination of peculiarly regional problems nor of purely regional objectives was necessary, since these were assumed to be identical with the national, full-employment objective. Thus at this stage in its evolution, regional policy in its economic implications was simply an extension of national full-employment policy. It was not yet a policy for regional economic development, except perhaps by implication.

Postwar Regional Policy in Britain

During the years immediately after the War, regional policy was vigorously pursued under the Distribution of Industry Act, 1945. Restrictions on factory building which had been introduced as part of the wartime licensing system, were maintained. The less prosperous regions, or Development Areas[12] as they were called, whose problems

[12] These were the North-Eastern Development Area, the West Cumberland Development Area, the South Lancashire Development Area, the Wrexham Development Area, the South Wales and Monmouthshire Development Area, and the Scottish Development Area. With the inclusion of such major centres as Cardiff and Glasgow, the Development Areas were considerably more extensive than the Special Areas under the 1934 legislation.

were now complicated also by a lack of coal which led to some increase in unemployment, were thus able to attract a more than proportionate share of total fixed investment.

Building restrictions were relaxed somewhat during the 1948-49 recession as the building licensing system was allowed to lapse. Subsequently, however, unemployment nationally was again reduced to a low level where it remained throughout most of the ensuing decade. Thus, although the Board of Trade could no longer use its power of negative control on factory building to "steer" new factories or factory extensionsto the Development Areas, the latter continued to enjoy a high degree of prosperity as a result of full employment being maintained in the national economy.

This state of affairs characterized British regional policy throughout the 1950's and into the early 1960's. A combination of full employment in the national economy with policies designed explicitly to bring "work to the workers" in the Development Areas and pursued with some vigor through the maintenance of the wartime building licensing system into the years immediately following the War, brought a noteworthy increase in employment to these Areas. Here it should be recognized that it was the state of full employment nationally which was the more important of these two elements in the success achieved in the less prosperous regions. Without full employment the incentive to look further afield simply does not operate with the same force on an industrialist contemplating expansion in a more prosperous region. If he can find the additional labour he requires nearby, there is no point, from his viewpoint at least, in considering a move or an expansion into a more remote (to him) and unknown area. For this reason primarily, national full employment is a prerequisite for increasing employment in the less prosperous regions of any country.

Similarly, full employment policies are the prior condition of success in these regions. This is the main lesson of regional policy to be learned from Britain's experience during the immediate postwar years.

The tenuous association of regional policy with full employment objectives did not, however, result in much healthy exchange of analytical concepts and tools, beyond a happy assumption in some quarters that a Keynesian-type multiplier would inevitably result in early and substantial improvement in the regional economies if only the initial impetus from investment in newly located industries were made large enough. This transplantation from Keynesian theory to regional analysis of the multiplier proved unsuccessful because the underlying assumptions were not examined and modified sufficiently. In particular, the assumption that unemployed resources in the regions were capable of responding to the stimulus of increased demand is obviously less applicable to labour which has been chronically unemployed or underemployed that to those affected by short-term idleness resulting from a temporary deficiency of demand. Also, the "multiplier" adherents seemed to underestimate the likelihood of substantial "import leakages" into the less prosperous regions from the more industrially-developed, more prosperous regions. Similarly, the application of the Keynesian remedy to regional policy remained simple and direct; raise aggregate demand adequately and the problem of regional unemployment would disappear. The region was seen simply as a microcosm of the national economy. Although the policy involved the attraction of industry, this was treated by some economists and policy makers as an associated and necessary means of raising regional demand.

During the middle and late 1950's, when it became clear that European growth had been so rapid as to reduce the level of national unemployment in many countries to, or below, the "full employment" level suggested by Beveridge, it became fashionable in some quarters to consider unemployment as an almost purely local problem, affecting only a small number of (usually) isolated localities. This led to the conclusion that regional policy should be so tailored as to concentrate on solving the unemployment which remained in those particular localities where it still existed. Accordingly, in Britain development districts[13] were scheduled in place of the former development areas, and similar changes in policy were adopted in some other European countries as well. When, however, this approach began to have mixed and at times contradictory results, it was noted that the policy tended to result in firms being forced to establish in those areas least suited to the firms' further development, and least likely to cause secondary effects throughout the whole region. The danger also was either that productive firms changed their minds about establishing new facilities, or later found themselves with new facilities in rather unlikely, usually unpromising locations.

Regional Policy and Economic Growth

By this time, also, the continued operation of the European economies at full employment had permitted economists, and policy makers, the relative luxury of considering how best to foster the further growth of the economy, where previously they had been preoccupied with how best to reduce, or to avoid, unemployment. In this newly emerging situation regional proponents were not long in bringing forth the argument that effective measures for regional development - as opposed to measures to relieve regional and/or local unemployment - constituted a valid and promising source of further national growth. It was this changed emphasis, on positive development as compared with the former attempt to relieve "excessive" unemployment, which permeated the White Papers of November 1963 on Central Scotland and the North East. Regional development, a more mature form of regional policy, thus was given greater respectability by its being brought under the mantle of economic growth.

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[13] These were "any locality in Great Britain in which in the opinion of the Board of Trade a high rate of unemployment exists, or is to be expected...., and is likely to persist, whether seasonally or generally." Such districts were based on Ministry of Labour employment exchange areas, and were scheduled from time to time by the Board of Trade. The level of unemployment necessary for a district to qualify, in practice was four per cent. The introduction of development districts first came with the Distribution of Industry (Industrial Finances) Act of 1958, and was extended throughout the country with the Local Employment Act of 1960.

On a theoretical level it remains a question whether regional development can, however, be seen as a part of theories of economic growth, or, in the broader sense, of theories of economic growth and development. To the latter category belong such contributions as those of Lewis, Myrdal and Hirschman. The former category, theories of growth in a narrower sense, will be examined first, however.

Contemporary theories of growth - a relatively recent branch of economics - have developed from the Keynesian theory of short run income and employment determination although, of course, growth is a long term process. The Harrod-Domar problem, for example, consists of how savings and investment can be kept in equilibrium over time so as to enable growth of total output (or income) to proceed at a steady rate.[14]

What regional economic development theory has borrowed from economic growth theory is the fashionable assumption that more rapid growth is desirable, perhaps the most desirable, objective for public policy. It is this assumption, as already noted, which has provided considerable support and justification for special regional development measures. Anything that raises production in regions with unutilized resources will, *ipso facto*, raise national output and thereby contribute to further national growth.

Regional Policy and Development Theory

Regional economic development may also, of course, be considered simply as a particular case of economic development. To find a suitable theory of economic development might be to find a theory of regional economic development, the main difference being largely a

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[14]It cannot, of course, be steady unless the population growth rate, which is treated as an "autonomous" variable in growth theory, is also steady. What conventional growth theory does is to eliminate population change as a factor influencing the growth process in order to concentrate on such factors as savings and investment.

different level of abstraction and/or application. Most of the literature on economic development is based on the underdeveloped countries: sometimes it deals specifically with regional aspects, especially in its concern with balanced (or unbalanced) growth, although this is not its main emphasis. Little has suggested that there are broadly two types of economic development theory: that concerned with explaining the genesis of progress, or lack of it, and the subsequent course of growth; and that concerned with planning growth, hence with breaking the bottlenecks to a forced, more or less state-directed, process of growth.[15] Theories concerned with the genesis and course of growth such as the poverty-trap theory (that is, the underdeveloped countries are too poor to save), the theory that a lack of investment opportunities prevents development, or that entrepreneurial spirit is lacking, do not take us far, however.

Theories on how to accelerate growth in the underdeveloped countries place emphasis on various bottlenecks. One such is a low absorptive capacity for investment. Another consists of a savings level inadequate for the import on the necessary scale, of capital goods without encountering a balance of payments deficit because the domestic supply of investment goods is small or relatively inelastic. Still another would be insufficiently liberal trade policies to enable the expansion of export earnings. Also, there is frequently the difficulty of attracting foreign capital to fill the gap in domestic savings.

Much of the substance of economic development theory of both types may be applied equally well to lagging regions. The difference, however, is that a region is part of a national economy and not dependent, to the same extent, therefore, upon savings within the region or foreign capital to overcome balance of payments difficulties. The region may instead be able to draw on a flow of investment funds

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[15] I.M.D. Little and J.M. Clifford, International Aid, Aldine Publishing Company, Chicago, 1966, p.129.

from its national government or, in some cases, by private firms with headquarters elsewhere within the same country, without the same restrictions as would be imposed by having its own external equilibrium to maintain. It thus may avoid the difficulties of having to reduce consumption in order to raise savings to a higher level, and the further problem of seeing these savings diverted into investment that would raise productive capacity and ultimately, employment and income. The easier and quite feasible course, for a region in an advanced economy, is to maintain consumption but to obtain a high level of investment by persuading the national government to direct a more than proportionate share of public investment to the region. That is, in allocating its investment resources among various regions of the country, the national government would divert a share to the underdeveloped region that was greater than the region's present percentage contribution to national output, or its percentage of the national population, or some similar "norm". Similarly, the region may, with or without the active assistance of the national government, seek to persuade national enterprises in the private sector to erect new factories in the region - the effect of which is also to raise investment and thereby expand the region's ability to generate higher income and employment on a continuing basis. In either case, the additional investment would come about without there having to be the same degree of internal "self-sacrifice" as when the expansion of productive capacity results from increased savings internally within the region. Moreover, higher savings may be injected from outside the region.

A proper understanding of these factors depends, however, upon the availability of information about regional economies that is frequently not available. In particular, there is a need for a suitable system of social accounts for each broad region within a country. Such a system would incorporate information about a region's "balance of payments". The need for such data is especially great in a federal country like Canada where intergovernmental transfers across regional boundaries assume a considerable degree of importance.

The inadequacy of economic development theory for adaptation to regions, however, is due to the same sort of reason as the shortcomings of growth theory. There is as yet no single general theory of economic development which is widely accepted. Nor perhaps should we expect one ever to emerge. Economic development is a complex, long-term process in which many factors, not all economic, interact: to expect to find a single theory capable of comprehending all such factors and of being applied to all sorts of development situations would appear, to say the least, unrealistic. At any rate, while many of the factors in development are common to regions and countries, the existing state of economic development theory is too unsettled to allow regional economic development to find a readily applicable junior version therein.

This brief, cursory review of Keynesian income and employment theory, growth theories, and development theory evolved from the attempts to aid the underdeveloped countries, has shown that while regional economic development has tapped each from time to time for vital inputs, none in its present state provides a ready general theory capable of serving as a general theoretical guide for regional economic development. Perhaps this only reveals the lack of perfection in these branches of general economic theory. It certainly leaves a clear field for regional economic development to find its own theory based on its own peculiar characteristics and capable of dealing with its own peculiar problems. Probably, that is as it should be.

In Chapter 2 some theories of this type are examined.

CHAPTER 2

Some Theories of Regional Economic Development

Introduction

A theory of regional economic development should be capable of explaining, in general or abstract terms, why some regions have not experienced the same degree of development in the past and thus find themselves different in important economic respects from other regions in the same country. Usually the emphasis in discussions of regional problems has been on the poorer regions although a good general theory of regional development would not have this limitation but could also be invoked to explain why the richer regions have attained their present status. Similarly, such a theory would also be capable of describing the process whereby some regions may decline and thus be transformed from rich to poor regions. To deal with these three types of cases, the theory required is essentially an explanation of observable processes of change in the real world. A second, ultimate purpose of having a theory of regional economic development is to offer guidance to the policy maker on how, in particular, the poorer regions can be brought to a higher level of economic performance - in other words, how they can be assisted to develop. Here the emphasis would be on isolating the important variables, perhaps on the basis of what general inferences may be drawn from the analysis of past change.

The purpose of this chapter is to review several contributions to theories of regional development as a basis for developing, in Chapter 3, the "working assumptions" which I shall make as a sort of theoretical framework in which to compare some aspects of regional development, particularly policy for regional economic development, in Canada and the United Kingdom.

The Classical View

A number of regional theories have been advanced against the background of, and indeed frequently in an attempt to refute, what might be called the "classical" approach to regional economic development derived from the welfare assumptions of conventional microeconomic price theory. One of these assumptions is that "pure" or "perfect" competition will lead eventually to an optimum allocation of resources consistent with consumer preferences and in harmony with social objectives. There would be no such thing as "externalities" to be taken into account. When the operation of a more or less market-driven economy was observed to result in a tendency for economic activities to concentrate in some areas and enable such areas to achieve higher *per capita* levels of output, income and employment - and therefore higher standards of living - than other areas within the same country, it was concluded that the concentration was caused by the competitive nature of the system and was, therefore, a necessary result of the desirable (and assumed) blend of consumer preferences and social objectives in total harmony. Proponents of this view have usually argued their case without having to demonstrate that "pure" or "perfect" competition actually does characterize any functioning economy in the world today or in any earlier day: the demonstration of this important link in their argument, in fact, poses a serious challenge. At worst, they were only forced to concede some interferences with their assumption of unfettered and unbridled competition. They did not concede the existence of "externalities". The extreme case of perfectly competitive conditions, useful in enabling economics students to grasp the technical concepts of their discipline, was, at least for the purposes of this argument, boldly assumed to hold sway in the real world. In particular, complete interregional mobility of factors was assumed to exist in the real world where, in fact, there are important barriers to such mobility, especially of the labour factor. Such imperfections and interferences with the market mechanism as were admitted were insufficient, it was implicitly assumed, to prevent "market forces" from having the main influence on economic development.

Moreover, according to this "classical" school of thought, the uneven incidence of development among regions and its consequent differentials in living standards are only temporary phenomena anyway.

The continued free play of "market forces" would eventually result in the movement of resources, especially labour, from the less prosperous regions to those where the main benefits of development are being felt. In time, the resulting depopulation in the poorer areas would eliminate the problem. In other words, the balance of population with resources would be restored when, on a per capita basis, output, income and employment would become equivalent to the levels attained in the prosperous areas. The implications of this theory are clear enough: policy which seeks to stimulate development in the lagging regions is, in the long run, unnecessary and, indeed, even perverse.

Ohlin's Theory of Interregional Trade

A comprehensive attempt to formulate an economic theory specifically about regions was made by a Swedish economist, Bertil Ohlin, during the 1920's. While he was not concerned primarily with regional development or with policy aspects, his analysis of regional economic systems affords a useful start in constructing a theory of regional economic development.[1]

It is now generally accepted that Ohlin did not achieve his purpose of bridging the gap between international trade theory and location theory. (Isard agrees, however, that location and trade are "as two sides of the same coin[2], and strives to achieve a better integration of these two branches of economic theory.) This need not deter us from making use of Ohlin's systematic treatment of interregional trade, since the latter is valuable in itself and of relevance to the

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[1]Ohlin, Bertil, Interregional and International Trade, Harvard, 1933, Preface, pp. vii, viii.

[2]Isard, Location and Space Economy, M.I.T. Press, Cambridge, Mass., 1956, p. 6. His chapter on "Some General Theories of Location and Space Economy" is an excellent review of previous work in this field.

present study. Moreover, although developed within the framework of general equilibrium theory, Ohlin's treatment of interregional relations is less confined by the unrealistic assumptions (pure competition, price of a commodity equals average cost, price of a factor equals marginal product) normally involved in equilibrium analysis and also may be more easily transposed to the level of macroeconomic theory.[3]

Ohlin begins by noting that a region's supply of productive factors is not the sole determinant of the relative prices of the factors of production (and the state of economic development) within the region. Regional demand must also be taken into account, even if there is no trade with other regions. If there is interregional trade, the region's factor supply is thereby exposed to extra-regional demand; also, its own demand may be met, at least partly, by factor supplies in other regions. There are other influences than factor supply and consumer demand to be taken into account as well -- including the physical conditions of production, the tastes of consumers, the inclination of man to work and save, and the ownership of the factors of production.

Exposure of a previously "closed" region to trade with another region in essence introduces one new variable -- the interregional exchange rate[4] -- and sets one new condition, that the value of

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[3]Richardson points out that "regional economics" began as an amalgamation of macroeconomics (theory of income determination) and international trade theory. See Harry W. Richardson, Regional Economics, London, Wiedenfeld and Nicolson, 1969, p. 427.

[4]The notion of an interregional exchange rate is used here in a comprehensive sense. If the regions trading with one another are parts of the same country, then, of course, their "exchange rate" does not exist as such and there may be a continued imbalance of trade between them. Even so, however, such imbalance must be offset by a reverse imbalance on "invisible" or capital account.

imports and exports must balance, to the system of equations which determines the region's price system. Each region then has an advantage in the production of commodities into which enter considerable amounts of factors abundant and cheap in that region, because the play of reciprocal demand in two (trading) regions influences the nature of interregional trade as much as the internal supply of productive factors of each region. The effect of such trade is to equalize commodity prices. There will also be a tendency towards equalization of the prices of the factors of production.[5]

This argument assumes complete divisibility which is contradictory to the conditions encountered in the real world. The lack of divisibility makes production on a large scale more efficient up to a certain point than production in small quantities. It is also indivisibility which makes for external economies as, for example, in a large, specialized labour market for firms requiring certain types of special skills.

The exploitation of such internal and external economies of scale makes for further interregional trade based on further division of labour: this would be true even if two trading regions had both identical factor equipment and identical demand conditions. This is because the demand for productive factors in the various industries where large-scale production makes for cheap production must vary. Usually, of course, the economies of scale strengthen the tendency which arises from differences in demand and supply conditions between regions, to division of production in all cases where the most efficient scale is large compared to the need for the product. The advantages of large-scale production thus strengthen the tendency toward interregional trade already basically inherent in the differences in the regions' respective supplies of productive factors.

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[5]Ohlin, op. cit., p. 49 (summarized)

The effect of the trade induced by the economies of large-scale production is a more efficient organization of production whereby the disadvantages of a lack of divisibility are substantially reduced, just as interregional trade reduces the disadvantages arising from a lack of factor mobility.

In this way interregional trade can serve as a substitute for interregional factor movements. Ohlin's underlying assumption up to this point, however, is that factors are not mobile between regions although they are fully mobile within them. Hence, in this respect, his conclusions about interregional trade differ fundamentally very little from those of international trade theory, where the assumption of factor immobility between countries is distinctly more valid. In order to distinguish interregional economic relations from international trade, it is mainly this assumption of a lack of factor mobility which must be relaxed.

Generally speaking, the fact is that factors of production move more freely between regions within a country than between countries.[6] Such factor movements are analyzed by Ohlin in terms of their effects upon interregional trade and its implications.

In general, factor movements[7] contribute to the equalization of interregional factor prices and would appear, therefore, to obviate part of the need for trade. Their effect upon trade, however, will depend upon their impact on the three main factors influencing the volume of interregional trade, namely,

(1) the inequality of factor equipment. If factor equipment is rendered more equal, trade will be reduced; if more unequal, it will be increased.

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[6]Seymour Harris questions this -- but the United States may not be typical in its role as capital-supplier to other countries.

[7]For a more thorough analysis of factor mobility, see Richardson, *op. cit.*, Chapter 12.

(2) the size of the respective regional incomes, i.e., the volume of demand in different regions.

(3) the direction of demand. The immigrant labourer need not demand the same goods as the expatriated capitalist.

The actual effect of factor movements upon interregional trade in particular cases may also be affected by economies of scale and the availability of unutilized (natural) resources tending to moderate the tendency toward factor price equalization. Ohlin argues that in time, however, the onset of diminishing returns will enable the equalization tendencies to operate. Until then, no reduction in trade is caused nor has there been any tendency for the character of trade to change. Another complication is that factor movements affect various industries differently: if, for example, the resulting economies of scale are felt in export industries, trade will tend to increase; if in import industries, trade will tend to diminish.

Although natural resources are immobile, both labour and capital are not, the chief obstacle in each case being considered by Ohlin to be the psychological aversion to change rather than the financial expenses to be incurred in such a move. Just as factor movements depend upon the interregional price system, so too are they influenced by the other parts of the system. Hence factor movements must be placed within the system. In general, their main effects consist in:

(a) the transfer, through capital movements, of buying power from the lending to the borrowing region; and

(b) more importantly perhaps, an alteration of the factor supply in each region.

Whether or not such movements are apt to lead to movements of commodities or more factors is difficult to determine without examining particular actual situations.

Factor and commodity movements are both adjustment mechanisms in interregional economic relations[8], each implying a local adaptation of the supply of goods to the conditions of demand.

The obstacles to interregional commodity movements consist essentially in the costs of transfer, which must also be fitted into the interregional price system. Such costs of transfer are equal to the prices of transfer services, that is, all services required to transfer commodities from one region to another and are, therefore, more comprehensive than simply transport charges. As between various regions, commodity prices tend to differ by the costs of transfer.

Costs of transfer reduce trade and thus weaken the tendency to equalization of factor prices. This also involves a reduction in the scale of production in many industries. Transfer costs limit the size of markets and of units of production much more in some cases, e.g., large regions, than in others, e.g., small ones. In general interregional costs of transfer not only hamper interregional trade but change its course and, to some extent, its effects.

Ohlin and Location Theory

According to Ohlin, the actual distribution (of productive factors) at any given moment is a function of:

(1) localization at earlier times;

(2) changes in domestic supply through births, deaths, savings, etc.; and

(3) interlocal (factor) movements which the local price differences are able to effect in spite of the incomplete mobility of labour and capital.

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[8] See Edgar M. Hoover, Introduction to Regional Economics, Alfred A. Knopf, New York, 1971, pp. 238-242, for another discussion of regional development and interregional movements of capital and labour. He also considers the question of whether such factor movements are likely to lead to convergence of regional per capita incomes within a country; but this discussion is based entirely on the United States where regional per capita incomes have displayed a tendency toward convergence over time. This tendency has not been present in the Canadian experience, however.

Ohlin makes three general observations:

(a) "As factor movements depend upon the price system, or rather upon all the circumstances affecting it, factor movements imply an adaptation of factor supply to these circumstances which is 'advantageous' from the point of view of price economy."[9] In other words, such movements result in a larger aggregate output.

(b) "Labour and capital movements are as a rule greater within countries than between them."[10] Thus from the standpoint of price economy interregional adjustment of factor supply to differences in natural and transport resources is "better" than the corresponding process of international adjustment.

(c) "Labour movements make possible an enormous agglomerating of population in cities, where wages, both nominal and real, are usually higher than in country districts. It is even conceivable under certain circumstances that factor movements lead to increased local differences in factor prices."[11]

The present localization of industry and of factor supplies among regions is thus, as Ohlin notes, the result of a historical process. To understand the nature and structure of any regional economy, therefore, requires some knowledge of its economic history. Moreover, the historical development has been marked by a number of arbitrary influences on

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[9] _Ibid._, p. 226

[10] _Ibid._, p. 226

[11] _Ibid._, p. 227

localization which have left their mark, and which need not be wished away. Nor is there any need to neglect the effect which similar arbitrary elements might cause, or indeed be made to cause, on future localization.

Inventions, mistakes, and arbitrary pricing policies may all cause a deviation from an optimum localization, i.e., whenever price differences between different regions are not explained by the costs of transfer. Firms may follow uniform pricing for all regions, for example. Similarly, firms may buy commodities at the same price in a district, regardless of transportation costs.[12]

Ohlin's Contribution Assessed

Ohlin's theory of location is weak and only verbal, and has been largely superseded by the subsequent work of Hoover, Isard and others. Isard, in particular, has attempted to weave an integrated theory of location and trade from the earlier strands of location theory contributed by Losch, Von Thunen, Weber, Predohl, Ohlin and Hoover. He himself notes that the result is not adequate to explain all forms of trade, because:

> "First, the general theory of location developed ... does not consider, except in minor fashion, the aggregate demand and income side of the picture, particularly as they relate to regions and to interregional trade."
>
> "Secondly, trade may be international as well as intranational."[13]

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[12] It is true, of course, that uniform pricing policies across a country may enable manufacturers in the lagging regions to purchase some components at prices lower than the local costs of production would be. But, on the whole, "postalization" is more likely to apply to final products than to inputs of components or raw materials.

[13] Isard, *op. cit.*, pp. 207-8.

Isard goes on to elaborate his theory of location and space economy by considering other basic factors introduced when trade becomes international. In this his approach is essentially an attempt to generalize his theory into the wider framework. In other words, he attacks the problem from the other end than Ohlin, who sought to extend interregional and international trade so as to comprehend a general location theory. Also, whereas Isard starts avowedly with the factors which determine the location of an individual producing unit (or firm) and moves gradually from there to general tendencies, Ohlin's theory is more a general equilibrium theory.

Theories of location, however, offer inadequate guidance to the formulation of policy for regional economic development. In part this is because the derivation of a general theory of location sufficiently comprehensive to explain all kinds of locational variation, has proven elusive. Perhaps also it is due to the relative neglect of this aspect of economic theory over the years; perhaps the recent emergence of increasing interest in "regional science" will lead to further developments on this front. To some extent, however, the goal may prove impossible of attainment if the currently fashionable micro approach is used. If so, conducting the analysis at the level of economic relations between regions with the use of macro concepts, may offer a worthwhile compromise -- at least, as an interim measure. Such a compromise has the attraction of permitting a greater degree of empirical determinacy and is possibly a more effective approach to the study of regional change than the equilibrium analysis technique of location theory.

Ohlin's theory of interregional trade, although conceived as a necessary step towards his theory of international trade rather than as an end in itself, is remarkably complete. This is due to his treating trade as one, but not the only, result of a many-market price system comprised of several regions. As a result, he has elaborated what is essentially a macro theory of why regions differ in terms of the character of their economic activities, how such differences are affected not only by trade in commodities, but also by interregional factor movements. The analysis is mainly conducted in terms of comparative statics, and there is little empirical verification offered except in very general terms; nevertheless, he succeeds in showing that interregional trade and the interregional localization of industry (and other types of economic activity) are essentially dynamic processes. Of particular value is his identification and analysis, within the interregional price system, of the main factors influencing localization, transfer relations, factor movements, and trade.

A serious limitation of Ohlin's analysis is his implicit assumption -- in the best classical tradition -- of full employment of capital and labour. His theory should, therefore, be modified to take account of interregional economic change in a context characterized by the availability of unused productive factors, especially labour.[14]

The Importance of "Institutional Factors"

The assumption of pure competition implicit in Ohlin's analysis needs to be relaxed in the process of formulating a useful theory of regional economic development. The tendency to interregional factor price equalization inherent in trade and factor movements between regions -- the two main interregional adjustment mechanisms -- will be affected by any deviations from the assumed condition of pure competition. For example, if industries located in one region maintain uniform prices for their products in several different regions, the transport obstacle to interregional commodity trade will be thereby

[14] See the Introduction to L. Needleman, Regional Analysis; Selected Readings, Penguin, 1968, pp. 10-11, for a summary of the argument that the existence of high unemployment and low activity rates in depressed regions are evidence of reserves of unused labour resources which, if employed, would raise national output. Needleman suggests that the costs of government intervention designed to bring these labour reserves into use would be more than offset by the increased output so obtained. This contention is one of the important reasons for national support of regional development programs used by advocates of regional policy.

reduced, and more distant regions will be discouraged from establishing their own production facilities to supply their own internal demand. In some cases such as this it may well be desirable for production to continue to be concentrated in one region, for example, whenever there are significant economies to be attained from large scale production. Here too, however, it is impossible to generalize on the resolution of this conflict between transport costs and economies of scale; instead, practical examples must be examined individually.

Uniform pricing policies on the part of producers are but one example of "institutional" factors which may impede the tendency toward factor price equalization between regions. That is to say, there are a number of ways in which economies in the real world do not conform to the conditions assumed to exist in conventional models of the so-called market economy. These deviations from the theoretical norm are referred to as "institutional" factors, or market imperfections. The importance of such "institutional" factors was emphasized in a study of regional development problems in Europe conducted by the United Nations Economic Commission for Europe in 1954.[15] The study pointed out that, contrary to the predictions of the conventional model of a market economy, serious problems of unemployment and under-employment continued to prevail in some regions of virtually every European country. Thus the authors looked for interferences with the market system which might prevent them from attaining the spatial equilibrium, in the sense of interregional equality of factor prices, expected by the operation of competitive forces in economic theory. They discovered a number of such interferences or "institutional" factors. These factors become important when interregional trade and factor adjustments are not sufficient for complete equalization of

[15] U.N. Economic Commission for Europe, Economic Survey of Europe in 1954, Geneva, 1955, Chapter 6, "Problems of Regional Development and Industrial Location in Europe."

factor prices with the result that the poor regions are characterized by unemployment and underemployment of (relatively) immobile labour. The apparent solution in such circumstances is the immigration of capital to such regions to combine with the available labour supplies in new productive activity: the U.N. survey explicitly suggests industrial decentralization. Certain institutional factors serve, however, to make the process of industrial development in the poor regions even more difficult than interregional price theory envisages. There is a lack of social capital. Instead of the lower wage rates which theoretically would result from the relative absence of production facilities due to concentration in richer regions, wages are prevented from falling in the poor regions by national trade union pressures and national wage policies which do not differentiate between regions. Local taxation may be higher. Imperfections in the credit market may be more pronounced. Railway freight policy, by discriminating in favour of raw materials and against manufactured goods, discourages the processing of regional raw materials and mining output on the spot. Large-scale manufacturers sell at a single uniform price across the country, thereby absorbing their transport costs within their total pricing policy; this also reinforces the tendency for firms to locate near their large consuming markets.[16] Costs of energy may be higher too in poorer regions.

Such "institutional factors" interact to reinforce the cumulative process of growth in the prosperous areas and may be extremely powerful barriers to the spread of industry to the poor regions. The U.N. survey suggested that these obstacles are probably of much greater weight in explaining the backwardness of many poor regions than any natural handicaps from which they might suffer.

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[16] At the same time, it may be noted, these tendencies may keep down the price of various manufacturing inputs in the less prosperous regions. They may also serve to reduce the cost of living in such regions.

Myrdal's Analysis of Regional Change

Myrdal[17] uses the evidence contained in the U.N. report on regional inequality in Europe in expounding a theory of regional economic differentials that is more general and more dynamic than Ohlin's, although it is less carefully reasoned.

Myrdal rests his theory of social change upon the principle of circular and cumulative causation whereby one negative factor is, at the same time, both cause and effect of other negative factors. As an illustration, he cites the Negro problem in America. The two important factors - white prejudice and the low plane of living of the Negro population - cannot lead to any equilibrium because they tend to reinforce each other in a continuing worsening of the Negro plight. There is, Myrdal argues, similarly no tendency toward automatic self-stabilization in the social system. The rich get richer, while the poor get poorer.

The implications of the circular causation hypothesis are several. It is useless to look for one predominant factor, a "basic factor" such as the "economic factor". Moreover, any realistic study of under-development and development in a country, or a region of a country, lies far outside the boundaries of traditional economic theory, largely because the "institutional" (non-economic) factors also tend to operate in the same direction. He applies the principle to the process whereby a region declines economically. A factory is destroyed, causing unemployment. The local market thus shrinks, and some businesses are induced to move elsewhere. Others are discouraged from coming. In time the population age structure worsens. Local tax rates have to be increased to cover the loss of revenues caused by the disappearance of industry. The higher tax rates reinforce the tendency to decline. And so on.

Once a decline is initiated, both "economic" and "institutional" forces thus work towards inequality.

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[17] Myrdal, Gunnar, Economic Theory and Under-developed Regions, London, Gerald Duckworth & Co. Ltd., 1957.

Yet there is also an encouraging side to Myrdal's hypothesis. An upward movement of the entire system can be effected by measures applied to one or the other of several points in the system. That is to say, the principle of circular causation, once its direction is reversed, promises final effects of much greater magnitude than the efforts and costs of the reforms themselves.

Hirschman and Government Policy

A.O. Hirschman also sees certain, more or less institutional, factors as important in the process whereby lagging areas are eventually enabled to achieve a higher level of economic development. Chief among these is government policy and in particular, the regional allocation of public investment. The decision by the national government to promote the development of the lagging regions will also be partly a response to the national political system in which, in consequence of their being effectively denied entry to industrial careers and thereby having to undertake political careers, capable and enthusiastic spokesmen for the interests of the lagging regions will emerge. Moreover, the continued concentration of public investment in the most prosperous regions cannot be accepted in the long run by governments because of "compelling considerations of equity and national cohesion."[18]

The allocation of public investment resources may be according to one of three principal patterns:

(1) dispersal across the whole country prompted, more characteristically in the underdeveloped countries but elsewhere too, by political considerations, the notion that economic progress ought to affect equally all members and sections of the community (what Hirschman calls the "group-focussed image of change"), and shortages of certain capital inputs necessary for large, but not for small, projects.

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[18] Hirschman, A.O., The Strategy of Economic Development, Yale, 1958, p. 193.

(2) Concentration on growing areas which may be encouraged by international aid being available only for these and the "demonstration effect" of similar projects in other countries, but most important, by the growth pattern characteristic of rapidly developing countries. "Development often begins with the sudden, vigorous and nearly spontaneous growth of one or a few regions or urban centres, resulting in serious shortages of electric power and water supply, as well as in housing and transportation bottlenecks. Thus, urgent demands for several types of capital-intensive public investment appear and must be given the highest priority whether or not they correspond to the government's sense of distributive justice and to its pattern of regional political preference. The public investment in overhead capital in turn makes possible further growth of industry and trade in the favoured areas and this growth requires further large allocations of public investment to them."[19] A shift from a scatter to a concentration policy for investment usually also involves a considerable enlargement of the total amount of funds required for public investment.

Proponents of this pattern of public investment would, I suppose, consider it improper to try to eliminate regional differences. They would argue for further concentration of investment in prosperous regions as the best way to achieve national growth. Yet it is desirable, indeed necessary, to pay some attention to the less prosperous regions and the further contributions their development may make to national growth.

(3) Attempts to promote the development of backward areas, which may arise even before the growing areas have reached their full potential. Once further development, especially social capital, begins to be financed from the earnings on earlier investments in the growing regions, some revenues from taxes originally imposed to finance such investments may be diverted to the backward areas. There is a greater danger of misguided investment in backward areas than in growing areas where capital shortages are clearly identified as a consequence of growth; and this often leads to a program of endowing the backward areas with social capital networks comparable with the growing regions when, in Hirschman's view, it would be preferable to endow a backward area with "some ongoing and actively inducing economic activity of its own, in industry, agriculture, or services."[20]

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[19] _Ibid._, pp. 192-3.

[20] _Ibid._, p. 195.

This is the approach which should, in my view, be taken in the Atlantic Provinces of Canada. But I shall return to this argument in a later chapter.

Essential Differences Between Regions and Nations

Apparently a proper understanding of the economic development process within regions of a country requires consideration of "institutional" factors as well as "economic" factors.[21] These "non-economic" factors may even have the effect of raising the theory from the economic to the social level: indeed, as already noted, Myrdal styles his circular causation thesis a theory of social change, that is, one which has application on a more general level than in strictly economic terms. However that may be, there is one particular group of institutional factors which must be considered in order to distinguish the situation of regions from that of nations. In general, this group consists in the absence between regions of the barriers to factor mobility and commodity trade which have been erected by nations in an effort to protect their own citizens from the adverse effects of international trade, and thus to permit a greater degree of internal control over their national economic destiny. A consideration here of the effects, beneficial and adverse, of the lack of such institutional barriers to trade and factor movements between regions of a country will also enable us to relate Ohlin's contribution with its specific orientation to trade between regions, to the more recent work of Myrdal and Hirschman which treats the regional economic problem in the more general context of growth and development.

Balance of Payments Adjustment for a Country

Let us consider the reaction of a country to an adverse balance of trade, that is, with an excess of imports (of commodities

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[21] Broadly the same conclusion has been reached by development economists such as Lewis, Hagen, Hirschman and others with experience of the recently increasing effort to assist the under-developed countries.

and services) over exports (of commodities and services).[22] Initially, the country might finance the additional imports by utilizing its reserves of gold and foreign exchange; this could be a temporary expedient at best, however, because its reserves are not unlimited. If the adverse balance on current account were more than a purely temporary phenomenon other, more permanent adjustments would be necessitated.

One possibility would be for the national government to meet the problem directly, and seek to reduce imports. A national government has powerful weapons at its disposal to execute such a policy. Tariffs may be imposed or raised on imported goods, either generally or selectively. Quotas may be set and import licenses, if such exist, withdrawn or suspended. The risk of adopting such a policy is, of course, that other countries may retaliate against the country's own exports; nevertheless, the instruments of policy are available for the government to use if it so decides. The measures to reduce the flow of imported goods may be accompanied by other measures aimed at reducing expenditures on imported services: for example, tourist expenditures abroad might be reduced by restricting the availability of foreign currency to tourists.

Another direct means of correcting the adverse current account balance would be for the national government to stimulate exports, perhaps in combination with measures to reduce imports. Potentially, there are a variety of possible actions available for this purpose, including remission of taxes on production for export, the payment of subsidies to exporting industries, and the attraction of more foreign tourists to the country.

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[22] Richardson analyzes the mechanisms of adjustment in the regional balance of payments in his Chapter 10. His conclusions do not differ fundamentally from those which follow in the text. He points out that the substantial differences of adjustment processes, between regions and nations, arise from differences in the respective institutional frameworks.

An indirect approach which has the advantage that it both encourages exports and reduces imports, would be a devaluation of the currency. This option is there for the national government to utilize if it chooses, although governments have been prone recently to consider it a risky venture because of possible retaliation or a consequent speculative "run on the currency".

Of course, it is not always necessary that an adverse balance of trade be corrected by direct means. Instead, other items of the balance of international payments may provide, or may be adjusted to provide, an offset to the trade imbalance and thereby maintain overall external equilibrium. In short, movements of capital in various forms into the country may exceed, or be made to exceed, outward movements by the required amount. Such movements may take several forms: emigrants' remittances to relatives at home may provide considerable compensation by themselves as, for example, in the Irish case; investment opportunities in the country may be adequate to attract a substantial flow of foreign direct investment, either on a short-term or a long-term basis, or perhaps both; other nations may even be prepared to lend capital for development to the national government, perhaps under international aid programs. Within limits, a national government has powers to influence the flow into the country of capital in these various forms; perhaps it is best able to encourage an increase in the flow of short-term funds through its powers to increase interest rates. It is probably least able to affect the volume of emigrants' remittances. Its ability to affect the flow of private and public long-term capital into the country may be considerable, but is less certain: much will depend on the "economic climate", to the improvement of which, of course, its own overall policies may make a powerful contribution.

Although its ability adequately to secure, or to increase, the flow of capital into the country from abroad is somewhat circumscribed, the national government's ability to control the outward flow of capital -- public and private -- to other countries, is not. The fact is that a nation may choose to allocate all internal savings to internal investment if it wishes, and may execute such a policy in various ways.

It would perhaps refrain from going so far as to enforce the repatriation of long-term capital already invested abroad; but it might well choose to reduce or eliminate further foreign investment by its own citizens and governments.

The overriding necessity for a nation is the maintenance of overall equilibrium inthe total balance of international payments, at least to the point where any temporary imbalance can be adequately covered by the reserves of foreign exchange it has available. Imbalance more serious than this must be corrected in the short run, because of the consequences which would otherwise result -- chiefly, inflationary pressures and a possible loss of confidence in the currency. To prevent these serious results, a nation will impose economic discipline on itself to the extent necessary to restore external balance. Until this is achieved, other objectives of economic policy - including long-term growth and development - must be set aside. Thus external equilibrium, for a country, is a necessary prior condition for growth and development which serves also as a disciplinary force helping to determine the proper basis for such growth and development. The need to ensure continuing equilibrium in the balance of payments forces a country to consider among other things, which course of development is likely to be feasible against the wider background of international competition. While the national government may enforce limitations on competitive or natural forces at home, it has no direct power over its external relations: instead it must be constrained in its longer term economic policy by its reading of economic trends and future opportunities in the international sphere.

Balance of Payments Adjustment for a Region

A region is not constrained in this way to the same extent. Nor, on the other hand, does it possess the same degree of internal economic control as a nation. It cannot undertake its own reaction to the pressure of external disequilibrium, but must acquiesce in an adjustment carried out at the national level on national considerations, and take whatever consequences may follow at the regional level. These may be beneficial or adverse depending on the region's peculiar circumstances.

Suppose a region has an adverse balance of (visible and invisible) trade. Now it is just as necessary for a region to attain overall equilibrium in its total balance of payments, as it is for a nation.[23] The adjustment process differs fundamentally, however, because the region has less power to determine the nature of the adjustment on the basis of its own particular interests, and because a region does not possess the same instruments of policy as a nation. In the first place, it might be supposed that an excess of imports over exports cannot be financed from the foreign exchange reserves, simply because a region does not hold such reserves.

That is not the whole story, however. Assume a national economy with no foreign trade, but with interregional trade. Then, with a single monetary unit established at the national level, all cash balances in each region may be treated, in effect, as "foreign exchange". Any imbalance of trade will then be accompanied by a change in the region's holdings of this "foreign exchange"; for example, a trade deficit, i.e. an excess of imports, would result in a loss of cash to other regions. In this sense a region is in much the same position as a nation under a Hume-type gold standard. Whereas the gold-standard nation meets a trade deficit by shipping gold abroad, a region finances its deficit by transferring cash, or "foreign exchange", to other regions. Unlike the gold-standard nation, however, the deflation

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[23] Such equilibrium appears to be attained automatically because, with a common national currency, there is no interregional exchange rate to be adjusted. The maintenance of overall equilibrium is just as necessary for a region, nevertheless, with, for example, any deficit on visible trade having to be offset by a compensating entry on invisible account such as a flow of emigrants' remittances.

of prices and wages within the regional economy consequent upon its loss of reserves, will not be complete, due to institutional factors such as the pressure for national parity in wage rates by trade unions. In the absence of complete flexibility of wages and prices, the region losing its cash "foreign exchange" must take a part of its deflation in the form of higher unemployment.

Nor can a regional government restrict the flow of imports from other regions by means as effective as those available to national governments. Quite the contrary; an unimpeded flow of goods and services across regional boundaries within a country is usually considered a part of the very definition of a "nation".

As to the exports from the region to other areas, the regional government is potentially not so poorly equipped compared to a national government; its opportunity to stimulate exports via tax remission and subsidies may even be as great if there is a regional government, as under a federal system, for example. Even then, however, the region's effort in this regard might be frustrated by the similar efforts of other regions (in the case of exports to other regions within the same country), or by a refusal on the part of the national government to condone this form of competition among regions for an increased share of national exports.

The restoration of external balance by means of a currency devaluation is clearly out of the question for a region, again because it has no regional currency to devalue. Its exchange rate with other regions is determined in effect by its terms of interregional trade, and internationally by whatever rate is accepted or enforced by the national government for the whole country.

A region, by its very nature, is thus left with having to offset the posited adverse balance on current account by other items in its total balance of payments. There may be a flow of emigrants' remittances on which to rely, and these are more likely in poor regions where net emigration has been an important adjustment mechanism over time. In such regions, however, the net flow of long term capital is likely to be outward because of the past history of economic backwardness and a lack of investment opportunities. Unless credit markets are organized on a regional basis, as in the United States, the flow of short-term capital through a national banking system, for example, is also likely to be outward. Regional governments may borrow extraregionally, as in the case of Canadian provincial governments who frequently have recourse to the New York bond market, but such loans are repayable, of course, and interest on them may impose undue burdens on the limited financial capacity of regional governments.

A region has some power to influence these various inflows of capital but it is not substantial. If it is a poor region, its power in this respect will be even less than the national government can exercise over foreign investment in the country at large.

It is more impotent still as regards the movement of private regional savings into investment in other regions or other countries. Its status as a part of the wider national framework in which investment opportunities are assessed by the criterion of expected return (benefit over cost), almost automatically means that a poor region will continue to have its savings siphoned off until such time as all industrial projects promising greater returns elsewhere in the country have been carried out.[24]

One very important item in the interregional balance of payments, which does not appear in a country's balance of international

[24] Its control of internal public savings is, however, much greater since it decides itself on the allocation of its tax receipts to various expenditure purposes; but this item does not appear in the balance of interregional payments.

payments, consists in the flow of funds into the region from the national government.[25] The corresponding outflow consists in taxes remitted by regional firms and residents to the national authority, but we may assume these to be smaller, in the case of a poor region, than the inflow. These incoming funds are usually of three types: direct expenditures in the region by the national government for various purposes, including capital outlays; transfer payments to individuals in the form, for example, of unemployment benefits and old age pensions; and grants made for various purposes to the regional government, either conditionally or unconditionally. These inflows from the national government may, and in the case of less prosperous regions usually do, constitute the really effective means of compensating for the excess of a region's consumption of imports over exports (of goods and services) produced. In such circumstances they are thus a rough measure of the current "benefit" to the region from its membership in the wider national territory.

It must be emphasized, however, that the attainment of overall external balance in this way essentially provides a region with "an easy way out" by comparison with the adjustment required of a nation faced with similar difficulties. Instead, for example, of having to reduce its consumption of imported goods (and services), perhaps to accept lower real income in consequence of a devalued currency, and possibly to suffer a temporary rise in unemployment, the region is enabled to enjoy consumption in excess of production indefinitely.[26]

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[25] The counterpart, in a country's balance of international payments, would be an inflow of "aid" in one form or another, from another government or an international development agency.

[26] For the purpose of this argument, it is assumed that our hypothetical region's ratio of dependent to working population is not significantly different from the ratio in our hypothetical nation.

Since it is not required to work out its own economic salvation, perhaps involving a painful degree of short-term restraint, in the same way as a nation, the region is not forced to face up to its long-term possibilities within the wider framework of interregional (and international) competition. It may instead, being offered the path of least resistance by virtue of the national government's willingness to offset the continuing adverse balance on current account indefinitely, be thereby denied the opportunity to chart and follow a long-term course of growth and development for itself that might serve both the regional and the national interest better. For its part, the national government, by co-operating in the process either deliberately or willy-nilly, may have overlooked latent possibilities of achieving further economic progress nationally as well as regionally.

The external equilibrium required of a region is thus a passive kind, neither requiring short-term painful adjustments to avert or meet crises occasioned by disequilibrating forces nor, therefore, serving to discipline the region to keep to a feasible path of long-term growth and development. The absence of sanctions for deviations from this path makes it all the more difficult to determine in what ways, and to what extent, the region's development is synonymous with national economic progress.

The inflows into the poor region from the national government constitute a transfer of buying power from the rich regions of the country. As already noted, some of these will be explicitly for capital investment purposes and if properly directed, may have the effect of accelerating the long-term growth and development of the poor region. Others, however, may be to support a higher level of current regional consumption than would be possible if the region relied entirely on her current productive effort, as in the case of providing better public services (and thus greater public consumption of such services), or when the inflows take the form of transfer payments to individuals in the lower-income groups.

A parallel may be drawn here between the national government's contributions to the regional economy and the international aid rendered to underdeveloped countries. Whereas, however, the latter is usually the subject of careful scrutiny by the donor countries or an international agency in an attempt to ensure that the aid is directed towards the encouragement of long-term growth and development, this kind of scrutiny rarely precedes the provision of regional aid by national governments. Not all international aid is directed to capital purposes, of course; but it is perhaps fair to suggest that a higher proportion of it is likely to be so used than in the case of national aid to lagging regions.

To the extent that this is so, from the regional viewpoint the outside aid may be accepted as a permanent feature of its economic condition. There are then several risks which ought to be recognized. The incentives to seek the benefits of growth and development by means of extending and improving the region's own productive capacity, may be dulled. These benefits take their most obvious form in increased consumption and a higher material standard of living: if the higher standard is already available from the national government, why should the region bother to seek more rapid growth and development?

The shrewd regional residents will not be long in accepting the rules of the game, and may prefer to seek increases in the national government's expenditures in the region as the most feasible basis for further increases in regional consumption. The more restless may choose to migrate from the region to other areas where their energies may be applied in more "productive" pursuits. The efforts of the restless are largely lost to the region but nevertheless available to the nation, so a national loss is not necessarily involved in this response to the situation. The efforts of the shrewd are immediately beneficial to the region, but largely lost to the nation. This loss takes the form of potential regional output foregone which could have contributed to further national growth and development. The social function of the shrewd regional residents thus consists in financial intermediacy between the nation and the region -- a value roughly equivalent to the salaries paid such individuals is included in the regional and national income, of course, but this value is likely to be small in relation to the potential output loss from those more passive regional residents whose current consumption is also augmented as a result of the efforts of the shrewd who actively represent their interests.

That these risks exist is not to say with certainty that they will operate. It may be, for example, that increasing consumption in a poor region will trigger a demand on the part of regional residents for consumer goods, sufficient to provoke a greatly increased inclination to work and earn more: the creative role of imports in this manner has been discussed by Lewis in his classic on growth in underdeveloped countries.[27] The actual outcome seems likely to differ among regions, and therefore demands empirical examination. This outcome will depend in part on whether growth can be effectively transmitted from the rich to the poor region, perhaps under the aegis of the national government, and this in turn will depend on whether, interregionally, the "trickling down" tendencies are stronger than the "polarization" tendencies.

The Interregional Transmission of Growth

Hirschman regards the tendency for any economy first to develop one or several regional centres of economic strength ("growing points" or "growth poles"), and the resulting interregional inequality, to be "an inevitable concomitant and condition of growth itself".[28] Because the economic operators consistently over-estimate the external economies due to the growth poles, however, the clustering of investment there which is healthy for the consolidation of growth at an early stage, becomes unhealthy when its continuance involves the neglect of investment opportunities that may have arisen or could be made to arise elsewhere. Whether such other opportunities arise as

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[27] W.Arthur Lewis, The Theory of Economic Growth, Richard D. Irwin, Inc. Homewood, Illinois, 1955.

[28] Hirschman, *op. cit.*, p. 184.

a result of "natural" forces or have to be artificially induced will depend, in part, on the relative strengths of what Hirschman calls the "trickling down" and "polarization" effects in the interregional transmission of growth.

These correspond very closely with Myrdal's "spread" and "backwash" effects.[29] Hirschman, however, is more optimistic than Myrdal about the ability of his "trickling down" effects eventually to overcome the "polarization" effects. The difference between them, however, is mainly one of emphasis since Hirschman bases his optimism ultimately on his expectation that government economic policy would eventually come to the aid of the "trickling down" effects. Myrdal, on the other hand, uses the tendency for his "backwash" effects to operate more strongly, interregionally, than his "spread" effects, as a justification for government intervention to reverse the direction of his cumulative causation mechanism. Myrdal has merely restricted his diagnostic analysis to "market" forces, whereas Hirschman treats government policy as one of his variables from the outset.

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[29] Interregional differences are affected by "backwash effects" and "spread effects". A prosperous region owes its attraction mainly to the historical accident that something was once started there, and not someplace else. (This is, of course, somewhat reminiscent of Ohlin's theory.) The "backwash effects" consist of all relevant adverse changes, caused outside that region, by economic expansion in the region. The "spread effects" are the corresponding beneficial changes.
The "backwash effects" chiefly influence migration, capital movement, and trade. Labour and capital both flow to the prosperous region from other regions, and trade is affected in a way detrimental to the other regions. Similarly, the "non-economic factors" such as roads, railways, medical care, and school facilities become relatively inferior in the other regions and thus become "backwash effects" too.
On the other hand, the "spread effects" consist in the widening of markets for agricultural produce and new markets for raw materials from other regions, and perhaps even the spread of economic expansion to these other regions.
The higher a country's economic development, the greater will be the "spread effects". In addition, because richer countries have adopted the "welfare state" to a greater extent, market forces which result in a backwash effects have been offset by government action, while those resulting in spread effects have been supported. Market forces have not been similarly counteracted in the poorer countries.

In a two-region model comprising a growing North and a backward South, two populated regions, Hirschman analyzes the two types of effects in the absence of compensatory government policy. The favourable effects consist of the trickling down of Northern progress to the South, and include:

(1) most important, Northern purchases and investments in the South, most likely if the two economies are complementary rather than competitive, e.g., in their resource bases and other factor endowments; and

(2) the absorption by the North, through migration, of some disguised unemployment of the South, thus raising the marginal productivity of labour and per capita consumption levels in the South.

The adverse effects are any tendencies toward the polarization of further growth in the North, for example:

(1) the displacement of Southern enterprises in manufacturing and exports by their more competitive counterparts in the North, which is most likely if the two economies are competitive in natural resources and factor endowments;

(2) besides the loss of the jobs and income so involved, the South may suffer the further disadvantage of having to buy its manufactured goods from the North instead of from less expensive foreign sources;

(3) the loss, through migration Northward, of the South's key technicians and managers as well as of the more enterprising young men. If this loss is greater than the gain to the North, there is also a net national loss.

(4) the similar migration of any capital the South manages to generate.

Some Implications for Regions

It is essentially their greater exposure to these two types of effects which distinguishes regions from nations. A nation has the difficult task, if it is less prosperous than other countries, of having either to find its own internal dynamic or to secure a connection with a country already experiencing economic growth. This basis might be laid through exporting a product in which it has prospective comparative advantage to the richer country, which may itself be difficult and not without attendant costs, particularly in the short term. Or it might be found in attracting foreign private investment. Or perhaps international aid could be the effective basis for securing a growth connection.

Regions have a considerable advantage over countries in being more exposed to the trickling down effects. If the rich North requires new or additional supplies of raw materials, for example, it is much more likely, a priori, to look to its sister Southern region than to buy them in foreign markets. Obviously, however, the North will turn to the international market whenever the particular items needed are not available in the interregional market. Thus the existence of complementarity in factor equipment between the North and the South is extremely important: its existence almost ensures that, sooner or later, the South will grow in step with the North; its absence, on the other hand, acts as a powerful deterrent to the solution of the South's difficulties by "natural" forces.

The quid pro quo for their being more exposed to trickling down effects, however, is precisely that, unlike nations, regions must acquire absolute advantage rather than comparative advantage.

It is not enough that they produce one product better than another, a condition which enables countries to concentrate on the former and trade it for the latter. They must produce each product to be sold in another region cheaper than it can be produced on the spot there. This situation of greater competitive difficulty for regions arises from the greater mobility of factors between regions than between nations, and from the existence of a common currency. Because they cannot rely on comparative advantage, but must achieve absolute advantage, regions are also more exposed to the polarization effects. As already discussed above, they do not possess the "institutional" autonomy which countries can guarantee for themselves by various means.

Hirschman argues, nevertheless, that in time the trickling down effects may be expected to gain the upper hand. Either complementarity will emerge, perhaps as a result of the North's reaching full employment and having to look to the South as a location for new productive activity in order to continue its own growth. Or, failing the "natural" emergence of complementarity, the dominant polarization tendencies will be offset by government policy.

Even with complementarity of resources, however, government intervention may be necessary to counteract checks to the trickling-down effects, in particular as a result of low short-run supply elasticity in the South causing the terms of interregional trade to move against the North. Three long run adjustments are then possible. First, and most satisfactorily for both North and South, the higher prices for Southern output may stimulate a rise in Southern production. Secondly, the shortages of Southern output may curtail Northern production as a result of rising labour and material costs, to neither's advantage. The third, and perhaps most likely, result would be for the North to obtain its requirements elsewhere, from other regions or through imports from abroad. In time, of course, the South might recover from the effects of this reaction by raising its production for the North and regaining its connection with the growth process. If not, it would have lost part of its advantage, and the consequent trickling-down effects, from complementarity with the North. Worse still, if the North meanwhile had developed its own internal sources of the South's kind of output, the South's ability even to regain its market may have been lost.

Then too the South must await the emergence of government policy. This may arise when industry becomes "congested in Northern cities and its expansion is hampered by the insufficient size of the home market resulting from the depressed income levels in the South."

"Also, economic policy makers will be impelled to take a close look at Southern development potentials whenever balance-of-payments or other supply difficulties make it clear that the country is harming itself by its failure to utilize fully its Southern resources."[30]

Such political forces as these, making for the transmission of growth because they operate more strongly within countries than internationally, make the transmission of growth much more likely interregionally than internationally.

Hirschman argues that policy and institutional arrangements for regional development should be such as to maintain and strengthen the trickling down effects, and also to provide certain "equivalents of sovereignty" to counteract the polarization tendencies. Regional institutions and programs can overcome the despondency and self-denigration so often encountered in such regions, and mobilize latent energies. National tax concessions can substitute for tariff protection, as can some autonomy in bank credit policy. Preferential exchange rates could be used to stimulate exports (to other regions as well as to other countries). Such policies to counteract polarization tendencies should, however, be designed so as not to interfere with the trickling down tendencies in the process. They should "insulate the South sufficiently so that it may undertake certain industrial and export activities in competition with the North; but, at the same time, the complementary relationships that make the South a supplier of the North must be preserved and intensified."[31]

Hirschman places considerable emphasis on complementarity between growing and backward regions as a necessary condition for transmitting growth between them. Although his analysis is conducted largely in terms of the underdeveloped countries, this condition would not, _a priori_, be any less valid in advanced economies marked by interregional economic differentials. There too, policies to extend the degree of complementarity between regions should be an effective

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[30] Hirschman, _op. cit._, p. 190.

[31] _Ibid._, p.200.

basis for promoting greater regional "balance". In fact, it may be even more relevant since the advanced countries are characterized by a much greater development of manufacturing industries, particularly secondary manufacturing. The challenge would be to achieve complementarity among regions through greater division of labour within secondary manufacturing. The scope for this is enormous, as evidenced by the fact that trade in manufactured goods has been a growing field of trade at the international level. The fears expressed only a few years ago that trade in industrial goods would be limited, have proven groundless in the light of postwar experience.

Finally, it should perhaps be noted that there is no real need for a region to seek to create its own dynamic as a basis for growth. If such exists, it should have appeared by now (unless the region is unpopulated or undiscovered, or both) and the region probably would not be in difficulty. To seek for one which has not appeared while ignoring the development possibilities afforded by the region's status within a wider national territory, would be to engage in partial analysis without any real sense of purpose. It would be much better, and more realistic, to examine the region's problems in their proper setting and not make the task of encouraging growth and development more difficult than it already is.

Regional Policy and National Growth

Hirschman's theory deals with the interregional transmission of growth, and the conditions under which such transmission is likely to occur. Advocates of regional development policies have recently been using growth as a justification for such policies on the argument that utilization of unemployed resources in less prosperous regions, especially labour, would add naturally to national output and national growth. This argument has been presented especially by economists in the Western European countries. In the wide instructive British literature on this subject, this case is perhaps best set out by Thomas Wilson in his Policies for Regional Development:

(1) although there has been a net movement of labour, in most countries, from the less prosperous areas to the more prosperous, this has rarely been on such a scale as to eliminate the excess margin of unemployment;

(2) even if enough of the unemployed were to migrate in order to reduce unemployment in these areas to the national average, the remaining population might still be inefficiently used;

(3) it would be easier to maintain a high level of national employment without incurring the risk of inflation if labour were more evenly distributed relatively to the opportunities for employment.[32]

This argument has been raised against the immediate background of general British dissatisfaction with the rate of national economic growth during the 1950's and 1960's. It might, therefore, be interpreted as implying that regional economic development policies are suitable only when the year-to-year gains in national output are sluggish and it is necessary to consider extreme methods of raising the national growth rate such as siting new factories in backward areas. This is not so. The same argument applies on a long-term basis: if the continuing, long-run development of less prosperous regions can be secured, such will render a powerful continuing contribution to growth and development of the whole country.[33] It is essentially a question of making the maximum use of all available resources over time. The further growth of rich regions, to the neglect of additional development opportunities available in the poor regions which are not entirely transferable to the rich regions, does not constitute such maximum use of resources.

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[32] T. Wilson, Policies for Regional Development, University of Glasgow Social and Economic Studies, Oliver and Boyd, 1965. This was first published in Canada as Financial Assistance with Regional Development, a report prepared for the Atlantic Provinces Research Board, Fredericton, New Brunswick, 1964.

[33] For a more fully articulated development of the national implications of regional development policy, see Edgar M. Hoover, op. cit., pp. 257-261.

This viewpoint is not shared by all economists, however. Among those who take an opposite view is Anthony D. Scott, whose views will now be examined.

A Canadian View of Regional Development

There is a strong bias in Canadian economic thinking, understandable perhaps in terms of Canada's own historical development, towards the view that natural resources are the main determinant of economic development. The staples theory as developed by Innis is usually invoked to trace the original settlement of the country by western Europeans, and its subsequent economic progress. The cod fisheries, the fur trade, the wheat boom, and more recently, the post-war exploitation of mineral and petroleum resources are cited to show that Canadian development has been marked by the development of one staple, or export commodity, followed by another. The theory is a fairly valid description of the development process in a resource-rich country developed, and still developing, on the basis of the inward migration of both capital and labour. It is, in other words, a theory of Canadian settlement. Whether it will continue as a valid description of future development will depend, among other things, on whether the manufacturing sector becomes a larger part of the total economic structure.

Scott[34] develops a version of this theory as a theory of regional economic development. He is led, incidentally, to this approach by his conclusion that "trade and location theory are suggestive, but not really helpful, for their conclusions usually depend on the assumption that factor inputs...are not mobile among regions."[35]

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[34] A.D. Scott, "Policy for Declining Regions: A Theoretical Approach", Conference on Areas of Economic Stress, Queen's University, Kingston, Ontario, Canada, January 1965 (mimeographed).

[35] Ibid., p. 2. This is a surprising statement: for Ohlin, the theorist to whom Scott ascribes greatest responsibility for the trade theory he especially discusses, has, as we have seen, treated such factor movements at considerable length. The explanation must be that Scott has only read the first part of Ohlin's book, while interregional factor movements are only introduced to the analysis therein in Part Three.

Location theory is defined by Scott to cover both industrial location and the migration of workers. He concludes that a dynamic theory capable of comprehending all the variables involved has not yet emerged, and that few general hypotheses have so far been tested empirically because the evidence is fragmentary for the migration of both capital and labour. The only generalization possible is that theories of location and migration must focus attention on factor endowments and on the productive techniques used by the various industries.

Scott's "regional staple" theory, which is closely related to the idea of the "export base" as developed by some American regional scientists[36], is used to explain:

(1) factor accumulation. This occurs in response to an outside demand for natural resources in an unsettled region, savings for investment being generated also outside the region. Later, capital and labour are accumulated internally and the theory must explain how these are held within the region.

(2) factor migration and regional growth. Growth commences either when productive technology makes it possible for the region to supply a natural (sic) product, or when the demand price rises. When the potential net value added is sufficient to cover going factor returns plus migration costs, the factors are induced to migrate inwards.

(3) self-sustained growth. This will have occurred if the decline of the original staple is followed by "a period of reallocation of inputs among industries, accompanied by unemployment, a re-pricing of labour and capital services, all eventually followed by a resumption of growth with full employment."[37] More likely, however, the decline of the export base will, given time, lead to the emigration

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[36] See the North-Tiebout controversy, reprinted in John Friedman and William Alonso (eds.), Regional Development and Planning, Cambridge, Mass., M.I.T. Press, 1964, pp. 240-265.

[37] Scott, op. cit., p. 18.

of its labour and capital, the decline of the residentiary industries[38], and the eventual reversal of the region's growth rate. The process may be time-consuming as some labour, and fixed capital, inputs are immobile. The disappearance of the "staple" industry will leave local real incomes dependent not on the price of the export staple in relation to outside price of labour and capital, but, basically, on the local birth rate. "Apart from the opportunity to emigrate setting a floor below these incomes, the region's economy is in effect cut off from the outside economy."[39] The chances, moreover, of the region finding a new "staple" are small because such new "staples" as come along are not likely to be situated in the same regions as the old. "Thus continued Canadian economic progress leaves in its wake a series of depressed regions whose populations, and governments, are immobile."[40]

(4) <u>regional contribution to national growth</u>. In a national economy closed to international migration of labour and capital, the regional development of staple industries will be the mechanism of national economic growth, i.e., rising per capita incomes. If the economy is open, however, like Canada's, it no longer follows that the staple-theory mechanism produces higher incomes nationally.

Scott draws the following main lesson ("almost a truism") from his model: "regional incomes need not decline below the national average if labour is at least as mobile as capital, and if both inputs emigrate at the rate dictated by the rate of decline of the staple industry's market (while it pays national wage and interest rates) <u>and</u> by the associated decline of the residentiary industries."[41]

Scott elaborates this finding in a section on regional policies, and concludes:

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[38] Scott defines these to include any manufacturing industries.

[39] Scott, <u>op. cit.</u>, p. 21.

[40] <u>Ibid.</u>, p. 22.

[41] <u>Ibid.</u>, p. 26.

(1) because it is impossible for (local) government to do much about the complete emigration of capital, and impossible for it to prevent the emigration of the most valuable part of the regional labour force, it might better concern itself with minimizing its problems by promoting emigration (down to a level where a more "modest" staple can pay the national rates of return on labour and capital) than with trying to halt or reverse the flow.

(2) because the inertia of the last-remaining people and units of capital is justified by the survival of inappropriate units of government, dismantling the regional economy to a level appropriate to the industries that it can now sustain requires the re-apportioning of regional government functions.

Scott considers a helpful regional policy to be "one that leads to incomes that equal the national level, not one that merely leads to more industry or more employment at lower standards, nor to a slowing of the appropriate rate of regional decline."[42] Unhelpful policies thus include attempts to remedy the transportation difficulties of declining export industries through port and highway facilities and subsidies to transport carriers, tax incentives for industry, assistance with social capital, and "the deliberate siting of provincial and federal installations in areas of low income or employment, without regard to their extra expense."[43] Moreover, recent Canadian regional plans are criticized for seeking a certain type of "regionary" success, not high average incomes for the present residents and their children, wherever they choose to live, and because the proposals advanced "usually contain many more provisions for the attraction and holding of industry than for the embodiment in the labour force not only of skills and abilities, but also of an adaptability, a capacity to adjust to the techniques, languages, customs or laws of other regions."[44]

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[42]*Ibid.*, p. 26.

[43]*Ibid.*, p. 30.

[44]*Ibid.*, p. 34.

Scott admits that the policy he advocates is inapplicable to regions with permanently immobile labour, or if provincial and lower levels of government persist in their "regionary" bias. Because capital is mobile even then, such regions may attempt:

(1) to increase local saving, and direct it to local industries which must be government-owned to avoid its use in investment elsewhere;

(2) to attract private capital on new terms, at a cost to someone;

(3) to increase the resource base.

Scott finds the last "the most attractive way out, for if a new staple is found, it will last, whereas new sources of capital either depend on the maintenance of helpful policies by the central government or (in the absence of complete nationalization at the regional level) tend to drift away."[45]

Scott does not explain why the new staple "will last", nor does he deal very effectively with the consequences of the search for new natural resources being unsuccessful. More important, his excessive concern with a natural resource "staple" as the main determinant of economic development anywhere, obscures his view of the role which manufacturing industries may play in generating income and employment in regions some distance from the raw materials they consume as, e.g., in Britain, New England, and Japan. His proposition, "Certainly most manufacturing industries are resource-oriented, if the word resource is defined to include natural advantages in transportation, cheap access to raw materials, and so forth", either is unconvincing, or it removes the need for his export staple entirely.

Even applied specifically to Canadian economic development, the theory is deficient because it provides little scope for the greater

[45] Ibid., p. 40.

emergence in future of market oriented manufacturing industries, and because it advocates that Canadian labour should become rather gypsy-like in its behaviour, wandering from one resource opportunity to the next, forever.

His assessment of the impact of regional decline is unnecessarily harsh because he assumes that the most valuable workers who migrate first, cannot be replaced. At least a partial replenishment is possible from new workers entering the labour force locally for the first time as they complete their education or training, whose situation may depend on whether (temporary) aid to industry can establish new export staples. If so, their numbers may also be augmented by the return of those emigrants who were first induced to leave by the earlier decline. Factor supply adjustments to economic change are not a once-and-for-all affair.

Scott implicitly assumes an elastic supply of natural resources, an assumption which becomes less and less credible as the world's population continues to grow. One wonders whether the point has not already been reached in many countries, although not yet in Canada, where the (total) labour supply is almost as immobile as natural resources usually have been assumed to be in trade, location and "staples" theory, simply because the world's supply of vacant, unsettled land with good, exploitable resources is steadily diminishing. Does the professor need reminding that scarcity, like factor emigration, is a <u>fact</u> of economic life?

His tacit assumption of full employment in his "staple" model is also at odds with the facts of economic life. Unrealistic is the best way to describe his predilection with instantaneous achievement of the ideal of national (high) level of incomes from all new types of economic activity undertaken.

Finally, his whole theory is to some extent merely gilding the lily. "Staple" as used here means export base, and amounts to saying no more than that a region must have a source of outside income.

The Export Base Theory[46]

According to the export base theory of regional development, economic activities in a region may be classified into two categories. Those activities which sell their output in other regions, and thus earn export income, are part of the export base, or economic base as it is sometimes called. Those which sell within the region are termed non-basic or residentiary, because they serve a demand which is internal to the region. The theory postulates that the size of the regional economy is determined primarily by the size of the economic base. If the economic base is expanded, the total regional economy can be expected to increase in direct proportion, that is to say, the regional economy will be expanded by a factor (multiplier) which is the reciprocal of the ratio which the economic base bears to the regional economy.

It is important to understand clearly the time horizon and the type of policy or analytical framework within which this theory is to be used.[47] In the short run, the base theory presents a Keynesian interpretation of what determines the level of income (and employment) within a regional economy. Thus an increase in exports, in response to some addition to extraregional demand, results in a flow of new

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[46] Richardson also discusses the economic base concept both as a part of interregional income theory (Chapter 10) and as a theory of growth (Chapter 13). His conclusions are broadly similar to mine. Thompson uses the export base theory as a point of departure for developing a theory of urban-regional growth. See his "Internal and External Factors in the Development of Urban Economics" in Perloff and Wingo, eds., Issues in Regional Economics, Resources for the Future, Inc., John Hopkins Press, 1968. Both Richardson and Thompson criticize the excessive reliance upon exports as the factor promoting regional growth and development, in the export base theory.

[47] It is also necessary to recognize that the export base theory emphasizes the role of demand in causing regional development. Scott's analysis, discussed previously, emphasizes the role of supply factors, viz., the location of natural resources. As Edgar M. Hoover points out, both approaches are relevant and necessary parts of an adequate theory of regional change and development; see Hoover, op. cit., pp. 221-ff.

income to the region concerned. The exporters buy beer or some other non-basic commodity, producers of beer purchase other commodities and services, and so on. Because at each round a portion of the income received is not spent within the region, that is, it is saved or used to import goods and services from other regions, the cycle cannot continue indefinitely. Eventually it peters out, at the point where regional imports have grown to the level where they offset the original injection of income from exports. It can be shown that the total impact on regional income will be greater than the original increase in exports by a factor (multiplier) which is equal to the reciprocal of the marginal propensity to save or to spend on imports (sometimes called the marginal propensity to "leak"). This, it should be noted, is not the same value suggested in the preceding paragraph.

In this form the economic base theory is simply a particular version of the conventional Keynesian theory of (short run) income and employment determination. It places special emphasis on exports as a determinant of regional income and employment whereas, in the usual version, income and employment are also influenced by the other variables that comprise effective demand, namely, Consumption, Investment and Government Spending. Of these three, moreover, Investment and Government Spending are just as exogenous to the flow of income as Exports, while Consumption is treated as endogenous, being partly dependent on the level of income itself. Thus there is no good reason to treat Exports as <u>the</u> crucial variable affecting income and employment in the short run. So it would seem that, for short run income determination and the related matter of stabilization policy, the economic base theory offers only a partial explanation.

More specifically, it is not a theory of regional growth because when the original injection of export income peters out after successive rounds of expenditure within the region, the level of income and employment in the regional economy returns to the level which existed prior to the injection. The injection has provided only a temporary boost for regional income and employment. The situation can be illustrated by an example. Suppose there is an increase in extraregional demand for some product of the region, e.g., pulpwood. Pulpwood producers hire additional workers in order to meet the new demand. These workers, previously unemployed, use their wages to buy additional consumer goods and services. Income (and perhaps employment) rises in the consumer industries in the region, and workers in these industries use the additional wages they receive to purchase other consumer goods and services. And so on. At each round, however, some of the consumer goods and services purchased have to be "imported" into the region from outside, and so a portion of each round of expenditure "leaks" from the region. Eventually these "leakages" build up to the point where they equal the original injection of income represented by the increase in demand for pulpwood exports.

At this point, the effect of the original injection will have run its course. Unless the higher demand is sustained, that is, unless the increase in extraregional demand is permanent, regional income and employment will return to their previous level. The process of adjustment will proceed in much the same way as with the expansion of demand for pulpwood in the first place. Pulpwood producers will lay off workers, whose expenditures will contract, causing a reduction in expenditures for consumer goods and industries and perhaps some further unemployment, etc.

It is important to remember that, like Keynesian theory generally, this export base model of regional income determination is relevant only to the short run. Supply conditions in the regional economy are assumed constant, including a given state of technology, a given structure of industry, and a given set of input-output relations. All that is allowed to vary are, on the one hand, exogenous demand factors such as export sales and, on the other, the level of income and employment. The analysis is a form of comparative statics, and simply cannot deal adequately with the dynamics of growth. It is only capable of answering this sort of question: given certain supply conditions, which may be considered more or less constant in the short run, what factors determine the level of income and employment in the short run?

But in regional development, as in growth and development generally, we are not concerned with this question at all. Rather, we are interested in understanding how and why growth and development occur. In particular, we are interested in observing, explaining, and influencing changes in demand and supply conditions of the regional economy as they occur over time, i.e., in the long run. To do this we need either a more dynamic and broader model than the Keynesian one, such as the Harrod-Domar model or the neoclassical model of growth, or a number of different models, each emphasizing a separate aspect of the regional development process. Among the latter would be included the export base theory applied in a long-term sense.

As a model of long-run development, the export base theory posits that the growth of a region depends upon the growth of its export industries or the expansion of its export base. Because it therefore places its whole emphasis on the role of extraregional demand as the main determinant of regional growth, it is not a complete theory of regional development. Other factors can be just as important in some circumstances as dynamic determinants of regional change, including autonomous investment, technical change, increasing efficiency in regional supplying industries, and central government spending. But it does draw attention to one of the most important, and frequently neglected, aspects of regional growth and development, namely, the relationship between a particular region and the national economy - or set of interrelated regions - to which the region belongs. It frees us to consider other methods of achieving faster growth than "taking in each other's washing". It helps us realize that each region must find a role(s) to perform in the national economy - a lesson which is important especially for regions with relatively small populations which cannot hope to achieve complete self-sufficiency without some sacrifice of efficiency.[48] It lets us recognize that the task of regional growth and development may be divided into two parts:

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[48]This point has been accepted also by many countries which have benefited enormously from developing their capabilities to perform a world-wide role in selected economic activities in which they have specialized. Sweden is perhaps the best example.

(1) stimulating increases in export demand for a region's present or potential output or, alternatively, developing a sound basis for predicting which products are likely to be subject to increasing demand in other regions in future;

(2) taking steps to ensure that the region will be capable of responding, on the supply side, to meet the increase in export demand.

Further, it can more readily be appreciated that, without some attention being paid to the former, little success is likely with the latter.

The export base theory stresses the importance of increasing regional exports as a means of achieving faster regional growth. Fast growing regions will thus tend to run export surpluses. In order to do so they must be able to draw upon available sources of unutilized labour, perhaps by absorbing regional unemployment and underemployment, or by the in-migration of labour from outside. One advantage of the export base model is that it allows for this possibility. The theory is predicated on the notion that growth is unbalanced, that is, it does not strive to explain the notion of an equilibrium rate of growth based on the assumption of full employment. For this reason it seems more applicable to the type of problem confronting regional economies such as the Canadian Atlantic Provinces which are characterized by substantial margins of underutilized labour.

In pursuing a policy of expanding a region's export base, the problem reduces to that of developing complementarity of factor equipment with other regions with which the underdeveloped region trades. Preferably, such complementarity should be achieved with richer, growing regions within the same country. Obviously, there will be advantages in having the richer region in reasonably close proximity, e.g., a neighbouring region.

Another implication of the export base theory is that it offers a greater opportunity for regions to enjoy economies of scale. By specializing in certain products or sectors and developing production capabilities therein, a region can hope to serve the wider, interregional market, the whole national market, or even become an earner of export income for the national economy by successfully penetrating foreign markets.

CHAPTER 3

The Technical Means of Regional Economic Development

The essential elements of the theory elaborated by Ohlin and later amplified and modified by the contributions of Myrdal and Hirschman, may be briefly summarized as a guide to policy for regional economic development. It should be noted, incidentally, that this summary does not deal directly with the question of whether regional economic development should form part of any country's national economic policy. That is a separate matter, and will be examined in Chapter 4.

For the present we are primarily concerned with the general guidance which the theories discussed in the previous chapter can offer for the purely technical aspects of policy for regional economic development. In other words, we wish to determine which are the important variables, or sets of variables, that influence interregional economic relations within a country, and how they interact upon one another. Once identified and related properly to one another, the system comprising these variables and their relations can serve as one means of assessing -- in a strictly technical sense -- existing regional policies and perhaps of suggesting other, more promising policies for regional economic development.

Localization of Productive Factors

Let us suppose that the existing interregional localization of productive factors is, as Ohlin contends, a function of:-

(1) localization at earlier times;

(2) changes in the domestic supply of productive factors through births, deaths, savings, etc.; and

(3) factor movements which the interregional price differences, as broadly interpreted, have been able to effect in spite of the incomplete mobility of labour and capital.

If we now wish to consider how policy may be used to influence the future localization of productive factors, we may treat the desired future pattern (whatever it may be), as a function of the same three variables. The difference would be, however, that in the policy context, the present localization would have to be treated as a given datum. In other words, policy will be effective (over time) to the extent that it can influence either future changes in the domestic supply of productive factors, or future factor movements, or both. This amounts to saying only that any inequality between regions in their respective supplies of productive factors, and thus their capacity to earn income from the total economic activity undertaken throughout the interregional price system, may be reduced either by increasing the supply in the relatively deficient region from whatever sources may exist internally, or by augmenting that supply through the movement into the deficient region of factors from the region with the larger share of total productive factors, or through some combination of these two sources.

We may avoid, for the present, an explicit consideration of whether Scott is correct in his conclusion that natural resources are the overriding influence in determining the location of economic activity, by treating natural resources as one type of productive factor. It is true that Ohlin's theory specifically includes only capital and labour as main types of productive factor and that he too treats the availability of immobile natural resources as an important influence in attracting capital and labour to a region. Yet he also recognizes the subsequent further effects on localization of any initial concentration of labour and capital, and of a region's eventual growth as a consumers' market. Moreover, he specifically recognizes that labour and capital are broad categories capable of division into numerous sub-categories; and the same is true, of course, of natural resources. From a technical viewpoint there is no need, at this stage of the argument, to distinguish natural resources from labour or capital: each is, potentially, an input to the productive process. A bountiful supply of any one of these three factors, *ceteris paribus*, gives a region some initial advantage over other, less well endowed regions.

In addition, a region's supply of natural resources lends itself to increase, at least conceptually, either from newly discovered internal sources (as Scott enthusiastically suggests) or through the inward movement of natural resources from other regions. The latter point is not an academic one; for certain regions, and nations, with bountiful supplies of labour and capital, can and do import the natural resources they require. The most obvious example of such movement of natural resources is the United States, which relies heavily on the importation of natural resources, mainly in raw or partly processed form. This type of trade is the main form of Canada's exports to the U.S., her most important external market.

A region's supply of productive factors at some specified future time, because it is to a considerable extent a function of its present supply, can only be changed gradually over time as a result of internal changes or from whatever external sources may exist. Policies intended to achieve some prescribed supply of productive factors by some future time will be effective, therefore, to the extent that they can effect these internal changes and/or external sources. This means, then, that there are two types of policy for regional development:

(1) that which influences internal changes through births and deaths of both people and firms, savings, and investment;

(2) that which influences interregional factor movements (including the movement of natural resources).

It is not clear, without an examination of the jurisdictional division of responsibilities between the national and the regional government, whether the first type of policy falls within the scope of the regional government. Clearly, however, it does not require the direct acquiescence, or involvement, of other regional governments. The second type, policy dealing with interregional factor movements, clearly does require the collaboration of at least two governments if it is to be effectively applied.[1]

In regions with some history of past development, the existing supply of productive factors, that is, capital and labour, is bound to be more important in determining future localization than in virgin territories of the type Scott favours. In the latter, by definition, there is no capital or labour, only natural resources. In settled regions, however, alterations in the supply of such factors, brought about through changes in the region's industrial structure, are bound to be more of a time-consuming process. This is essentially what makes measures to influence regional economic development inherently a part of long-term economic policy. It, therefore, follows that except insofar as the timing of particular expenditure projects is concerned, regional policy should be as little distorted as possible by the vagaries of the business cycle.

Its long term character also renders any empirical assessment of the success or failure of regional policy, except over long periods, extremely difficult. When the regional policy is itself subject to frequent change, such empirical assessment becomes virtually impossible.

The Gist of Regional Policy

Long term programmes designed ultimately to influence either internal or external sources of supply of productive factors are thus

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[1] If the two regions are part of the same country, the national government's acquiescence would probably be sufficient to support the region's own government in bringing the desired policy into effect. With a federal system, the number of consenting governments needed may rise to three, namely, two regional units and the national authority. If the two regions are not within the same country, this aspect of the problem becomes even more complicated, and enters the field of international negotiation.

the gist of regional policy. They need not, however, consist in attempts to influence internal births, deaths, and savings, or interregional factor movements, directly, but may also incorporate measures whereby these potential sources may be indirectly, but effectively, stimulated. In other words, their effect on internal and external sources of productive factors will be a legitimate test of the suitability of various regional policies whatever their immediate impact may be or whatever particular form they may take.

The theory reviewed in Chapter 2 does offer, however, some important suggestions about the form which such policy should take. In particular, Hirschman's conclusion that the trickling down effects need to be strengthened if growth is to be transmitted interregionally is essentially an argument for promoting greater interregional trade based on complementarity of factor supplies. Such trade would lead to greater interdependence between the regions. Thus, by exposing its supply capacity to demand from a rich region, it would enable the poor region to participate more in the growth of the rich region. The more that economic relations between the rich region and the poor region can be made to consist of commodity movements rather than of factor movements in one direction only, the greater will be the degree of integration of the poor region with the rich one.

Scott's "export staple" theory implies much the same lesson although it is expressed in different terms and although Scott is himself led to rather pessimistic policy conclusions. Trade in the specific form of some staple for which there is extra-regional demand and which thus can earn extra-regional income, is necessary for a region to develop. Within a country, this conclusion may be generalized as follows: trade in commodities (of any kind) between a rich region and a poor region is necessary for the poor region to develop. There is no logical need, at the purely theoretical level, to specify the kind of product which the poor region should sell to the rich region beyond saying, as Hirschman does, that such products are more likely to be sold if they satisfy a demand that cannot be met as effectively from other sources available to the rich region. Complementarity is thus the only necessary condition for interregional trade in commodities to occur.[2] The emphasis placed by Scott on the trade having to consist, even initially, in the sale of natural resources by the poor region is both undue and unnecessary; it merely reflects his insistence upon establishing a connection between regional development theory and the North American settlement pattern of the eighteenth and nineteenth centuries.

The Significance of Natural Resources

There are a number of practical examples which cast considerable doubt on Scott's contention that natural resources are an overriding influence in determining the location of economic activity. They may be classified into three groups.

In the first place, there are many prosperous industries throughout the world which utilize imported raw materials. Japan, for example, has developed an extensive steel industry despite the fact that she must import both coal and iron ore, the natural resources required. The United States, as already noted, is a net importer of such natural resources as oil and gas, electric energy, iron ore, pulpwood and woodpulp, and certain agricultural and fish products. The Danish furniture industry, the English china industry, and the Caithness glass industry, which all utilize imported raw materials and energy, are other examples.

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[2] The partial or complete absence of such complementarity leads to the poor regions having an adverse balance of payments. The implications of such an adverse balance were explored in the previous chapter. Over time the existence of a continued deficit in commodity trade may make a region dependent on income transfers from the central government, and thus render it less and less capable of developing its own basis for increased commodity trade with other, richer regions. It is thus desirable to find a satisfactory basis of complementarity for a region as early as possible, to break the vicious circle whereby the region, otherwise, becomes more and more "dependent" on the transfer of income which it receives from other regions without having to "earn" such income.

Secondly, the other side of the coin is that many countries and regions have been unable to develop economic activity, or able to do so only to a limited extent, even though they have access to natural resources of one kind or another. Here we need look no further than the Atlantic Provinces. Iron ore from Labrador is shipped in semi-processed form to the United States. Pulpwood, rough lumber, and pulpwood chips are exported in the unprocessed state to the U.S. and the U.K. where they undergo further manufacture. Even hydroelectric energy sources, with improving technology that permits transmission over long distances, no longer exercise the same influence on the location of industry they did formerly. Thus, power from Churchill Falls is utilized in New York City. In other words, access to markets is increasingly a more important locational factor than supply of raw materials, for many types of economic activity.

Thirdly, access to markets is but one example of a series of factors which may assume greater importance than natural resources in determining the location of many types of economic activity. The Danish furniture industry, already referred to, relies on design capability, an acquired advantage. The availability of certain types of skilled or unskilled labour is not necessarily related to the supply of natural resources, but can be important for many industries. A large, diversified labour market in which many industries prefer to operate, is more likely to be synonymous with a large, metropolitan consumer market, rather than with the supply of natural resources. For the service industries particularly, location at or near the market is a virtual necessity; hence, increasing urbanization also tends to reduce the importance of natural resources as a location factor.

In summary, Scott's thesis may have some validity when applied to the settlement of a new, previously unpopulated territory. But it is much too simple an approach to offer useful guidance to location tendencies in the increasingly complex economic conditions which prevail in the second half of the twentieth century. It follows, therefore, that regional development policy should not be unnecessarily circumscribed by Scott's main proposition that new economic activity must be based upon natural resources. A more helpful basis for regional development may instead be found by considering all three components of a poor region's present and potential supply of productive factors -- labour and capital as well as natural resources. Thus we may return to the main thread of my argument.

Interregional Trade

The encouragement of interregional trade is, then, one means of fostering the economic development of a poor region. The tying of its economy to another, stronger regional system in this way will, over time, enable it to become integrated in the larger economic system thereby created; if, eventually, all regions come to have proportionately equal total supplies of productive factors (though the character and "mix" of such factors may differ between regions) there will be "perfect" integration. Each region's factor supply would then be capable of contributing to production and, hence, income within the whole (national) economy in proportion to its importance as a part of the system.

Viewed in this way, as a force working towards integration and greater interdependence among regions, interregional trade in commodities provides a focus for regional policy making. One purpose of regional policy will be to stimulate interregional trade based on complementarity.

Moreover, as trade develops in commodities there will be a tendency for factor supplies to adjust to the new conditions thus introduced to the interregional price system. Ohlin has observed that factor movements are in essence an adaptation of factor supply to change in the price system and has concluded further, that such factor movement adjustments are "advantageous" in an overall sense from the viewpoint of price economy. In other words, total production is enabled to increase in the interregional price system as a result. It is possible, therefore, for policy to infouence interregional factor movements not only by direct controls or inducements, but also by the indirect method of influencing interregional commodity trade. To some extent also, the stimulation of more interregional commodity trade may obviate the need for policy aimed directly at increasing internal sources of productive factors.

An operational theoretical framework for regional economic development policy thus might be developed on the main assumption that measures to stimulate interregional trade in commodities may lead eventually to an increase (relatively) in the poor region's total supply of productive factors, because of the indirect effects such measures have on interregional factor movements. Changes in such supplies, whether from within the region or as a consequence of interregional factor movements, may properly be used as a test of effectiveness for regional policy. But the regional policy may take the form entirely of measures to induce more commodity trade and need not include any attempts to influence changes in factor supplies directly.

Ohlin has shown that the volume of interregional trade is dependent on three main factors:

(1) the inequality of factor equipment, that is, the supply of labour, capital and natural resources. My inference is that since trade tends to vary directly with such inequality, policy should seek to make factor equipment in the poor region more unequal, that is to say, the poor region must be enabled to specialize in certain lines of production for the <u>bi</u>-regional market.

(2) the size of the respective (total) regional incomes. From this I conclude that, as trade is reduced by further concentration in the rich region, policy should seek to reduce any tendencies for further increases in total production (and hence income) throughout the

interregional price system,to be concentrated in the rich region.

(3) the direction of demand. There must be a demand, or at least a potential demand, in the rich region for the goods which are to be produced in the poor region. I conclude, therefore, that this suggests the need for some selection of the type of goods in which productive capacity is to be stimulated in the poor region.

A fourth factor may be the existence of the economies of scale. If such economies are available only to economic activities carried on in the rich region, perhaps because its internal market is greater than the poor region's, the effect will be a tendency to reduce interregional trade still further below the already low level brought about directly as a result of the rich region's having the larger share of production factors. If, to make matters worse, such economies of scale enable the rich region to sell in the poor region at prices below the poor region's costs of production (in the absence of economies of scale), the trade in commodities will become increasingly unbalanced.[3] The implication I draw for policy here is simply that, as far as possible, the economic activities to be sited in the poor region should be capable of exploiting economies of scale in producing commodities to be traded with the rich region. This has the further implication that, in consequence, more rather than fewer, economic activities may have to be established in order to provide the poor region with the desired share of all interregional productive factors.

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[3] Of course, in a closed system, there would have to be a compensating flow of payments on "invisible" account to offset the imbalance on trade account if interregional payments (including payments to social welfare recipients) are to be balanced, as they must be.

Regional Trade Policy

Since interregional trade depends on complementarity, policy to stimulate such trade must seek also to increase the degree of complementarity by a selective approach, probably on the part of the national government, to the commodities in which trade is to be fostered. This aspect of policy is treated further in Chapter 16. Short term gains are less apt to be eroded in the long run if trade is fostered in those commodities which may be produced in the poor region and "exported" to the rich region rather than obtained by the rich region from internal or other, external sources.

With very rich, growing regions it may be necessary for the rich region to forego certain lines of production in order to leave some scope for the poor region to build up its supply capacity in such fields. This would perhaps involve some cost to the rich region in the short, or even the medium, run; but in the long run these costs would be offset by the attainment of higher, possibly more efficient, production throughout the whole interregional price system. The sacrifice of some efficiency (and thus real income) in the short term could be more than offset by the attainment of higher total production in the long term.

The stimulation of interregional trade in commodities is likely to require, of course, considerable investment in new productive capacity. Hirschman treats such investment by the rich region in the poor region as a trickling down effect somewhat separate from increased purchases of commodities but having much the same influence on reducing interregional differences. Such investment is also much more likely to occur if the region's respective productive factors are complementary. It may, however, be part and parcel of the whole process of increasing interregional trade on the basis of greater complementarity since, as seems likely, some capital investment may be necessary in order to equip the poor region with the (capital) factors it requires to combine with the factors it already possesses to produce the commodities to be sold to the rich region.[4]

In such circumstances the investment, i.e., the interregional movement of the capital factor, may have to precede the trade in commodities. In both theoretical and practical terms, however, it is the need to foster interregional trade and thus to expand the supply of productive factors in the poor regions which give rise to the initial need for the capital investment in new productive capacity in the poor region. The transfer of some capital from the rich to the poor region is a means to the end of increasing commodity trade between them. Apparently, also, the adjustment of factor supplies begins with the decision to increase trade through investment in the poor region, and does not await the actual movement of the commodities to be traded.

Another important implication for regional economic development policy which derives from the requirement to increase complementarity, is that the poor region should seek out opportunities to supply commodities which are at or near the margin between what the rich region produces efficiently and what it produces inefficiently or chooses to import from abroad, in which the poor region has a reasonable prospect of becoming an efficient producer. This approach differs fundamentally from attempting to stimulate the development of the poor region through the creation of an economic structure similar to, or even identical with, the rich region's structure. The latter course will only lead to greater interregional competitiveness in the respective supplies

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[4]It may also have to acquire certain types of labour, skilled workers or managers for example, from sources external to the region as a consequence of the decision to create new capital facilities.

of productive factors, with a consequent decrease in commodity trade and the probability of a further increase in interregional disparity.[5]

The Need for Economic Growth

In a static interregional price system, i.e., a stagnant economy, the decision to create new capital facilities in the poor region would, in the absence of greater internal savings, require the simultaneous dismantling or abandonment of similar existing facilities in the rich region, and the transfer of productive factors formerly employed in the rich region, to the poor region. The problem would be even more stark if the interregional system were operating at full capacity.[6]

A dynamic, growing national economy, however, presents an opportunity for the development of poor regions. The stimulation of interregional trade, and of more investment in the poor region, can be effected by seeking to influence the localization of new productive factors that become available as a result, largely, of population growth and technical progress. In such circumstances regional development becomes a feasible undertaking.

But such regional development will not automatically ensue even in a rapidly expanding national economy. Rather, the opportunity must be seized through the adoption and pursuit of a suitable regional development policy. If appropriate policy is adopted and put into

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[5] An encouraging factor is the growth in world trade in manufactures between developed manufacturing countries. Even the developing countries have increased their trade with the developed to an encouraging extent.

[6] There would then, however, be less pressure for the reduction of interregional disparity since the poor region would also enjoy full employment.

effect, then time can be thereby brought to the side of the poor, peripheral regions. The poor region's supply of productive factors can be augmented deliberately over time. Without such regional policy, time would remain on the side of the rich, central regions which would continue to expand more rapidly as a result of such market and institutional factors as economies of scale, agglomeration tendencies, and better access to markets. In short, while a growing national economy is a necessary condition for effective regional development, it is not a sufficient condition. Deliberate policy for regional economic development must be adopted and pursued.

The most difficult thing in executing a policy for regional economic development may well be, to begin. This is implicit in the suggestion above that investment, probably using at least some factors available only in the rich region, will have to precede the initiation of trade. Since the investors, whether private or public, will probably want to be satisfied that the commodities eventually to be produced can, in fact, be sold, there may also have to be prior agreement to the policy by private or public interests in the rich region. Moreover, the securing of such agreement, especially if it is with the rich regional government, may need the active help of the central government. With all the uncertainty surrounding the start of what is apt to be a radical change in economic policy by all governments concerned, this tactical obstacle may be the most difficult to overcome.

Once overcome, however, the poor region might find itself soon on the way to relatively rapid, or at least steady, development and integration in the national economy. At least, this is the hope offered by Myrdal's conclusion that his cumulative causation process, once reversed from its negative direction, becomes a powerful, built-in factor working for the steady progress of the poor region.

Moreover, Ohlin's second general observation about factor movements lends support to this anticipation. Such factor movements are, he noted, greater <u>within</u> countries than <u>between</u> them. It may well be that, given a conscious policy decision to stimulate the economic development of a poor region on the basis suggested here, there would follow a sufficient change in expectations to induce a greater willingness on the part of workers to move into the poor region (or to remain there rather than emigrating), and on the part of owners of capital to undertake a more active search for investment opportunities in the poor region than had hitherto been worth their while.

Marketing

The main obstacle to interregional commodity trade is, as Ohlin has pointed out, the costs of transfer, or marketing in the comprehensive sense. These in turn depend on the distance between the rich region and the poor region, and the character of the earth's surface over which transportation takes place. Such costs cannot be ignored, but "must be added to the elements which comprise the interregional price system". They cannot be treated in abstract theoretical terms, in other words, but must be included in any empirical analysis of economic relations between regions. Costs of transfer here means all services (of productive factors) required to transfer commodities from one region to another, and is thus a broader concept than "transport charges".

From the viewpoint of the individual firm or producer, "costs of transfer" may appear to consist simply of "transport charges" payable to the railway company, trucker, shipping firm, or airline which transports products to market, or raw materials to the factory. From an overall, macroeconomic -- or social -- perspective, however, "costs of transfer" reflect the usage of all labour and capital required to build, maintain and operate transportation facilities and systems. Labour and capital used for such purposes, are no longer available for use in the direct production of goods, or in other types of economic activity. Ohlin recognizes this need to take account of the "costs of transfer", but does not go much further into analyzing its significance and implications. Nevertheless he does acknowledge the need to consider the distance factor in understanding interregional economic relations. He thus recognizes the failure to consider distance which characterizes most economic theory.

Distance, from raw materials and/or markets, makes it necessary to consider the "costs of transfer", including transportation facilities or costs. But there are other implications which arise from the need to include the factor of space -- usually ignored in economic theory -- in the study of regional economic development. Some of these were treated in Chapter 2, and need not detain us any further here.

Conclusion

In summary, the main conclusion of this chapter is that "helpful" regional policies, to borrow Scott's phrase, will consist essentially in attempts to increase complementarity between regions so as to integrate poor regions in the national economy by fostering greater interregional trade in commodities. An important means of achieving increased trade, and complementarity in factor equipment, will be through new capital investment in the poor region. Such investment should be concentrated in economic activities whose products can be sold in the rich region or throughout the interregional price system, preferably including industries which can reap the economies of scale. Such activities need not necessarily be based on the extraction and processing of the region's own natural resources. A condition for this approach may well be that the rich region abandon or forego certain spheres of economic activity in order to provide the poor region with the opportunity to develop its (complementary) role in the interregional system. The stimulation of trade between regions in this way need not include any direct measures to influence interregional factor movements, except as short run expedients to relieve bottlenecks, since factor movements constitute an adjustment mechanism:

the interregional spread of all types of factors can be left to adjust itself to the new conditions created by the stimulation of greater interregional trade. This adjustment, and the expansion of trade, involve a long-term process which makes it imperative, therefore, that regional economic development be treated as part of long-term economic policy and not mainly, as it has been so often in the past, as part of stabilization policy. In devising and executing such policy, regard must be had for the costs of transfer -- in the broad sense -- because these constitute an important obstacle to interregional commodity trade. In view of Myrdal's circular causation hypothesis, which supposes that once the development of the poor region is underway its progress will be steady and continuous, the most difficult step in executing an effective regional development policy, may well be to begin.

In the case of Canada's Atlantic Provinces there is, of course, no super planning agency to make decisions regarding the location of new capital investment on the basis of the objective of achieving greater complementarity of factor equipment between the Atlantic and other regions. Thus there is no mechanism available whereby such a policy can be put into effect as a once-and-for-all affair. Instead, an approach must be devised to influence individual investment decisions as they occur so that, over time, the desired increase in interregional complementarity can be achieved. As regards federal government investment, the investment decisions of various departments and agencies might be coordinated to this objective through the normal budget-making process, especially if a separate capital budget is normally prepared. In the case of capital outlays by the provincial governments, investment plans along the lines suggested by Thomas Wilson in his 1964 report to the Atlantic Premiers[7], would be an appropriate device.

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[7]Thomas Wilson, Financial Assistance with Regional Development, Atlantic Provinces Research Board, Fredericton, N.B., 1964, p. 67.

A more complicated problem in this respect is that of influencing investment decisions within the private sector. Guidelines might be developed and promulgated among business firms, with a view to having managers take the objective of increased interregional complementarity into account when deciding on individual projects; but this may be a rather far-fetched possibility. It would perhaps be much more feasible to apply such guidelines if there were a program of government financial assistance for private industrial investment. Then either the increased complementarity objective could be built into the criteria used in awarding financial assistance or, alternatively, the administrators of the financial incentives could be instructed to use this criterion as part of the basis for negotiating grants or loans to the firms concerned.

To make this criterion operational, it would be necessary to keep the structure and interregional relations of each regional economy under review, in order to determine which industries -- or at least which types of industry -- should be encouraged to locate in each region. Then, whenever a firm in a desired category makes application for financial assistance, special efforts could be made to encourage its location in the region where it would contribute most to increased interregional complementarity. Thus there is a need to develop guidelines of this kind for use by incentives administrators as well as by managers of private industrial firms.

The guidelines are required because the type of industries which are contemplating investment in new capital facilities at any point in time, is determined by other factors than the desire for increased interregional complementarity. These latter include not only the factor proportions which apply to the particular operation, a "supply side" consideration, but also the influence of demand including, for example, the income elasticity affecting the product concerned.

CHAPTER 4

The Social Purpose of Regional Economic Development

The emphasis of the first three chapters has been on the technical and theoretical aspects of regional economic development. The discussion of theoretical aspects has revealed that economists hold different views as to whether regional development is a suitable objective of public policy. Scott's thesis that natural resources are the principal determinant of economic development and that other factors of production should move to the location of such resources so as to maximize total production and income, entails the obvious implication that labour, as one of the factors of production, should move, or be encouraged to move, to new natural resources as old sources become depleted. This is perhaps an over-simplified restatement of Scott's position, since he does admit the possibility that the original staple may be replaced, or made relatively less important, in time if the regional economy succeeds in growth and diversification. But it does characterize one extreme view of the attitude which governments should take towards declining or less prosperous regions.

The notion that natural resources are the sole basis for economic development is more suited to the conditions of the eighteenth and nineteenth centuries. This was the period when commercial and colonial empires were being acquired and developed. The purpose of colonizing new territories was frequently to gain access to natural resources such as timber and minerals, and it was from these raw materials that the imperial powers' interest in these new territories largely derived. Their governmental responsibilities in the newly developing territories often extended only to those of their own citizens who went as colonists to the new territories. In many cases the imperial powers took little interest in the welfare of the people who already inhabited their new colonial territories. Time would bring substantial changes in this regard; but during the initial thrust of colonial development, the inhabitants of the new territories were regarded by the colonial power not as citizens in their own right, but as foreigners or "colonials". Their services might be enlisted, providing the cost was not excessive, in recovering the desired natural resources around them and in having them transported to the mother country. But the very nature of the colonial relationship implied a standard of welfare for the "colonials" which was inferior to what citizens of the mother country expected to enjoy.

The relationship of a lagging region to other regions in the same country is, in this respect, a different case for two basic reasons. First, there may be few natural resources in the lagging region which the national government is interested in developing. Thus for the national government the focus of policy making consists of the people who live in such lagging regions, not the natural resources that are available there. Secondly, and probably most importantly, the lagging region's inhabitants are citizens of the same country as those in rich regions, and usually come to expect a more or less equal standard of welfare, regardless of the "economic" circumstances - including the availability of natural resources - affecting their region. The object of policy then becomes that of seeing to it that those of her citizens who live in a lagging region are somehow enabled to enjoy a standard of welfare equivalent to that available elsewhere in the same country. Thus the proposition that economic development must be determined solely by the criterion of natural resources being available, does not hold <u>unless</u> the government is prepared to ignore the democratically-legitimate expectations of those citizens who live in the lagging regions.

At another extreme is the view that all regions should be assisted to develop regardless of the costs involved or the difficulties that may, on a reasonable forecast, be expected. Fortunately this view is not usually held by economists: the debate about regional policy among economists has been centred, in fact, on the extent to which the costs (and the expected benefits) of regional economic development differ from the costs (and the expected benefits) of encouraging labour migration to more prosperous regions. Economists who favour national measures to assist lagging regions thus do recognize that costs are usually involved. They deserve, therefore, to be distinguished from others, such as politicians and sociologists, who may miss the important point that regions are in competition with one another for limited supplies of capital (for example), and that this competition requires some choice as to which regions are to acquire new capital and in what relative proportions.

While economists who favour regional development as an objective of policy do regard the costs (and benefits) involved as an important factor influencing the nature and timing of regional programs, they consider that suitable programs of this kind undertaken when national circumstances permit, are a desirable objective of public policy in the long run. As already noted there has been a concerted effort in the recent literature on regional development problems to demonstrate that, in a growth context, the benefits not only outweigh the costs incurred, but the excess of benefits over costs is greater than could be obtained either from non-intervention or from giving more deliberate encouragement to labour migration to the more prosperous regions. This is a difficult case to prove once and for all, simply because circumstances change and the "right" course of policy action today may be the wrong one tomorrow. Moreover, the opportunity to exercise such a choice may only arise occasionally, as for example, when a general review of national economic policy is being undertaken: even then, the range of choice will be limited -- perhaps severely -- by decisions that have previously been made, the full consequences of which cannot be altered. In other words, the relevant framework in which the question whether or not to pursue regional development should be asked, consists in the actual policy making process which affects the regional economy, and in particular economic circumstances affecting the region and the country to which it belongs. The question, therefore, cannot be resolved except by empirical examination, even if only purely economic aspects were to be considered. Here, as in other branches of economic theory, there are no irrefutable dogmas to guide the policy maker.

The last proposition is an important one. It amounts to recognizing that economic theory cannot provide ready answers to complex questions.

This is rather different from the view sometimes encountered that economists know how to solve regional problems if only the policy makers would listen more carefully to them and follow their suggestions with less regard to the "political considerations". Some economists may indeed know how to solve regional problems but if so, it will not be solely because of their knowledge of economic theory.

The decision whether or not to pursue regional development programmes is, of course, influenced by more than purely theoretic considerations. This is essentially because regional development has come to be regarded as one sphere of activity in which national governments engage, and in democratically governed countries (and probably to some extent also in totalitarian systems), the decision is affected -- perhaps mainly affected -- by political considerations. In the final analysis, the policy makers must be satisfied that any policy adopted is generally acceptable, at least to a majority of the electorate.

Is there, then, any point at all in the economist attempting to specify the economic considerations that may be involved? Would it not be as well for him to devote his energies to other pursuits, since political leaders are obviously much better placed than he to assess the political considerations and to determine the mood of the electorate? This difficulty can be resolved if it is remembered:

firstly, that the economic development of regions is, as of other units of political jurisdiction, in many respects the engine of progress in other spheres. Regional economic development is not an end in itself, but a means to a rising standard of living -- and perhaps other desirable social goals -- for the region and its residents.

<u>secondly</u>, that because these desirable social objectives essentially reflect the individual aspirations of regional residents, therefore,

<u>thirdly</u>, it is necessary that programmes for regional economic development be made consistent with the social objectives they are intended to serve. This compatibility with the broader social purpose is a more important characteristic of regional programmes than rigid adherence to purely economic criteria, however they may be conceived.

These points do not deny the economist a crucial role in the formulation of regional development programmes. Quite the contrary; because economic development is the means chosen to seek the attainment of the overall regional objectives, his potential value is enhanced. The achievement of consistency between the economic programmes undertaken and the social goals sought, demand his particular skills. But he will be well advised to remember the wider ends in view and, therefore, the limitations of his discipline in taking them into account.

From the region's own viewpoint regional economic development programmes thus represent the expression of economic, social, and political goals. In this sense, a region's aspirations differ very little from a nation's aspirations.

Most western industrial nations have adopted, as long term economic objectives intended to achieve other, wider social goals, some variation of the following:

- a rising standard of living, that is, increasing real income per capita;[1]
- high and rising levels of employment;[2]

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[1]This is, of course, a "welfare" objective.

[2]Lower unemployment is not the same thing as high and rising employment.

- a high and sustained rate of economic growth, that is, increasing total real output of goods and services;[3]
- stable prices; and
- a viable balance of payments position, that is, a volume of real exports sufficient to balance real imports after allowing for long-term capital flows that can be justified in terms of prospective rates of return viewed dynamically.

There is, of course, some element of conflict among some of these objectives which at certain times becomes sharp and clear. For example, the need to control a threatening serious inflation and/or to restore equilibrium in the balance of payments, may require a temporary relaxation in the effort to achieve higher employment, faster growth and increased real income. Similarly, on occasion it will be necessary to choose between maximum growth of income and maximum increases in employment. It seems that, even at the national level, it is not feasible to be dogmatic about the economic objectives which should be pursued. The inevitable conflicts among particular economic objectives can only be resolved in the context of actual circumstances as and when they arise.

There are three main implications in the fact that any major economic region is part of a nation. The first is that the region must accept some share of responsibility for achieving national objectives, whether economic, social or political. The economic activities of the region must be guided by the sort of national economic goals outlined above, or whatever variation of them is accepted in its particular country. This does not rule out disagreement by any region with the objectives that have been adopted: indeed, one avenue of regional improvement that must not be overlooked,lies in securing periodic reformulation of the national goals so they will more suitably reflect the varying needs and aspirations of all regions. Pending success on this front, however, the region has a duty to constrain the pursuit of its own peculiarly regional objectives by the national interest.

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[3] There are alternative methods of measuring "economic growth", of course, e.g., by measuring increases in total real output *per capita*.

Secondly, and by the same token, the region's problems are not entirely its own. They deserve some attention from the country generally, and probably some contribution to their solution from the national government. This contribution may take a variety of forms.

Finally, each region in making its claim for a greater share of total national resources --for example, for new capital investment -- must compete with other regions, both growing and lagging. That is to say, there will be frequent occasions when a choice is possible among several regions, and such choice should be made on the basis of a proper weighing of the relative benefits and costs expected among the respective competing regions. In other cases a particular opportunity may arise in only one region, and its claim is then clearly accepted by other regions. In the absence of regional economic development as one of the aims of national economic policy, the danger would be that such opportunities might not be exploited and, consequently, perhaps forever lost.

In this sort of national policy framework, regional economic development becomes less subject to the vagaries of the short-term business cycle and the constraints it often imposes on regional measures under the present economic policy framework in Britain, for example. While the objectives of British regional policy are essentially long term in character, it is nevertheless true that regional policy measures operate effectively as an adjunct to full employment stabilization policy. Buoyant demand conditions nationally are a necessary condition for vigorous pursuit of these regional objectives. Thus, whenever it is necessary to restrain the growth of demand to counteract disequilibrium in the balance of payments, regional development objectives are temporarily displaced. Only when demand can be allowed to grow again, can the regions expect their prospects to improve. Within the wider framework embracing national economic and social goals outlined above, regional economic development, while still constrained by the national interest, becomes more clearly a long term objective for the nation as a whole. Its adoption by the national government represents a commitment to help create the conditions in which residents of the region can make positive contributions to the economic, social and political life of the nation.

In short, the purpose and the emphasis of regional development policy ultimately consist in striving to provide increasing economic opportunity for people living in different regions of a country. This implies a recognition that "People Prosperity" is to be preferred to "Place Prosperity"[4] as an objective of public policy at the national level and, more particularly, as a goal of regional economic policy. The social case for regional development rests upon the assumption that it is beneficial for the nation that individuals in lagging regions should have opportunities to utilize their capacities fully.

People Prosperity involves a deliberate attempt to improve the economic status of individual citizens of a country, without regard to which region or locality they happen to reside in.

The Place Prosperity doctrine argues that, if public policy should specifically help the less-advantaged classes of <u>people</u> to find jobs, then it should by the same token seek to underwrite the prosperity and growth of all <u>communities</u> and <u>regions</u>. Sometimes such argument is based merely on the false assumption that whatever is true of individuals must also apply to areas. On a more rational plane, however, Place Prosperity may be considered as a <u>proxy</u> for the ultimate ideal of People Prosperity. That is, a suitable method of improving the economic status of an individual is to raise the economic status of the region in which he happens to live.

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[4]These terms were first employed by Louis Winnick, "Place Prosperity vs. People Prosperity: Welfare Considerations in the Geographic Distribution of Economic Activity", in <u>Essays in Urban Land Economics</u>, in honor of the 65th birthday of Leo Grebler (Los Angeles: University of California, Real Estate Research Program, 1966). They are discussed further in Hoover, E.M., <u>op</u>. <u>cit</u>., pp. 259-ff.

Hoover points out two shortcomings of the Place Prosperity doctrine:

(a) it ignores the fact that a region does not correspond, for any length of time, to a fixed set of people. Assisted mobility may offer a better alternative to job creation, in some circumstances, as a means of promoting regional development.

(b) it may be wastefully nonselective in its assistance. Instead of helping the poor and the unemployed in a lagging region, the benefits of regional development programs may be bestowed instead on those who are already employed and prosperous. Growth of total regional income and employment does not automatically mean improvement in per capita income or the reduction of unemployment.

The essence of my argument above is that regional economic development should not be treated as a peripheral national purpose, given serious attention only when other economic and social objectives are being attained or approached at satisfactory rates. It must, instead, be a primary objective of public policy which receives continuing attention if any progress towards it is to be made. This is essentially because the economic development of regions, as of countries, takes time; its stimulation demands a deliberate, painstaking approach. It is not an activity likely to yield quick, powerful results if it is carried out only during the boom, or the late stages of expansion, of each business cycle. It must be made, rather, a long term social objective at the national level.

This is not to say that the national government must sponsor the economic development of all regions, regardless of cost. There will always be some choice to be exercised as to which regions ought to be developed, or which ought to be the location for a particular investment, at any point in time. This choice should be exercised after some weighing of the relative costs and benefits of the various regions to be considered. Subject to other, non-economic constraints, the choice should be of the region where the development, the emphasis, or the investment project offers the greatest overall excess of benefits over costs. This is different from saying that the choice should be of the region where success seems most likely; since the demonstration effects of successful development in the past are so powerful, this approach would differ very little from the results of freely made private sector decisions according to the profit motive. The weighing of relative benefit/cost expectations among competing regions, within a framework of national objectives, would mean that the equation would include the possible effects on non-selected regions (and hence the country) of choosing any one.[5]

This sort of analysis, in an ideal world, should be continually repeated since the results of one exercise will not apply to other, similar decisions. Nor can they be expected to hold good for all time. The interregional balancing of benefits and costs must be a continuing process guiding the formulation and execution of economic policy. The results cannot be predicted in advance, nor can useful generalizations be offered.

What is possible is to suggest some general considerations which should guide regional development policy. In this it will be assumed that some defined and accepted division of the country into a number of major economic regions, already exists; that each of these major economic regions is a populated region; and that the complete depopulation of any region (a time-consuming process) is not open as a practicable alternative, even if only for "political" reasons.

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[5]It is recognized, of course, that the use of benefit/cost analysis within a social accounting framework is no easy task. Even, however, if no quantification is possible, the qualitative identification of all possible effects is a worthwhile prelude to policy action.

Against this background the object of regional economic development should be eventually to make each region as economically self-supporting as possible. Each region, in other words, should be given every possible opportunity and freedom to earn its own keep. This is not the same as trying to make each region self-sufficient, in the sense that it produces itself all the goods and services required for regional consumption; as Chapter 3 has shown, it will be necessary to encourage interregional trade so that each region may make a positive contribution to the economic life of the nation. Any international trade into which a region may enter is also a logical extension of interregional trade and another useful role for the region to play in national economic life.

It can be conceded that development of lagging regions cannot always proceed without interruption or delay. There will be times when other national economic objectives have to be given priority. For example, it may be necessary for the national government to divert resources to prosperous regions in order better to achieve objectives of national growth, or to correct disequilibrium in the balance of payments. At other times political considerations may outweigh regional development goals. There would be such political costs to reckon with, whenever regional development begins to divert much needed infrastructure investment from booming population areas to lagging regions, especially where there is a strong possibility of capital under-utilization in the lagging regions. At such times regional development may have to proceed more slowly. The important need, however, is not to have regional development treated as <u>the</u> most important objective of national economic policy. Rather, it is to have regional development treated as one of the <u>continuing</u> objectives of such policy, to be considered whenever important decisions are made or significant policies are changed or introduced.

If the object of regional economic development is viable economic regions, then it follows that the national government must devise regional (and national) economic policy with this in mind.

Programmes and projects should be assessed on the basis of their likely impact in terms of this long-term objective. Apart from social welfare programmes to relieve individual hardship during any transitional period, expenditures for regional economic development should be allocated to those economic activities to be carried on in each region which show reasonable prospects of eventually becoming efficient and self-supporting. Some short-term subsidization of inefficient, unprofitable activities may be necessary, even desirable, if the long term prospects of such projects appear sound; but the propping up of inefficient activities with little prospect of long term viability is to be studiously avoided.

Because inevitably some regions are more prosperous than others, and economic development is itself an uneven process which cannot occur simultaneously in all regions, some degree of regional economic disparity can be expected even when regional development is an explicit social objective and even when regional programmes are carefully devised and consistently pursued. It will probably never be possible to eliminate such inequality entirely. What should be attempted is the removal of serious disparities from one region to another. But a policy commitment, expressed perhaps in terms of per capita income figures, to eliminate interregional disparities entirely, is something which should be avoided. For one thing, such a formulation may be interpreted in all regions as a form of guaranteed uniformity which could dull the incentives which exist for individuals to seek rewards in proportion to effort, under a mixed economic system.

An aspect of such incentives and their effectiveness is the interregional factor mobility discussed in Chapters 2 and 3, where we noted that factors tend to move to higher returns even although factor mobility is less than perfect. We also noted that such factor movements constitute an important adjustment mechanism for the interregional price system, enabling the spread of productive factors to adjust to changing conditions throughout the interregional economy.

In this connection <u>intra</u>regional factor movements are no less important than interregional movements. It is mainly because a policy commitment to eliminate all interregional disparities entirely (and perhaps all intraregional ones too) may hinder the proper functioning of the adjustment mechanism of factor movements, that such a formulation of regional policy objectives is to be avoided.

The effectiveness of policy is likely to be further enhanced if, in addition, no attempt is made to influence interregional factor movements by direct means. A clear choice between "work to the workers" or "workers to the work" is seldom, if ever, open in a decision-making situation, and there is really no practical purpose to be served in labouring what is an almost wholly academic issue. In effect, a little of both will be useful from time to time, both within and between regions.

Finally, the argument of this chapter may be briefly summarized. Regional economic development should be seen as an important goal at the national level. Its aim should be the achievement of conditions in which each region can develop a useful, worthy role in the nation's economic, social and political life. Policies to further this aim should avoid permanent subsidy of economic activities in order to concentrate on encouraging and assisting the development of activities which show good, long term prospects of becoming efficient and self-supporting. The temptation to specify, as a policy objective, the complete elimination of inequalities in per capita measures of economic status interregionally, should be resisted because of its possible disincentive effects upon individual enterprise in search of reward. There is no practical purpose to be served by continuing the academic debate between those who favour taking work to the workers, and those who prefer taking the workers to the work, since some of both is frequently to be desired. Indeed, factor movements should not even be the focus of government policy for regional development; they constitute a valuable adjustment mechanism whereby factor supplies may adjust to interregional changes in commodity trade. Such changes in commodity trade are the proper object of policy measures.

All this amounts perhaps to no more than saying that regional economic development is an essential aspect of long term national growth policy. In this context idle resources should not merely be drawn into work in less prosperous regions, almost forcibly, only when no other source of such resources are available because the national economy is operating at or near capacity. Instead they should be assisted to develop over time, and thus enabled to make a positive, continuing contribution to national economic growth. In other words the purpose of regional economic development, as stated above, is to provide regions (or more precisely, their residents) with the opportunity to contribute to the nation's economic, social and political life.

This interpretation of the social purpose of regional economic development is, moreover, quite consistent with the technical purpose outlined in Chapter 3. The fostering of interregional trade, by increasing complementarity among regions, in order to encourage greater interregional transmission of growth, represents, in effect, the technical means to the social ends discussed in this chapter. The emphasis on the wider social policy aspects at the national level of regional economic development is to be contrasted with the approach to declining or backward regions of those who pessimistically refuse to believe that such regions have any long term prospects and, therefore, should only be assisted towards further and/or faster decline. Those who hold this view apparently prefer to treat some citizens of a country as expendable, and justify their attitude with the proposition that total national income or total national output will be greater than if resources are diverted to regional economic development programmes. This proposition cannot be finally demonstrated; nor can my argument that, in the long run, regional economic development conducted on the basis I have suggested, be proven either. But it is my belief that if a choice must be made between these two divergent approaches, it is better to remember that economics is, after all, about people.[6]

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[6] I am indebted for this phrase to Professor A.L. Levine, one of my teachers at the University of New Brunswick.

INTRODUCTION TO PART II

The purpose of this Part is to describe the selection process actually used by the Scottish Development Department in choosing the "growth areas" announced in the White Paper of November 1963, "Central Scotland: A Programme for Development and Growth". In this, attention will be focussed on the criteria actually employed at each stage of the selection process, in order to determine, as objectively as possible, the actual basis of selection used. If the various factors taken into account can also be "weighted" somehow, an overall impression may be conveyed as to the nature and purpose of the "growth areas" actually selected. It should perhaps be emphasized that the object is not to assess whether on the criteria used, the "correct" places in Central Scotland were identified: this question will not be considered for the object is primarily to formulate, as clearly as possible, the basis of selection and not the result.

Part II is in four chapters. Chapter 5 reviews the historical background to the growth areas selection exercise, as well as the policy framework within which the proposals for the future development of Central Scotland in which the growth areas figured prominently, were formulated. It deals with physical planning policy in Scotland, with British location of industry policy as applied to Scotland, and with the Toothill Committee's 1960-61 study of the Scottish economy. The last is analyzed in an attempt to deduce the Committee's view of the role growth areas should play in regional development policy. While its notion of growth areas was never made very explicit in the Toothill Report, the fact is that the Committee's study and recommendations inspired the selection process in 1963, and therefore warrant consideration in this way.

The actual selection process is examined in Chapter 6.

In Chapter 7 an effort is made to summarize the changes in "growth areas" policy by examination of developments in British financial inducements since 1963, and to assess their significance.

An assessment of the important characteristics of the "growth areas" as well as of their value as a technique for economic development in Central Scotland, is contained in Chapter 8.

These final observations include a brief discussion of the relationship between the Scottish "growth areas" and the theoretical concept of the "growth pole" (pole de croissance) developed by the French economist, Francois Perroux, and others.

Against the background of the regional economic development theory discussed in Part I, I thus want to examine the British experience with regional economic development policy. In particular, I want to compare the Scottish experience with Canada's experience in developing her main lagging region, the Atlantic Provinces.

There are, of course, big differences between the Scottish problems and those of the Atlantic Region. It seems reasonable to hope, however, that some aspects of the Scottish experience would offer relevant comparisons, as well as being of interest from a broader point of view than that of Atlantic Region development.

Part II has been based on material kindly made available to me by the Scottish Development Department, and on personal interviews with some of the officials involved in the work of the Department, and in the Board of Trade, during the period when this work was being carried out under the auspices of the Scottish Development Group. I am grateful for their substantial assistance; the conclusions reached herein, however, are my own responsibility.

Part II

Chapter 5.

Physical Planning in Scotland Since 1945

Great Britain is a small, densely populated island in which land is a relatively scarce factor of production. As a result, the Government exerts considerable control over overall land use and is heavily involved in land use planning for the whole country. Prior to 1943, when the first Town and Country Planning Act was passed, local authorities were only empowered to prepare planning schemes for their areas. Since then, however, the Town and Country Planning Act has required that any development of land in Britain receive prior planning permission from the local Planning Authority (a county council or urban government unit). Such planning permission is given or refused in the light of the development plan prepared by each authority at five year intervals for its area. In turn, the development plans of the various local authorities must be submitted in advance to the Central Authority for approval. In Scotland, responsibility for reviewing and approving local authority development plans belongs to the Secretary of State for Scotland, and is executed by the Planning Division of the Scottish Development Department. It is therefore within this department that policy for the future land use planning of the country as a whole is usually developed. Moreover, with the local authorities also empowered to acquire land required for development in various ways, compulsorily if necessary, physical planning is much more than merely permissive. Decisions made at local authority level, once sanctioned by the Secretary of State, are soon put into effect.

The implication of these arrangements is important. It is that the local authorities, along with the Scottish Development Department[1],

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[1]In terms of specific developments, private entrepreneurs are the instigators and the planning authorities control their activities. But in devising longer term plans involving the allocation of land within their jurisdictions to housing, commercial, industrial and other uses, the planning authorities themselves become the instigators.

are the main instigators of change in the Scottish physical environment.[2] When these powers are used with a view to economic development, the planning authorities assume the capacity of "economic operators" as well. They are thus in a position, partly to fulfill, or perhaps rather to complement, the social role which economic theorists have traditionally ascribed to the private entrepreneur.

Another important piece of legislation in this connection is the New Town Act of 1946. This authorized the Secretary of State for Scotland to designate areas within the country to be developed as New Towns, the main purpose being seen originally as that of relieving congestion and excessive population growth in large cities, especially London, by creating "overspill reception centres" where some of the population in such cities could be relocated. The development of such new towns was to be sponsored and administered by new town development corporations created for the purpose; members of these bodies were nominated by the Secretary of State and their administrative expenses borne by Exchequer grants until such time as the new towns became viable units and could be administered in the normal way by locally-elected councils, when the development corporation would be dissolved. Since responsibility for the designation of new towns is entrusted to the Secretary of State, the preparation of "outline development plans" for Scottish new towns is also a function of the Scottish Development Department.

Several years before these two Acts were passed, the foundations of post-war physical planning and regional development in Scotland were effectively laid in the Clyde Valley Report and Plan. The Clyde Valley Region, comprising the whole of the counties of Dunbarton, Renfrew and Lanark, more than half of Ayr, and a few parishes in Stirling County, is centred on Scotland's major metropolitan centre, the City of Glasgow. It

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[2] Until 1962, when the Scottish Development Department was established, the responsibility for physical planning was carried by the Scottish Department of Health.

contained almost half of the total Scottish population, a consequence of the concentration of industry and population associated with Glasgow's rapid emergence during the Industrial Revolution as an industrial and commercial city of world-wide importance.

This agglomeration of industry and workers had been attracted to the area by its rich seams of coal which became the base for iron and steel, heavy engineering and shipbuilding. Relatively easy access to ocean transport had been a further natural advantage. During the world-wide Depression of the 1930's, however, the concentration on "heavy" or basic industry had made the Clydeside economy especially vulnerable. From 1939 to 1945 the stimulation of demand for wartime purposes had permitted robust recovery by these particular industries from the unemployment of the 1930's, but had not left much room for diversifying the general economic structure. Accordingly, one of the problems encountered by the Clyde Valley regional planners in 1946 was "a relatively inflexible industrial economy of a predominantly heavy basic character with a bad past history of serious recessions."[3] The industrial structure, dominated as it was by the shipbuilding and heavy engineering activities on Clydeside, was also considered to be "relatively immovable".

It was the concentration of population which received greatest attention from the Clyde Valley planners, however. Particular concern was paid to overcrowding and unsuitable housing conditions, the extent of which had been rather well documented in available statistics. In three square miles of Central Glasgow in 1945 there were 700,000 persons, or an average gross density of 400 persons to the acre; in some sections net densities rose as high as 700 persons to the acre. Glasgow would have an estimated displacement from proposed redevelopment

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[3]Robert Grieve, "The Clyde Valley - A Review", a paper delivered at the Town and Country Planning Summer School held at the University of St. Andrews 1954 under the auspices of the Town Planning Institute, reprinted for the Town and Country Planning Association (Scottish Section), 452 Sauchiehall Street, Glasgow, p.2.

areas of 550,000 persons, or half its total population, and some 300,000 of these could only be rehoused by overspill beyond the City boundaries.[4] Because this scale of proposed overspill was about the same as what the London County Council envisaged as necessary from an area with a population three times the size of Glasgow's, the Clyde Valley planners were convinced that housing was "the fundamental problem". The idea that industries would be attracted to the new towns was entertained, rather tentatively, by the Clyde Valley planners, but was not widely held.

New Towns Proposed

The choice of "overspill" as a solution, in preference to the outward extension of Glasgow's own boundaries or increased spread of the whole Clydeside conurbation, was conditioned by the limitations imposed on development by physical topography, on the one hand, and the planners' desire to preserve some sort of "green belt" on the other. "The Clyde Valley" is largely surrounded by uplands, moorlands and hill country, rising rapidly to heights which forbid development. Within this barrier, the physical characteristics are such that only a few areas exist on which some four new towns of the 50,000 class could be built *without coalescence with other built-up Areas*.[5] There was no lowland plain in which expansion would occur, as there was in all the large industrial areas of England. The application of the "sieve map" technique to the region revealed, moreover, numerous physical and land use restrictions on development including liability to flooding and mineral subsidence, as well as large areas of high quality agricultural land and certain other areas of high scenic value. Much of the

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[4]The data quoted in this paragraph are from Grieve, *op. cit.* page 5.

[5]Grieve, page 14. Italics mine. There is no reason given for the choice of 50,000 as the desired size for new towns; the figure probably seemed ambitious at a time when the new towns policy was only beginning to emerge in Britain, although by today's standards the scale of development implied seems small.

subsidence problem was due to the working or prospective working of coking coal, of which Scotland was then very short - "there could be no question of restricting the working of this vital national resource to allow for housing development".

In the event, the "Green Belt principle" could be applied, partly because it consisted of a system of interconnected wedges and cut-offs which were not suitable for building for various reasons. This physical constraint gave further support to the planners' own preference for a green belt which is clearly revealed in the following extract from the Plan itself:

> "It has been pointed out earlier in this Report that the Clyde Valley in its middle and lower sections was, before industrialization swept across it, a rich agricultural area. Even today ...... the quality of the land around and between the various parts of the great urban complex is, on the whole, of a high grade. It was unfortunate that there should have been this superimposition of first-rate farmland on a rich coalfield, because it meant not only a loss to agriculture by the coverage of so much land by urban and industrial uses but the impairment of so much more by damage to field drainage through subsidence, and by soot and smoke."
>
> "It is felt strongly by us that the time has come to take stock of what is left, and to protect and safeguard it from further encroachment. The clamant need of this country today is for the supply to townsfolk of abundant quantities of the protective foods which we are eminently suited for producing - milk, green vegetables, eggs, etc. These must be fresh to yield their highest food value; they must be produced, therefore, as close as possible to the consuming areas."[6]

The outer line of the Green Belt was based on the surrounding moorland edge, and contained the greater part of the Clyde Basin's agricultural land plus, of course, the Glasgow-centred conurbation. Within this outer ring all urban areas (except Glasgow, Greenock and Rutherglen) were capable of meeting their housing needs by peripheral

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[6] The Clyde Valley Regional Plan 1946, Preliminary Edition, June 1946, pp. 289 - 290.

expansion in the opposite direction from Glasgow; and the inner ring of the Green Belt was drawn accordingly. This left three major areas capable of accommodating new towns without coalescence with other urban areas:

(1) the Houston-Bishopton area, west of Glasgow

(2) Cumbernauld, north-east of Glasgow

(3) East Kilbride, south-east of Glasgow.

In these areas new town sites were proposed to take overspill.

The four new towns, plus some peripheral building, plus the recommended building up of other places in Ayr, however, still left an overspill requirement to be met outside the Clyde Valley Region of a further 100,000 population.

The Plan which emerged, however, was not the classic Green Belt system of urban regional planning, but a polynucleated urban system designed on a very tight pattern and set in a green background. Industrial estate sites were chosen to service the overall pattern, old and proposed, in relation to an adapted major road network which dealt with the cross-river road problem and also proposed two major new radials and three ring roads. The unco-ordinated railway system also was to be pulled together into a rationalized framework which, it was strongly recommended, should be electrified and co-ordinated with road transport.

The Clyde Valley Regional Plan has not been completely adopted in all aspects and details. Grieve noted in 1954 that two of the major road proposals had been abandoned and that some intrusion by Glasgow into the green belt had occurred to help accommodate the city's pressing housing problem. Nevertheless important proposals in the Plan were implemented, including a considerable number of the industrial estates proposed and a great deal of housing built by local authorities, and perhaps most important, the commencement of East Kilbride, one of the four new towns recommended. But some years were to elapse before the others proposed were to be activated.

The self-contained new town was, according to Grieve, one of the fundamental principles of the Plan. Such new towns constituted a means not only of decongesting population from Glasgow, but also of decentralizing industry as well. They were seen as related to the proposed pattern of industrial estates in a special way in which "the main objects .... were the attraction of new diversifying industries and the reduction of travel to work." In such new towns the planning and development of housing and industrial facilities would be carried out on an integrated basis.

New Towns Established

In 1947 the new town of East Kilbride was designated by the Secretary of State for Scotland. The document[7] explaining the proposals noted that the proposed development of the new town derived from four major principles of physical planning policy for the Clyde Valley Region:

(1) planned decentralization of congested urban areas is essential;

(2) urban development must be carried out in such a way as to prevent a physical link-up of existing urban units by further "urban sprawl", by preserving adequate green belt areas;

(3) adequate provision is necessary "for new industries and for the relocation of existing industries at present accommodated in unsatisfactory premises or unsuitably located for the purposes of expansions";

(4) to give effect to these principles, the planned reconcentration of population and industry decentralized from congested areas in the Region in one or more new towns, is essential.

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[7] Department of Health for Scotland, "New Town at East Kilbride", Edinburgh, H.M.S.O., 1947.

Many industrial undertakings in Glasgow and North Lanarkshire were located in outmoded premises "inextricably mingled with congested and obsolescent housing accommodation", and planned redevelopment of such areas was expected to reduce building densities and considerable decentralization of population and industry.

The document referred to the growth of Greater Glasgow from 13,000 acres to 28,500 acres between 1919 and 1939, an increase twice as great as what occurred between 1850 and 1914, as evidence of "urban sprawl". Private enterprise construction of 13,000 houses in Giffnock, Eaglesham and Newton Mearns in Renfrewshire, and Bearsden and Milngavie in Dunbartonshire, had enabled "an uncoordinated mass of peripheral housing development equivalent to a new town of the size proposed for East Kilbride, predominantly of one social class, with no civic identity, practically no independent social facilities and no industry." The tendency to peripheral spread were to be resisted so as to secure an adequate green belt reservation around existing and new urban units in the region.

Further new industrial estates also were to be established outside the limits of the present congested urban areas; the 60,000 additional new jobs estimated to be required in the Glasgow area "within the next few years". These would have to be provided in industrial premises in entirely new communities. The scope for attracting such new industry to Glasgow itself was limited by the scarcity of suitable land for industrial sites and by the prior claim on such sites of Glasgow firms wishing to move from congested and out-of-date premises.

East Kilbride thus had as its primary purpose the decentralization and decongestion of the existing urban areas in the Clyde Valley Region, in particular Glasgow itself and North West Lanarkshire. Although its boundary was to be only one mile distant from the Glasgow City boundary, its local and regional topography meant, in the Secretary of State's view, that East Kilbride could not be regarded as "a mere suburban appendage to the existing urban areas".

The designation of East Kilbride did not come about by unanimous consent. The City of Glasgow had argued, unsuccessfully, that East Kilbride was unnecessary since the accommodation of the "overspill" population could be provided through redevelopment within Glasgow itself. Another objection was raised by agricultural interests in the area affected where, it was argued, the new town as originally proposed would, if developed, divert some 4,200 acres from agriculture and thereby involve a loss of about 500,000 gallons of milk production annually. It was argued that this loss was contrary to the national interest, and the Secretary of State accordingly modified the boundaries originally proposed for East Kilbride so as to reduce the prospective loss by about 200,000 gallons of milk a year.

In the end, the Clyde Valley Plan's recommendations held sway. East Kilbride, as Scotland's first new town was "to exemplify the best possible standards in such matters as industrial estate layout, the provision of houses at appropriate densities, and planned open space for recreation and amenity and the provision of schools with adequate recreational facilities easily accessible, and of other community facilities".

Little further progress of a major nature along the lines recommended by the Clyde Valley Plan was made during the next several years. There was further development at East Kilbride, but Grieve noted in his review paper a hiatus between 1947 and 1952 in which the (general) problem appeared to receive a minimum of attention. In the latter year the local authorities established a new Clyde Valley Regional Planning Advisory Committee to examine various regional problems, but especially the overspill problem. For this purpose a study was carried out[8] of the possible development capacity of the Clyde Basin, and showed:

(a) possible peripheral areas in the Green Belt which might be developed without serious detriment to overall considerations; these were based on detailed landscape examinations of certain areas;

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[8]The study was done by the Department of Health for Scotland.

(b) possible new town areas based on the Clyde Valley Plan; and

(c) the best of a number of areas at and about the 600 feet contour mark, some only of which had been examined (albeit sketchily) by the Clyde Valley Planning Consultants and considered as dubious because of altitude, lack of railway services, water supply difficulties, etc.

The main consequence of this search was the recommendation of the Advisory Committee in 1954 that a new town be developed at Cumbernauld - as proposed earlier in the Clyde Valley Regional Plan.

Meanwhile outside the Clyde Valley, in the County of Fife north of Edinburgh, the Secretary of State had designated another Scottish new town at Glenrothes in 1948. This is also an important coalmining area of Scotland, and the original purpose for Glenrothes was to attract a pool of miners to work the Rothes pit which was to be opened up, and which showed promise of long life. It was hoped that this new source would help offset the loss of coal production resulting from the decline of the Lanarkshire coalfields. It was estimated that about 6,500 additional miners would eventually be required to work the Rothes pit and other seams being, or to be, developed in the surrounding area. The new town would provide housing for the miners away from the colliery in a "mixed community" to include members of other trades and occupations, as had been recommended by the Scottish Coalfields Committee in 1944. On the basis of a miner to total population ratio of 1 in 8 or 1 in 9, a total population of about 30,000 was envisaged for the new town in Glenrothes. Industrial development would be encouraged to provide necessary "balancing industries".[9]

Objections to the new town were heard again from local agricultural interests concerned with the displacement of 1,700 acres

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[9] Department of Health for Scotland, Draft New Town (Glenrothes) Designation Order, Edinburgh, H.M.S.O. 1948.

of agricultural land and the consequent loss of 117,000 gallons of milk production annually, and also from two industrial firms in the area concerned that the new town would exert certain detrimental effects upon their own operations and prospects. Neither groups were successful in altering the Secretary of State's proposal to develop Glenrothes new town.

Subsequently, however, the Rothes pit failed to live up to its promise and plans for its development were abandoned. There was consequently a delay in the build-up expected for this new town. Eventually, however, the industrial basis for the new town was re-oriented away from coal, and in recent years Glenrothes has been growing rapidly as a result of new, diversified industry attracted there.

In 1955 Cumbernauld was designated a new town, Scotland's third, by the Secretary of State. The decision followed the recommendation made a year earlier by the Clyde Valley Regional Planning Advisory Committee. Its primary purpose was to receive population overspill from the City of Glasgow in view of the consideration that the direct extension of the Glasgow Boundary was undesirable. Of the City's estimated immediate need for about 100,000 houses, sites for only an estimated 43,000 were available within the City boundaries, leaving a balance of approximately 60,000 houses to be provided elsewhere. This estimate did not include the further requirement for sites for population to be displaced by redevelopment of Glasgow's congested areas. This situation led the Advisory Committee to propose at Cumbernauld a new town to provide for 50,000 people.

The intention again was that the green belt around Glasgow would be preserved. Further peripheral extension would result in urban development on Clydeside sprawling in one continuous mass from the eastern limits of Airdrie to the western limits of Clydebank and Paisley.

More co-operative as a result of the experience with East Kilbride, Glasgow Corporation agreed, in view of Cumbernauld's purpose in accommodating "overspill" from the City, to pay the statutory rate contribution for ten years on each house built at Cumbernauld and let to a tenant nominated by the Corporation. It was expected that 12,000 houses would be provided under this arrangement out of the 14,000 total likely to be built at Cumbernauld new town.

The loss to agriculture was restricted, as much as possible, to lower quality land by the siting of the new town, and this loss was regretted but considered necessary.

Cumbernauld was also to be a "balanced community" with its own complement of industry and commercial facilities. The designation order noted the existence of a number of suitable industrial sites, and by virtue of its location within the Scottish Development Area, its eligibility for assistance under the Distribution of Industry Act, 1945, for approved industrial projects. The primary purpose of the proposed new town was to cater for Glasgow overspill, however, and the Secretary of State hoped "the powers available to the development corporation .... may assist in securing the transfer from Glasgow of undertakings established there who find it convenient to seek new locations in Cumbernauld and houses for whose workers can be provided in the new town".

The fourth new town in Scotland was not designated until seven years later, in 1962. Glasgow overspill remained a pressing problem and the main proximate cause. Comprehensive redevelopment underway or planned in Glasgow would displace some 100,000 families from bad housing, and it was estimated that only about 40,000 could be rehoused within the redevelopment areas. The remaining 60,000 would be overspill and would give rise to a need by 1965 for over 1,000 more houses per year than could be provided in East Kilbride, Glenrothes and Cumbernauld or in other local authority areas under overspill agreements with Glasgow Corporation. The fourth new town was to meet this need. Glasgow Corporation agreed to pay £14 per annum for ten years for each house rented to a family nominated by the Corporation. But now there were other considerations as well. For one thing, with East Kilbride and Cumbernauld already underway in the vicinity of Glasgow, "it was clearly desirable that any location in the already congested Clyde Valley should be avoided". The Green Belt thus remained an important article of the planning faith.

The new town was planned to accommodate a population of 70,000.[10] Its location was determined after an examination of a somewhat greater range of factors than had been considered in the earlier cases. Chief among them was the suitability of the location for industrial development. Livingston was selected and finally designated in 1962 to include 6,700 acres in the adjoining Counties of West Lothian and Midlothian. Here a range of good factory sites was available, transport communications with Glasgow were good, and the area had recently been selected by the British Motor Corporation for its new commercial vehicle plant at Bathgate. Livingston new town thus held the prospect "....not merely of helping solve Glasgow's housing problem but also of using overspill constructively to create a new focus of industrial activity in the central belt of Scotland, linking the West with the centres of expansion in the Forth basin, and at the same time revitalizing with modern industries an area hitherto over-dependent on coal and shale". The experience with the three earlier new towns led to a materially larger provision for industrial locations in the fourth. This emerging emphasis on the wider economic purpose of new town development, in which new towns are seen as a means of attracting industrial development for a wider region instead of simply providing jobs for the new town's own population, is interesting as a pointer to the still more general survey, report and plan for Central Scotland conducted by the Scottish Development Group a year later. In fact, the designation of Livingston in January 1962 preceded the start of the "growth areas" exercise by only a few months.

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[10] The increase from 50,000 to 70,000 marked a greater confidence resulting from the successful development of the earlier new towns, as well as a reflection of the estimated "overspill" need noted above.

It was anticipated that the population in Livingston and the surrounding area would rise from 70,000 to 170,000 over the subsequent 20 years. The designation order mentioned the desirability of maintaining an adequate green belt separation of the several communities involved. Rehabilitation of areas whose physical appearance was marred by a number of shale bings, the result of mining operations in an earlier day, was also to be an integral part of the development programme in the Livingston area.[11]

The Larger Purpose of New Towns

To summarize, the main conscious purpose of establishing new towns in Scotland, as far as Glasgow Corporation was concerned, was in order to relieve Glasgow's problem of overcrowded and unsuitable housing by means of overspill. At the planning stage the attraction of industry to the new towns was seen as a desirable possibility rather than a specific purpose: if the workers to be rehoused from Glasgow could be provided with jobs in their new surroundings, so much the better. But the decision to establish new towns did not depend to any great extent on the likelihood, or otherwise, of their being able to attract new industries to the wider Glasgow region. There was, of course, some expectation that industrial congestion in Glasgow might be relieved in conjunction with the population overspill programme, but the latter remained the fundamental, and only necessary, purpose of the whole exercise. It seems especially clear that the new town planners were certainly not so bold as to envisage the new towns becoming poles of attraction for industrial firms moving into Scotland from other distant areas of Great Britain and, indeed, from beyond.

A second impetus for the establishment of new towns consisted in the physical planners' preference for maintaining a green belt around

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[11] The comprehensive economic and physical development of Livingston and the Lothians was subsequently made the subject of more careful examination by a team of physical planners and social scientists in the Universities of Glasgow and Edinburgh.

the Glasgow region. Whatever the merits of their argument it seems clear, in retrospect, that without this element in the Clyde Valley Regional Plan, the accommodation of Glasgow's further population growth might well have taken the form of the continuous "urban sprawl" which the planners so strenuously wished to avoid. The green belt article in the planning faith, reflected in the policy-makers' eventual decisions, this served an important role in laying the basis for the decision to proceed with developing new towns in Scotland.

By the time Livingston was designated, however, the new town had become a broader concept in Scottish planning. Sufficient experience had been gained with the three earlier new towns to demonstrate that a new town, besides serving as a reception centre for Glasgow overspill population and thereby also avoiding "urban sprawl", could also be used to attract new industrial activity to the wider region and thus assist in the general improvement of the whole economy of Central Scotland.

The Scale of the New Towns

Against this more general background of regional development, in both the physical and the economic sense, it may be asked how large a contribution the first three Scottish new towns had made to regional progress by the end of 1962, or roughly when the review of the present position and future prospects of Central Scotland was initiated by the Scottish Development Group. Some indication on this score may be had from the data summarized in Table 1.

In total, the population growth in the three new towns together had amounted to over 50,000 persons by the end of 1962. In percentage terms this rate of increase is indeed remarkable, with East Kilbride having the most impressive overall increase (over 15 years since designation) of 1,337%. On an annual average basis, the rates of growth remain impressive for all three towns, ranging from 16% in Cumbernauld (over seven years) to 20% in Glenrothes (over 14 years). The reason

Table 1

Changes in Population and Manufacturing, Scottish New Towns, to December 1962

New town (and year of designation)	At designation	Dec. 1962	Increase to Dec. 1962 No.	%	% p.a.
Population					
East Kilbride (1947)	2,400	34,500	32,100	+1,337.5	+19.2
Glenrothes (1948)	1,100	14,140	13,040	+1,185.5	+20.0
Cumbernauld (1955)	3,000	8,350	5,350	+178.3	+15.8
Total	6,500	56,990	50,490	+776.8	
Manufacturing					
a. No. of firms*					
East Kilbride (1947)	3	60	57	+1,900	
Glenrothes (1948)	4	13	9	+225	
Cumbernauld (1955)	3	15	12	+400	
Total	10	88	78	+780	
b. No. of employees					
East Kilbride (1947)	314	8,251	7,937	+2,528	
Glenrothes (1948)	1,683	3,794	2,111	+125	
Cumbernauld (1955)	171	2,721	2,550	+1,491	
Total	2,168	14,766	12,598	+572.6	
c. Floor space ('000 sq. ft.)					
East Kilbride (1947)	173	2,149	1,976	+1,142	
Glenrothes (1948)	750	999	249	+33	
Cumbernauld (1955)	151	873	722	+478	
Total	1,074	4,021	2,947	+268.0	

*Assuming all the original factories were still in operation at December 1962.

these rates are so strikingly high lies, of course, in the very nature of new towns: they are completely new settlements in areas which were previously uninhabited, or virtually so. Hence their relative growth is dramatic because it is from a zero, or negligible, base. The same is true of the rates of increase in the three manufacturing indicators shown in Table 1.

The proportion of the modest overall increase in the population of Scotland accounted for by the three new towns was also large. Over a somewhat different span, from 1951 to 1961, the national population increased by 82,075 and the new towns accounted for 39,897 or almost half of this. The total increase contributed by the three older communities with the next largest absolute population changes in Central Scotland, on the other hand, was only of the order of 17,000 over the same period.

In the context of the total existing population of Central Scotland the increase represented by the new towns becomes quite modest in percentage terms, especially when one considers that this increase occurred over a decade or more. Between 1951 and 1961 Scotland's population increase of 82,075 represented a relative rise of 1.6%; the new towns' increase of 39,897 thus added but 0.8% to the total Scottish population over the decade.

From this analysis of the data on population change it can be concluded that the growth of the new towns, while impressive *in situ* and also as a proportion of the total population increase throughout Scotland, resulted in only a very small percentage addition to the national population. When one considers that a (larger) number of other areas within the country grew sufficiently to contribute as much again to the national increase, even after allowance is made for a decline of almost 35,000 in Glasgow's population, the overall importance of the new towns is again reduced somewhat.

Of course, a considerable part of the new towns' population growth was the direct consequence of deliberate overspill policy. It is interesting that the rise of 39,897 between 1951 and 1961 took place simultaneously with the decline of almost 35,000 in Glasgow's population. Of course, overspill from Glasgow was being accommodated elsewhere than in the new towns, so the new towns' growth resulting from other factors than overspill is doubtless greater than the difference between these two figures. Some indication of the importance of overspill is given by Table 2. Of the 4,315 houses completed in the three new towns together, 2,705 or 65.2% were built to accommodate population being moved from Glasgow. This suggests that something in the order of two-thirds of the total population growth in the new towns was the consequence of overspill.

Even when offset by comparable reduction in the older areas, the creation of new employment in the new towns may be considered a positive benefit on the simple proposition that without it, the net result would have been an overall decline. To the extent that new employment generated in the new towns resulted from the attraction of activities new to Central Scotland and their subsequent expansion, and not simply from the transfer of existing frims out of Glasgow, the validity of this viewpoint is strengthened. Thus, although the net effect of the change in population numbers is lessened when Glasgow is included in the overall picture, the increase in manufacturing activity is not similarly devalued. The rise of 12,598 in manufacturing employment distributed among the three new towns takes on the significance of virtually a net positive contribution to the Central Scotland economy. The alternative, one may presume, would have been for the population moving to East Kilbride, Glenrothes and Cumbernauld to seek employment beyond Scotland. It is as if, with Glasgow too crowded to accommodate either its existing population or new industry, the decline of its older industries had to be offset by attracting new industry to the new towns where it could be accommodated, and to which the city's surplus population could also be moved. At the end of the day, although

Table 2

Houses Completed, Overspill Agreements and Other Arrangements, Scottish New Towns, 1958 to 1962 inclusive

	Overspill		Other Arrangements	Total
	No.	% of Total		
East Kilbride	1,298	45.8	1,533	2,831
Glenrothes	216	76.3	67	283
Cumbernauld	1,191	99.2	10	1,201
Total	2,705	65.2	1,610	4,315

Source: Scottish Development Department

overall population growth is almost negligible, the increase in new employment has been made possible by the device of creating the conditions and providing the services for it in the new towns - conditions and services which perhaps could not have been made available in Glasgow itself except at much greater cost; if at all.

The new towns, more than examples of rapid and substantial population transfer, were thus foci of industrial growth - almost, as it were, an oasis in the Scottish desert of industrial stagnation and decline. In terms of their ability to attract both new firms and new families, they combined substantial real inducements, including factories and houses, with considerable psychological appeal based on their character as new, almost "pioneer", local societies. The question remained, however, whether by themselves they were sufficient in scale to meet the challenge posed by the persistent excessive unemployment, continuing net emigration, and further loss of jobs in the traditional industries yet expected in the Central Scotland economy - a question to which the Scottish Development Group was about to turn its attention.

Postwar Location of Industry Policy in Scotland

In Scotland, as elsewhere in Great Britain, the execution of location of industry policy - the main means of encouraging the economic development of less prosperous regions - has been a responsibility of the Board of Trade. The Board, a "Great Britain" department with its headquarters in London and responsible to a Minister of the United Kingdom government, maintains a Scottish regional operation in Glasgow. The Scottish arm of the Board supervises, and carries out, its industrial location activities in Scotland; it also has the prerogative of advising the President of the Board of Trade on departmental policy and programmes within the Scottish context. Location of industry policy throughout Britain has had as its main purpose the relief of unemployment: until the Toothill Committee reported in 1961, this emphasis on the alleviation of excessive unemployment implied a social, rather than economic, purpose for this policy.

There are two main aspects of British industrial location policy as administered by the Board of Trade. The Town and Country Planning Act requires that an industrial development certificate (I.D.C.) must be obtained from the Board before any industrial premises above a certain size, whether a new building or an extension of existing facilities, can receive approval by the local (physical) planning authority. In certain regions, notably Greater London and the West Midlands, the Board has operated a "hard" policy of not issuing such I.D.C.s except where the industrialist can show that his project cannot be carried out elsewhere. The operating assumption behind this aspect of location policy is that further factory building in the areas affected would only contribute to an accentuation of congestion already considered excessive and costly in both economic and social terms.

The second part of location policy consists in the Board's attempting to "steer" any projects for which an I.D.C. is refused,[12] to the less prosperous areas of the United Kingdom, by offering a range of incentives to the firms concerned. These less prosperous areas have been defined on the basis of various criteria over the years, as noted below, but significant parts of Scotland have always been prominent among the areas designated throughout Britain. In this sense the location of industry policy, though executed by the Board of Trade, a "Great Britain Department", has always had particular importance in Scotland as an instrument of Scottish economic development.

Under the Distribution of Industry Act of 1945, the Scottish Development Area consisted of the Clyde Valley and Dundee. In 1949 the Inverness district was added. Within the Scottish Development Area the Board of Trade was empowered, under Part I of the Distribution of

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[12] In practice, I.D.C.s are seldom formally refused. Instead firms usually lodge an informal inquiry as to their chances of obtaining an I.D.C. before submitting a formal application; if their project is inconsistent with current Board of Trade policy they are so informed and encouraged to consider locating the proposed project in a less prosperous area.

Industry Act of 1945, to acquire land and build factories, to improve the basic services of the area including facilities for transport, power, lighting, housing, health and other services relevant to industrial development. In addition financial assistance was available from the Treasury in the form of grants and loans to undertakings already established or proposed in the development areas.

From 1945 until 1954, the Board of Trade had another means of controlling the location of factory building. This was the building licensing system which had been continued after the war in order to ease the reconstruction process in the face of a serious shortage of important raw materials. Applications to build new industrial premises had to be submitted in all cases during this immediate postwar period, and these were scrutinized from the distribution of industry aspect. The economic forces at work immediately after the war enabled the building licensing system to play a powerful part in making location of industry policy especially effective. During the period from 1945 to 1947, no less than 50 per cent of factory space constructed in Great Britain was diverted to the development areas which had 20 per cent of the British population. With building materials in such extremely short supply that this rationing system was needed, and with the release of substantial pent-up demand for consumer goods after the war, manufacturers were much more willing - indeed anxious - to go to the development areas in order to have an opportunity to meet the vigorous demand for their products.

By these means the government's distribution of industry policy was pursued more energetically and on a larger scale than had been the case under the Special Areas legislation of the pre-war years. Indeed, during the years from 1945-48 the improvement in the economic status of the less prosperous regions brought about by World War II was successfully consolidated, and thus the problem created in areas like Clydeside during the depression of the thirties, was alleviated. Postwar reconstruction in the development areas was considered to be a critical test of regional policy when the war ended; and the combination of national economic buoyancy and the use of both the "carrot" and the "stick" by the Board of Trade in the development areas enabled this test to be successfully met. In 1948 unemployment in Scotland stood at 2.8%. While this was somewhat higher than the 1.0% achieved in 1944 under wartime conditions, a fairer comparison is perhaps with the 4.6% level reached in 1946 in the midst of the postwar reconstruction period. Certainly, it was a vast improvement on the 16.3% which had prevailed at the trough of the Great Depression.

During the ensuing several years annual average unemployment remained at or below the 3% "full employment" norm which had been suggested during the late years of the war. This was true in Scotland of the years from 1948 to 1957 inclusive, the only exception being 1950 when the rate rose slightly higher to 3.1% and 1952 when it was 3.3%. In Great Britain, the level of unemployment was even lower still. Over the same period it never exceeded 2.0% and even fell as low as 1.1% nationally in 1955.

Among the British development areas, however, Scotland's level of unemployment was relatively high. As Odber has shown[13], the unemployment rate in Wales and the northern region - the other main development areas - fell more rapidly from mid-1952 to early 1956 than the national rate. By the latter year, the excess of the unemployment percentage over the national average was only 0.7% in both Wales and the northern region, compared to Scotland's excess of 1.5%.

Largely as a consequence of this experience of lower unemployment both nationally and regionally in Britain during the decade ending in 1957, the problem of the less prosperous regions receded into the background of public policy. Odber cites the lower level of annual capital expenditure by the Board of Trade on the provision of factories to rent in the development areas in this period, compared to the 1945

[13]Scottish Journal of Political Economy, 1959, p.212 (Sykes)

to 1949 period, as evidence of this.[14] This change in the economic circumstances within which industrial location policy operated led to some suggestions for changing the emphasis of that policy. Among these were the reports of a Committee of the Scottish Council and of the House of Commons Select Committee on Estimates.

The Cairncross Report

The problem of encouraging industrial development in country towns and districts in Scotland was examined by a committee appointed by the Scottish Council (Development and Industry) which reported in 1952.[15] The Committee chose to adopt a national view of such areas; rather than accepting that the existence of local difficulties was sufficient reason for a government-sponsored programme of assistance to industrial location and expansion, they were concerned to establish in what circumstances the need of Scottish localities might coincide with the national (U.K.) interest. On this basis they assumed that the objects of local development should be:

(a) to accelerate the building up of new communities in promising locations;

(b) to make fuller and more economical use of manpower and national resources that are in danger of being wasted; and

(c) to arrest the decline of communities that might, with a little help, be restored to a thriving condition.

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[14] *Ibid.*, p. 221, Table 1.

[15] *Report of the Committee on Local Development in Scotland*, Scottish Council (Development and Industry), Edinburgh 1952. This Committee was chaired by Professor A.K. Cairncross, and this report is sometimes referred to as the Cairncross Report.

Table 3

Unemployment, Scotland and Great Britain, 1945-1965
(% of working population)

Year	Great Britain	Development Areas	Scotland	Scotland as % of Great Britain
1944	0.4		1.0	250
1945	1.0		2.2	220
1946	2.4		4.6	192
1947	3.0		4.0	133
1948	1.5		2.8	187
1949	1.5	3.6	3.0	200
1950	1.5	3.5	3.1	207
1951	1.2	2.6	2.5	208
1952	2.0	3.2	3.3	165
1953	1.6	3.0	3.0	188
1954	1.3	2.6	2.8	215
1955	1.1	2.1	2.4	218
1956	1.2	2.1	2.4	200
1957	1.4	2.3	2.6	186
1958	2.1		3.7	
1959	2.2		4.4	
1960	1.6		3.6	
1961	1.5		3.2	
1962	2.0		3.8	
1963	2.5		4.8	
1964	1.6		3.7	
1965	1.4		3.0	
1966	1.5			

Source: Scottish Journal of Political Economy, 1959, p. 208 (Sykes)

CHART


UNEMPLOYMENT RATES, 1944-65
(Annual averages of monthly data)
%
5.0
4.0
3.0
2.0
1.0
SCOTLAND
GREAT BRITAIN
'44
'45
'50
'55
'60
'65

The committee also noted the legitimate needs of the industrialist in choosing a site for a new or expanding activity, as well as the practical circumstances that only a limited number of new factories are established throughout Scotland each year. Hence, if only on practical grounds, "....the government cannot simply ladle in fresh employment whenever it wishes out of a bottomless bucket of enterprise."[16]

The Committee concluded that the over-riding need, of the local community, of the firm that settles there, and of the country, is for an enterprise that would thrive in its new setting. Applying this principle to its study of the government's location of industry policy, the committee suggested that in the past undue emphasis had been placed on the difficulties and dangers (especially unemployment) of the older areas which mainly comprised the Scottish Development Area. "Unemployment", they stated, "cannot be the sole criterion of policy."[17]

The main change in Government policy recommended in the report was a shift away from this emphasis on unemployment as the basis for selecting areas where industry should be encouraged to locate. Industrial growth should itself become an objective instead. "If industrial change....requires the building up of a community in a new location, then this development should take precedence over efforts to prop up existing communities in adjacent areas with no comparable advantages."

There are important differences between the policy which prevailed at the time of the Cairncross report, and that in 1963 when the programme for Central Scotland was formulated. For one thing, the geographical application of Government incentives differed somewhat, the Scottish Development Area having been superseded in the interim by

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[16] Ibid., p. 29

[17] Ibid., p. 32

the smaller, development districts. What is common to both periods, however, is the emphasis on unemployment as a main criterion in determining the eligibility of particular places for Government assistance with industrial development. On that fundamental issue the Cairncross report is relevant. This broader approach was given considerable further impetus a decade later in the Toothill Report, and laid the basis for regional policy reform throughout the United Kingdom.

The 1956 Select Committee on Estimates

During 1955 the Select Committee on Estimates of the House of Commons conducted an examination of Development Areas policy in Britain. Unlike the Cairncross report, however, the Select Committee did not question the validity of using unemployment as the criterion for industrial location policy. Rather it was concerned with orienting the application of the policy to those areas which still suffered from high rates of unemployment. They noted in their report the view presented by the Board of Trade "...that in certain districts, including some of the larger towns, it could be said that there was no longer any general unemployment problem. But what remain to be cleared up were mainly small pockets of unemployment in remote districts."[18] They considered it anomalous that although their overall unemployment rates were extremely low by historical standards, the whole of the Development Areas were still treated as in need of Government financial assistance. The Select Committee also questioned very seriously the contention of the Board of Trade that these Development Areas nevertheless required further efforts to attract additional industry to them, first, to reduce their dependence on basic industries and secondly, to overcome the apparent decline of some other industries within them. The Select Committee concluded, therefore, that "...the size and boundaries of the present Development Areas have been preserved against future contingencies for too long,

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[18] House of Commons, Select Committee on Estimates, Report, 1956, p.xxi.

and are now out of date. It may well be that other districts with higher unemployment may be in greater need for the Government financial assistance available to Development Areas."[19] The Committee thus favoured using the Board of Trade incentives to mop up the unemployment pockets which still remained.

The Select Committee's Report included a recommendation that a review of the Development Areas take place immediately with a view to descheduling any area or part of any area no longer in special danger of unemployment. At first glance this suggestion had something in common with the Cairncross Report in that both documents suggested in effect that financial assistance be made available by the Board of Trade not only within the existing development areas, but also to localities outside them. The difference between them is, however, fundamental. The areas which the Scottish Council Committee suggested should also be eligible outside the Development areas, were those which offered some prospects for long-term development, whether or not they exhibited a high unemployment rate: by extending the programme to such areas with some industrial potential, the Cairncross Report argued that unemployment in other localities nearby, where industrial prospects were not as good, might be relieved as a result of either migration or greater travel to work. The Select Committee, on the other hand, merely suggested that smaller districts both inside and outside the existing Development Areas be made eligible, but did not recommend any change in the former basis of determining eligibility. The level of local unemployment would remain the "sole criterion of policy".

The basis of the Select Committee's argument rested in the low levels of national and regional unemployment experienced in Britain during the 1950's. Their implicit assumption was that the high level of national demand could be maintained indefinitely and that, on this assumption, unemployment had become an entirely local phenomenon

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[19] Ibid., p.xxii

requiring the application of a remedy at the local level. Industrial location policy was seen as the logical instrument for effecting this remedy. Presumably, successful pursuit of this policy at the local level would enable unemployment to be eliminated everywhere throughout the country.

The recommendations of the Select Committee were given expression in legislative amendments in 1958 and 1960. It is paradoxical, however, that by this time the unemployment situation in the country and its regions had undergone a significant change which rendered the basis of the Select Committee's argument obsolete.

In 1958 unemployment in Great Britain rose to 2.1% from 1.4% a year earlier, and there was a slight further rise to 2.2% in 1959. The rise in the Scottish rate was accentuated, from 2.6% in 1957 to 3.7% in 1958 and 4.4% in 1959. The lag between formulation of recommendations about Government regional policy and the execution of changes in that policy thus resulted in the policy changes being perverse in their effect. In 1958, the Development Areas were abandoned in favour of development districts, a change confirmed two years later in the Local Employment Act, just at the time when the level of unemployment in these Development Areas was increasing significantly. This contradiction between new policy and changing actual circumstances is also an important part of the background to the growth areas exercise of 1963 which was, in a sense, an attempt to reconcile the conflict of purpose which first emerged in 1958.

Legislative Amendments to Location Policy

The Distribution of Industry (Industrial Finances) Act of 1958 marked the first shift of emphasis from larger development areas to small localities in British policy. It also incorporated an increased emphasis on making loans to businessmen locating or expanding in such localities rather than on building factories for let by the Board of Trade. Such grants or loans, moreover, were to be available not only to industrial establishments but to all trades providing the Board of Trade were satisfied that a fall in unemployment would be likely to result.

The basis for designating eligible areas contained in the Act was "any locality in which a high rate of unemployment exists and is likely to persist". The designation of such areas was left to the administrative discretion of the Board of Trade, however, and in practice the criterion applied was a rate of 4% wholly unemployed over twelve months.

Much the same basis of designation was incorporated in the Local Employment Act of 1960. The various Board of Trade incentives were to be made available to firms locating or expanding in <u>development districts</u>, defined as "any locality in Great Britain in which, in the opinion of the Board of Trade a high rate of unemployment exists, or is to be expected ... and is likely to persist whether seasonally or generally". These development districts were more or less synonomous with employment exchange areas as defined for Ministry of Labour purposes. Again, such districts were designated if unemployment rose or was considered likely to rise imminently, above a certain level, in practice 4%. Again the decision on adding to the list of development districts or subtracting from it, was left to the Board of Trade.

In short, the attack on unemployment in the less prosperous regions was to be pursued to its <u>logical</u> conclusion. Successful in the wider region, it was now to be carried on in the small districts, the small localities, the small pockets of unemployment where the problem of idle workers still remained. Against the background of general economic buoyancy and full employment nationally (as had existed in the mid-fifties), the problem had come to be seen simply as taking a few industrial firms into those areas, including declining coal mining villages, for example, where unemployment was still a problem. "Bringing work to the workers" was now to become a custom-made operation. The areas to be helped required no other characteristic except the relatively high rate of unemployment.

This was generally the framework of industrial location policy in its geographical application, when the Toothill Committee conducted its study of the Scottish economy in 1960-61.

In the next two years, however, unemployment again rose. The Great Britain rate reached 2.0 per cent in 1962 and 2.5 per cent in 1963. In Scotland the comparable figures were 3.8 per cent in 1962 and 4.8 per cent in 1963. In Scotland's case the 1963 figure was a post-war record. More than anything else it was probably the deterioration in the national economic position, as manifested in the higher rates of unemployment, which provided the setting in which the necessity of the Government's examining the recommendations of the Toothill Committee for the Scottish economy, became clear.

The Toothill Committee and Growth Areas

The work of the Toothill Committee represents an extremely important stage in the post-war evolution of economic development policy for Scotland, as its recommendations were subsequently to be absorbed as well in British regional policy generally. In both cases - at the Scottish (regional) level and at the U.K. (national) level - its most significant, and best known, contribution lay in its espousal of the growth area concept and its successful effort to win acceptance for the radical change in regional development policy that it entailed. It is appropriate, therefore, to consider what the Toothill Report said, or implied, about the growth areas it was recommending as the new basis for Scottish development. In order to do so, it will be necessary, first, to review the manner of the Toothill Committee's establishment, and its relationship with the selection process conducted by the Scottish Development Group in 1963. Secondly, its general recommendations for the Scottish economy are analyzed to discover the characteristics they suggest as essential in growth areas. Finally, it will be convenient to note how the proposals advanced by the Toothill Committee eventually were related to national economic priorities by the National Economic Development Council.

The Committee Established

The Toothill Committee was appointed by the Scottish Council (Development and Industry), a non-governmental association of Scottish industrialists, businessmen and local authority representatives whose object is to encourage the progress of the Scottish economy. In 1959 a delegation from the Council went to London to meet Prime Minister Harold Macmillan in order to press for greater recognition of Scotland's peculiar economic needs in the formulation of government economic policy. The Conservative Government had only recently been re-elected, but had lost several Scottish seats to the Labour Opposition - a situation which caused the Prime Minister some concern. He asked the Scottish Council delegation to consider undertaking an overall survey and report on Scottish economic problems. At the same time, he agreed to make available the assistance of Civil Service assessors to the group appointed by the Council to carry out the survey.

Shortly afterwards the Scottish Council appointed a Committee of Inquiry under the chairmanship of its own Chairman, Sir John Toothill. Sir John had led the Council delegation which met the Prime Minister.

Professor Thomas Wilson of Glasgow University was the Committee's Vice-Chairman. Apart from his own considerable personal contribution to the Committee's work, Professor Wilson's participation provided a bridge between the academic economists at the University, who carried out a number of studies in support of the inquiry, and the Committee's own staff.

The Committee had the services of two secretaries. One of these, was drawn from the Scottish Council's own professional staff. The other was seconded from the Civil Service as part of the arrangement which the Prime Minister had proposed. Their joint appointments thus permitted the marrying together of a working knowledge of both

Scottish industrial experience and Government programmes and policy affecting the Scottish economy. The appointment of the seconded member of the Civil Service to this post is especially noteworthy in view of his subsequently becoming Secretary to the Scottish Development Group which selected the Scottish "growth areas" two years later. The participation of a senior civil servant in this way meant also that the Toothill Committee had the benefit of close consultation with the various Scottish departments of government at all stages of the inquiry. This was a valuable advantage. Not only did it mean easy access to accurate information about various government activities affecting the Scottish economy, which itself reduced the area of possible disagreement about its analytical conclusions likely to arise in Government circles, but it also enabled the Committee to make a more informed judgment regarding the likelihood of its recommendations for changes in policy being accepted. This latter aspect probably accounts in large measure for the relative ease with which the Toothill Committee recommendations were subsequently adopted.

Along with a secretary, the Civil Service supplied the Toothill Committee with a number of assessors drawn from senior posts in Scottish departments. They served as "ex officio" members, as it were, of the Committee of Inquiry. As senior administrators, of course, they were in a position both to influence the discussion in Committee on the basis of their Civil Service experience and knowledge, and to arrange for information and analysis to be made available to the Committee from their respective Ministries. While these assessors were not responsible for the conclusions reached and recommendations advanced by the Toothill Committee, their presence as members of the Toothill team ensured that the viewpoints of both the administrator and the policy-maker were taken into account. There were four such assessors: the Scottish Regional Controller, Ministry of Labour; the Scottish Regional Controller, Board of Trade; and a senior administrator from each of the Scottish Home Department and the Department of Health for Scotland. A fifth assessor was the General Secretary of the Scottish Trade Union Congress General Council.

In these ways the Toothill Committee became a broadly-based group. Appointed by a private agency representing Scottish economic interests, enjoying the active participation of senior civil servants as well as direct access to university sources of further supporting economic research, and with a link also with the trade union movement, the inquiry and report of this Committee were virtually guaranteed a receptive hearing.

The Toothill Committee conducted its inquiry over the period from January 1960 to October 1961, and published its report late in 1961.

The Toothill Concept of "Growth Areas"

The remit of the Toothill Committee had been "to review the present position and future prospects of the Scottish economy, to define the forces which control the growth and location of manufacturing and other employment, to draw conclusions and to make recommendations". As already noted, its main proposal was the adoption of growth as the overriding and pervasive objective for the Scottish economy through the removal of any factors impeding growth and the encouragement of factors promoting it. In the important case of industrial location policy, the proposal amounted to a suggested abandonment of the unemployment criterion as the basis for determining which areas should receive government assistance with industrial development.

Somewhat surprisingly perhaps, the Toothill Report does not define "growth areas" in any meaningful way. In fact, the Report does not even contain any separate general discussion of the purposes which growth areas were intended to serve. The closest thing offered by the Committee was the following comment on how areas to be eligible for industrial location inducements should be defined: "If new industry is guided to wherever local pockets of unemployment exist without adequate regard to the possibilities of building up promising industrial centres or complexes, the full benefits to be had from attracting it may be dissipated. The build-up of industrial complexes and centres which offer prospects of becoming zones of growth cannot be the only aim but it should be one of the principal aims of policy."[20] In the absence of any further direct treatment by the Committee of the technique they advanced, one cannot be precise about what characteristics the Committee thought growth areas should have. This is a little unfortunate; the idea became widely accepted during and after the Toothill inquiry and, in the absence of clear specifications, engendered a considerable variety of opinion about what growth centres were, and what benefits they might lead to. To some extent this was inevitable: the Toothill Committee was concerned with a particular economy - the Scottish - and not with elaborating a new regional development concept in general, more abstract terms. Theirs was a practical inquiry designed to influence policy, not an academic exercise. Hence, their "growth areas" arose from their examination of Scottish economic problems and the need, as they saw it, to deal with them in a growth-promoting framework. The "growth areas" were to be an instrument, a technique - a crucially important one, but a technique nevertheless - for achieving the wider economic objectives which they regarded as important for Scotland.

Although we cannot simply quote the Toothill Report on the essential features and purposes of "growth areas", we can review the overall growth strategy the Committee proposed for Scotland in somewhat greater detail, and from it infer these features and purposes as far as Scotland was concerned. Anyone wishing to apply the technique thus specified should, of course, be careful to adapt it to suit the different circumstances and problems of the regions or areas with which he is concerned.

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[20] Scotish Council (Development and Industry), Inquiry into the Scottish Economy, 1960-61, Edinburgh, 1961. ("Toothill Report"). After admitting the difficulties to be encountered in achieving this aim of policy, the Committee did suggest that assistance to industrial development available in development districts should be extended as well to the Scottish new towns and all Glasgow overspill reception areas. Here then were two specific kinds of location - new towns and overspill reception centres - in Scotland which the Toothill Committee regarded as satisfying their (implicit) criteria for "promising industrial centres".

The broad framework the Toothill Committee used for their analysis and report was an examination of demand and supply conditions for the immediate future in the Scottish labour market. Their conclusion was that without greater growth than had been experienced historically, particularly since World War Two, it would be impossible to increase Scottish industrial production and absorb the expected expansion of the Scottish working population, objectives which they regarded as more critical than merely reducing unemployment in Scotland. While they avoided suggesting a specific target for the number of new jobs needed because of the statistical errors inherent in projecting available data on population and employment, they carried their analysis far enough to conclude that the postwar successes with Board of Trade industrial location policy in attracting new industry to Scotland, had not been sufficient to achieve these objectives: "...a great deal has still to be done in securing the growth of industry in Scotland before unemployment is dealt with and the potentialities of the economy realized."

For growth to be achieved on an adequate scale would also require considerable structural change in the Scottish economy. In particular, the relative deficiency of science-based industries and those producing consumer durables should be remedied as a means of overcoming the substantial dependence on shipbuilding and heavy engineering industries. The latter were either growing only slowly or actually declining. Such diversification would also reduce the country's exposure to the risk associated with over-dependence on some particular industry; if such an industry were to encounter difficulties due to a decline in world demand for its product, the whole regional economy would be adversely affected. The structural change desired would increase the need for attracting new firms to Scotland. But it also involved a new qualitative modification in the industrial location policy which is of special relevance to the "growth areas" concept; this modification - to attract science-based industries - is discussed more fully below.

More rapid growth to provide employment and higher output in the Scottish economy, and to be accompanied by considerable industrial diversification, would make it particularly imperative that investment in manufacturing be increased, and on a substantial scale. In addition, more public investment would be needed to support manufacturing's expansion, especially in housing, roads, educational facilities and airports. The need to relate government spending on these facilities to the requirements of faster growth, and specifically to the attraction and expansion of industry, was one of the most important observations offered by the Toothill Committee. This need was also an important factor in determining the nature and characteristics of the "growth areas".

The central element in the Toothill strategy, then, was manufacturing expansion, seen as the key both to achieving faster growth throughout the Scottish economy, and to securing diversification of the industrial structure of the kind and degree required. It follows, therefore, that the main purpose of the "growth areas" technique was to secure accelerated manufacturing expansion for the Scottish economy.

The Toothill Committee extended their examination on a sectoral basis to cover most of the main factors usually considered as worthwhile supplements to industrial development policy, and a few others which are not usually so considered. Those they concluded were important in the Scottish case were expanded facilities for industrial training to serve the needs of the new firms, especially those in the industries not already represented in the Scottish structure; more housing to help ensure an adequate supply of workers for incoming firms in the right places, and to increase the mobility of Scottish workers; better passenger air services between Scotland and London and the South-East, to enable Scottish managers to maintain close contact with customers and suppliers in that area; the more explicit pursuit of better general amenity in Scotland's industrial areas as a potential further attraction for new industry; and a closer relation between the overspill programme already underway and the industrial development effort for the whole country. Two others were not regarded as serious problems: access to credit facilities was as good in Scotland as elsewhere in Britain; and costs of transport were considered too small a percentage of a firm's total costs to present a critical impediment to the establishment and successful operation of new firms in Scotland.[21]

Of those factors considered important for Scottish manufacturing expansion most, if not all, had direct implications for the "growth centre" technique. It will be useful to consider the implications of each factor in turn, as a basis for inferring the special characteristics the Toothill Committee had in mind for the growth centres they advocated.

The overriding general characteristic follows from the main Toothill conclusion that growth should be the ultimate objective for the Scottish economy. The growth centres thus were a technique basically for securing and maintaining overall economic growth not only within their own jurisdictional boundaries, but in the whole Scottish economy. Moreover, it was implicit in the proposition that industrial production as well as employment should be increased, that "growth" embraced both these measures of economic performance. Hence, the growth centres must be places where development would contribute not only to general employment increase in Scotland, but to initial and continuing increases in output as well. The third general characteristic follows from the need for industrial diversification,

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[21]The Toothill Report based this conclusion on an analysis of existing Scottish firms, most of which would not be selling on any substantial scale in the main British consumer market of London and the South East. That these costs would be critical for Scottish firms producing for this market is perhaps indicated by this very fact. This weakness in the Toothill conclusion is probably less serious, however, when it is applied to the science-based industries oriented to the London market (defence contracts) since these industries tend to produce goods with high value-to-bulk ratios.

namely that the growth centres should be places to which the newer, science-based industries could be persuaded or induced to come.[22] On this basis the growth centres advocated by the Toothill Committee become locations to which industry would be attracted, especially including some new, science-based industries, and in which their future growth would be facilitated: as a result, the development of the growth centres on such a basis would stimulate, directly and indirectly, the more rapid growth of both employment and output in the whole Scottish economy. The growth centres were thus to be primarily the foci of industrial growth in Scotland.

The objective of structural change through diversification embedded in the Toothill strategy implied a few more specific features for growth centres. The main structural change needed was characterized as reducing Scotland's dependence on industries producing "small-quantity specialized" goods, such as ships and many products of the heavy engineering firms, by increasing Scotland's share of those making "large-quantity standard" items. It was in the latter category that the faster-growing British industries were concentrated, while the group in which Scotland was strongly represented was generally slow-growing. Most of the "large-quantity standard" firms had displayed a tendency to locate in the South East, including the so-called "science-based" industries. These had located there partly to be near large consumer markets, but partly also because during the early 1950's the overspill new towns around London had been able to develop on the basis of industries established to fill defence needs occasioned by the programme of rearmament after the Korean War.[23] These defence suppliers were important members of the new science-based industries group.

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[22] Success on this score would also result in a greater diversity of employment opportunities being made available in Scotland. The Committee considered this qualitative aspect of its employment target extremely important.

[23] One Board of Trade official suggested to me that the "soft" I.D.C. policy pursued during the 1950's was a significant factor in enabling the London new towns to grow as rapidly as they did.

The science-based industries were especially important because of the role they had come to assume as sponsors of scientific and industrial research, and more particularly of technological advance. Their location in any area on a significant scale almost ensured that the area would benefit from the economic impact of "almost automatic technological advance". Conversely, to be without them might mean that an area would be without an increasingly important basis for further industrial development, namely, the new products and the new techniques resulting from such technological advance. On this reasoning the Toothill Committee concluded that a fundamental aim of Scottish industrial development policy should be to attract more of these newer, science-based industries to Scotland.

Such firms would be valuable in another way. New ideas are frequently developed within a firm in greater numbers than the firm can itself exploit, and the resulting break-away of highly qualified staff to start new ventures is an ancillary benefit for an area with some science-based industry. Because access to qualified staff is so important for new ventures in these fields, a complex of such science-based firms has a further built-in factor favouring its continued future growth. The Toothill Committee suggested a regional complex of science-based firms could be developed in the east of Scotland, by encouraging the location of more firms in the electronics and precision industries which had already set up there during the postwar period.

The problem in attracting such firms to Scotland was essentially to offset the obvious attraction of London and the South East for them. The close tie between sales and production in industries selling research capacity or research-developed products to Government and in major consumer markets, implied little likelihood that science-based industry would automatically disperse itself more widely around Great Britain. Further concentration of science-based industry in the South East thus seemed inevitable. The Toothill Committee argued that such a result could be antipathetic to both the Scottish and the national general interest. "The advantages of the south have to be weighed against the increasing disadvantages of congestion and labour shortage." In the face of these tendencies further concentration in the South East should be mitigated by the development of other areas in Great Britain. Secondly, Scotland's relative disadvantage could be greatly reduced if modern communications were exploited to the full, especially facilities for air travel to enable Scottish managers and salespeople to maintain close personal contact with their customers in the South East. Thirdly, there was still considerable scope for Scotland to better its attractiveness as an industrial centre: this would require that more attention be paid to the supply of skilled manpower, to industrial relations, to housing, to labour mobility, to assisting management in various ways, and to Government policy for helping firms expand or establish away from the congested areas.

The second and third of these propositions implied certain characteristics for the locations to which such new, science-based industry was to be attracted in Scotland. If they were to be able to offer relatively easy access to the London market, they would have to be near the airports from which improved passenger services would operate into London. Similarly, to enable the shipment of their output to the South East, they should be on the main road and railway lines as well. They should also have available adequate supplies of skilled manpower for incoming industries; to ensure such availability the locations where industry was to be located and expanded should also have a sufficient supply of housing, both for new firms' key workers and to tap the increase in labour supply afforded by the overspill programme in Glasgow. Policies to improve the mobility of labour into such centres from other parts of Scotland would also be useful in this way.

The Toothill Committee was also anxious to increase the extent of decision-making capacity that would accompany any new firms attracted to Scotland. In the long run further changes in industrial structure would be greatly facilitated if new undertakings had substantial local control of their developments, and thus a better ability to respond flexibly and fully to expanding opportunities or to changing market conditions and changing technology. This meant attracting not only the production staff of a new factory, but also top management, design and sales staffs. And this meant providing in the selected growth areas for the sort of facilities, especially including improvements in general amenity, which would attract such personnel to a Scottish location and thus enable Scotland to attain a higher "quality of growth". Thus the growth areas were also to be centres of above-average amenity so as to present attractive places for "top management" to live and work.

The provision of better amenity, mainly by reducing air pollution and clearing derelict industrial sites, in the selected growth centres would also serve to increase their attraction for mobile Scottish workers and their families. A larger supply of labour could thus be concentrated in these locations to serve the needs of the incoming and expanding manufacturing firms. The use of growth centres as destinations for families being moved from Glasgow would enable the integration of the overspill programme with the economic development effort too. The growth centres would also be the logical places in which to locate the additional training facilities the Toothill Committee proposed; or, the growth centres should be located within reasonable commuting distance of the training facilities. Where "on-the-job" training was contemplated it could be provided, of course, wherever the new or expanded firm decided to establish on its own premises. More fundamental than the provision of training facilities in this conscious build-up in the growth centres of sizeable pools of labour as an inducement for manufacturing firms to locate in Scotland, was the need to accelerate the rate of housing construction there. Without houses workers would not be attracted to the growth centres from Glasgow and elsewhere in Scotland, and without better quality houses neither the managerial staffs of the new, science-based industries nor the non-production senior staff desired as part of improving the "quality of growth", could be expected to choose a Scottish location.

The Committee's considerable emphasis of the role which co-ordinated infrastructure planning and investment might play in supporting a policy of accelerating the growth of the Scottish economy carried the further implication for the growth areas that expenditure on the basic facilities provided by Government should be concentrated in the selected locations.

Thus the Toothill Committee implicitly suggested that growth centres, in order to be effective in attracting new manufacturing enterprises to Scotland on the scale necessary to support the total economic growth desired, would have to be more than simply locations for industrial plants. In particular, they should attract science-based industries. To do this they would require easy access to airports, road and rail networks and industrial training programmes, above-average amenity, sufficient supplies of skilled manpower, and various services required by management. A regional complex of science-based firms in the east of Scotland meant, presumably, at least one growth centre in that area. They should become the primary outlets for overspill population from Glasgow, and plausible alternative destinations for other Scots who might otherwise emigrate to the South or overseas.

Although it was not made too explicit in the Toothill Report, the basic idea behind the growth area concept was to offset the attractions of London and the South East for both manufacturing firms and Scottish emigrants by offering, in specified localities in Scotland, the same sort of facilities, amenities, and even opportunities for future growth, they might find in the "congested" regions of Great Britain. This idea subsequently found more general expression in a report published two years later, in 1963, by the National Economic Development Council.

The Influence of Toothill on NEDC

At that time there was increasing concern throughout Great Britain with the country's sluggish growth performance over the decade of the 1950's. The fashion of comparing the growth records of various countries in league tables had the effect of eroding part of the legitimate basis for British satisfaction at having maintained full, or near full, employment conditions throughout the decade, and led also to a sort of national guilt complex about the growth rate. Consequently, achievement of faster growth of the British economy received an increasing measure of popular and political support as a national economic objective. Measures to accelerate the national growth rate were considered on this reasoning to be desirable *per se*.

An important manifestation of this concern with national growth was the establishment, in 1962, of the National Economic Development Council whose objects were to examine the economic performance of the nation, to consider the obstacles to quicker growth, and to increase the rate of sound growth. The theme of the Toothill Report was echoed in the N.E.D.C.'s discussion of regional questions in its 1963 Report "Conditions Favourable to Faster Growth",[24] which marked a recognition, at the national level, of the national economic benefits to be had from properly conceived regional development policies.

This Report noted the consideration inherent in the industrial development incentives for the less prosperous areas under the Local Employment Act, that industry should be steered to the particular districts which by reason of their employment position, needed it most. The Report argued, however, that "...better results might be secured for the slowly expanding regions as a whole by identifying their natural growth points and seeking to attract industry to them. Within the bigger areas a wider choice of location than at present would be available to incoming firms. This would increase the likelihood of attracting a larger number and a greater variety of firms, and of stimulating the development of industrial complexes. Firms would then benefit from the presence of kindred industry. These complexes and other places especially attractive to industry

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[24] National Economic Development Council, *Conditions Favourable to Faster Growth*, London, H.M.S.O., 1963.

could be developed into growth points within the less prosperous regions. It could be expected that the benefit of new growth in any part would repercuss fairly quickly throughout the region."

It should be noted here that the main context in which N.E.D.C. discussed growth areas was that of the industrial development incentives provided by the Board of Trade. Infrastructure improvements were mentioned, it is true, but they were treated as a secondary, though important, supporting aspect of a growth areas policy. The main purpose ascribed to growth areas was that of their having a greater ability to attract new industrial firms to the less prosperous regions.

The recommended use of infrastructure improvements as a regional development device, moreover, should take place especially in the growth areas by concentrating the provision of such improvements on the areas where industrial development was more likely. The N.E.D.C. Report also noted the important role which increased intra-regional mobility could play in assisting the build-up of growth areas as industrial locations, as well as the important contribution that a high pressure of demand in the country as a whole would contribute to an improvement in the regional problem. The N.E.D.C. Report marked the recognition at the national level of the contribution regional development might make to national growth. This change in emphasis was reflected also in the report's noting the contribution to further growth which might come not only from reducing unemployment in the less prosperous regions, but also from increasing activity rates there.

"Neddy" thus took the strategy which Toothill had elaborated specifically for the Scottish economy, distilled its most important general elements, and used these in offering a more explicit, general formulation of the growth point idea. In Neddy's hands it became a technique for developing any less prosperous region, and was justified not in terms of Scottish needs or those of another less prosperous region, but as a proper means of increasing the rate of national economic growth. In so doing N.E.D.C. based its argument on the

Toothill suggestion that, if inflationary pressures were to be avoided in the national economy, it was essential to foster the growth of the less prosperous regions. It was no solution to bring people endlessly from the peripheral areas because they increased social congestion and merely further reduced activity rates in the areas they left.

The N.E.D.C. Report appeared while the process of selecting the Central Scotland "growth areas" was still underway within the Scottish Development Department. It is more than likely, therefore, that the officials concerned in these two agencies of the same Government consulted with one another while the "Neddy" report was being drafted. It should be remembered, however, that the acceptance of regional development as an integral part of national growth policy by an agency like N.E.D.C. represented a substantial and significant change and probably would not have been possible without the coherent argument which had been put forward in its support by the Toothill Committee, and which had led to substantial general support throughout Britain for a growth-oriented regional policy.

CHAPTER 6

Selecting the Growth Areas

The legislative and institutional framework for physical planning and for location of industry policy in Scotland have been discussed in historical perspective above. These matters were among the detailed questions related to industrial location policy in Scotland which were examined by the Toothill Committee. One of their findings was that certain responsibilities with particular relation to economic development were divided between the Scottish Department of Health (including physical planning) and the Scottish Home Department. They recommended closer integration of the various departments and agencies concerned with economic development in Scotland, and also suggested there should be greater co-ordination of economic development measures generally.

The Scottish Development Department Established

Accordingly, in June 1962 a new Scottish Development Department was formed from certain parts of the Scottish Home Department and the Department of Health for Scotland. The Home Department's former responsibilities in connection with Local Government, Electricity, Roads and Industry were brought together with the Department of Health's former responsibilities for Housing, Town and Country Planning and the provision of Environmental Services. These various functions were all closely related, the Toothill Committee had noted, to the industrial development activities of the Board of Trade which would remain the main instrument of Scottish economic development.

It was within this new Scottish Development Department that the "growth areas" exercise was to be initiated and largely completed. Because of the close association their senior officers had with the Toothill Committee, as assessors and otherwise, it was only to be expected that the Scottish Development Department would bring to this task essentially the same diagnosis of Scotland's economic ills and the same prescription to cure them as the Toothill Report had formulated. The exercise of selecting "growth areas" for Central Scotland thus began from acceptance of both the Toothill conclusions regarding the Scottish economy and the "growth points" idea to which it had given birth. Although only implicit in the Report itself, "growth areas" by this time had been made very explicit indeed not only by Neddy, but also by various economic journalists whose imaginations had been aroused by this revolutionary change proposed in British regional policy.

The Scottish Development Group

The origins of the Scottish Development Group may be traced to August 1962. At that time a review was initiated, to be carried out within the civil service, of the implications for Government policy of the change in population and employment to be expected throughout the United Kingdom during the period to 1981. One of the first priorities in such an examination was to form a view about the likely regional distribution of the estimated future population and in order to do this, a projection of existing population trends in the several regions of the country was needed.

As the Scottish part of this projection, the Scottish Office undertook, in consultation with other Departments, a study of the implications of adopting a policy of creating growing points in Scotland. This reflected a tacit assumption that Scotland would make a contribution to accommodating the increase expected in the United Kingdom population during the ensuing twenty years. But it also had a more specific and immediate purpose, which was to examine possible changes in the existing policy for the distribution of industry which was tied to local unemployment and was controlled by the unemployment statistics for Ministry of Labour local office areas. This led to consideration of a policy which looked at Central Scotland as a whole, took account of the present and future declines in various industries and assessed how best to realize the potentialities of the area under modern conditions. It would then by a redirection and co-ordination of public investment seek to stimulate growth in those places where it was most likely to become rapidly self-generating.

To co-ordinate the work of the various Departments concerned in undertaking the Central Scotland study a small Working Group was suggested, to consist initially of representatives of the Board of Trade, the Ministry of Labour and the Scottish Statistical Office under the Chairmanship of the Scottish Development Department. Mr. T.L. Lister, who had been one of the joint secretaries of the Toothill Committee, was appointed Secretary of this new Group. Other Departments such as the Ministries of Power and Transport might be called in as required. This Working Group was to become the Scottish Development Group.

The task which now fell to the Scottish Development Group was that of working out a synthesis of the Toothill strategy for Scotland in which "growth areas" would be the central element, to serve also as the framework within which the necessary changes in policy could be suggested.

The Initiation of the Selection Process

There were actually two separate original sources from which the growth areas were derived; hence, the selection process was carried out, as it were, in two parts. These two parts were both initiated within the physical planning division, although not simultaneously. By the time the results of the division's analysis had been passed to the Scottish Development Group in the form of suggested possible growth areas from which a further selection and refinement could be made, however, the two parts had been grafted together into a single group of eligible areas. The first part of the initial exercise consisted in the search for what, for want of a better term, may be styled "growth areas proper", and may be divided into three stages, as below. The second part, which was begun somewhat later than the first, involved the identification of "rehabilitation areas" whose characteristics differed in important respects from those of the "growth areas proper". Subsequently, nevertheless, both kinds of areas came to be represented among the growth areas announced in the White Paper of November 1963.

PART I - "GROWTH AREAS PROPER"

Three stages may be discerned in the initial analysis which eventually led to the selection of "growth areas proper", as follows:

Stage One - Areas with Physical Potential

The initial analysis was conducted within the physical planning division of the Scottish Development Department. As already noted, this division has responsibilities under the Town and Country Planning Act in connection with the land use planning of Scotland. It reviews the Quinquennial Development Plans which must be submitted by local authorities throughout the country for approval by the Secretary of State and is, therefore, concerned with the attempt to achieve mutual consistency among such plans within the context of the Secretary of State's plans for the physical development of Scotland as a whole.

Until this time Scotland had been divided, for these purposes, into two physical planning regions, each being the responsibility of a separate unit within the physical planning division. The West region consisted of the Clyde Valley and the South West of Scotland; the East and North region, of the Forth Valley, the Borders, the North East and the Highlands and Islands. Under this arrangement the planning of Glasgow and its environs was treated, roughly, as one large city region; and that of Edinburgh was treated as another, separate and smaller, city region within the East and North region.

Now, however, the physical planning division was reorganized and the former regional breakdown was abandoned in favour of two regions: a) a new Central Scotland region, and b) a composite region including the South West, the North East, the Borders, and the Highlands and Islands. The effect of this was to make the land use planning of the Glasgow and Edinburgh city regions both part of the planning of Central Scotland as a whole. Since the main emphasis of the Scottish Development Department's work in this field appears to have been concentrated previously on the difficult, complicated problem of Glasgow itself, the change represented also a decision to pay increased attention to the eastern part of the Central Belt, both in order to deal with its own peculiar problems and as a further outlet for the "overspill" programme designed to relieve Glasgow's housing shortage. In this way, presumably, it was also hoped that the wider approach might lend itself to finding solutions for both the eastern and western halves of the Central Belt that were complementary and mutually consistent.

One of the first tasks in the physical planning of the new Central Scotland region was to devise an overall strategy for its long term physical development. The initial step was the preparation of an up-to-date assessment of the physical development potential of Central Scotland. At this stage it appears that the main requirement was to specify potential in terms of the Central Belt's capacity to accommodate additional population, expected to arise as a result of continuing progress with the Glasgow "overspill" programme, and also from expected population growth throughout the region. Accordingly, a series of studies was initiated to determine this potential through an identification of particular areas where the housing and other physical facilities required by an increasing population could be located. In this, as one would expect, the concern was with finding areas where such facilities could be provided without incurring unreasonable or unnecessary costs.

In this first stage of the selection process, four types of "limiting factors" were used to eliminate those parts of Central Scotland in which physical development was essentially impracticable. Such areas were discarded in order to concentrate the search for suitable locations for development on the more promising part of the whole region. In other words, a straight "knockout" system was used whereby areas "disqualified" on one of the counts noted below were thereby eliminated from further consideration regardless of how well they may have scored on any of the criteria subsequently applied at later stages of the selection process. (The nature of the limiting factors applied suggests, however, that the eliminated areas would be unlikely to score very high on the other criteria used; and a casual inspection of the areas eventually chosen confirms that this is the case.) In general, the use of the "knockout" method made this part of the selection process rather different from a "linear programming" method wherein the selected areas would be those which showed the highest all-round score based on all criteria used.

Four types of "limiting factors" prohibiting or limiting physical development on any scale were applied, one at a time, in more or less the following order:

(1) Elevation, Exposure and Climate. Unimproved moorland, and areas more than 650 feet above sea level, representing nearly half the study area were thus eliminated. Areas over 650 feet have an annual rainfall well above average in Central Scotland. "Optimum conditions" were considered to exist at elevations below 400 to 450 feet where the existing cities and urban concentrations are also to be found. Unimproved moorland, while it may offer the possibility of development in the long-term future, is not really a sensible proposition as long as there are alternative possibilities for siting development in areas with fewer inherent difficulties such as very high-cost drainage systems.

(2) Mineral Workings. About one-fifth of the study area was underlain with mineral workings and thus liable perhaps to subsidence as a result, mainly, of coal mining operations. At this stage, this factor was NOT applied to eliminate any areas, but to indicate that in certain

areas physical development should not be attempted without a prior mineral assessment. The effect of applying this limiting factor however was ultimately to eliminate a considerable part of the survey region.

(3) Safeguarding Areas. Because of the nature or the security classification of certain, especially defence or defence-related, establishments within Central Scotland, the areas surrounding these establishments simply were not available for physical development in the absence of a change in policy or special permission from the defence authorities. In one particular case the possibility of securing such permission was subsequently canvassed by the Scottish Development Group. But in general a judgment was reached at this stage in the process that physical development on the scale contemplated was impracticable in such safeguarding areas.

(4) High-Quality Agricultural, or Amenity, Land. Certain particular areas were identified under these headings and omitted from further consideration, their preservation being accepted as a necessary constraint on future physical development planning. Several fairly large areas within Central Scotland were disqualified on this count. This in itself indicated that Central Scotland was not pressing on the margin of its land capacity and could afford, as it were, to retain certain areas whose scenic and other qualities were considered well worth preservation. Indeed, it was argued that the preservation of such areas was an important pre-requisite in attracting new industrialists to move into the area. This consideration applied, for example, in the case of Edinburgh's green belt where preservation had been a matter of deliberate planning plicy, and to certain other areas near Glasgow and Edinburgh needed as a "reserve" against future overspill.

Up to this point the selection process had involved the use of the sieve map technique familiar to geographers and physical planners. Moreover, the factors considered so far were essentially physical in nature. What had resulted was substantially a selection of areas where development was not restricted by prior commitments or difficult conditions, and where the potential capacity to accommodate population was considerable. Basically, the available virgin sites had been identified.

Stage Two - Centres Exhibiting Population and Employment Increases

The task of selection was not to remain entirely a physical planner's exercise, however. In August 1962 it was decided that the physical planning study - the identification of areas of potential growth - should be placed within a framework to be determined by certain economic studies to be carried out. The effect of this decision was to broaden the framework for the selection process so as to include certain explicitly economic criteria in the basis of selection along with the physical planning criteria. Thus the purpose of choosing areas became broader than the listing of places where new physical facilities could be located, a change which, in effect, meant that the range of possible choice would be narrowed through the application of the explicitly economic criteria.

As a result of the criticisms the Toothill Committee had made of industrial location policy, a general acceptance was now evident for the policy of developing growing points which the Toothill Committee had advocated. Accordingly, two further stages, in the selection process were carried out. The factors employed in these stages were essentially economic in nature, either explicitly or implicitly.

The second stage of the selection process consisted of an examination of population and employment trends between 1951 and 1961 (1952 to 1961 in the case of employment) to determine which areas within Central Scotland had demonstrated growth in these respects in the immediate past. (The employment data were actually the figures on insured population made available on an employment exchange basis by the Ministry of Labour.) More specifically, areas which had experienced a population increase of 10 per cent or more (when the Central Belt increase over the same period was 3.1 per cent) and an employment increase of 6 per cent or more (Central Belt - -0.01 per cent) were identified. The results of applying these two measures of past growth were also compared, in order to distinguish areas of population growth only or of employment growth only, from those where both population and employment had exhibited expansionary tendencies. The analysis at this stage was conditioned also by such other factors as the existence of overspill agreements with Glasgow (presumably in assessing the nature of population increases) and the location of recent industrial enterprises in overspill reception areas.

No further analysis was apparently undertaken to assess the underlying factors which had caused these particular areas to experience more rapid population and employment increase than Central Scotland generally. Nor was there any attempt made to examine whether the basis of such experience during the 1950's would continue to apply in the future. These matters will be discussed more fully below.

This second stage of the selection process largely paralleled the first stage. It resulted in an additional group of possible growth areas selected essentially from the populated towns and burghs in Central Scotland as the basis of greatest recent expansion. This additional group was largely, although not completely, independent of the areas which had been left in the running after the physical "limiting factors" had been applied. To put it another way, the identification of areas where population and employment had grown most rapidly did not result in any more areas being eliminated from further consideration as possible growth areas but added to the total to be considered. The disqualification of areas identified by <u>both</u> these processes had now to await subsequent stages of the selection process.

Stage Three - Areas with Increasing Potential

The third stage was a further choice of areas based on yet another set of criteria. It consisted in an explicit consideration of change in the basic infrastructure expected to take place in future in the Central Belt. Specifically, it involved taking into account the pattern of road communications expected to result from decisions already made about motorway and dual carriageway construction, and the impact these would have in improving communications within Central Scotland and beyond. In particular, location on or near the planned motorway and dual carriageway system, was expected to operate as a further, substantial inducement to new industrial enterprises to locate in Scotland. Perhaps the greatest weight was attached, in this respect, to the Forth and Tay Road Bridges for the effect they would have in shifting the centre of gravity eastward within the Central Belt.

A second factor, apparently physical but clearly economic as well, used here was the location of large level sites available for possible future industrial development of an extensive sort, such as the coastal areas south of Irvine and north of Grangemouth.

The assessment of these physical changes likely to enhance the growth potential of certain areas in the future, served to shorten the list of possible growth areas. In the relatively compact geographic setting of Central Scotland the effect of applying these three sets of criteria was largely to identify two different types of possible growth areas. First, there were those which, by virtue of their location in relation to the region's existing or proposed communications network, had better chances of rapid growth in the future. Some others also fell into the latter category because they had available large tracts of land suitable for future industrial development on an extensive basis. The areas of this latter type were, in effect, a positive translation into particular terms, and some further refinement, of what had resulted from applying the general, negative "limiting factors" in the first stage of the selection process. Secondly, there were those areas which had exhibited prominent employment and population growth in the immediate past.

The application of these three sets of factors had resulted in the identification of areas "which are both physically capable of sizeable expansion and which have shown indications of potential economic growth or are strategically located for future development". These became the so-called "areas of search":

(1) Kinross (population potential first estimate 100,000)
(2) Glenrothes/Tayport (50,000)
(3) Grangemouth/Falkirk/Alloa (50,000)
(4) Livingston (100,000)
(5) Midlothian (up to 50,000)
(6) North Ayrshire (100,000)
(7) Cumnock (20,000)

These are more or less synonymous with the first type of possible growth area mentioned above. These "areas of search" did not include any of the second type, that is, those centres which had experienced rapid population and employment growth in the immediate past, such as the new towns of East Kilbride and Cumbernauld. These latter were not objects for search, since their inclusion had already been explicitly recommended in the Toothill Report.

Together these seven "areas of search" were estimated to be capable, in conjunction with the new towns, of accommodating the expected increase in the population of Central Scotland, on the following basis:

Population changes expected, 1961-81:

Allowance in local authority statutory development plans (including remaining capacity, 4 New Towns, 252,000)		300,000
Estimated Capacity Need, including:		
Overspill from Glasgow, etc.	100,000 to 150,000	
Population increase if no drift of emigration to Midlands, South	400,000 to 500,000	750,000
Additional Capacity to be provided in Growth areas		360,000
Additional Capacity to be provided in Growth areas outside Central Scotland		100,000

Beyond this point in the selection process, further refinements were a matter for discussion and negotiation rather than something to result from the application of precisely elaborated formulae. What the physical planning division had done was to reduce the survey area to a number of possible growth areas from which a further selection might be made, either by weighting the various criteria which had already been employed in the physical planners' exercise, or on the basis of whatever other considerations seemed appropriate.

PART II - "REHABILITATION AREAS" - A Supplementary Source

Since the purpose of selecting growth areas was to encourage the industrial development of Central Scotland, some attention also had to be paid to the present population distribution in absolute terms. Glasgow and Edinburgh had been deliberately omitted, of course. So had other reasonably large population centres within Central Scotland. The existing larger labour market areas, consequently, were poorly represented. By and large, the areas nominated on the basis of the criteria already outlined, consisted of either virgin sites or of relatively small population centres, such as the New Towns, whose growth had been especially rapid in percentage terms but which did not account for anything more than a fraction of the total population of Central Scotland. Further consideration was given, therefore, to the possibility of including some of the older urban industrial areas among the locations on which the boost to development was to be concentrated.

Accordingly, as the second part of the selection process, the possibility was examined of including the older urban industrial areas of Central Scotland, and of bringing them more specifically within the scope of the proposed development programme for Central Scotland. Such areas became known as "rehabilitation areas". A number of these areas were subsequently to be designated as growth areas and included in the programme announced in the White Paper of November 1963; the way in which they first arose is, therefore, an important additional aspect of the whole selection process.

A part of Central Scotland's industrial heritage is a certain amount of land dereliction, the result mainly of coal and shale mining, which is also associated with declining industrial areas and localized heavy unemployment. The amount of (man-made) dereliction of land was estimated by the physical planners, conservatively, at 15,000 to 16,000 acres. Approximately 75 per cent of this total was found to be concentrated in the mining counties of Lanarkshire, Fife and West Lothian.

The West Lothian problem was one aspect being considered at that time by a team of social scientists and regional planners from the Universities of Glasgow and Edinburgh engaged in preparing the Lothians Regional Survey and Plan. This area included the New Town of Livingston, which had been designated by the Secretary of State a few months previously.

In Fife 80 per cent of the County's derelict land was concentrated within the 23 square miles of the Cowdenbeath-Lochgelly area. A regional programme of rehabilitation within an area between the New Town of Glenrothes, the large burghs of Kirkcaldy and Dunfermline, might be associated with a further expansion of Glenrothes and other elements of regeneration in the area such as the new industrial estate at Donibristle, the Forth Road Bridge and improvement of the Inverkeithing-Perth Road, and the proposed private New Town development at Dalgetty Bay. The existing population of Fife was some 326,000 with nearly 6,000 unemployed.

Over 80 per cent of Lanarkshire's derelict land was located within some 80 square miles of industrial North Lanarkshire (adjacent to Glasgow), including the large burghs of Coatbridge, Airdrie, Rutherglen, Hamilton and Motherwell, and the County industrial areas of Cambuslang, Uddingston, Bellshill and Blantyre. The population of the County was 330,000 with nearly 12,000 unemployed in December 1962. While population concentration ruled out this area for growth on New Town lines such as that of Livingston or Glenrothes, there were other elements of regeneration to which a regional programme of rehabilitation could give a further impetus; such were the existing industrial estates at Newhouse, Blantyre and Chapelhall, together with additional land to be acquired by the Board of Trade at Bellshill, the strip mill at Ravenscraig, and comprehensive redevelopment which was already proceeding at Cambuslang and for which proposals were being prepared at Bellshill, Hamilton, Coatbridge and Motherwell. The major road improvements to A8 and A74, which pass through the area, would themselves make use of mining waste and road construction and would add further point to the rehabilitation of adjoining areas.

Thus in this case particular areas were selected and identified as being in need of rehabilitation of an urban renewal kind, involving physical and economic rehabilitation. These were then given particular attention to determine what action was needed in order to make them suitable locations for new physical facilities. Because of their existing population and heavy unemployment, however, any additional physical facilities would consist mainly in new industrial enterprises and social capital, and the replacement (rather than the initial provision) of housing. Successful development along these lines was not expected to contribute much, on a net basis, to the accommodation of the natural population increase expected in Central Scotland as a whole.

The argument used here, it should be noted, was expressed in terms of the physical problem of derelict land. It was also accepted, however, that these areas required economic rehabilitation as well. Furthermore, North Lanarkshire, for one, by virtue of the number of new factories attracted there during the postwar period in a more or less successful effort to stem the decline of the region's older industries, had even demonstrated some propensity for growth.

To some extent, therefore, the planners' criterion of derelict land was a reflection of two other factors, namely, industrial decline and relatively heavy unemployment. Looked at in the narrow terms of the particular locations or areas themselves, it might be concluded that because <u>decline</u> is the opposite of growth, the basis of selection had been modified considerably in order to include the "rehabilitation areas" in the exercise at all. The validity of this argument needs to be examined however within the wider regional context: it is more important to ask whether the inclusion of the so-called "rehabilitation areas" added to, or detracted from, the chances of securing the desired objectives of development in Central Scotland as a whole. This is a question to which I shall return below.

An attempt was made to relate these "rehabilitation areas" to the "growth areas proper" within a regional context in which one group could be seen as complementary to the other. Thus the proposals for major development at Glenrothes and Kinross and those for a programme of rehabilitation of the derelict coal mining areas of Central Fife together formed a programme of development and rehabilitation <u>similar to that of Livingston</u> and <u>within an area which lies fully within development districts currently scheduled</u>. The proposals for the Grangemouth/Falkirk complex envisaged that this area would draw on Western Fife and in conjunction with Livingston, on Lanarkshire.

The main emphasis up to this point in the growth areas selection process had been on determining the potential, in the largely physical sense, for further development in Central Scotland. This was reflected in the one case, in the search for areas where the possibility existed for the substantial build-up of new housing accommodation as well as new physical facilities for industry, and, in the case of the "rehabilitation areas", where the need to reduce the incidence of dereliction offered the prospect of making available large areas capable, as a result, of accommodating new physical development. The scale of the opportunity for such physical development was different in the two cases, and a conclusion was necessarily reached that the "rehabilitation areas" offered potential sufficient only to meet new industrial demands. New housing accommodation was, therefore, not to be contemplated except as replacement of housing already there. This difference in the physical aspects of the two types of areas reflected, of course, the different sort of problem in economic development each represented: the one as prospective sites for both new population and new industry, the other as places where new industrial developments were desired to provide work for those already living there. The common thread at this general level, paralleling the similar availability of industrial sites at the physical development level, was thus the need for new industrial activity.

Choice and Further Refinement

The discussion to this point has perhaps over-emphasized the role of the physical planner in the first two parts of the selection process. In fact, as already noted, the criteria employed in reducing the whole of Central Scotland to the so-called "areas of search" had included some factors which were not entirely physical in nature. Those engaged in carrying out these parts of the exercise were aware as well of its wider purposes and had already begun to apply, at least implicitly, more general criteria together with those of a clearly physical type. It was also true that the opportunity was used to examine the results of the exercise as they began to emerge, to make suggestions and modifications as it progressed, and thus to ensure that the result would conform more closely to the main purpose of selecting the growth areas. One example of such change was the inclusion of the "rehabilitation areas" in the analysis.

For these reasons too the separation of the whole selection process into separate parts, as is done here, is somewhat artificial. The whole exercise was telescoped into a rather short period of weeks and it is perhaps impossible to establish a clear sequence of events as they occurred. Moreover the exercise was being conducted against the background of the Toothill Committee Report and the discussions it provoked regarding the role of growth areas in the future of the Scottish economy. It is even more difficult, therefore, to say at what particular point and in what order each of the various criteria employed throughout the whole selection process was applied. Indeed, it would perhaps be quite unrealistic to expect that, in the give and take of continuing discussion and consultation among the several Departments and agencies involved, anything like a neat formula could have been rigidly used. It is also questionable, of course, whether the application of such a formula - if one were available - would in fact yield results any better than those actually achieved.

The purpose of the study was to indicate how the proposed new policy - of creating growing points in Central Scotland - might be implemented and what its effect might be on different parts of the area and on established Government policy in related fields. The study would deal initially with Central Scotland only.

It is important to note, in this connection, that even at this early stage in the exercise, the growth areas were seen not as a policy in themselves but as one particular means, albeit a very important one, of giving effect to a whole new approach to the economic development planning of Central Scotland. The idea was explicitly to get away from the former ties between location of industry policy and localized unemployment, but more generally also to expand the framework for policy to comprehend not only the incidence of unemployment, but also any and all factors which bear upon the economic status and future development of the whole area.

The economic studies also carried out included the following:

(1) An assessment of the future prospects of declining industries, the identification of the locations to be particularly affected and an estimate of the reduction in employment likely to occur.

(2) A parallel assessment of the industries which were likely to expand and the locations in which they were likely to develop.

(3) An assessment of the future labour resources in terms of numbers, ages and skills likely to be available as a

basis for new growth. This was modified to take account of the expected effects of the programme of overspill building in New Towns and other areas.

(4) An examination of current migration and the assessment of reasonable targets for its reduction.

(5) An examination of the economics of transport in Central Scotland with a view to identifying areas which were best placed for new development.

The economic studies were parallel to the physical planning studies already discussed:

(1) the identification of areas of potential growth and an estimate of their capacity, <u>within a framework determined by the economic studies</u>.

(2) an estimate of the changes in the availability of land for development consequent on the reduction of coal mining activity.

(3) an assessment of current physical planning policies in relation to Green Belts and their effect on potential growing areas and to the planned provision, building and in prospect, for town development expansions in New Towns.

(4) an examination of the areas of industrial decline and an assessment of what rehabilitation was necessary and appropriate to establish them at a lower level of economic activity; identifying areas or sub-areas where the planned abandonment of communities no longer viable could be anticipated. (This item presumably led to the identification of "rehabilitation areas" already discussed)

(5) an examination of communications to ensure efficient inter-communication throughout the Central Belt and facilitate the movement of goods and population essential to the new policy.

(6) an examination of environmental services in relation to the selected areas.

In this way the examination of physical potential which had already been begun was made a part of the more comprehensive examination of Government policy for Central Scotland. This examination of existing policy was seen to include the following:

(1) The planning of housing. In a regional context a much closer control of the location of new housing development would be necessary so that new houses would be built in areas with prospects of growth rather than in outdated communities.

(2) Road planning and development would have to be co-ordinated to create the right conditions for growth and to link the growing points to the main motorway grid.

(3) Environmental services such as water supply would also have to be co-ordinated, and the efforts of several local authorities concerted to this purpose in some cases.

(4) The whole structure of Local Government in Scotland might have to be examined. In particular, conflicts of jurisdiction as well as of policy at local level would have to be avoided in growing points comprised of several local authority areas.

(5) A new approach to the assistance to industry policy would particularly involve a greater concentration of

Government assistance on the larger projects which can be the basis of future growth. At the same time, a realistic assessment would have to be made of the effect of the "growth" policy on the existing development districts.

(6) The rundown of some areas would require comprehensive efforts of clearance and rehabilitation to avoid abandoned areas being left derelict.

A Favourable Consensus for Growth Areas

The nature of the general study now proposed was conditioned largely by the recommendations of the Toothill Committee. Moreover, the Toothill Report was being used by the official opposition of the day as a basis for urging the Government to do a more effective job in encouraging the economic development of Scotland. The report had also received a very favourable reception in Press circles, and given rise to considerable publicity about the economic circumstances and problems of the Scottish economy. Its proposals for concentrating on areas with growth prospects rather than adhering rigidly to localized unemployment as the sole criterion for location of industry policy, in particular, had helped make "growing points" a meaningful concept for a very wide audience. The basic idea behind the concept was clear enough; one chooses areas with good prospects of growth, and encourages them to grow further, thereby building, as it were, on success already achieved.

Nevertheless, there arose a variety of interpretations as to the purpose which growth areas, or growing points, were intended to serve. Thus the physical planner looked upon them as locations for new development of various kinds, largely on virgin sites where the scope for architectural and engineering innovation was virtually liberated. Communities vied with one another for designation as growing points as a matter of local pride, and often in the belief that the purpose of growth was largely local. Some economists looked upon growing points as cities in which the rapid and substantial buildup of all types of economic activity would create external economies for industry at a truly wonderful rate.

In short, the idea of growth points was almost universally accepted, even although the nature and purpose of such growth points differed somewhat according to the bias or professional training of particular individuals or groups.

Secondly, the connection between the Toothill Committee and the Scottish Development Group also took a direct form, as a result mainly of the Toothill Committee having had the assistance of assessors drawn from the Scottish Development Department who were now returned there.

The pressure mounted on the Government at this time was considerably reinforced also by the heavier unemployment which occurred during the winter of 1962/63, partly as a result of an unusually heavy snowfall in certain regions of the country, including Scotland. The rise in national unemployment as usual pushed regional unemployment rates to even higher levels. Although these rates rose still higher in the former "pockets of unemployment", the problem spread at the same time to other parts of the less prosperous regions, including Scotland, and thus made the pockets less visible than when the national unemployment rate was low. A more general remedy was then seen to be required than mopping up excess labour in small pockets.

The Scottish Development Group completed its general study early in the summer of 1963. Based on the physical planning studies already discussed above, the further refinement of the growth area concept and the selection of growth areas for Central Scotland was carried out in the interval between December 1962 and the early summer of 1963.

The Scottish Development Group's Choice

At this stage the process of selecting growth areas for Central Scotland became intermeshed with the more general aspects of the development programme in which they were to be the central technique. Consequently, the steps in the selection process are less easily identified. What is more important, criteria were employed which are more a function of the particular requirements and conditions of Central Scotland from a development viewpoint than a framework suited to general application elsewhere. There are nevertheless important general lessons also to be drawn from this, more pragmatic part of the selection process.

The purpose of the Central Scotland development programme was to help the Scottish economy achieve certain explicit objectives by 1981. In the end these objectives and their implications provided the basis too for finally determining which locations would be designated as "growth areas" in Central Scotland. In other words, the framework of objectives was the means of deciding, sometimes implicitly, about the questions - fundamental to any consideration of a growth centres policy - of size, timing and overall scale. What size should growth areas be? At what pace should they be developed? Should all be developed at once, and at the same pace? And what total contribution should they be expected to make to achieving the regional objectives?

In discussing these questions, it will be convenient to begin with the matter of overall scale, then to consider timing, and finally to look at the size of the selected growth areas.

Overall Scale. It was assumed that the population of Scotland would increase by approximately 450,000 persons between the 1961 Census and 1981. Behind this assumption lay an implicit proposed target for the development programme (and for British regional policy) of reducing net emigration from Scotland - by four-fifths of levels recently experienced in the case of net emigration to other U.K.

regions, and by one-third of the recent flow to overseas countries. In addition, space provision would be necessary for an estimated 300,000 persons to be displaced by the continuing programme of overspill from Glasgow and other congested areas. Thus in terms of new housing and other services the total demand foreseen in the whole of Scotland was that necessary to accommodate a total of some 750,000 people over the period to 1981.

To meet it, there was the existing provision in the Development Plans of local authorities and the New Towns, already approved by the Secretary of State, for some 300,000 persons. This left some 450,000 for which further capacity would have to be supplied. It was concluded that the growth areas being selected in Central Scotland should be capable of accommodating in total more than 350,000 of this number, leaving a balance of up to 100,000 to be located in other Scottish regions.

Thus the number of people for whom new housing would be needed by 1981 set an upper limit to the scale of total expansion to be planned in growth areas.

Timing. The population increase expected over two decades cannot be catered for all at once, of course, since it results from a continuing process of growth which must be accommodated as it occurs over time. It is not usually practicable, therefore, to deal with population (and employment) growth with a system of population centres conceived of in terms of specified standards of size, internal structure, and other characteristics. Rather, one is typically concerned with marginal increments (or decrements) to a base that is usually much larger in absolute terms, and it is thus virtually impossible to ignore the larger entity in order to concentrate on influencing the (much smaller) adjustments taking place in it. This sort of consideration operated in several ways in the case of the Central Scotland development programme, and one of the most important was through its proposed timing. At what rate should the physical and other facilities contemplated be developed in order to match the expected flow of population increase during the twenty year period?

Such a question could only be answered on the basis of practical considerations affecting the putting in place of the requisite physical facilities. It thus quickly became a matter of deciding the place at which such facilities could be made available. Since not all the "growth areas" under consideration could be developed to the point of providing additional accommodation at the same speed, or on the same scale, the need to specify a timing scale became a criterion for choosing among them.

In resolving the timing considerations, the rate at which the supply of industrial sites could be expanded, became the critical factor. This reflected the central element in the development strategy - that of attracting new industrial firms to Central Scotland.

The supply of industrial sites could be expanded more readily in the older, already industrialized areas, and in the New Towns, than on virgin sites.

From the application of the criteria implicit in determining the overall scale, and the timing of the development programme, there emerged the following recommended "growth areas" (with their estimated population expansion by 1981):

1.	Vale of Leven }	(3,000)
2.	North Lanarkshire }	
3.	West and Central Fife	(27,000)
4.	East Kilbride	(44,000)
5.	Cumbernauld	(58,500)
6.	Glenrothes	(55,600)
7.	Livingston (and the rehabilitation and development area surrounding it)	(73,450)
8.	Irvine	(51,700)
9.	Grangemouth/Falkirk	(26,000)

(Subsequently, numbers 3 and 6 were combined as "Central Fife and Glenrothes").

Size. The size which growth areas should be is a question of considerable interest for economists, probably to a considerable extent because of their continuing quest for optimum results and their traditional interest in "optimum size" firms. To date, however, economists have not reached any firm general conclusions about the optimum size for towns and cities (nor, indeed, have they reached any for industrial firms). To be fair, the question has arisen only recently and has not consumed that much economists' energy as yet.

It is not surprising, therefore, that economic theory is nearly silent on this question. The recent interest in it, however, does justify a brief comment here.

It will by now be clear to the reader that size did not figure explicitly in the selection of the Scottish "growth areas". The size of those in the above list was no more than a function of the population increase they could accommodate over the twenty year period foreseen by the development programme, constrained by the total population increase to be accommodated in this way as an objective of the programme, and further constrained also by the more general criteria applied in the earlier part of the selection process. Thus the size of the specific areas themselves, was treated only in terms of their (marginal) capacity for population increase. Their absolute size was not an important consideration de facto.[1]

Although the size of the growth areas was not treated directly, it was considered that entirely new developments should be planned on more or less the same scale as the existing new towns, at least initially. These had been conceived, since the earliest consideration of East Kilbride, as centres of no more than 50,000, mainly because they were considered as outlets for Glasgow overspill

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[1]In part, this was due to the relationship seen to exist between the selected "growth areas" and the major Scottish cities of Glasgow and Edinburgh.

population. Irvine, whose designation as the fifth New Town followed some time after the announcement of the Central Scotland programme, was planned eventually to accommodate 55,000. Among the "growth areas" listed above, only Livingston exceeded this order of expansion and then only on the basis of its being combined with the surrounding rehabilitation area. It remained for the consultants who subsequently prepared the more detailed development plan for this particular growth area, the Lothians as it then came to be called, to suggest a significant increase in scale. The effort then became to make Livingston not another new town, but rather, as The Economist styled it, "A New City for the Lothians".[2]

Glasgow, Edinburgh and the "Growth Areas". An extremely important aspect of the Scottish "growth areas" consisted in the nature of the relationship between them and the major cities of Glasgow and Edinburgh. Neither of the latter was selected as a "growth area" itself - Glasgow because its further development had to await continued progress with the overspill programme before an accelerated industrial development effort could be implemented there to offset the city's over-dependence on the heavy industry the Clyde Valley planners had termed "immovable", and Edinburgh in view of its limited capacity (in terms of land) for industrial development and more especially because of the desire to preserve Edinburgh's special character. Yet both were acknowledged to be vital to the

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[2]Still more recently, there has been a further expansion in the scale of new city development policy in Scotland. A major new development on Tayside, more or less contiguous with the Central Belt, is being examined to accommodate a city of 250,000 by the end of the century. This is one of three such possible developments in Great Britain, the others studied being for Severnside and Humberside. All are considered necessary to accommodate the increase in the Great Britain population expected by the year 2000, and the inclusion of the Tayside proposals tacitly recognizes not only that the Scottish population will continue to increase after 1981, but also that Scotland is one region which can accommodate the anticipated overspill population from London and the South East, where further expansion on this scale is not considered so desirable.

success of the development programme, and therefore to the "growth areas". Their services and facilities were considered an essential background to the economic, social and educational status of the country as a whole, and to the Central Belt in particular.

Throughout the postwar period the emphasis had been on moving people out of Glasgow. This would continue, and one important role of the "growth areas" was to accommodate the population thus displaced and also use it as part of the basis for attracting new industries to Scotland. A more novel element suggested for policy was much greater attention to the role which such "growth areas" might serve by extending the borders of the Glasgow and Edinburgh labour markets. If workers could live in Glasgow and commute to East Kilbride, if others could live in Cumbernauld and commute to Glasgow, still others probably would travel to work from Livingston to Edinburgh (or vice versa) and, at another level, workers from various places in Fife might find it convenient to travel to work in Glenrothes.

The growth areas form extensions, to a greater or lesser degree, to the zones of metropolitan influence exercised by Glasgow and Edinburgh, and, given the communication improvements recommended, could be conveniently grouped as follows:

Metropolitan Centre	Growth Areas	Total prospective population in complex in 1981 (000's)	Travel time to centre (min.)
Glasgow	(Vale of Leven)		35
	(Cumbernauld)		35
	(North Lanarkshire)	2,480	30
	(East Kilbride)		35
	(Irvine)		50
Glasgow and Edinburgh	(Grangemouth)	300	45
	(Falkirk)		35
Edinburgh	(Livingston)		30
	(Glenrothes)	1,250	50
	(Central Fife)		35

The compactness of the whole central Scotland region also meant that attracting new industries, particularly the managerial, design and research staffs desired as part of improving the "quality of growth", to the newer "growth areas" which could themselves offer only limited services and cultural facilities, would be considerably facilitated by the proximity of Glasgow and Edinburgh. Thus the "growth areas" would serve, when developed, to knit the whole of Central Scotland together into one large labour market. In this way the problem of conflict between the designated and the non-designated areas would be eased; in the fairly compact Central Belt most of the latter were within daily travelling distance of one or the other of the "growth areas". Workers in a non-selected locality could commute fairly readily to new jobs opening up in a nearby selected area.

A particular aspect of this, important in its own right, was the attention paid to the transportation and other infrastructure improvements incorporated in the development programme for the area south and west of Glasgow. The Clyde Tunnel had not only added another river crossing to the City's internal communications network; it would also open up the recreation facilities of Loch Lomond, the Trossachs and the Highlands immediately north of Glasgow to residents on the south side of the Clyde. Ayrshire would thereby be drawn into much closer association with the Glasgow City Region, especially after the approaches to the Tunnel were completed. The planned construction of the high level bridge further down river at Erskine would also serve to link Clydebank, the Vale of Leven and other north side areas to the west of Glasgow with places like Renfrew on the south side and North Ayrshire as well. Even further afield from the City, Greenock and Port Glasgow would be brought into closer contact with Glasgow through the electrification of the railway line between them. The reduction in the travelling time from Greenock to Central Glasgow to approximately 30 minutes would enable more workers from these towns on the lower reaches of the Clyde, where employment expansion is particularly difficult, to commute to jobs in Glasgow. They would also be a source of labour supply whenever expansion of the motor industry at Linwood took place in future. In these ways the whole area to the south and west of Glasgow would become one large urban labour market. Here the main influence of the development programme for Central Scotland would not take the form of the "growth areas" themselves, but would consist in the infrastructure improvements designed to help knit the whole region together, and thus give substantial support to the successful development of the "growth areas".

The Result

What had emerged from the entire selection process were eight "growth areas" for Central Scotland, classified in three broad categories:

(1) Four rehabilitation areas, the inclusion of which was supported by the value ascribed to them as poles of attraction for new industrial development in the first phase of the programme, i.e., the Vale of Leven, North Lanarkshire, Central Fife[3], and the Lothians.[3]

(2) The four existing New Towns of East Kilbride, Cumbernauld, Glenrothes[3] and Livingston[3], which experienced both population and employment growth well above the Central Scotland average over the decade to 1961. In Livingston's case, of course, there had not been the same rate of past growth but rapid future build-up was already a matter of Government policy.

(3) Two fairly extensive areas, Irvine and Grangemouth/Falkirk, selected from the "areas of search" described above. These locations were already urbanized to some extent but nevertheless contained large areas of land suitable for further extensive development and therefore capable of accommodating both industry and housing.

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[3]Central Fife and Glenrothes were combined as a single "growth area". So too were Livingston and the Lothians area.

The identified growth areas were to form focal points of especially vigorous economic development which would help to create a favourable climate of growth in the wider catchment areas associated with them, and this and other growth associated with the modernization of the regional infrastructure recommended would help to promote the general regeneration of the economy of Central Scotland. The primary objectives from the Scottish viewpoint of the whole plan were a reduction of unemployment, the replacement of jobs lost in the expected further decline of the older basic industries, and a substantial reduction in the volume of net and gross emigration. One of the requisites for successful implementation of the proposals for Central Scotland, however, would be a favourable environment of national economic growth and expansion.

Here there was significance in the N.E.D.C.'s recognition that properly designed regional development policies can be justified on the basis of national economic considerations - a proposition which had been strongly urged by the Toothill Committee. Such national economic considerations were an important further guide in working out the recommended development programme for Central Scotland.

Consideration and Approval

On the first of August 1963 the Prime Minister told the House of Commons that the Central Scotland report (together with the report prepared by the Lord President on the North-East of England) had been received by the Government.

The Scottish proposals were considered simultaneously with this similar report prepared on the North-East of England. Pressure was still being exerted at this time by the Opposition for the Government to do something with the Toothill report, and there was general concern with the relatively high level of unemployment prevalent in

Scotland. These general influences provided a background to the Government's consideration of the proposals as a result of which White Papers were prepared for Central Scotland and the North-East of England. Both of these were published in November 1963.

CHAPTER 7

Financial Inducements as an Element of Regional Policy for Scotland

Financial Inducements, for a lagging region, are a means of husbanding its resources. To demonstrate this proposition, let us consider how - and how well - Scotland has fared in its quest for new industry during the recent past. The time period I have chosen for purposes of this analysis is roughly the decade preceding the Toothill Report, that is, 1954 to 1966.[1]

Manufacturing Employment in Central Scotland, 1954 to 1966[2]

In the process of selecting "growth areas" in Central Scotland, reference was had to the percentage rates of increase which took place in two variables - population and insured population - in a number of areas from which a choice was made. Both these indicators measure change at the macro level and really reveal very little about the forces or factors which have caused the change to occur. Total population especially is a weak measure because there is no necessary correlation between population growth and economic growth. Insured population, which is a proxy for total employment in all types of economic activity, is better but still suffers from being overly general in scope. Since the purpose of the "growth areas"

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[1] I am greatly indebted, for the ideas developed herein, to three former colleagues in the University of Glasgow, namely, Dr. S.C. Orr, Dr. L.C. Hunter, and Mr. I.D. MacBain. I wish also to acknowledge the very considerable assistance given me by Mr. Peter Smith, who put up with my many questions, over many cups of coffee, in the University's College Club, regarding the operations and policy of the Scottish Development Department.

[2] The chronology outlined in this chapter is derived from James D. McCallum, "A review History of British Regional Policy", in Economic Research Relevant to the Formulation of National Urban Development Strategies: A conference, sponsored by Resources for the Future, Inc. of Washington, D.C. and the University of Glasgow, Glasgow, Scotland, at Wolfson Hall of the University, August 30, 1971 - September 3, 1971; and from an equally sound, though less formalized version given me by Mr. Michael Miller, my colleague in the Department of Political Economy., University of Glasgow during the 1965-66 academic year.

exercise (or of the regional economic strategy of which it formed a part) was to accelerate the rate of growth of employment in manufacturing, it may be illuminating to examine recent changes in this variable on the assumption that their recent experience with manufacturing employment may provide some further basis for assessing whether the selected locations are capable of stimulating overall regional growth in the future. It perhaps ought to be stressed, however, that these data were not explicitly used by the Scottish Development Group in selecting the "growth areas" in 1963, but have only recently become available.

The "growth areas" are considered a tool for regional development, and their effectiveness must be judged by the results attained in the wider region and not merely by whether they themselves expand. Neither will it do, therefore, to examine their recent changes in manufacturing employment _in vacuo_; these must also be related to the regional context in which they took place. Hence, the analysis must begin with changes since 1954 in Central Scotland as a whole, and then proceed by a series of stages to a consideration of the particular role of "growth areas" in the immediate past. Finally, against this background an attempt is made to assess whether the "growth areas" strategy is a reasonable method of fostering the further economic development of Central Scotland.

Scope and Coverage

The following analysis is based on data compiled by Miss W.F.M. Lorimer, Senior Research Officer, Board of Trade, Glasgow from "L" returns, and kindly made available to me. Such returns are made annually by all manufacturing firms employing 100 or more persons and by a 25 per cent sample of all establishments employing fewer than 100 persons. (Until the mid-1950's they were received from firms employing 11 or more persons.) The value of these data for present purposes is that they permit an analysis of employment changes in manufacturing by employment exchange area and thus give a more detailed picture of the geographic pattern of change in Scottish manufacturing since 1954, than is provided by data referring only to Scotland totals.

The figures examined here refer to Central Scotland. To a considerable extent, of course, the changes taking place there are broadly indicative of the general pattern of change in the whole Scottish economy since, as the White Paper of November 1963 noted, "... here 90 per cent of Scotland's existing employment in manufacturing industry is found". (p.13). Data have been tabulated for four years - 1954 because it happens to be the first year for which these figures are available; 1960 to coincide with the replacement of the Distribution of Industry Acts by the Local Employment Act; 1963 because: a) the Local Employment Act was amended and "free depreciation" became available in development districts under the Finance Act, and b) the Central Scotland "growth areas" were announced, that year; and 1966 because: a) the introduction of the Industrial Development Act marked a significant change in the forms of assistance available to development areas, and b) it is the latest for which data are available. All figures refer to the numbers employed in manufacturing establishments in May of the year concerned.

Overall Change, 1954 to 1966

Perhaps the most remarkable feature of manufacturing employment in Central Scotland during this whole period has been its overall stability. From 1954 to 1966 there was an increase of 19,527 which, converted to percentage terms, becomes 3.3 per cent over twelve years - or something less than 0.3% as an annual average rate of growth. This cannot be considered much more than negligible.

Even greater net stability marked the interval between 1954 and 1960, with some 592,000 persons in manufacturing employment in both these years. During the subsequent three years, from 1960 to 1963, a decline of almost 17,000 occurred. Then came a relatively rapid increase of 37,000 by 1966 - which not only offset the 1960-63 decrease but accounted for more than the whole increase of 19,527 since 1954. In other words, such growth as there has been between 1954 and 1966, occurred entirely in the last three years of the period.

Sources of Change

These are all net changes, of course. They are compounded from

(a) increases resulting from the opening of new establishments,

(b) decreases resulting from the closure of existing establishments,

(c) increases due to expansion of existing firms, and

(d) increases due to decline of other existing firms.

An indication of the importance of a) can be gained from Table 5, and of b) from Table 6. Although separate data are not available for c) and d), we can infer their joint net effect by subtracting (a) + b)) from the net totals discussed above. Thus:

		1954-60	1960-63	1963-66	1954-66
1.	Total Net Change	-581	-16,900	+37,008	+19,527
2.	Resulting from: a)	+15,871	+14,772	+33,048	+63,691
3.	b)	-20,242	-31,411	-26,747	-78,400
4.	c) + d) i.e. 1.-(2 + 3)	+ 3,790	-261	+30,707	+34,236

For the full twelve year period, the net increase of 19,527 manufacturing jobs was the result of:

- an increase of 63,691 in new establishments;
- a decrease of 78,400 due to the closure of some 677 establishments;
- a (net) increase of 34,236 from the expansion of existing establishments. (Some existing establishments doubtless would have reduced their employment, but the exact size of this variable is unknown. We know only that increases in expanding establishments exceeded decreasesin declining establishments by 34,236.)

On the simple (and probably false) assumption that these discernible forces are neither interrelated nor interdependent, the general conclusion might be drawn here that the "birth" of new manufacturing establishments in Central Scotland, when combined with the expansion of "indigenous" establishments, more than compensated for the loss of former jobs through the "death" of previously existing establishments.

Table 4

Manufacturing Employment by Region, Central Scotland, 1954, 1960, 1963 and 1966 (May)

Region	May 1954	May 1960	Change 1954-1960	May 1963	Change 1960-63	May 1966	Change 1960-66	Change 1963-66
I.A. Glasgow City Area	201,715	189,595	-12,120	169,363	-20,232	165,968	-23,627	- 3,395
I.B. Rest of Glw. Metrop. Area	171,607	179,876	+ 8,269	174,930	- 4,946	195,967	+16,091	+21,037
A + B	373,322	369,471	- 3,851	344,293	-25,178	361,935	- 7,536	+17,642
I.C. Remainder of Glw.Region								
Ayrshire	43,114	41,829	- 1,285	42,102	+ 273	46,904	+ 5,075	+ 4,802
Bute	85	78	- 7	75	- 3	151	+ 73	+ 76
Lanarkshire	2,159	2,403	+ 244	2,661	+ 258	3,401	+ 998	+ 740
C	45,358	44,310	- 1,048	44,838	+ 528	50,456	+ 6,146	+ 5,618
I. Glasgow City Region (A,B & C)	418,680	413,781	- 4,899	389,131	-24,650	412,391	- 1,390	+23,260
II. (Bonnybridge, Falkirk Grangemouth, Stirling, Alloa)	35,535	37,122	+ 1,587	37,007	- 115	36,625	- 497	- 382
III. Edinburgh, Fife and the Lothians	84,378	87,135	+ 2,757	93,224	+ 6,089	105,188	+18,042	+11,953
IV. Northern Fife and Dundee	53,962	53,936	- 26	55,712	+ 1,776	57,889	+ 3,953	+ 2,177
CENTRAL SCOTLAND	592,555	591,974	- 581	575,074	-16,900	612,082	+20,108	+37,008

Table 5

Establishments* New to Regions or Sub-regions May 1954 - May 1966

	Empl. in these ests. in May '57**	In 1960	Increase 1954-60	Empl. in 1963	Increase 1960-63	Empl. in 1966	Increase 1960-66	Increase 1963-66
Region I A	1,301	2,932	2,932	4,632	1,700	8,430	5,498	3,798
B	2,299	6,219	6,219	11,165	4,946	24,330	18,111	13,165
C	441	1,343	1,343	2,821	1,478	7,594	6,251	4,773
	4,041	10,494	10,494	18,618	8,124	40,354	29,860	21,736
II	697	1,703	1,703	2,507	804	4,369	2,666	1,862
III	530	2,404	2,404	6,550	4,146	14,192	11,788	7,642
IV	354	1,270	1,270	2,968	1,698	4,776	3,506	1,808
	5,622	15,871	15,871	30,643	14,772	63,691	47,520	33,048

* No. of such = 749 (reg. breakdown available) - also year by year.

** New estates over 3 years, i.e. May '54 - May '57.

Table 6

Establishments* which Closed, May 1957 - May 1966

	Empl. in those estabs. in 1957	In 1960	Decrease 1957-60	Empl. In 1963	Decrease 1960-63	Empl. In 1966	Decrease 1960-66	Decrease 1963-66
Region I A	33,759	26,307	- 7,452	11,252	-15,055	-	-26,307	-11,252
B	23,181	17,623	- 5,558	8,669	- 8,954	-	-17,623	- 8,669
C	3,786	2,071	- 1,715	1,056	- 1,015	-	- 2,071	- 1,056
	60,726	46,001	-14,725	20,977	-25,024	-	-46,001	-20,977
II	3,920	3,128	- 792	2,104	- 1,024	-	- 3,128	- 2,104
III	9,422	6,498	- 2,924	2,460	- 4,038	-	- 6,498	- 2,460
IV	4,332	2,531	- 1,801	1,206	- 1,325	-	- 2,531	- 1,206
	78,400	58,158	-20,242	26,747	-31,411	-	-58,158	-26,747

*No. of such establishments = 677 (regional breakdown available)

As with the net overall change already discussed, however, this pattern diverges from sub-period to sub-period. From 1954 to 1960, new establishments contributed an additional 15,871 jobs, and existing factories took on 3,790 more workers (net); but these gains were effectively cancelled out by the loss of 20,242 jobs in establishments which ceased production. From 1960 to 1963, there arose 14,772 jobs in new establishments; but the net change in existing factories turned negative (-261) and of more importance, the loss of jobs from operations which ceased, accelerated to 31,411 - half as much again as during the (longer) 1954-60 interval. From 1963 to 1966, the start of production in new establishments accounted for additional employment of 33,048, and this gain was accompanied by a (net) increase almost as large (30,707) in existing factories; consequently, although the loss of employment attributable to factories going out of production was still substantial at 26,747, the net result was a gain of 37,008 in total manufacturing employment.

One obvious, but often ignored, aspect of these changes is that some growth, and some decline, occurred in all three periods on the gross basis. As might be expected, the greatest net gain occurred in 1963-66 when both jobs in new establishments and the net increase in existing establishments were at peak levels; while the greatest net decrease came in 1960-63, when the loss of employment due to closures was greater than in either of the other two sub-periods.

Changes by Sub-Areas

Another basis for examining the relative importance of gross additions and subtractions would be to adopt a geographic framework and see which sub-areas within Central Scotland experienced increases, and which decreases, in manufacturing employment. This may cast some light on the differential rates of growth achieved from one area, or type of area, to another, which bears, of course, upon the whole "growth areas" argument. Thus:

		1954-60	1960-63	1963-66	1954-66
1.	Glasgow City Region				
	A. City	-12,120	-20,232	- 3,395	-35,747
	B. Rest of Metrop. Area	+ 8,269	- 4,946	+21,037	+24,360
	C. Rest of City Region	- 1,048	+ 528	+ 5,618	+ 5,098
		- 4,899	-24,650	+23,260	- 6,289
2.	Falkirk-Stirling-Alloa	+ 1,587	- 115	- 382	+ 1,090
3.	Edinburgh, Fife and the Lothians	+ 2,757	+ 6,089	+11,953	+20,799
4.	Northern Fife and Dundee	- 26	+ 1,776	+ 2,177	+ 3,927
	CENTRAL SCOTLAND	- 581	-16,900	+37,008	+19,527

Again, the pattern of growth becomes more complicated on the decomposed basis. To take the whole period from 1954 to 1966, for example, the net increase of 19,527 manufacturing jobs was the consequence of change on a much greater scale than this single statistic suggests. Only one of the areas distinguished in the table exhibited a net overall decline of manufacturing employment; not surprisingly, it was Glasgow where a loss of 35,747 jobs occurred. All the others had net increases: the largest (24,360) was outside the City of Glasgow but within the metropolitan region, mainly in North Lanarkshire, followed by Edinburgh and the Lothians, with 20,799.

In only two areas - Glasgow City, and Edinburgh and the Lothians - was the direction of net change uniform in all three sub-periods, however, Glasgow losing manufacturing jobs and Edinburgh gaining them. From 1954 to 1960, declines occurred in the peripheral areas (1C) of the Glasgow City Region as well as in the City itself; but the growth of employment in Falkirk-Stirling-Alloa, as well as in Edinburgh and North Lanarkshire, all but compensated for these. From 1960 to 1963, the most substantial attrition (20,232) took place in Glasgow, and extended also to the rest of the metropolitan area where a further decline of 4,496 occurred. There was a small fall too in Falkirk-Stirling-Alloa. On the other hand, employment growth was accelerated (6,089) in Edinburgh, and increases occurred both in the periphery of the Glasgow City Region (528) and, more significantly, in Fife and Dundee (1,776). The net result of all these changes was a decline of 16,900 for Central Scotland as a whole.

From 1963 to 1966, growth of employment became the order of the day in all areas except Glasgow, where the rate of decline slackened, and Falkirk-Stirling-Alloa, where a further marginal decline took place. The biggest absolute increases were in the Glasgow metropolitan area outside the city (21,037), and the Edinburgh region (11,953). Expansion again occurred also, and at an accelerated rate, in the periphery of the Glasgow City Region (5,618) and in Fife and Dundee (2,177). The net result was an overall increase of 37,008.

Thus the general pattern which emerges is a continuing decline of manufacturing employment in Glasgow itself as a consequence probably of the decline of its basic industries and to some extent also, of the movement of firms to new premises outside the city under the "overspill" programme. This loss in Glasgow is accompanied by some growth of factory employment elsewhere in Central Scotland, sometimes as a simultaneous effect of "overspill" and sometimes as a result of other, perhaps unrelated, forces operating in the areas of expansion. Because of its sheer size, the changes in Glasgow largely determine the net result in Central Scotland: it is no accident that the sub-period of greatest net decline, 1960-63, was also when Glasgow's manufacturing employment declined to the greatest extent. Growth, on the other hand, has not been strong enough even in 1963-66 to embrace Glasgow City itself. Nevertheless it was the rest of the Glasgow metropolitan area, or the immediate suburbs of the city and especially North Lanarkshire, which made the largest absolute contribution to regional employment growth, both in the long pull from 1954 to 1966 and in the sub-period of greatest net expansion from 1963 to 1966. Next to Glasgow and its immediate environs, even the fairly substantial increases which occurred in Edinburgh and the Lothians are of secondary importance in absolute terms.

Change by Source and Sub-Area

We may now combine these two approaches to examining the nature of recent changes in manufacturing employment in Central Scotland and consider which sources of change were important in each of the main sub-areas. The figures are tabulated in Table 7.

Glasgow City. New establishments have appeared even in Glasgow, and their contribution to employment growth was greatest in the 1963-66 sub-period. But over the whole 1954-66 period, the loss of jobs from closing factories was four times as much as the new establishments added. The switch from net contraction to net expansion of employment in existing firms which occurred in 1963-66, is also noteworthy.

Rest of Glasgow Metropolitan Area. The employment added in new establishments was greater here from 1954 to 1966 than in any other area. Yet the (net) expansion of jobs in existing employment was just as important in making its overall record one of net growth. It was the presence of these growth forces which distinguished this area from Glasgow itself, inasmuch as the attrition of old jobs was only one-third less. It would appear that the temporary weakening - due perhaps to cyclical contraction - of these forces caused the lapse into net decline experienced (only) in 1960-63.

Rest of Glasgow City Region. In areas which were relatively undeveloped industrially, the dominant feature was an accelerating growth of employment in new establishments. Most recently, previously existing factories in the area had also been employing more workers, while the loss from factory closures had been steady and modest by comparison. The result was some 5,000 new jobs (net) over the 1954-66 period, mainly since 1963.

Falkirk-Stirling-Alloa. The rapid postwar buildup of petro-chemical industries at Grangemouth appeared to have run its course, at least as far as employment is concerned, by the mid-1950's. Since

Table 7

Changes in Manufacturing Employment, Central Scotland, by Sub-Area and by Period, 1954 to 1966

		1954-60	1960-63	1963-66	1954-66
I.A.	Glasgow City				
	1. Total Net Change	-12,120	-20,232	- 3,395	-35,747
	2. Resulting from a)	2,932	1,700	3,798	8,430
	3. b)	- 7,452	-15,055	-11,252	-33,759
	4. (c + d) i.e. 1-2-3	- 7,600	- 6,877	+ 4,059	-10,418
I.B.	Rest of Glw. Metrop. Area				
	1.	+ 8,269	- 4,946	+21,037	+24,360
	2.	6,219	4,946	13,165	24,330
	3.	- 5,558	- 8,954	- 8,669	-23,181
	4.	+ 7,608	- 938	+16,541	+23,211
I.C.	Rest of Glw. City Region				
	1.	- 1,048	+ 528	+ 5,618	+ 5,098
	2.	1,343	1,478	4,773	7,594
	3.	- 1,715	- 1,015	- 1,056	- 3,786
	4.	- 676	+ 65	+ 1,901	+ 1,290
II.	Falkirk-Stirling-Alloa				
	1.	+ 1,587	- 115	- 382	+ 1,090
	2.	1,703	804	1,862	4,369
	3.	- 792	- 1,024	- 2,104	- 3,920
	4.	+ 676	+ 105	- 140	+ 641
III.	Edinburgh and Lothians				
	1.	+ 2,757	+ 6,089	+11,953	+20,799
	2.	2,404	4,146	7,642	14,192
	3.	- 2,924	- 4,038	- 2,460	- 9,422
	4.	+ 3,277	+ 5,981	+ 6,771	+16,029
IV.	Fife and Dundee				
	1.	- 26	+ 1,776	+ 2,177	+ 3,927
	2.	1,270	1,698	1,808	4,776
	3.	- 1,801	- 1,325	- 1,206	- 4,332
	4.	+ 505	+ 1,403	+ 1,575	+ 3,484

then total manufacturing employment has been generally stable. Most of the gains from new establishments and expansion of existing ones from 1954 to 1966 had been counterbalanced by losses in those which closed. The latter seemed, moreover, to be occurring at an increasing rate while the net change in existing establishments turned negative in 1963-66. On the other hand, over twice as many jobs were provided in new establishments since 1963, than in the prior three years.

Edinburgh, Fife and the Lothians. The forces behind the second largest net absolute increase in manufacturing employment differed from those observed in the immediate suburbs of Glasgow City, mainly in that the loss of former jobs was quantitatively less significant in Edinburgh compared to either of the two sources of expansion. Over the whole 1954-66 period, only 9,422 workers were affected by factory closures - a figure exceeded by the 14,192 jobs in new ones, and even more so by the 16,029 which resulted from indigenous (net) expansion. Only the pace of growth altered (upwards) over time, the only trace of the 1960-1963 slowdown which occurred in every other area being more jobs lost from closures. Yet even this was more than compensated by the gains in new establishments and in existing ones, either of which would have sufficed for the purpose.

Northern Fife and Dundee. In terms of total manufacturing employment this area is one-sixth larger than the peripheral part of the Glasgow city region. Its net increase from 1954 to 1966 was three-quarters as great. Increasingly apparent growth tendencies are indicated in the rising contribution of new establishments, and increasing absolute gains from (net) indigenous expansion. Losses through factory closures had also declined over time. From virtually no overall change in 1954-60, there was a swing to growth in 1960-63 which became more rapid in 1963-66.

Areas Selected for Policy Purposes

The next step is to examine the comparable changes in two particular types of area within Central Scotland which have been given importance in the context of location of industry policy, and about which there has been much discussion and debate in academic as well as in government circles. From 1958 until 1966, Board of Trade inducements were available in the so-called development districts, which were Ministry of Labour employment exchange areas where unemployment exceeded 4% of the insured population. In 1963 the Government announced its intention to give differentially favourable treatment to the industrial development of certain growth areas in Central Scotland. Data are available on the net change of manufacturing employment in both these types of area in Central Scotland for the period under review. These will now be examined. It should perhaps be emphasized that the purpose of this examination is not only to assess the validity of either development districts or growth areas as a tool of regional policy, but also to determine the significance of each (and the switch from one to the other) against the background of Central Scotland's peculiar difficulties and stage of economic development.

Development Districts. Data on these are contained in Table 8, classified on more or less the same sub-area basis used above. The main difference, of course, is that by their very nature the designated development districts usually comprised only a part of each sub-area: the "coverage" of manufacturing employment in any one of them depended on a combination of a) what proportion of the total sub-area had been given development district status, and b) what proportion of the sub-area's manufacturing establishments were located within the development districts. If Central Scotland were a microcosm of the general pattern for Great Brittain, then only a few employment exchange areas, where the unemployment rate was a specified amount in excess of the national average, would be designated. Because Central Scotland's unemployment level was compared for policy purposes not with its internal average, however, but with the lower Great Britain average, this region was not a microcosm of the national picture. Instead, 80 per cent of its manufacturing employment was designated as within development districts, thus making most of Scotland's most dynamic region eligible

Table 8

Manufacturing Employment, "All Establishments", Development Districts, Central Scotland

Development Districts	Empl. at May 1954	May 1960	Change, 1954-60 No.	Change, 1954-60 %	May 1963	Change, 1960-63 No.	Change, 1960-63 %	May 1966	Change, 1963-66 No.	Change, 1963-66 %
Glasgow City Area (IA)	201,715	189,595	-12,120	- 6.0	169,363	-20,232	-10.7	165,968	- 3,395	- 2.0
Rest of Glw. Metrop. Area (IB)	171,607	179,876	8,269	+ 4.8	174,930	- 4,946	- 2.7	195,967	+21,037	+12.0
Glw. Metrop. Area(IA+IB)	373,322	369,471	- 3,851	- 1.0	344,293	-25,178	- 6.8	361,935	+17,642	+ 5.1
Other DD's in Glasgow City Region	20,941	18,310	- 2,631	-12.6	19,350	+ 1,040	+ 5.7	22,359	+ 3,009	+15.6
Glasgow City Region DD's	394,263	387,781	- 6,482	- 1.6	363,643	-24,138	- 6.2	384,294	+20,651	+ 5.7
Falkirk Group (including Falkirk, Bonnybridge, Grangemouth, Bo'ness and Linlithgow)	27,658	27,700	+ 42		26,565	- 1,135		26,323	- 242	
Bathgate Group (including East Calder and West Calder)	6,170	5,764	- 406		9,287	+ 3,523		12,966	+ 3,679	
Fife County DD's	19,355	18,796	- 559		18,979	+ 183		23,351	4,372	
Dundee - Broughty Ferry	37,989	37,935	- 54	- 0.1	39,506	+ 1,571	+ 4.1	41,553	+ 2,047	+ 5.2
Total Dev. Districts	485,435	477,976	- 7,459		457,980	-19,996		488,487	+30,507	
as % of Central Scotland	81.9	80.7			79.7			79.8		

for what, in other British development districts, is usually regarded as a special form of extra assistance available to difficult outlying - and typically small - localities. In Scotland, the Local Employment Act was thus more a tool of national economic development.

The main explanation for this apparent paradox is that the whole of the Glasgow metropolitan area was a development district. (To attain a parallel situation in Great Britain generally would require the similar designation of London and the South East!) Outside metropolitan Glasgow, the development districts contained, in May 1960, some 108,000 of a total manufacturing employment of 222,500 or routhly 49 per cent - still a rather substantial proportion for purportedly atypical areas.

In all development districts taken together, there was a net increase of manufacturing employment between 1954 and 1966 of some 3,000 persons, as may be seen from the following tabulation:

Development Districts in:	1954-60	1960-63	1963-66	1954-66
Glasgow City	-12,120	-20,232	- 3,395	-35,747
Rest of Glasgow Metropolitan Area	+ 8,269	- 4,946	+21,037	+24,360
Elsewhere in City Region	- 2,631	+ 1,040	+ 3,009	+ 1,418
Glasgow City Region	- 6,482	-24,138	+20,651	- 9,969
FALKIRK GROUP[a]	+ 42	- 1,135	- 242	- 1,335
BATHGATE GROUP[b]	- 406	+ 3,523	+ 3,679	+ 6,796
Fife County	- 559	+ 183	+ 4,372	+ 3,996
DUNDEE-BROUGHTY FERRY	- 54	+ 1,571	+ 2,047	+ 3,564
	- 7,459	-19,996	+30,507	+ 3,052

[a]incl. the employment exchange areas of Falkirk, Bonnybridge, Grangemouth, Bo'ness and Linlithgow.

[b]incl. the employment exchange areas of Bathgate, Buxburn, East Calder and West Calder. This was designated only in August, 1963.

This net gain fell short of the comparable figure for Central Scotland by some 16,500, mainly because of the omission from the development districts of the following employment exchange areas, which experienced net expansion of manufacturing employment:

	Net Increase 1954-66
Edinburgh-Leith-Portobello	7,312
Kilmarnock	3,399
Stirling	1,577
Ayr	1,292
Alloa	1,029

Because they covered such a large proportion of total manufacturing in Central Scotland, it is not surprising that the development districts displayed much the same pattern of change during the three sub-periods as the region as a whole. From 1954 to 1960 and again from 1960 to 1963, their net decline was more substantial. From 1963 to 1966 their net increase was not as great. But in all three periods the direction of change corresponded with that experienced in the wider region. As the table indicates over the whole 1954 to 1966 period the largest net increase among development districts took place in metropolitan Glasgow outside the city itself (as already discussed). In the Bathgate group, largely as a result of the attraction of the British Motor Corporation (B.M.C.) to Scotland in 1960-61, the net expansion was also considerable, although only a quarter as great. Net increases, approaching 4,000 in each case, also occurred in Fife and in Dundee.

Growth Areas. The nature and purpose of growth areas have been discussed elsewhere. One aspect of them was that they represented a further selection from the designated development districts of those thought to offer greatest promise as suitable locations for further industrial development which, in the process, would exert a "leading" influence on the economic development of the whole region of Central Scotland. Thus Glasgow was not chosen chiefly because of the scarcity of adequate land for further physical development, or because policy already explicitly included an attempt to "overspill" population and industry out of the city. Since Edinburgh had already been excluded from development district status by virtue of its low unemployment rate, the growth areas could not include either of the two major population centres in the Central Scotland region.

The choice of "growth areas" was rather more selective than this, of course. As a result, they contained a much smaller fraction of regional manufacturing employment than the development districts. Whereas the latter contained 80% of the regional total, the "growth areas" together had 19.6% in May of the year in which they were chosen (1963). This is what one would expect, of course, since a fundamental purpose of them was to concentrate the development effort, including the infrastructure programme, in the selected areas in the belief that greater overall results would thereby be obtained in the whole region. That they have themselves grown, at least in terms of manufacturing employment, is indicated by the rising tendency of their share of the regional total - from 16.6% in 1954 to 22.3% by 1966.

Data on the net change in manufacturing employment in the "growth areas" are given in Table 9. These may be summarized on the same basis used above, as follows:

Growth Areas	1954-60	1960-63	1963-66	1954-66
Centred on Glasgow	+ 9,925	+ 1,385	+17,121	+28,431
Grangemouth-Falkirk	+ 847	- 637	- 827	- 617
Centred on Edinburgh	- 790	+ 3,617	+ 7,282	+10,109
TOTAL	+ 9,982	+ 4,365	+23,576	+37,923

Perhaps the most striking difference between this pattern and that exhibited in the region generally, is the consistency of growth. There have been increases in all three sub-periods, even in 1954-60 when the regional total showed little net change and in 1960-63 when there was a regional net loss of 17,000 jobs. In the more expansionary 1963-66 interval, the growth areas accounted for two-thirds of the regional (net) gain of 37,000 jobs.

Table 9

Manufacturing Employment, "All Establishments", and "Growth Areas", Central Scotland

"Growth Areas"	Empl. at May 1954	May 1960	Change, 1954-60 No.	Change, 1954-60 %	May 1963	Change, 1960-63 No.	Change, 1960-63 %	May 1966	Change, 1963-66 No.	Change, 1963-66 %
North Ayrshire (Irvine & Kilwinning)	4,046	3,734	- 312	- 7.7	4,428	+ 704	+18.9	6,609	+ 2,171	+48.9
Vale of Leven (Alexandria & Dumbarton)	10,152	9,803	- 349	- 3.4	8,315	- 1,488	-15.2	8,712	+ 397	+ 4.8
East Kilbride	3,880	5,648	+ 1,768	+45.6	6,709	+ 1,061	+18.8	9,930	+ 3,221	+48.0
Cumbernauld	-	1,109	+ 1,109		1,964	+ 855	+77.1	3,768	1,804	+91.9
North Lanarkshire	40,009	47,718	+ 7,709	+19.3	47,971	+ 253	+ 0.5	57,499	+ 9,528	+19.9
"Growth Areas" centred on Glasgow	58,087	68,012	+ 9,925	+17.1	69,397	+ 1,385	+ 2.0	86,518	+17,121	+24.7
Grangemouth-Falkirk (but here tabulated only as Grangemouth, Bo'ness and all of Falkirk to coincide with Appendix W.P. except that all, not part of Falkirk included.)	21,047	21,894	+ 847	+ 4.0	21,257	- 637	- 2.9	20,430	- 827	- 3.9
Livingston Area (Bathgate, Broxburn and the Calders)	6,170	5,764	- 406		9,287	+ 3,523		12,966	+ 3,679	
Central Fife and Glenrothes	13,246	12,862	- 384	- 2.9	12,956	+ 94	+ 0.7	16,559	+ 3,603	+27.8
Total "Growth Areas"	98,550	108,532	+ 9,982		112,897	+ 4,365		136,473	+23,576	
as % of Central Scotland	16.6	18.3			19.6			22.3		

The "growth areas" centred on Glasgow thus accounted for roughly three times as much of the net increase as the others. Apart from a lapse during 1960-63, the main thrust had come from North Lanarkshire which contributed over 17,000 to the "growth areas" total (net) gain from 1954 to 1966. This was almost twice as much as occurred in East Kilbride (+6,050) and Cumbernauld (3,768) together, although the new towns had received rather more attention in academic, as well as public, discussion. These three growth areas were the only ones to achieve net growth of manufacturing employment in all three sub-periods.

The main forces behind the growth areas centred on Edinburgh were, in 1960-63, the location of B.M.C. at Bathgate and, in 1963-66, its further growth combined with a swing to net expansion in Central Fife and Glenrothes.

Among individual growth areas, only the Vale of Leven and Grangemouth-Falkirk experienced net decreases in manufacturing employment in two of the three sub-periods distinguished. Two others - Livingston and Central Fife - did so in 1954-60. Only one, Grangemouth-Falkirk, failed to grow between 1963 and 1966.

Summary and Conclusions

Between 1954 and 1966 total manufacturing employment in Central Scotland was remarkably stable at approximately 600,000 persons. A more detailed examination of available data nevertheless reveals a pattern of considerable change, both in terms of the "birth" and "death" of factory establishments and the growth and decline of others, and in terms of expanding and contracting areas within the region.

We may deal first with the birth, death, growth and decline of factories. By 1966 new establishments which came into production since 1954 were employing 64,000 workers; those which ceased operations in the same interval displaced another 78,000; while the (net) expansion of other previously existing establishments added 34,000 jobs. It is sometimes assumed that economic change takes place in an area in one direction only, that the area is either growing or declining and all its activities are following the general tendency. Central Scotland at least does not conform to such a pattern. A somewhat more sophisticated approach - which finds favour, for example, among those who analyze economic change in terms of changes in an area's industrial structure - is to compare the rate at which new activities are set up with the speed with which other industries decline. In this context it is sometimes suggested that a more rapid, or a more substantial, buildup of new activities would have resulted in a greater net increase (or smaller net decrease) in, say, the area's total employment.[3] The implicit assumption then used is, of course, that one gross flow can be increased while the other is held constant. In Central Scotland's case, for example, it would be assumed that the number of jobs resulting from new establishments would have been increased by suitable efforts, so that more than 64,000 additional workers would have found work in them between 1954 and 1966 without, at the same time, affecting either the displacement of 78,000 former jobs through establishments closing down or the net creation of 34,000 more in other existing establishments.

It may be, however, that the interdependence between these flows is greater than this argument supposes. If there were a substantial "reservoir" of labour employed inefficiently, and therefore only marginally, in an area's existing activities, the rate of decline in these industries might well depend very directly on the rate at which new activities could be established. The latter would simply draw the workers they require from the over-endowed existing industries,

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[3] A version of this assumption appears to have underlain the Toothill Committee's recommendation that Board of Trade location of industry policy for Scotland should be mounted on a greater scale.

which would consequently decline in employment. The result would be that as fast as new industry were attracted, old industries would decline.[4] In terms of employment, the net result in such a situation, would be overall stability. Such stability would be maintained, moreover, until such time as the available reservoir of underemployed labour were exhausted and further growth could only be fuelled, as it were, by other sources increasing the supply of the labour factor.[5]

If this alternative hypothesis were valid, it would have important implications for policy. Pursuit of industrial location policy on a grander scale would still be justified if the ultimate objectives were judged to be to increase total employment in Central Scotland. But it would have to be recognized that some considerable time may elapse before the "reservoir" of underemployed labour is fully used, and net overall increases could then occur. Meanwhile, the prospect would be continued overall stability of employment. If, however, the objective of policy is simply to prevent a decline of total employment, the case is not so clear for increasing the scale of the industrial location programme. Indeed, as long as the "reservoir" continues as an entirely offsetting influence, an equally valid case could then be made for reducing the programme, since the resulting smaller flow of jobs in new factories would be accompanied by a similarly reduced loss of jobs in closing factories, and overall employment stability would nevertheless continue. Then the real choice for the policy makers would rest between an industrial location policy pursued with relatively little (or no) vigour and carried on indefinitely, and one pursued on a massive scale until such time as the"reservoir" of underused labour was transferred to new activities. The latter course would not quite represent a once-and-for-all alternative, however, since an industrial location policy might still be required, afterwards, to maintain a continuing net expansion of employment.

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[4] No account is here taken of the effect on average productivity, output and income, one of which would seem likely to rise in circumstances such as are here posited.

[5] Unemployment, higher activity rate or a reduction in net emigration, for example.

It is this elasticity of labour supply from its declining industries which mainly distinguishes an already industrialized area characterized by stagnation, higher unemployment and lower average output and income, from an underdeveloped region with no industrial tradition. In the latter an employment <u>multiplier</u> model of the Keynesian type may be more easily applied than in the former, although even in an underdeveloped region the expansionary process may be slowed (or even frustrated) by virtue of the fact that the labour to be absorbed in the secondary and subsequent phases is not likely to be as easily taken up as the already trained, cyclically displaced workers of trade cycle theory.

Examination by sub-region of the changes between 1954 and 1966 in Central Scotland's manufacturing employment reveals that Glasgow City experienced consistent net decline amounting in total to a net loss of almost 36,000 jobs. This is what one would expect, since Glasgow is the location of most of the shipbuilding and other heavy industries which constitute Central Scotland's declining activities. It also suffers from a plain shortage of land suitable for physical development. All the other sub-regions have undergone net expansion of manufacturing employment, but in total (56,000) this was just sufficient to compensate for Glasgow's decrease and leave a small net increase for the whole region. This pattern does not quite make Glasgow the location of declining industries and the sub-regions outside Glasgow synonymous with expanding industries, however, since the other areas, also had their declining industries and some of the new manufacturing establishments even located in Glasgow City. But in general it does accord fairly well with the popular notion of Glasgow "overspilling" not only its <u>population</u>, but also its existing <u>industry</u> (and, in effect and more importantly, the <u>new</u> industry attracted to its wider hinterland) beyond its own borders.

That Glasgow remains a vital economic location within Central Scotland is indicated by the fact that, among the other sub-regions it was the immediately adjacent North Lanarkshire which accounted for the largest net expansion of manufacturing employment. Beside it the contributions of the new towns - East Kilbride and Cumbernauld - are much less formidable than is usually supposed.

The inclusion of Glasgow among the development districts designated within Central Scotland, moreover, meant that they experienced much the same pattern of change as the whole region, although the net overall result was somewhat smaller numerically due to the omission of expanding areas such as Edinburgh, Kilmarnock, Stirling, Ayr and Alloa. It was also Glasgow's eligibility for development district status which rendered them typical, rather than atypical, of Central Scotland generally, and thereby made Central Scotland no parallel to South-East England, even although it serves for Scotland the dominant economic function in much the same way as the South East does for the whole British economy.

In the development districts generally as well as in Central Scotland, the pattern of change in manufacturing employment varied somewhat among the three sub-periods examined. From 1954 to 1960, there was a net decline which became greater in the subsequent three year interval. It was only from 1963 to 1966 that net expansion occurred and then on a scale sufficient to more than offset the total decline experienced in the two previous sub-periods.

The "growth areas" selected in 1963, however, have undergone net growth as a group consistently in all three sub-periods. Those centred on Glasgow accounted for two-thirds of the net increase which took place from 1954 to 1966 in all "growth areas",thanks mainly to the contribution made by North Lanarkshire. It is noteworthy, however, that this particular "growth area" did not fulfil the usual conception of "growth areas" as relatively virgin sites where brand new developments can be established on a fairly large scale, and where growth can then take place rapidly, unimpeded by difficulties resulting either from physical limitations or from the need simultaneously to phase out declining activities. Economic and physical development in

North Lanarkshire has faced, and continues to face, just these problems; and the results between 1954 and 1966 were sufficiently encouraging to suggest that such problems need not prove insurmountable. What is probably required - in physical development terms - is the undramatic solution of combining this kind of development with the build-up of new towns on virgin sites, in suitable proportions, on a scale sufficient for the purpose. The latter, however, essentially involves a consideration of regional economic objectives.

Although the "growth areas", taken together, were locations of consistent net expansion of manufacturing employment in Central Scotland, they were not uniformly so. Four of the eight selected, declined from 1954 to 1960, and there were two which experienced net reductions from 1960 to 1963. Since then Grangemouth-Falkirk was the only one whose manufacturing employment had decreased by 1966. In fact, only North Lanarkshire and the two older new towns, East Kilbride and Cumbernauld, expanded in this respect in all three sub-periods; because of their importance relative to the total, it was their experience which set the pattern for all "growth areas" together.

The diversity of experience among individual "growth areas" from 1954 to 1966, and from one sub-period to another, suggests that changes in manufacturing employment - if they had been used in the selection process - would not have been either a perfect criterion or one which yielded absolutely clear results. The actual choice of "growth areas" would have remained a matter for discretionary judgment, to be rendered in the light of various theoretic and practical considerations.

Additional Observations

From the above analysis we may draw a number of more general conclusions, or observations, regarding regional development policy and programs, as follows.

A lagging region apparently must be capable of exercising its "will to develop", to paraphrase Sir Arthur Lewis.

Generally speaking, that requires that its various institutions co-operate with one another in the pursuit of new industry to augment its economic base, and/or to replace its declining industries. This applies, in particular, to its various governmental agencies. In Scotland's case, it has taken the form of an enduring relationship between the Board of Trade, whose operations in Scotland have been the subject of this Chapter, and the Scottish Development Department.

The combined efforts of these two agencies of the British Government, for such they are, have achieved more than noteworthy success in bringing "new industry" to Scotland, and, if I may be permitted a personal observation, will probably continue to have useful results - for Britain and Scotland <u>both</u>.

There is an important lesson here for other lagging regions, which goes beyond the scope of this Chapter.

CHAPTER 8

An Assessment of the Scottish Growth Areas

The White Paper published in November 1963 on Central Scotland had profound repercussions beyond Great Britain, particularly in countries where Governments, on the one hand, and economists, physical development planners and other specialists on the other, are concerned with regional development. Foreign observers were excited by the positive character of the growth areas policy and by the implicit rejection of localized unemployment as the sole criterion for regional development programmes. The chasm which had previously existed between the continued development of more prosperous, sometimes congested regions like South East England (and the Midlands) and the lack of economic progress in the more peripheral, less prosperous regions like Scotland (and Northern Ireland and Wales), was bridged with recognition that the costs of further development in the former could be reduced or avoided by paying increased attention to the potentialities of the latter.

The growth areas may be seen largely as a means of seeking to achieve this purpose - the crucial element in the strategy of industrial development proposed for Central Scotland. They were not an end in themselves but rather a means to this wider objective.

Their essential characteristics consisted, therefore, in their advantages over other areas as locations for industrial expansion. This largely follows from the fact that the primary purpose of the S.D.G. exercise was a faster rate of industrial development in Central Scotland, the pursuit of which would provide the setting for seeking to achieve a number of other, secondary objectives which the growth areas might also be able to serve. Thus, for example, accelerated build-up of housing accommodation in the growth area would also accommodate more Glasgow overspill and perhaps also help retain a larger number of Scottish young people who might otherwise be tempted to emigrate.

These were ancillary objectives, however, compared to the recognized need of making adequate supplies of labour available in the growth areas to the industries which it was hoped would locate or expand there. Similarly, the recommended programme of rehabilitation of derelict land in certain of the growth areas was greatly spurred by the consideration that additional industrial sites could be provided in this particular way. The whole programme of improving the communications network was seen as offering the two-fold advantage of increasing the extent of travel-to-work areas and thus enabling prospective industrial employers to draw on a larger labour supply, and also of improving the accessibility of the various growth centres to their Scottish, British or overseas markets. Improvements proposed in environmental services as, for example, in the case of water supplies, were also conditioned by a desire to provide in advance for the needs of incoming and expanding industry and thereby to enhance the likelihood of the desired industrial development taking place.

This does not deny the value or validity of these further benefits of growth areas policy. Such factors as the longstanding pressure to relieve Glasgow's housing problem, the desire to reduce net emigration from Scotland, and the accepted need to improve Scotland's image through better amenity, not only helped secure wider support for growth areas, but also constituted legitimate policy purposes. As such, however, they served to reinforce the basic consideration that a growth areas policy would result in greater industrial expansion for the Scottish economy.

The proposals, moreover, were formulated within the wider framework of location of industry policy for Great Britain. As already noted, an important side of this policy consists in the industrial development certificate which is used to control the further industrial expansion of Greater London and the Midlands. Within this context the challenge to Scottish industrial developers is largely that of making Scotland more attractive to prospective industrialists than other less prosperous British regions, to which the Board of Trade also seeks to divert industrial expansion from "congested" regions by means of financial inducements and capital assistance to firms denied a certificate to expand in situ. This fact, incidentally, is the main reason why the Scottish growth areas cannot be discussed solely in terms of the advantages they provide to firms already located there, but must be considered rather in terms of their greater ability than other areas to attract newcomer firms. Another influence in this direction arises from the fact that the problem in Central Scotland is not the build-up of new industry in a previously non-industrialized area, but rather that of offsetting the decline of the older heavy industries with the establishment of alternative types of new industry. Since the opportunities for transferring capital, technical or managerial resources from these older sectors into the newer science-based industries, for example, are necessarily limited, the need to rely on the attraction of new types of economic activity from outside is thereby increased.

Necessary Characteristics

The main purpose of the Scottish growth areas, it has been argued above, was to secure the accelerated industrial expansion of Central Scotland by attracting the newer, science-based industries, as a means of securing a faster rate of economic growth throughout the Scottish economy. It was this essential purpose which implicitly determined the necessary characteristics of the Scottish growth areas which survived the selection process. These may be considered in turn:

(1) They had to be eligible for the various forms of financial assistance available under the Local Employment Acts and the Finance Act of 1963 (free depreciation) from the Board of Trade. This meant, in effect, that the growth areas must also be development districts. There is no doubt that at the time the Scottish Development Group was choosing its growth areas from among the "areas of search" identified by the physical planners, a screening out factor was the status of the area in this particular respect.

In a sense, the choice of growth areas involved selecting the most promising areas from among the list of development districts already designated by the Board of Trade.

(2) Each growth area had to have a reasonably ample supply of industrial sites. This second characteristic was common to all the growth areas, applying even to those areas where there did not exist sufficient land resources to permit the accommodation of an overall population increase over the planning period. This is of course an obvious need in areas where industrial development is contemplated. Nevertheless it is an important one in the present case; for instance, the immediate need for such sites to carry out the early stages of the proposed development programme largely accounts for the inclusion of the "rehabilitation areas" to supplement the New Towns. Also, the availability of industrial sites in each of the growth areas is further indication that industrial attraction was an important purpose of the whole exercise with Scotland, as it were, hoping to "get a jump" on other less prosperous regions of Great Britain by capitalizing on the advantage of readily available sites to industrialists at the point when they are actually contemplating a new location.

(3) The third necessary characteristic of the Scottish growth areas was access to a large potential labour supply. This might be in the form of a large local population, or it might involve either present or potential access to a wider labour market. On this particular score, it perhaps should be noted that North Lanarkshire is by far the most suitable growth area, both by virtue of its large share of the total Central Scotland population and by virtue of its proximity to Glasgow's large labour supply. The various proposed improvements in the communications network of Central Scotland, especially in the roads, were designed to increase the access of employers to the available labour

supply, by, in effect, extending the size of the effective labour market for each growth area. A recent survey[1] of firms locating in Scotland indicates, moreover, that the availability of suitable labour is perhaps the most important reason for choosing a Scottish location. It seems clear, incidentally, that some of the growth areas selected in 1963 are better placed in this respect than others.

Ancillary Features

Certain other characteristics apply to some, though not all, of the Scottish growth areas. Perhaps the most important of these was the prospect of constructing additional housing accommodation. The long term potential in this respect was probably greatest in Grangemouth/Falkirk and Irvine, while the short term acceleration in the provision of new housing was mainly expected to come from a continuation of the work already underway in the three older Scottish New Towns of East Kilbride, Cumbernauld and Glenrothes. Livingston and the rehabilitation and development area related to it would be able to make a substantial contribution during the medium term.

Housing, of course, satisfies several needs. Its availability serves as a further inducement to the attraction of industry, both in terms of expanding the supply of labour potentially available to the incoming industrialist, and also in terms of meeting his own needs and those of his key executives for living accommodation. In the Scottish case, it also serves the continuing programme of Glasgow overspill and redeployment. Most important, perhaps, in view of the large size of the public share of total housing construction in Scotland, housing serves wider social and political purposes. Housing potential was not quite a necessary characteristic of the Scottish growth areas since North Lanarkshire and the Vale of Leven did not have it; nevertheless in those areas where housing build-up could be contemplated on a considerable scale, this feature was seen to represent an important particular advantage.

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[1] G.C. Cameron and B.D. Clark, Industrial Movement and the Regional Problem, University of Glasgow Social and Economic Studies, Occasional Paper No. 5, 1966.

Taken together and in a longer view, the eight growth areas together represented clear evidence that further development on an extensive physical scale was certainly possible in Central Scotland for a long time to come. Because the exercise of selecting the areas had begun from a complete canvas of the region's total land resources, an inventory of available sub-regions had been compiled which included a number of large sites capable of substantial development as locations for housing, industry and the other facilities required by modern, urban society. Moreover, not all these were included in the eight "growth areas" actually selected for the 1963-81 programme. Hence, whatever factors might limit the pace of economic progress in Central Scotland in the foreseeable future, such limitation would not be due to a mere shortage of available land.

Which of the available areas where physical development could be sited, were named as "growth areas" was then largely a result of applying other considerations inherent in the nature of the type of programme contemplated. The pursuit of an economic development programme based primarily on industrial expansion meant that the growth areas, in addition to the mere availability of land, must offer advantages as locations for new industrial firms. Chief among these, as has been argued above, were eligibility for Board of Trade assistance, suitable factory premises constructed on the available industrial sites, and access to adequate supplies of necessary labour.

It was the need to provide new industrial premises - the second of these - throughout the planning period at an appropriate pace which led into consideration of what phasing of the programme was required. Thus, in the first phase it was expected that the older New Towns would carry the burden of providing both industrial sites and new housing accommodation. In the second phase, Livingston and its surrounding area, Grangemouth/Falkirk and Irvine would begin to make an impact while in the third phase, the newer virgin sites would come into play. The phasing again reflected the importance of the attraction of new industry as the basis for improving the economy of Central Scotland.

Another ancillary feature of the Scottish "growth areas" was, in general, advantageous location on the land communications sytem and, hence, better access to airports and seaports as well. This followed partly from the criteria employed in the selection process, when certain areas were identified on the basis of this particular factor. It was also the result of the development programme itself. For an important aspect of this latter consisted in the acceleration and elaboration of various elements in the continuing programme to improve the network of surface communications, sea and air facilities serving Central Scotland. The specific purpose was to enhance the advantages of the region as an industrial location by co-ordinating such improvements to the maximum benefit of the selected growth areas. The growth areas, therefore, besides having access thereby to larger potential labour markets, would also enjoy better transportation links to facilitate the shipment of their output to markets within and beyond Central Scotland. In some cases, this advantage could be had in a new town where the lack of congestion might reinforce the advantage of being able to receive raw materials from further afield and to dispatch final products to distant markets, with relative ease. In others, most particularly in North Lanarkshire, availability of good transport might be combined with direct access to a large local labour market. The need to provide good, reliable facilities for both goods transport and personal travel had been stressed by the Toothill Committee as a part of industrial development promotion.

From the viewpoint of incoming industry, the proposed co-ordination of the provision of environmental services such as water supplies which was also a specific part of the "infrastructure" aspect of the programme, offered similar potential benefits.

On a somewhat more general level, the eight growth areas possessed a further ancillary feature of some importance to their main purpose. This consisted in the fact that they together offered the prospective industrialist a range of possible sites, each with certain particular characteristics. The purist may be bothered by the diversity evident among the growth areas as indicative of a lack of consistency but if so, he would miss the point of the whole exercise. "Industry" is made up of a wide variety of types of activity, and the factors affecting the location of each may differ widely. What suits a chemical firm may differ considerably from a location chosen by a firm manufacturing clothing, for example. The clothing manufacturer could be accommodated in premises on an industrial estate in a built-up area, while the chemical firm would more likely require a large site in an area where land was more plentiful (and less expensive), and which was not densely populated. If both these types of industry were desired, then the growth areas should be selected in such a way as to meet both sets of requirements. In Central Scotland's case the growth areas did include locations like Grangemouth where land was extensively available, as well as others such as North Lanarkshire which could accommodate the clothing firm in a new factory built, if necessary, to the latter's own specifications. For this reason the lack of perfect similarity between the eight growth areas represented a further potential advantage for Central Scotland in the effort to attract an increased share of geographically mobile industrial firms at the expense of other competing British regions.[2]

On this general basis the required characteristics for the selected growth areas also take on greater credibility than when applied to particular examples. It had been recognized that, if they were to meet the quantified population and employment objectives for Central Scotland, the growth areas must:

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[2]The encouragement, on a limited basis, of some industrial development in the localities not selected as growth areas, can also be considered as a similar, further complementary feature of the policy. If a firm wished to locate in a small, relatively isolated locality and thereby become the dominant local industry, and would not be at any compensating disadvantage as a result, its acquisition for the Scottish economy would be desirable; and the opportunity to offer a few sites in such localities represented an enlargement of the range of possible choice which Central Scotland could offer the prospective industrialist, and which might help to give this region an advantage over other, competing British regions.

(a) be undertaken on a large scale;

(b) possess fast momentum;

(c) have a good prospect of leading to the development of a major industrial complex;

(d) come under the influence of a major, metropolitan-type conurbation, the centre of which provides a range of facilities, professional services and cultural amenities necessary to sustain a high standard of living.

The first three of these points essentially derive from the need to achieve proper scale in the development programme, that is, to ensure that there are sufficient growth areas to accommodate the desired increase of new industrial activity on which the whole programme is centred. The last is a recognition that the growth areas are related in important ways, to the major cities of the Central Scotland region. While, on the one hand, they were established to attract new activity to the region, on the other they would serve to accommodate the expansion which is desired from within the region and which is also dependent to some extent on success with the attraction of new activity from outside. Glasgow and Edinburgh were seen to be, in many ways, the real growth nuclei of the economy of Central Scotland.

One may ask, to recapitulate the main characteristics of the growth areas selected, why the so-called rehabilitation areas emerged at all among them. The answer to that lies partly in the success which had already been achieved in some of them in attracting industry. North Lanarkshire, in particular, was a large urban labour market area in which the Board of Trade had had considerable success throughout the postwar period in attracting new industry of various types. This success is not reflected in the overall statistics of employment change for North Lanarkshire, largely because the data are usually cited on a net basis and the industry introduced had been offset by the continuing decline of the area's older basic industries. Nevertheless it seems fair to cite the success with attracting the new firms as an indication that the programme of the Board of Trade was effective. The Board of Trade's view was that, given the importance of the availability of labour as an attraction to new industrialists, it would be wrong to place the whole emphasis on the New Towns (which together represent a small fraction of the total Scottish population) and on new virgin sites. In neither of these cases could a labour supply be made available on the same scale as soon as in North Lanarkshire.

A second factor here was doubtless that these rehabilitation areas possessed the main necessary characteristics of the growth areas selected. They were eligible for Board of Trade assistance as development districts. They did possess a number of suitable industrial sites which could be made available on reasonably short notice, and they were, as already mentioned, the centres of very large labour market areas or had good access to others nearby.

Wider Objectives

If, as has been suggested, the main characteristics necessary in Scottish growth areas are simply available industrial sites, an adequate supply of labour, and eligibility for grants and loans from the Board of Trade, then one may ask why there had to be all the fuss about selecting them. The answer perhaps is that the selection process itself was not all that important; what was important was the examination of the various activities of the Scottish Departments and of the Great Britain Departments in their Scottish operations within a single comprehensive framework and in relation to the overall objective of securing a faster rate of economic growth in Central Scotland. It also lies in the greater importance of the various proposals which were advanced in order to assist and enforce the build-up of the Scottish growth areas to the point where they could sustain the brunt of the Central Scotland regional development effort. It is clear that the process of selection was essentially pragmatic, involving the exercise of informed judgment based on considerable consultation with the various Departments and agencies involved in the execution of Government programmes related to Scotland's economic development, and reflecting also the wide ranging proposals which had been advanced by the Toothill Committee following its examination of the Scottish economy a few years earlier. Again, the growth areas, and still less the process of selecting them, were not the end purpose of the whole exercise. They served rather throughout the course of the exercise as a focus for considering the wider proposals under review and, in the end provided similarly a means of seeking to achieve the objectives of the regional development programme thus elaborated.

Concluding Observations

The emergence of "growth areas" from the Central Scotland review of 1963 represented an important step in the evolution of British regional policy. Building effectively on the proposals advanced for the Scottish economy by the Toothill Committee two years earlier, the Scottish Development Group produced a set of interrelated measures embracing virtually every aspect of Government social capital investment in this regional economy,[3] and related each to the primary economic objective of achieving a faster rate of increase in manufacturing employment through the attraction of new manufacturing industry. Not only were the various aspects of the infrastructure programme fitted into the programme from this viewpoint, but the opportunity was also used to assess the adequacy of training facilities available to industry and of financial assistance for those undergoing such training. As a result, substance was given to the proposition that regional development policy consisted of much more than simply the system of controls and inducements operated by the Board of Trade to effect redistribution of industry. The problems of each region had been analyzed, and proposals framed for their solution which were consistent with national economic policy; these proposals extended to most aspects of Government activity affecting the region's economic progress.

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[3]That is, the regional economy of Central Scotland. It should be noted that the resulting development programme was not a programme for Scotland as a whole, but concentrated on the Central Belt.

A Comparison with the "Growth Pole" Concept

This reorientation and elaboration of regional policy was the main contribution of the pioneering work in 1963. The "growth areas" which simultaneously resulted were, by comparison, an incidental result although an important one. They were essentially a means of implementing the new, more comprehensive approach to regional development which provided, in the process, a geographical focus for the effort to stimulate the expansion of a whole region, and thereby made such an ambitious task not only more plausible, but also more manageable. If properly selected, the "growth areas" should be capable of leading the way to faster development for the whole region, and accelerated growth for the nation. As specified locations for new social capital facilities, they would enable the development agencies more easily to co-ordinate and mutually consolidate, rather than diffuse, their efforts.

The conclusion has been reached, in Chapter 5, that the "growth areas" were mainly attractive places in which new industrial firms could locate. This in itself distinguishes them from the "growth pole" concept sometimes suggested as a basis for encouraging economic development.

Such "growth poles" were originally conceived by Francois Perroux in terms not of specified areas, but of certain leading industries whose growth induced further growth in other industries and sectors of the economy. The concept has been largely appropriated by regional economics, and is usually applied to particular geographical areas which in the past have exhibited more pronounced growth tendencies than other areas in the same region or country. It has also been adapted for policy purposes as an instrument for more rapidly developing the larger region in which the growth pole is situated. It is within this particular context that the theoretical merits of a "growth pole" approach to economic development planning have been elaborated.

Cameron and Reid have analyzed the Central Scotland "growth areas" within this sort of theoretical framework.[4] It is significant that they do so in terms of two particular aspects, namely, the possibility that industrial firms will grow more rapidly if located in a "growth area" than elsewhere, and the potential opportunity for government - as the supplier of infrastructure - to economise on its expenditure outlays in the wider region by concentrating their provision on the selected "growth areas". Their conclusion on the first aspect is that the small size and advanced state of development of Central Scotland preclude firms growing more rapidly through obtaining greater technical or external economies in a "growth area" than elsewhere in the region.[5] In the course of reaching this conclusion, they implicitly reject the proposition that the main purpose of "growth areas" was to attract more firms to Scotland by diverting industrial growth from other British regions. They assume the effect of this kind of growth is completely "diversionary" and of no net benefit to the nation as a whole, seemingly ignoring both the argument about the interdependence of the nuclear (South East England) and peripheral economies already discussed, and the possibility that conditions in Scotland - including the availability of a greater potential labour supply, for example,-might enable greater subsequent expansion of the migrant industry than would be possible in the region from which it was diverted.

However that may be, the conclusion which emerges from the analysis of the "growth areas" selection exercise in Chapter 5 above is that their main purpose was <u>precisely</u> to enable Central Scotland to attract an increased share of migrant industry from other regions or from abroad. To assess Scottish "growth areas" solely in terms of the external economies they generate for existing firms is to ignore their most important aspect.

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[4] Cameron and Reid, <u>op</u>. <u>cit</u>.

[5] There is, however, no necessary relation between a firm's costs and its rate of employment expansion.

The proposition that Government outlays are more effective when concentrated on a few particular areas rather than widely diffused, thus permitting a better return in terms of growth generated, is apt enough. It should be remembered, on the other hand, that some of the infrastructure expenditures represent public consumption as well as investment in aid of future development. Improved highways are not simply an incentive to industry; they also permit increased, and more extensive, pleasure motoring by the ordinary citizen-taxpayer or permit him easier access to other facilities he may wish to enjoy. Given some success with an economic development programme, the community's preference may well be for further increases in outlays for roads and other infrastructure facilities - not because still more growth is desired, but in order to enjoy a higher standard of (public) consumption as part of the fruits of past growth. The economy desired in terms of securing maximum benefit from investment in roads at an earlier stage, would then be in conflict with the community's preference for better roads to permit higher consumption standards.

This inherent conflict between consumption and investment aspects of expenditure programmes on public facilities makes it difficult to measure their "costs" and "benefits". The conflict is more clearly evident in a developed industrial economy such as Central Scotland than it would be in an underdeveloped region or country. But the line between costs and benefits is nearly always blurred when one is considering such expenditure programmes as elements in a programme of overall economic development.

As Cameron and Reid have also stated, the Scottish "growth areas" were "more than anything else the integration of various strands of social and economic policy". But the key to this integration has been shown above to lie in accelerated attraction of particular types of new industrial activity to Central Scotland, which the "growth areas" were intended both to stimulate and to accommodate. Faster growth of existing firms, like the easier resolution of Glasgow's overspill problem, were further, ancillary benefits which might also result from this major primary objective being successfully achieved.

Their analysis of possible technical and external economies for existing firms as a basis for their faster growth in "growth areas" led Cameron and Reid ultimately to surmise, because the selected "growth areas" offered no significant advantages in these respects over other locations in a region which is "small enough to be considered all one growth area", that "growth areas will give growth of employment not through the faster growth of firms which settle there, but because they are likely to be more successful in attracting migrant firms". By a systematic, although somewhat academic, examination of the various possible ways a "growth area" might lead to faster industrial growth, they thus arrived at a correct inference as to the main specific purpose which the Central Scotland programme was designed to fulfil.

New industrial complexes were desired by the planners in 1963 but were not examined thoroughly. They hoped also that migrant industry attracted to the "growth areas" would include some firms with "breeder" potential. There was no specification in the selection process of the likelihood of attracting either interrelated industry complexes or "breeder" firms to the various growth areas, however, and neither was there any explicit attempt to measure their likely incidence from place to place.

In the process, however, of examining the effects of "growth areas" and regional policy on existing industry, Cameron and Reid have also pointed out an important weakness which still remains inherent in the new approach to regional development. The effort continues to be based on the attraction of new industrial activity from outside as though it were the only possible source of new dynamism for the less prosperous regions. Yet this degree of reliance on exogenous sources of regional growth may be misplaced or overdone. It is conceivable that latent new dynamics are waiting to be discovered within the existing fabric of the Scottish economy, and called into effective play by a still further extension of regional policy to comprehend not only industrial location programmes reinforced by concerted and co-ordinated infrastructure improvements, but in addition, measures to stimulate and sustain the growth forces already latent within, for example, the non-manufacturing sectors of the

Scottish economy and perhaps also within the hitherto slow-growing heavier industries.[6]

It is even possible that continued emphasis on the attraction of migrant firms, as the main instrument of regional economic improvement may distract the region from more promising avenues for expansion, and thus frustrate the whole purpose of regional economic development. The habit may easily be acquired, by entrepreneur and politician alike, of thinking always in terms of attracting new industries whenever a problem arises within the regional economy. Sometimes, however, such problems may be more easily solved through a greater effort to utilize the region's own talents and resources without rendering a plea for "outside" assistance. The Toothill Committee was quite explicit on the need for regional participation. "Much of Scotland's hope for diversification and new growth in the future must ... be translated in the face of all the difficulties into a vigorous and purposeful demonstration of initiative and enterprise by her own people."[7]

Validity of Criteria Used in Selection

Most of the criteria directly applied in the selection of the "growth areas" reflected the purely physical aspects of their main necessary characteristics as suitable locations for new industrial enterprises within the industrial and cultural "zones of influence" centred on Glasgow and Edinburgh. In the earlier stages of the process these criteria largely reflected the requirement that each "growth area" possess an adequate supply of suitable industrial sites.

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[6] One recent example of the possibilities that might exist is the Geddes Committee's discovery that shipbuilding is, after all, a "growth industry".

[7] Toothill Report, para 03.53, page 38.

In the end too, the selection process proved more pragmatic than scientific. In certain particular cases, however, areas qualified partly because of a high score in terms of both population increase and employment increase during the recent past. This is the closest approximation to an objectively economic test of an area's capacity for future growth, which was used in the course of the selection process. The question therefore arises, how valid is this particular test?

The first point to be noted perhaps is that past trends are no guarantee of future success. The data employed here covered roughly the decade ending in 1961, and served to identify the three older New Towns essentially, together with Grangemouth/Falkirk and Irvine. The dynamism evident at Irvine was especially impressive. But the fact that these particular areas had experienced population and employment expansion during the previous ten years is no indication in itself that there would be similar increases in the next ten years. To support such a proposition it would be necessary to demonstrate that the factors underlying the past growth would continue to operate during the immediate future.

Secondly, population and employment data are limited in themselves as indicators of past growth.[8] They provide what is largely a measure of the result of expansion having occurred, and say very little about the forces that may have caused the growth in the first place. There was some protection built into the device of requiring an area to exhibit both population and employment growth before it could be designated, thus avoiding the inclusion - for example - of areas which had grown in population only as a result of their being dormitory communities and perhaps representing, therefore, an overspill effect of industrial growth having occurred elsewhere. But an examination of growth forces in the past, and the likelihood of

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[8]The employment data used were actually insured population.

their operating on a similar scale in future, requires a much deeper examination than this. Of course, it ought to be admitted that in the special circumstances of Central Scotland, with the New Towns offering one of the obviously important outlets for population and employment growth, it can be argued that there is every likelihood that further growth will occur there as long as physical capacity exists: but this is not a justification for using population and employment growth as tests of inherent growth capacity.

Thirdly, indices of percentage change may be misleading. This seems to have been the case in a number of the Scottish towns and cities; in particular, the percentage growth rate in the New Towns reflected what was an extremely small amount of absolute population change. It comprised only a very small fraction of the total Scottish population change over this period.

Another problem arises particularly in the case of the employment data, from the fact that the data used were net figures. Substantial employment increases on the gross basis were evident in a number of other areas, for example in North Lanarkshire, but these were offset as a result of the decline in the older industries. The geographical accident of the growth having occurred in the New Town without its having been offset by a decline there simply because there was nothing there to decline, does not appear to be sufficient basis for saying that the further capacity of the New Towns for employment growth is greater than that of other areas into which firms have also been attracted, and which now employ an absolutely larger number of persons than the total of those employed in all the New Towns.

The Prospects for Success

What about the chances for faster growth in the future in the Scottish growth areas?

In the first place, the Government decisions to support the development of these particular areas will obviously help to ensure that these areas themselves do grow. There will be a noticeable expansion of jobs and housing which probably will be impressive in percentage terms, especially in the New Towns being or to be designated on largely virgin sites since they will be starting from a base that is zero or extremely small.

The critical variable, however, is still the rate at which industrial development may occur. In respect of the rate of industrial attraction particularly, the important causal factors here are largely exogenous as far as Scotland is concerned. As the Toothill Committee pointed out, much will continue to depend on the rate of expansion in the national economy; much will continue to depend also on the continued operations of the I.D.C. policy of restraining the growth which might otherwise occur in the industrialized areas in the Midlands and the South-East of England, and thus "freeing" it for diversion to Scotland and other less prosperous regions.

Nevertheless, the co-ordination of infrastructure planning and expenditure which has resulted from the 1963 selection process ought to make a considerable positive contribution to the future development of the Scottish economy. These expenditures will be important in raising aggregate demand themselves, and they seem likely also to serve the more crucial purpose of making Central Scotland a more attractive location for new industrialists.

Within the wider framework of the Central Scotland region, the more general approach used in devising the Central Scotland programme of examining the whole range of social capital investment programmes as they affect the industrial and economic development of the region, seems also to offer greater promise of success in the long run.

Finally, the considerable publicity value for Scotland of the whole exercise, or more particularly the announcement of the change in policy to incorporate the widely accepted and publicized "growth areas", should not be discounted.[9] This publicity resulted in making more British firms aware of the potentialities of a Scottish location, and probably had something to do with the accelerated rate at which new industrial firms were attracted to Scotland in the ensuing two or three years. Moreover, as a result partly of shifting the emphasis from elimination of unemployment to stimulation of growth, regional policy had been made substantially more respectable at the national level. An important incidental benefit in this respect was a greater disposition on the part of civil servants in Whitehall to treat regional development sympathetically.

[9] Similar gains were obtained by the North-East of England from their having been the subject of a similar exercise conducted simultaneously under the auspices of Lord Hailsham.

CHAPTER 9

Canada's Atlantic Provinces: A Maladjusted Region

Introduction

Canada's Atlantic Region[1] constitutes the four easternmost provinces of the country - Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick.

Nova Scotia and New Brunswick are charter members of the Canadian Confederation of 1867. Prince Edward Island became a province shortly thereafter, in 1873, while Newfoundland did not join Canada until 1949. Each of these four provinces is a separate political unit within the federal system and has its own Lieutenant-Governor as the Queen's representative, Legislative Assembly, Provincial Government (and Cabinet), and provincial civil service. These governments have certain responsibilities under the British North America Act of 1867 which established the Canadian nation, and they include important instruments for economic development within their own borders. The capital city of each province is a seat of junior government; and the four-province Atlantic region is, therefore, a political and administrative amalgam, whatever its claim to economic homogeneity may be.

The land area of this region is large by comparison with other parts of the economically developed world. Its 193,466 square miles are only some five per cent of Canada's total, but if Newfoundland Labrador is omitted, the remaining land area - in which most of the population of the four provinces resides - is approximately equal to the 93,018 square miles which comprise the total land area of the United Kingdom. Distance is thus a relàtively important factor in

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[1]The others, from east to west, are Quebec; Ontario; the Prairie Provinces of Manitoba, Saskatchewan and Alberta; and British Columbia. The Yukon and Northwest Territories are sometimes treated as a sixth Canadian region.

economic development, both internally and externally. Within the region, the population tends to be scattered in villages and small towns along the lengthy coastline. External distances are also significantly greater: from Halifax, the largest population centre in the region, to Montreal at the nearer end of the main Canadian consumer market in Ontario and Quebec, is about 850 miles by road, or more than twice the distance between Glasgow and London.

In contrast with the densely populated British Isles, however, there was in 1966 an estimated population in the Canadian Atlantic Provinces of just over two million persons. The Atlantic region thus contained roughly 10 per cent of the national population of approximately 20 million.

The Atlantic Provinces are a lagging region within the Canadian economy, exhibiting the characteristic symptoms of higher unemployment and underemployment, lower participation rates, persistent net emigration, slower growth, and lower average income and output. Tables 10 and 11 below provide several indices of this disparity between the region and the nation.

Personal income is the most comprehensive measure of aggregate economic activity that is published by the Dominion Bureau of Statistics for Canadian provinces and regions on a regular basis. Although it includes transfer payments, it nevertheless provides a rough basis for comparing the overall economic status of various provinces and regions. Table 10 includes an index (column 3) which relates the value of personal income per capita in each of the Atlantic Provinces to the comparable Canadian figure. For the Atlantic Region as a whole the value of this index in 1964 was 68, indicating that per capita income in the Atlantic Provinces was only 68 per cent of per capita income in Canada as a whole. This has been

Table 10

Population and Personal Income per Capita, Atlantic Provinces, 1964

	Population (000's)	Personal $	Income Per Capita Index (Canada = 100)
Newfoundland	491	1,065	58
Prince Edward Island	107	1,224	67
Nova Scotia	762	1,362	75
New Brunswick	617	1,246	68
ATLANTIC PROVINCES	1,977	1,245	68

SOURCE: Dominion Bureau of Statistics (D.B.S.)

Table 11

Indexes of Disparity, Atlantic Provinces Compared to Canada

	Index, Atlantic Provinces (Canada = 100)
Persons employed/Total population	80
Labour force participation rate	87
Unemployment as % of labour force	173
Seasonal unemployment, males	450
Earned income per employed person	82
Net value of commodity production per capita	49
Net value of manufacturing production per capita	34

SOURCE: D.B.S.

an enduring relationship covering the whole period since 1926, the first year for which these data are available, with personal income per capita in the Atlantic Provinces remaining at or near two-thirds of the national figure.[2]

The indices in Table 11 serve to indicate what are well-known and well-documented facts concerning the economy of Canada's Atlantic Provinces - an economy in which fewer persons, relatively, participate in productive economic activities and consequently achieve lower relative standards of income and output. Two of the indexes also attest to the fact that the region has a labour surplus, as reflected in higher unemployment and a much greater incidence of seasonal unemployment.

The region's legacy is not one of industrial decline, but of the loss of former trading advantages under a now-outmoded technology. Because its difficulties are of long standing and rather deepseated, it will be in order to review the economic history of the region as a background to the examination, in Chapter 10, of the present structure and interregional relations of the Atlantic Provinces economy.

Historical Background

The Atlantic region's economic history covers a rather long period by North American standards, which may be dated from 1497. John Cabot's voyage of that year attracted the attention of Europeans to the cod fisheries, and this resource provided the initial basis for development of the regional economy by European settlers in the sixteenth and seventeenth centuries.

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[2]For further examination of the lack of convergence in income levels in Canada since 1926, see Economic Council of Canada, Second Annual Review, Towards Sustained and Balanced Economic Growth, Ottawa, Queen's Printer, December, 1965, as well as S.E. Chernick, Interregional Disparities in Income, Staff Study No. 14, Economic Council of Canada, Queen's Printer, 1966.

Timber was next, and from the last quarter of the eighteenth century until roughly one hundred years ago, the region enjoyed its economic hey-day, the so-called "Golden Age". This was the era of wood, wind and water which still evokes misty-eyed memories of a prosperous long ago on the part of many Maritimers.[3] Under the mantle of a protective British mercantile policy, Maritime Provinces cod were sold in the British West Indies, and Maritime timber found ready markets in Britain. The goods involved in this "triangular trade" were carried in wooden bottoms and with accessible timber resources, it was not long before an extensive shipbuilding industry developed. The Maritimes soon also assumed a major role in the carrying trade, and by the middle of the nineteenth century had become a major commercial maritime power, standing fourth in the world in registered tonnage. A feature of the regional economy during the "Golden Age" was its integration in a pattern of international trade conducted under British sponsorship and with British protection, which assured the opportunity for exploitation of the region's available resources. It is noteworthy that foodstuffs were largely imported at this time to meet the needs of a population whose working members were mainly engaged in production for external markets.

The institutional arrangements behind this Maritime prosperity began to be undermined in 1830, when American ships were admitted to trade with the British West Indies. In 1850 Britain adopted complete free trade and Maritime timber lost its former tariff preference - a fundamental alteration of the trading system, and framework of policy, into which the Maritimes had been so well integrated.

Nevertheless the Maritimes retained a prosperous status for a time after 1850. Keirstead has pointed out that the basis of its

[3] The term "Maritimers" refers to residents of the three Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island. No similarly convenient term has yet emerged to describe residents of the region since it was enlarged to four provinces by Newfoundland's addition in 1949.

manufacturing at this time was its transportation advantage with respect to the New England States and expanding purchasing power in the local market, protected by distance and poor transport from other possible North American competitors, combined with a natural advantage and accumulated managerial and labour skills in the chief industry of lumbering and wooden shipbuilding.[4] The mantle of British protection had been temporarily replaced by access to the New England market under the Reciprocity Treaty of 1854.

Technical change was a more telling factor, however, in removing the basis of the region's prosperity. The wood, wind and water basis of ocean transportation was to be replaced by steel and steam as a result of the Industrial Revolution. There were then fewer natural advantages for the Maritimes, and the remote, thinly populated region was not able to maintain its importance in shipbuilding and the carrying trade. In 1867 the Cunard Lines removed Halifax, the firm's original home base, from its listed ports of call because cargo volumes were no longer sufficient to justify bringing the larger, more expensive steel vessels there to load.

The same year Nova Scotia and New Brunswick joined Ontario and Quebec in the new Confederation of Canada. Within Confederation, the three Maritime Provinces suffered further economic setbacks. The then accessible forest resources became depleted. Meat canning and refrigeration developments cut into the traditional markets for fish and, more particularly, the West Indies market for dried fish became depressed as other sources of sugar began to be exploited in competition with the West Indies. Coal, which had been shipped to the United States during the Civil War, was no longer in great demand when the War ended and new, more economic coal mines could be opened in the U.S.

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[4] B.S. Keirstead, The Theory of Economic Change, Macmillan, Toronto, 1948, p. 269.

The great hope which the pro-Confederation spokesmen held out had been access for Maritime manufacturers to the markets of Ontario and Quebec. A confident belief that manufacturing would grow led regional entrepreneurs to undertake considerable investment and expansion during the first two decades after Confederation. New capital investment in manufacturing, for example, increased by 1891 to almost three times its 1871 level.[5] But the optimistic outlook for Maritime manufacturing was to prove unjustified by events, as a new framework of policy emerged.

In 1878 Canada adopted the National Policy, consisting of three means of providing the new nation with an economic identity. First, a transcontinental railway would be built to connect the west to the east. Secondly, the west would be settled by immigration, not only to strengthen the Dominion's claim to the west, but also to provide freight for the railways. Finally, protective tariffs would be imposed on manufactured goods to encourage the development of secondary manufacturing and strengthen the east-west flow of trade, and in the process utilize the excess capacity of the railroads.

The major employment and income effects of the National Policy were conferred on the central provinces. Although the Maritimes participated in the railway boom and enjoyed the attendant benefits of the development of Nova Scotia's coal, and iron and steel industries, these effects were much less pronounced and much less cumulating than those in central Canada. In part, this was because the process of nation-building gave the Maritimes an even more remote and peripheral status within Canada; in manufacturing, for example, location in Ontario became logical not only because the largest concentrations of populations were there, but also because

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[5]Keirstead, op. cit., p. 279.

Ontario was, for many lines, the most economic location from which to supply a relatively small and geographically scattered national market. Between 1891 and 1911, the period when the West was being opened up, nearly all the natural increase in population in the Maritime Provinces was offset by the flow of emigration to other regions. By the latter date the region's share of the national population was 12-1/2%, compared to 18% in 1871.[6] It was not long, therefore, before Maritimers found their new status as Canadians somewhat unwelcome and many longed for the return of the prosperous, sea-oriented economy they had enjoyed during the "Golden Age".

The 1920's were a period of reasserted growth for the Canadian economy following a brief recession at the end of World War I. New developments in hydro-electric power production, in mineral production, in pulp and paper, and the greater use of the internal combustion engine, all contributed to progress which was felt mainly in the central provinces and British Columbia. Again, however, the Maritime Provinces remained essentially on the fringe of this national growth. "Lacking the resources for the new dynamic elements of growth, the two industries which had prospered in the early period, coal mining and primary iron and steel, failed to provide the necessary substitute."[7]

It was also during the 1920's that a comprehensive national attempt to examine the economic position of the Maritime Provinces within Confederation was undertaken. As a result of representations by various legislatures, Boards of Trade and other public bodies

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[6] Keirstead, op. cit., p. 282.

[7] R.D. Howland, Some Regional Aspects of Canada's Economic Development, a study for The Royal Commission on Canada's Economic Prospects, Ottawa, Queen's Printer, November 1957, p. 61.

that the interests of the Maritime Provinces had suffered from certain legislative and administrative measures adopted from time to time by the successive Parliaments and Governments of Canada, the federal government established a Royal Commission on Maritime Claims. It was asked to look into these claims and submit recommendations to afford relief from the conditions which prompted the complaints. The Commission considered a whole range of subjects including transportation and railway freight rates, port development and export trade, trade policy, the coal and steel industries, agriculture and migration, the fisheries, a geological survey, tourist traffic, and statistics. On the overriding issue, the economic position of the Maritimes within the young nation, the Report concluded that Confederation was not of itself responsible for the slower economic development of the Maritimes. Changes in the area's economic structure were unrelated to the fact of Confederation and would have taken place even if the Maritimes had remained independent units, being the result of such other factors as the abrogation of the Reciprocity Treaty with the U.S. (in 1866), the conclusion of the American Civil War, and other changes over sixty years in commerce, industry and economics.

The Commission concluded that the potential of the Maritimes was greater then, in 1926, than it had been in 1867.

Nevertheless, the polarization of manufacturing industry in central Canada continued until the onset of World War II. This process was accompanied by the closing down, sometimes by competitors in central Canada who bought them out, of many small-scale establishments in the Maritime Provinces engaged in a variety of industries. Keirstead found that in this period "the only Maritime industry to record real growth, comparable with that of its Ontario (or Quebec) rival, was pulp and paper, in which very marked particular advantages were enjoyed in the Maritimes, advantages not the least of which is the transport advantage to the New England, New York and British markets, as in the 'good old days'."[8]

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[8] Keirstead, op. cit., p. 299.

The Second World War gave some stimulus to manufacturing production in the Maritimes, but the effect on capital-formation was only slight. After the War, the shipbuilding industry which had expanded most, declined; and there was no indication that the process of industrial concentration in central Canada had stopped or was likely to be reversed. The pulp and paper industry remained the only branch of manufacturing whose growth seemed assured.

During the decade following World War II the maturing Canadian economy enjoyed one of the greatest expansions in its history. From Montreal to the west, rapid development proceeded practically uninterrupted and was highlighted by spectacular resource projects such as aluminum in Kitimat, British Columbia; iron ore in Quebec; uranium in Ontario; and petroleum in the Prairie Provinces. But from Montreal east, the story was rather different: the Maritimes and Newfoundland shared only to a limited extent in the unprecedented prosperity. With the nation enjoying "full employment" by Canadian standards, at a rate ranging between 3 and 4-1/2 per cent during the mid-fifties, the Atlantic Provinces had, even with considerable net emigration to central Canada, unemployment from 5-1/2 to 6-1/2 per cent.

The economic position of the Atlantic Provinces in the mid-1950's was that of a region which had not been successfully integrated into the national economy. Despite, or perhaps because of, substantial territorial expansion and economic growth in Canada generally, the Atlantic region had still to complete a transition from the prosperous, sea-oriented local economy largely self-sufficient in terms of manufactures and food it was in the mid-nineteenth century, to an integral part of a new, larger economic system. In the absence of a "new dynamic" to support regional growth from within, the tendency for external developments consequent upon the opening of the Prairie frontier and the coming to maturity of the national economy, had mainly been adverse. Thus the task of adjustment and integration became progressively more formidable since the time of Confederation.

Any analysis of economic change must take into account the framework of public policy under which change occurs. This requirement is no less valid in the case of the Canadian Atlantic Provinces; indeed, a consideration of policy is crucial to a proper understanding of the region's present position. During the "Golden Age" the Maritimes economy had prospered within a system of triangular trade carried on under a system of British sponsorship and with British protection under the colonial preference system and the Navigation Laws. White pine was the resource basis for the region's prosperity, but that prosperity could not have been attained without the access to extra-regional markets which the policy framework permitted and facilitated. With the British abandonment of this system in 1850, the Reciprocity Treaty of 1854 with the United States provided an effective substitute until its abrogation in 1866, enabling free entry for Maritime fish, lumber and coal into United States markets. Joining Confederation provided the Maritime Provinces with an opportunity to serve instead the larger Canadian market but events were to demonstrate that successful exploitation of this market was not assured.

The emphasis of policy for the new nation was, of necessity, on national growth and development. The National Policy, as already noted, entailed generally adverse effects for the Maritime Provinces because of their peripheral location relative to an expanding continental territory, and because their resource base was competitive with, rather than complementary to, that of the region in which they entertained their greatest hopes for finding alternative markets.

Special policies to redress these difficulties were directed mainly towards improving the transportation facilities available for moving goods to central Canadian markets. The Intercolonial Railway was built in the early years after Confederation and, in recognition of the circuitous route decided upon for security reasons, freight rates were set relatively low.[9] Again, the Maritime Freight Rates

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[9] Howland, op. cit., p. 184.

Act of 1928, enacted to implement one of the recommendations of the Royal Commission on Maritime Claims, was designed to re-establish these special freight rate advantages. Certain tariffs were reduced on imported goods entering Canada over Canadian ports in an attempt to offset the erosion of advantages for Maritime ports which had resulted from the establishment of railway links between eastern U.S. ports and central Canada. In 1928 also, special subsidies on the movement of Maritime coal to central Canadian markets were introduced by the federal government. All these measures were essentially piece-meal, intended to overcome some particular difficulty which arose, as it were, partly as a consequence of the National Policy: they did not add up to a comprehensive development policy for the Maritime Provinces. Such stop-gap measures aside, the region was left to its own devices to contend with the powerful economic forces which, although not the result of Confederation itself, were not at all conducive to the successful integration of the Maritimes in the Canadian economy. In Hirschman's terminology, the "polarization" effects of Canadian nation-building were pronounced and substantial while, in the Atlantic Provinces case, the "trickling down" effects were especially weak.

In the mid-1950's the problems of the region were again subject matter for a federal inquiry. The Royal Commission on Canada's Economic Prospects, in addition to its public hearings within the region and elsewhere, sponsored Howland's comparative study of regional economic development which gave special consideration to the Atlantic region. The Final Report of the Commission also reviewed the prospects facing the Atlantic Provinces economy, and made a number of policy recommendations to the federal government.

At this time, Canada's economic prospects were bright indeed. The Royal Commission's own report reflected the prevailing national optimism based upon a decade of vigorous, sustained expansion in the Canadian economy. Moreover, its forecast for the future Canadian economy consisted largely in an apparently sensible extrapolation of past trends to 1981. The problems noted by the Commission largely involved problems associated with growth, rather than problems of generating it. Thus relieved of the need to consider serious national economic problems, the Commission was able to pay more attention to regional aspects: in this sense, the Gordon Commission came at a propitious time from the viewpoint of regional policy. Moreover, when a review of economic prospects by region revealed that only the Atlantic Provinces required special remedial measures to assure its greater participation in national growth,[10] the way was effectively cleared for the federal government's subsequent adoption of special regional development policies to be applicable only in this particular region.

Recent Research into Regional Problems

Within the Atlantic region dissatisfaction with economic circumstances was undergoing an important change of emphasis at this time. With emerging recognition that the Atlantic region had not participated very actively in the rapid postwar Canadian growth, there was a renewed interest in analyzing the region's difficulties more carefully. A number of studies of the regional economy were undertaken, which shed new light on the economic problems confronting the Atlantic Provinces. One example of this was Howland's attempt to account for the difference in per capita income in 1951 as between Ontario and the Atlantic region. At that time the difference of $615 in personal income included a margin of $545 in "earned income", or about 89 per cent of the total gap.[11] By standardizing the Atlantic region to the Ontario level for each factor considered, he concluded that the disparity could be accounted for, as follows:

[10] See Howland, op. cit., Chapter 3.

[11] Howland, op. cit., p. 156. The "earned income" component of personal income includes wages and salaries; farm net income; net income of unincorporated business; military pay and allowances. Interest and dividends, and government transfer payments, are also included in total personal income.

	$	%
Total disparity	545	100
Proportion ascribed to differences in:		
1. The relative size of the labour force	158	29
A. Due to different age distribution of the population	103	19
B. Due to the lower participation of the working age population in the Atlantic Provinces	55	10
2. The weeks worked per annum by paid workers	55	10
3. The occupational or industrial pattern	65	12
4. Rates of earnings	267	49

(Source: Howland, op. cit., Table 50, p. 158)

The factors cited are not independent; for example, the rates of earnings are influenced by the occupational or industrial pattern, areas with high-productivity industries having high wages and those with low-productivity industries having low wages. Similarly, regions with a predominance of seasonal activities are likely to exhibit a lower level of weeks worked. According to the argument offered in Chapters 2 and 3 above, these differences in per capita income reflected primarily a difference in factor equipment arising from the interregional localization of economic activity (which has favoured Ontario in the event), modified to some extent by the lack of complete mobility of the labour factor from the Atlantic Provinces to Ontario.

If one region has a proportionally greater factor equipment than another and higher average income, it is apt, also, to display greater productivity per capita across the whole range of its output. This will be especially likely if the two regions are not closely interrelated in terms of production and trade. It was not surprising, therefore, for Howland to find that, in 1953, net value of production per worker in the Atlantic Provinces was only 52.1 per cent of the Ontario level and that only in electric power was productivity greater than in Ontario.[12]

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[12] Howland, op. cit., Table 60, p. 171. A significant proportion of Ontario's electricity needs is supplied from Quebec.

Although Howland concluded his analysis of the region's economic problems with some suggestions for policy,[13] the main value of his survey lay in its further specification of the income disparity between the Atlantic Provinces and Ontario. He did not offer either a general explanation of the cause of regional difficulties (except on an historical basis), or any comprehensive proposals for overcoming them. Further study of the nature of the region's economic circumstances, particularly its relations with other regions (especially Ontario), would be necessary before tentative policy suggestions could be supplanted by definitive recommendations. It is significant that an improved capacity for such further study began to develop within the Atlantic Provinces about the same time the Gordon Commission was at work.

The region's provincial governments were becoming more aware of the need to improve economic conditions within their borders. One means open to them which had assumed increasing importance during the Second World War and the postwar period, was the equalization grants made by the federal government under the federal-provincial tax rental arrangements. The purpose of these was largely to enable the low-income provinces to provide a standard of provincial services in fields of provincial responsibility such as education, health, social security, and highway construction, more or less comparable to the standard available to residents of the richer provinces. Another form of federal aid to the provinces consisted in various conditional grants to encourage the provinces to undertake programs in these and other fields. Both types of federal assistance involved an expansion of government expenditure in each province, and hence a rise in the level of provincial economic activity. If one result was to direct provincial resources into certain types of activity considered important by Ottawa for reasons of national health, unity or cohesion, another was to broaden the sphere of provincial government decision-making, at least financially. Eventually, the provincial governments

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[13] These influenced the recommendations advanced by the Gordon Commission in its Final Report. See below.

came to recognize a greater need to tailor their fiscal operations to changing economic conditions, and later to provincial development priorities. At this time the main result of this increased recognition of developmental responsibilities on the part of provincial governments was to improve the climate within the region for informed analysis of regional problems.

An important initiative in this respect was the establishment, in 1954, of the Atlantic Provinces Economic Council (A.P.E.C.). The Council combined a variety of activities to promote accelerated development of the regional economy with a program of continuing economic research designed to reveal more clearly the factors which influenced the region's economic position within the nation. Incorporated as a private organization financed mainly by membership contributions by firms and individuals, the Council enjoyed the moral backing of the four provincial governments. A.P.E.C.'s policy proposals, based largely on its research efforts, were to play a useful part in moulding a regional consensus and in persuading Ottawa, in particular, to alter its policy towards the Atlantic Provinces economy.

The most important of the A.P.E.C. studies[14] was that conducted by its Director of Research, A.C. Parks, "The Economy of the Atlantic Provinces, 1940-58" and published in 1960. It is primarily a survey of overall trends in gross output and employment on a sector by sector basis in each of the four provinces, between 1940 and 1958.

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[14] Others included: F.E. Lounsbury, The Food and Fish Processing Industries of the Atlantic Provinces, 1960.

, Financing Industrial Development in the Atlantic Provinces, 1960.

, Secondary Manufacturing in the Atlantic Provinces, 1961.

A.P.E.C., Area Development Policies in Western Europe and the United States, 1961.

Parks concluded that the underdeveloped nature of the regional economy is to be distinguished from the situation of the underdeveloped countries by the presence of a well-defined middle class, a well-organized money market from which capital is available to expanding sectors, stable industries, growing output and productivity, and other characteristics of a dynamic economy. There is a similarity, however, in the surplus of population on the land who have neither the resources to expand their output nor the opportunity to shift to other occupations.

In terms of gross product per capita, the Atlantic Provinces had approximately held their position within the Canadian economy during the 1940 to 1958 period. Since 1940 on a per capita basis, gross provincial product had increased by 1957 by 45 per cent in Nova Scotia, 46 per cent in New Brunswick, and 49 per cent in Prince Edward Island. Over a somewhat shorter interval, from 1949 to 1957, Newfoundland's figure rose 21 per cent.[15]

The strongest growth tendencies affected sectors, like pulp and paper and minerals, which are based on the region's natural resources. Location of such industries at or near the raw material source, and the region's proximity to markets in the United States and western Europe, were favourable factors for the region. On the other hand, only very modest growth took place in "other manufacturing".[16] It was this slow growth in manufacturing which largely prevented the movement of population from labour surplus sectors to the extent that this shift has occurred in other parts of Canada.

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[15] Nevertheless, in 1958 the per capita GPP/GNP ratio was only 41.1% in Newfoundland, 47.9% in Prince Edward Island, 62.4% in Nova Scotia, 53.2% in New Brunswick.

[16] All manufacturing except mineral processing, pulp and paper, wood using and fish processing. These were linked with primary operations in the sectoral analysis in Parks' study.

Parks found little likelihood of any pronounced change in the labour absorptive capacity of regional manufacturing in future. This prognosis left the regional economy with three avenues of possible adjustment:

(1) a continuation of present tendencies of rising output per capita, modest employment increases in minerals and pulp and paper, decreases in employment in fisheries and agriculture, perhaps no deterioration in the relative regional/national position or, given some deterioration, more pronounced net emigration;

(2) a deliberate effort to increase mobility and thus facilitate the movement of surplus labour from subsistence areas, either interregionally or intraregionally;

(3) the creation of employment opportunities within the region to absorb all or a substantial part of the surplus labour from subsistence sectors of the economy. This would require public policies to compensate for the serious locational disadvantages manufacturing industries would face in the Atlantic region.

Another significant research development was the establishment of the Atlantic Provinces Research Board in 1958. The new agency, under the joint auspices of the four provincial governments and comprised of civil servants nominated by each province together with representatives of the Maritimes Transportation Commission and the Atlantic Provinces Economic Council, was given the task of sponsoring studies at regional level of economic problems of common concern to the four provinces.

In 1960 the new Board arranged for Professor A.K. Cairncross of the University of Glasgow to undertake a study of "the effects of monetary policy on the economy of the Atlantic Provinces, and to recommend methods by which it might be made flexible so as to meet the particular needs of these Provinces."[17]

The Atlantic Provinces had felt the effects of the 1956-1957 and 1959 "tight money" policies imposed by The Bank of Canada to restrain the inflationary growth of the Canadian economy. Regional interests were disturbed that there was no method of protecting the region, where unemployment rather than inflation was the pressing problem, from the full effects of this national policy. Accordingly the original purpose in requesting Professor Cairncross to examine the situation, was to determine the extent of influence the tight money policy had had in preventing economic growth and development in the region, and on the basis of his conclusions, to suggest what type of modifications might be made in monetary policy in order to protect the region from similar occurrences in future. Professor Cairncross found that a shortage of investment opportunities was a stronger deterrent to faster development than monetary restraint, and therefore devoted the second part of his report to a consideration of the role that development policy could play. His recommendations were to give a considerable and significant impetus to government economic policy at both the federal and provincial levels.

Cairncross argued that there is no need to take a deterministic view of regional economic development. Rapid national growth is likely to be impossible without divergencies in regional growth rates, but there is nevertheless scope for helping the laggards. The grounds for federal government help with industrial development in such regions are, first, the probability of a labour surplus after allowing for migration elsewhere; and second, "the probability that, for a limited range of industries, costs of production would not rise perceptibly (except

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[17] A.K. Cairncross, Economic Development and the Atlantic Provinces, Atlantic Provinces Research Board, Fredericton, February 1961, p. 1.

perhaps in the first year or two) if a location in the Atlantic Provinces were selected in preference to a location in central Canada."[18] The criterion for federal aid with such a program should not be disparity in income levels or in rates of growth but rather the waste of man-power and the loss of production resulting from local unemployment.[19]

After documenting various aspects of the economic position of the region relative to Canada generally, Cairncross concluded:

> "The main lag in development is precisely in the labour market. There are fewer employment opportunities, fewer opportunities of steady, fulltime employment, and above all, fewer opportunities of employment in those pursuits where labour productivity is relatively high. For lack of alternative employment, a large proportion of the labour force remains in the subsistence sector with a low average cash income; a further proportion, capable of taking paid employment, is unable to find it. The same forces lie behind the low level of output and income and the correspondingly low level of private investment; man-power is not fully used or is used in occupations where productivity and earnings are below the national average. Not that the explanation lies entirely on the side of demand; the mere existence of a chronic labour surplus is usually sufficient to generate obstacles to development in the habits and outlook of the population. The pace of work becomes slowed down where unemployment is a frequent recurrence: why hurry towards idleness or work under pressure when others could lend a hand? Ambition is curbed, the response to economic incentives is blunted, mobility is reduced and hopes of a higher standard of living are stifled. Thus even the opportunities that plainly exist may be neglected and the failure of the community may be attributed to apathy, laziness or lack of enterprise. It is only when a sustained demand for labour begins to transform the situation and the difficulties on the side of supply gradually melt away that the superficiality of any diagnosis of this kind becomes fully apparent."[20]

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[18] Ibid., p. 19, para 90.

[19] Ibid., p. 19, para 90.

[20] Ibid., p. 22, para 98.

The Cairncross Report was published early in 1961. Its value lay mainly in his emphasis on the possibilities of regional development, a marked change from the more forlorn conclusions about future prospects contained in many of the earlier studies of the region's economic difficulties. The report had a strong influence on the attitudes of provincial governments towards the region's economic development, and was used by them in advocating changes in federal policy. The report had focused attention, as noted above, on the need for development policy in the broad regional sense, rather than particular measures to deal with problems in particular industries. The pressure for policy reform mounted within the region at this time, and was successful in bringing about certain changes in regional development policy at the federal level.

The role of federal policy will be discussed generally in Chapter 11, and that of the Provinces in Chapter 12. In Chapter 13, a detailed analysis is made of the role played by the Atlantic Development Board, a federal agency established specifically to foster the economic growth and development of the Atlantic Region. First, however, it is necessary to consider more carefully the present structure and interregional relations of the regional economy - a task taken up in the next Chapter.

CHAPTER 10

THE STRUCTURE AND INTERREGIONAL RELATIONS OF THE ATLANTIC PROVINCES ECONOMY

The lagging relationship of the Atlantic Provinces economy to the national economy has already been noted. Of more importance in understanding the workings of the regional economy is some knowledge of the region's economic structure, and of its relations with other regions and other countries. By these means it may also be possible to discover which forces and factors are significant determinants of change in the region's economic status.

There are several possible ways of examining the structure of an economy. Perhaps the best detailed means is to conduct inter-industry flow studies, or input-output analysis, and thus discover the intersectoral relationships which exist. Such an approach requires a large volume of statistical data which is not at present available in published form, and is in any case beyond the scope of the present study.

Less exact impressions of structure can be gained by examining production and employment data for the various sectors of a regional economy. Gross Provincial Product estimates were used by Parks in his historical study of the Atlantic Provinces' economy,[1] but these involved imputing provincial shares of gross national product on the basis of formulae for each component. Unfortunately, they do not provide accurate measures of intraregional sector relationships at any one time. They are useful in measuring longer-term trends in the various sectors, the purpose for which they were constructed by Parks.

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[1]A.C. Parks, The Economy of Canada's Atlantic Provinces, 1940-1958, prepared by Atlantic Provinces Economic Council for the Atlantic Provinces Research Board, Halifax and Fredericton, 1960.

The purpose of examining structural relations for this study is simply to determine which particular sectors are important in the Atlantic Provinces. Such an indication of relative importance may suggest which particular types of economic activity have prospered and grown in the past, which have not, and may give some lead as to why some activities have expanded while others have not. At any rate, the kind of glimpse at the region's economic structure required at this relatively simple level, can be had by examining data on output by sector and employment by sector.

Output can be measured on the basis of gross value or net value. Gross value of production represents the total value of production when it leaves the industry, or sector, to which the data apply. It includes, in addition to the "value added" in the particular sector involved, the cost of materials and other inputs purchased by that sector from other sectors. For this reason gross value is not an accurate measure of the economic activity actually occurring in the particular sector. A manufacturing plant, for example, might purchase $10 million of components and produce output valued at $12 million. The "gross value of production" of $12 million would overstate activity in the plant by six times. A better indication of activity in this case would be the "net value of production" of $2 million. For this reason net value of production data will be used here.

Net value of production is obtained by "...deduction from gross value of production, exclusive of excise and manufacturers' sales taxes, the cost of purchased materials, fuel and electricity."[2] Data are compiled annually by industry by province. From these, figures for the "value added" in the commodity-producing industries of the four provinces which comprise the Atlantic region can be computed. Data of this kind for Canada and the Atlantic Provinces in 1951 and 1961 are contained in Table 12.

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[2] D.B.S., Survey of Production.

Table 12

Net Value of Commodity-Producing Industries, Atlantic Provinces and Canada, 1951 & 1961

1951

	Atlantic Provinces		Canada	
	$ million	% of total	$ million	% of total
Agriculture[1]	81.3	10.7	2,480.5	18.8
Forestry	99.7	13.2	660.4	5.0
Fisheries	44.7	5.9	102.0	0.8
Trapping	0.3	0.0	19.8	0.2
Mining	79.6	10.5	770.1	5.8
Electric Power	23.9	3.2	363.6	2.8
Manufactures	298.8	39.5	6,940.9	52.7
Construction	128.8	17.0	1,831.9	13.9
TOTALS	757.2	100.0	13,169.4	100.0

1961

	Atlantic Provinces		Canada	
	$ million	% of total	$ million	% of total
Agriculture[1]	64.9	6.2	1,715.5	8.9
Forestry	67.4	6.4	666.4	3.4
Fisheries	54.9	5.3	110.2	0.6
Trapping	0.4	0.0	11.7	0.1
Mining	107.0	10.2	1,562.0	8.1
Electric Power	59.0	5.6	840.4	4.3
Manufactures	395.1	37.8	10,690.1	55.4
Construction	295.8	28.3	3,700.9	19.2
TOTALS	1,044.6	100.0	19,297.1	100.0

[1]Excludes Newfoundland

SOURCE: Computed from D.B.S., Survey of Production, 61-202.

Canada has long been considered primarily a producer of raw materials and it is in resource industries that she has had her greatest success as an exporting nation. Yet it is apparent from Table 12 that the Atlantic Provinces are even more heavily dependent upon primary industries. In 1951 agriculture, forestry, fisheries and mining together accounted for 40.3 per cent of the net value of commodity production in the region, compared to 30.6 per cent of these primary industries (including trapping) in Canada as a whole. By 1961 the national percentage had fallen to 21.1 per cent; the share of primary activities in regional production had also fallen, but was still markedly higher at 28.1 per cent.

Construction activity also accounts for a larger share of total activity, on a "value added" basis, in the Atlantic region than in the nation. It represented 17.0 per cent as against 13.9 per cent in 1951; by 1961 both percentages were higher still, but construction's 28.3 per cent of total goods production in the region was almost half as much again as its 19.2 per cent in Canada generally.

Electric power's share was not significantly different as between the region and the country.

The greater strength of the construction and resource-based industries in the Atlantic Provinces is, however, more apparent than real. The above figures reflect not so much greater regional development in primary activities as underdevelopment in regional manufacturing. In Canada manufactures accounted for 52.7 per cent of the total net value of commodity production in 1951, - a figure which rose to 55.4 per cent a decade later. In 1951 manufacturing in the Atlantic Provinces represented only 39.5 per cent of total goods production, and this percentage fell somewhat by 1961 to 37.8 per cent. This was because, although the value of manufacturing production in the Atlantic region increased by 32.2 per cent between 1951 and 1961, this rate of increase was not only considerably lower than the Canadian rate of manufacturing expansion of 54.0 per cent over the same period, but also less than the 38.0 per cent rate of increase in total goods production within the region.

Thus we gain an impression of the Atlantic Provinces as an economy whose dependence upon primary or resource-based industries is relatively greater than Canada generally, where manufacturing seems not to have assumed the same degree of importance because it has not developed to the same extent, and in which construction output recently accounted for almost one-quarter of total goods production measured on a "value added" basis.

The data we have used cover only part of the productive process carried on in the Atlantic Provinces since they are restricted to commodity-producing industries. They thus omit any reference to the service industries, which have come recently to be recognized as important sources of employment and income not only in the Atlantic Provinces but elsewhere. These industries are also important sources of output despite the difficulties to be encountered in any attempt to measure the value of the intangible production they supply. Parks, in his study, used estimates of total regional employment from the DBS Labour Force Survey to calculate the numbers employed in service industries as a group, but the lack of more detailed data prevented him from carrying out further analysis of a set of economic activities which accounted, on his reckoning, for over 51 per cent of total regional employment in 1957.[3]

The general shortage of data on the service industries has inevitably led economists to focus their analysis on the sectors which produce tangible goods. To take one example, Professor Cairncross's conclusions regarding future employment prospects were framed in a model encompassing the primary industries as basic to the regional economy: "it is the natural resources of the area, the land, the trees, the mineral ores, the fish, and so on, that are

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[3]Parks, *op. cit.*

the basis of the economy as it now exists," supported to some extent by manufacturing industries which are "not so numerous nor so large as to turn the area *ipso facto* into a manufacturing centre."[4] Within this framework the service industries were seen as "a shadow cast by other productive pursuits rather than endowed with a vitality of their own that would outlast the disappearance of primary occupations."[5]

Professor Cairncross did note certain important exceptions to his general proposition that the resource-based industries were basic to the Atlantic Provinces, namely, tourism and defence services. But he chose not to develop the significance which these particular service industries may have for the regional economy, any further. An examination of these, and perhaps other, service industries to determine whether any of them are in any sense as "basic" to the regional economy as the resource-based industries will be one of the purposes of the analysis which follows.

Employment by Sector

Another means of assessing the structure of an economy is by examining the industrial distribution of total employment. The difficulty in doing so is frequently a scarcity of data suitable for the purpose. The Labour Force Survey, which is the basis for the officially recognized monthly estimates of employment and unemployment in Canada, unfortunately, does not yield a break-down of total employment by industry except at the national level and, therefore, cannot be used in examining the structure of the regional economy of the Atlantic Provinces.

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[4] Cairncross, A.K., *op. cit.*, p. 24.

[5] *Ibid.*

Of much greater promise in this connection are the more detailed data on labour force collected as part of the decennial Census of Canada. Data on Census labour force from the 1961 Census are contained in Table 14. The main difference between these data and those on net value of production analyzed above is that they provide a complete coverage of all types of economic activity, including the various service industries. They thus provide a basis for examining the whole structure of the Atlantic Provinces' economy, of comparing it with the national economy, in terms of the single, but important, variable of the number of persons engaged in each type of activity.

An attempt will be made here in the course of analyzing these data to ascertain which are key sectors of the regional economy, without necessarily adhering to the proposition that employment in service activities is dependent upon employment in the production of goods. By the same token, neither the proposition that the regional economy is necessarily dependent upon its resource industries as the key to future development, nor the argument that manufacturing must play an increasingly important role if output, employment and income are to be raised, will be taken for granted. Instead the purpose will simply be to see which types of economic activity are important to the regional economy at present and which have grown most substantially in the recent past, in the hope that these observations will provide some indication as to which are likely to be important in future.

There are of course some limitations to these data which should be borne in mind. For one thing they refer to labour force, which includes both employment and unemployment, and their use as a proxy for employment implicitly assumes that unemployment is spread evenly across all types of economic activity within the region and also within the Canadian economy with which it is being compared.

Secondly, Census data refer to a particular point in time and provide a snapshot of a situation which may change rapidly, and which may not be representative of the situation which usually prevailed even during the Census year. One must assume that such risks are more or less equal from one Census year to another when the comparison is drawn between 1951 and 1961, for example, as is done in Table 13, and also from one area or geographic unit to another when the comparison is made at the same point in time, even although this assumption is seriously open to question. In spite of these limitations, it seems reasonable to expect that such comparisons will provide a reasonable indication of broad trends and tendencies.

The labour force of the Atlantic Provinces in 1961 consisted of 561,632 persons. As Table 13 indicates, over 60 percent of these were engaged in service producing industries, or over half as much again as were engaged in commodity production. Moreover the percentage in service producing industries was even greater than was the case in Canada as a whole. Thus, at least in terms of the labour force attached to them, the service producing industries as a group were rather more important than the commodity producing industries, and accounted for a larger proportion of the total regional labour force than of the national labour force.

Within the goods producing sector the labour force attached to the resource-based industries accounted for a larger share (16.9 per cent) of the regional total than in Canada generally (14.0 per cent). On the other hand, only 13.9 per cent of the regional labour force was in manufacturing, compared to 21.7 per cent for the whole country. The share of construction in the total was broadly equal as between the region and the nation.

Within the services producing sector, there were three branches occupying a relatively more important position in the region than in the country at large. Of these, public administration and defence was the most notable with 12.4 per cent of the regional labour force compared to 7.5 per cent nationally. Transportation, communication and other utilities also accounted for a larger share (11.5 per cent)

Table 13

Census Labour Force, Commodity-Producing and Service-Producing Industries, Canada and Atlantic Provinces, 1961

	Canada		Atlantic Provinces	
	Number	% of total	Number	% of total
Commodity-producing industries	2,743,289	42.4	210,794	37.5
Service-producing industries	3,569,968	55.2	338,643	60.5
Industry unspecified - undefined	158,593	2.4	12,195	2.0
TOTALS	6,471,850	100.0	561,632	100.0

SOURCE: Census of Canada.

Table 14

Labour Force 15 Years of Age and Over, by Industry Divisions, for Canada and Atlantic Provinces, 1961

Industry	Canada		Atlantic Provinces		Location	Export
	No.	% of Total	No.	% of Total	Quotient	Quotient
Agriculture	640,786	9.90	35,356	6.30	0.64	-
Forestry	108,580	1.68	21,809	3.88	2.31	56.71
Fishing & Trapping	36,263	0.56	21,625	3.85	6.88	85.44
Mines, Quarries-oil Wells	121,702	1.88	16,030	2.85	1.52	34.21
Manufacturing Industries	1,404,865	21.71	77,771	13.85	0.64	-
Foods & Beverages	219,185	3.39	26,280	4.68	1.38	27.54
Tobacco Products	8,833	0.14	20	0.003	0.00	-
Rubber	18,844	0.29	88	0.02	0.07	-
Leather	33,166	0.51	474	0.08	0.16	-
Textiles	62,252	0.96	1,278	0.23	0.24	-
Knitting Mills	19,746	0.31	1,032	0.18	0.58	-
Clothing	91,928	1.42	799	0.14	0.09	-
Wool	98,871	1.53	10,208	1.82	1.19	15.97
Furniture & Fixtures	35,696	0.55	647	0.12	0.22	-
Paper and Allied	101,640	1.57	10,875	1.94	1.24	19.35
Printing, Publishing & Allied	84,265	1.30	3,578	0.64	0.49	-
Primary Metal Industry	90,156	1.39	4,229	0.75	0.54	-
Metal Fabricating	103,216	1.59	3,792	0.68	0.43	-
Machinery	49,821	0.77	527	0.09	0.12	-
Transportation Equipment	118,021	1.82	7,507	1.34	0.74	-
Electrical Products	84,924	1.31	948	0.17	0.13	-
Non-metallic Minerals	47,019	0.72	2,193	0.39	0.54	-
Petroleum & Coal Products	16,959	0.26	1,067	0.19	0.73	-
Chemical & Chemical Products	69,510	1.07	1,315	0.23	0.21	-
Miscellaneous Manufacturing	50,813	0.79	914	0.16	0.20	-

Table 14 (Cont'd)

Industry	Canada No.	Canada % of Total	Atlantic Provinces No.	Atlantic Provinces % of Total	Location Quotient	Export Quotient
Construction Industries	431,093	6.66	38,203	6.80	1.02	1.96
Transportation, Communication, etc.	603,286	9.32	64,632	11.51	1.23	18.70
Transportation	385,031	5.95	46,109	8.21	1.38	27.54
Storage	17,677	0.27	465	0.08	0.30	-
Communication	130,074	2.01	12,653	2.25	0.11	-
Electric Power, Gas & Water	70,504	1.09	5,405	0.96	0.88	-
Trade	991,490	15.32	89,697	15.97	1.04	3.85
Wholesale Trade	289,884	4.48	23,685	4.22	0.94	-
Retail Trade	701,606	10.84	66,012	11.75	1.08	7.47
Finance, Insurance and Real Estate	228,905	3.54	11,515	2.05	0.58	-
Financial Institutions	110,936	1.71	6,556	1.17	0.68	-
Insurance and Real Estate	117,969	1.82	4,959	0.88	0.48	-
Community Business and Personal Service	1,263,362	19.52	102,958	18.33	0.94	-
Education & Related Services	266,901	4.12	25,257	4.50	1.09	8.26
Health & Welfare	307,433	4.75	27,728	4.94	1.04	3.85
Religious Organizations	53,130	0.82	4,966	0.88	1.07	6.54
Motion Picture & Recreational	39,837	0.61	2,236	0.40	0.66	-
Services to Business Management	98,987	1.53	3,889	0.69	0.45	-
Personal Services	437,518	6.76	35,568	6.33	0.94	-
Miscellaneous Services	59,556	0.92	3,314	0.59	0.64	-

Table 14 (Cont'd)

Industry	Canada		Atlantic Provinces		Location Quotient	Export Quotient
	No.	% of Total	No.	% of Total		
Public Administration and Defence	482,925	7.46	69,841	12.44	1.66	39.76
Federal Administration	284,953	4.40	52,892	9.42	2.14	53.27
Provincial Administration	68,761	1.06	6,413	1.14	1.08	7.41
Local Administration	123,729	1.91	6,566	1.17	0.61	-
Other Government Offices	5,482	0.08	3,970	0.71	8.88	88.74
Industry Unspecified or Undefined	158,593	2.45	12,195	2.17	0.89	-
TOTAL ALL INDUSTRIES	6,471,850	100	561,632			

of the regional than of the national total (9.3 per cent); the marginally higher share of the regional labour force attached to retail and wholesale trade is probably not significant. In the region, community, business and professional services accounted for a slightly smaller proportion (18.3 per cent) of the total labour force than in Canada generally (19.5 per cent). In the less significant finance, insurance and real estate branch there was a relatively greater shortfall between the region's 2.1 per cent and the nation's 3.5 per cent.

The use of location quotients, as set out in column 6 of Table 14, enables this sort of analysis to be carried a stage further. This technique has been developed within the framework of the so-called "economic base" study. The "economic base" is usually defined as that part of a local economy which produces goods and services for sale to individuals, firms or public bodies located outside the local economy. The industries which "export" their output, or part of their output, are considered basic to the local economy because they are the main determinants of population and income growth in the area. The amount of income which they earn from outside sources determines the size of the local market for goods and services produced by the area's non-basic industries, that is, those which do not "export" any proportion of their output. This second group of industries, which supply only local needs, are sometimes called "residentiary industries".

The location quotient is the ratio of the percentage of the labour force engaged in a given industry in the Atlantic Provinces to the percentage of the labour force engaged in the same industry in the nation as a whole. A location quotient greater than unity for a particular industry is taken to mean that the regional industry is a net exporter of its output. If the location quotient is unity the industry is considered self-sufficient, while a quotient of less than unity means this industry's output is not sufficient to meet regional demand and additional quantities of the good or service it produces must be "imported" into the region.

From the location quotient, an "export quotient" is derived as a basis for classifying the region's industry into basic industries and non-basic, or residentiary, industries. For example, if the location quotient of a particular industry were five, the export quotient would be calculated as follows:

$$\frac{5 - 1}{5} = \frac{4}{5} = .80 = 80\%$$

This would be taken to mean that 80 percent of those employed in this industry could be said to work for the region's "export" market. A location quotient greater than one means the industry is an export (or basic) industry, while the export quotient indicates the proportion of that industry engaged in "exporting".

From Table 14 it can be seen that the primary sectors of forestry, fishing and mining all had location quotients greater than unity in 1961 and were thus sources of "export" earnings for the Atlantic Region economy. The proportion of workers engaged in production for the export market, as reflected in the export quotient, was highest in fishing at 85 per cent. In forestry, 57 per cent of workers apparently produced for the export market while in mining the proportion was 34 per cent.

Agriculture, with a location quotient of 0.64, was the only primary sector which was not a net exporter of its output.

The location quotient for all manufacturing industries as a group was also well below unity. In fact, there were only three of the total of twenty individual manufacturing industries listed, which had quotients greater than unity. These were food and beverages (1.38), wood products (1.19), and paper and allied products (1.24). The remainder all followed the general pattern of being residentiary demand-serving industries.

The size of the regional construction sector, with a location quotient of 1.02, was apparently just adequate to meet the demands placed upon it within the region. It was thus neither an exporting nor an importing industry on this basis. This is, of course, what one might expect since construction demand is usually met mainly through the use of local (labour) resources.[6]

A location quotient of 1.23 for the transportation, communication and other utilities sector is probably a reflection mainly of relatively greater distances within the regional economy, rather than an indication that the transportation industry exports part of its output. The Atlantic Provinces are characterized by the difficult transportation problems inherent in a lengthy coastline, scattered population, and two island provinces - problems which require the allocation of relatively greater manpower and other resources for their solution. A certain proportion of the costs thereby incurred have been met through the payment of subsidies or transport subventions of one kind or another by the federal government and in that sense, the sector has been an "earner" of export receipts for the regional economy to a limited extent!

Among the other services sectors of the regional economy, Trade; Finance, Insurance and Real Estate; and Community, Business and Personal Services had location quotients that virtually equalled unity or fell below it. Within these sectors, a few industries' location quotients exceeded unity, however; including wholesale trade; education; health and welfare services; and religious organizations. Of these, the most significant are probably education and health and welfare services. For reasons which are discussed further below, each of these may be an important source not only of "export earnings", but also of growth in the regional economy.

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[6]The construction industry probably relies on external sources for some of the equipment it uses and for part of the plant and machinery it puts in place, but these capital requirements are not reflected in the concept of the location quotient, which is based upon labour input only.

Public administration and defence is a key sector for this regional economy. Here the location quotient for the entire sector was 1.66, indicating that almost 40 per cent of those engaged in such employment were producing for the export market. This is especially the case with Federal Administration, where the location quotient of 2.14 implied that over 53 per cent so employed were satisfying demand external to the Atlantic Region. There is a certain logic to this conclusion, since in 1961 approximately two-thirds of the Canadian Navy was located in Halifax, Nova Scotia, and the Canadian Army a few years earlier had established a large new training base at Camp Gagetown in New Brunswick. Thus the Atlantic Region found itself "exporting" defence services, as well as 89 per cent of the products of "Other Government Offices", to markets in other regions of the Canadian economy. The region was a net supplier of such defence services to the rest of Canada.

In 1961, then, the key sectors of the Atlantic Provinces' economy consisted of Forestry, Fishing, Mining, and Public Administration and Defence. On these sectors the regional economy was therefore based, with the level of activity in other sectors being dependent on the level of activity in these four basic sectors. In a balance of payments sense, these four sectors probably would have contributed a net surplus which offset, or helped to offset, the deficit attributable to other, non-basic sectors. Such net export earnings in these sectors made it possible for the region to import manufactured goods (especially) and the products of other sectors in which the region was not self-sufficient. These four sectors were probably not enough by themselves to offset the total "deficit" attributable to other sectors as the region also benefited over this period from a net inflow of government transfer payments, tax "equalization" payments, and cost-sharing grants from the federal government to the four provincial governments. Nevertheless, each represents a key sector for the Atlantic Provinces - a sector whose future development seems likely to have important repercussive effects throughout this regional economy.

Recent Growth in the Atlantic Provinces

The use of location quotients provides a picture of the Atlantic Provinces economy which is essentially static. It is also necessary to consider the forces promoting change in the recent past as a further means of determining what makes this regional economy tick - to discover, if possible, what sources of dynamism and growth have operated and are likely to operate in future. For this purpose Table 15 has been constructed to show the changes in Census labour force which have occurred between 1951 and 1961 in various sectors of the regional economy, and in Canada generally. This is the same classification of sectors as was used above for the location quotient analysis to determine which are the region's basic sectors. Analysis of these data should reveal which sectors, and which industries, have experienced the most rapid growth - in terms of labour force - during the 1950's in the Atlantic Provinces. Comparable data for Canada are included to provide a standard of comparison for the rates of change experienced in the Atlantic region during this period.

Table 15 reveals that the Atlantic Provinces labour force increased from 529,808 persons in 1951 to 561,632 persons in 1961 - an increase of 31,824 or 6.0 per cent. This rate of overall increase was considerably slower than the 22.4 per cent experienced in Canada as a whole during the same period.

"Basic" Sectors

Of the four "basic sectors identified above, only Public Administration and Defence demonstrated any capacity for employment expansion over this period. The labour force in this key sector rose by 27,839 persons or 66.3 per cent over this period, or by almost enough to account for the total increase in the regional labour force. Within the sector, the largest increase was in defence services, where a doubling of the labour force so engaged resulted in an addition to

Table 15

Census Labour Force, 1951 and 1961, Canada and Atlantic Provinces,

By Industry Divisions, Comparable Major Industry Groups as of 1961

	Canada			Atlantic Provinces			
						Change	
	1951 (000)	1961 (000)	% Change	1951 (number)	1961 (number)	Number	Per Cent
Agriculture	824	641	-22.2	66,509	35,356	-31,153	-46.8
Forestry	130	108	-16.3	32,757	21,809	-10,948	-33.4
Fishing and Trapping	50	35	-31.5	34,275	21,625	-12,650	-36.9
Mines, Quarries & Oil Wells	104	120	15.3	20,432	16,030	- 4,402	-21.5
- iron mines	5	10	107.0	2,081	2,651	+ 571	+27.4
- coal mines	24	12	-48.8	15,072	9,838	- 5,234	-34.7
Manufacturing Industries	1,302	1,405	7.9	81,076	77,771	- 3,305	- 4.1
- food and beverages	173	219	26.4	21,672	26,280	+ 4,608	+21.3
- tobacco products	8	9	4.2	141	84	- 57	-40.4
- rubber	22	19	-13.1	21	88	+ 67	+319.0
- leather	32	33	2.7	563	474	- 87	-15.5
- textiles	81	62	-23.4	3,074	1,278	- 1,796	-38.4
- knitting mills	24	20	-17.4	664	1,032	+ 368	+54.8
- clothing	92	92	0.6	1,728	800	- 928	-53.7
- wood	115	99	-14.3	16,533	10,208	- 6,325	-38.3
- furniture & fixtures	31	36	15.5	557	647	+ 90	+16.2
- paper & allied	90	102	13.0	11,285	10,875	- 410	- 3.6
- printing, publishing and allied	62	84	35.5	2,713	3,578	+ 865	+31.9
- primary metal, metal fabricating & electric products	304	328	7.8	10,045	9,496	- 549	- 5.5
- transportation equipment	128	118	- 7.8	8,031	7,507	- 524	- 6.5
- non-metallic mineral products	36	47	31.6	1,816	2,193	+ 377	+20.8
- petroleum and coal products	14	17	20.6	692	1,067	+ 375	+54.2
- chemicals and chemical products	50	70	37.9	734	1,315	+ 581	+79.2
- miscellaneous	38	50	31.6	789	913	+ 124	+15.7

Table 15 (Continued)

	Canada			Atlantic Provinces			
						Change	
	1951 (000)	1961 (000)	% Change	1951 (number)	1961 (number)	Number	Per Cent
Construction Industry	319	430	34.9	29,966	38,203	+ 8,237	+27.5
- building construction & special trade contractors	285	365	27.7	25,296	30,763	+ 5,467	+21.6
- highway, bridge, street and other construction	34	66	96.0	4,670	7,440	+ 2,770	+59.3
Total, Goods Producing Industries	2,728	2,739	0.4	265,015	210,794	-54,221	-20.5
Transportation, Communication and Other Utilities	499	601	20.6	59,075	64,632	+ 5,557	+ 9.4
- transportation	350	385	10.0	45,946	46,346	+ 400	+ 0.87
- storage	14	18	22.1	477	465	- 12	- 2.5
- communication (incl. P.O.)	85	128	51.0	8,468	12,416	+ 3,948	+46.6
- electric power, gas & water utilities	49	70	43.3	4,184	5,405	+ 1,221	+29.2
Trade	746	991	32.8	73,626	89,697	+16,071	+21.8
- wholesale trade	220	290	32.0	20,183	23,685	+ 3,502	+17.4
- retail trade	527	701	33.1	53,443	66,012	+12,569	+23.5
Finance, Insurance and Real Estate	143,959	228,811	58.9	7,265	11,515	+ 4,249	+58.5
- financial institutions	68,838	110,871	61.1	4,194	6,556	+ 2,362	+56.3
- insurance & real estate industries	75,121	117,940	57.0	3,072	4,959	+ 1,887	+61.4
Community, Business and Personal Service Industries	791	1,261	59.4	74,416	102,958	+28,542	+38.4
- community & business services	417	728	74.3	38,830	61,752	+22,922	+59.0
education & related	147	261	77.9	15,518	24,910	+ 9,392	+60.5
health	156	281	80.0	15,244	25,902	+10,658	+69.9
- motion picture & recreational services	29	40	39.2	2,095	2,236	+ 141	+ 6.7
- personal services	321	446	39.2	31,455	35,969	+ 4,514	+14.4
- miscellaneous services	24	47	94.9	2,036	3,001	+ 965	+47.4

Table 15 (Continued)

	Canada			Atlantic Provinces			
						Change	
	1951 (000)	1961 (000)	% Change	1951 (number)	1961 (number)	Number	Per Cent
Public Administration & Defence	301	480	59.1	42,002	69,841	+27,839	+66.3
- federal administration	180	282	56.3	28,357	52,892	+24,535	+86.5
Defence services	101	171	69.3	20,404	41,164	+20,760	+101.7
Other	79	110	39.6	7,953	11,728	+ 3,775	+47.5
- provincial administration	37	69	85.4	3,884	6,413	+ 2,529	+65.1
- local administration	78	124	57.6	5,027	6,566	+ 1,539	+30.6
- other government offices	6	5	- 1.6	4,734	3,970	- 864	-18.3
TOTAL SERVICE PRODUCING INDUSTRIES	2,481	3,561	43.5	256,385	338,643	+82,258	+32.1
- Industry unspecified or undefined	67	158	134.8	8,408	12,195	+ 3,787	+45.0
ALL INDUSTRIES	5,277	6,458	22.4	529,808	561,632	+31,824	6.0

the regional labour force of 20,760 persons. As already noted, this growth would have resulted mainly from the political decision to concentrate additional defence personnel in the Atlantic Provinces, especially in Nova Scotia and New Brunswick.

The other three key sectors all experienced substantial labour force declines over this period, as follows:

	Change	
	Number	Per Cent
Forestry	-10,948	-33.4
Fishing	-12,650	-36.9
Mining	- 4,402	-21.5
TOTAL, these sectors	-28,000	-32.2

These decreases were largely the result of secular decline in coal mining, and a process of rationalization within Forestry and Fishing, and were probably accompanied by increasing per capita income and output for those remaining in the sectors. Yet the fact remains that these key sectors were definitely not sources of additional employment over the decade of the 1950's. Yet they remained key sectors in the location quotient sense, continuing to serve as earners of export revenues for the regional economy in 1961. Indeed, it can be argued that if they had not continued to release labour by becoming more efficient and more productive during this period, they could not have remained as effective as earners of export income for the region. There is thus a need to distinguish between these three key sectors of Forestry, Fishing and Mining, and the fourth, Public Administration and Defence. The three resource sectors are important sources of external earnings for the regional economy, and are therefore important to the region's balance of payments. But none has been a source of recent growth in labour force (employment), although they have probably contributed increasing income to the regional economy. Public Administration and Defence, on the other hand, is not only a key sector which serves as part of the region's economic base; but it also has been a source of labour force (employment) growth in the recent past. Whether it continues to do so will continue to depend on the results of the decision-making process in the political sphere, rather than on any internal economic forces or events. It is clearly a sector whose future fortunes are directly linked with public policy decisions.

When the labour force changes for all four basic sectors (as of 1961) are taken together, the effect is a net change between 1951 and 1961 of virtually nil - with the decline of 28,000 in Forestry, Fishing and Mining off-setting the growth of 27,839 in Public Administration and Defence. There is thus still a need to account for the overall increase, already noted, of 31,824 in the regional labour force over the decade of the 1950's. To do so we must proceed to an examination of the labour force changes which occurred in the region's "non-basic" sectors.

"Non-basic" Sectors

It is important to emphasize that a "non-basic" sector, by our definition, is one in which the percentage of the regional labour force is less than the corresponding percentage the same industry represents in the national economy. The notion behind this concept is that in sectors where this ratio is less than unity, the region is required to "import" part of its demand from other regions of the national economy, or from abroad. Those engaged in such "non-basic" sectors are able, however, to supply part of the region's demand; they are thus residentiary demand-serving industries. In the Atlantic Provinces, as elsewhere, such "non-basic" sectors may be commodity-producing industries or service-producing industries.

The "non-basic" commodity-producing sectors in the Atlantic Provinces were Agriculture, Manufacturing and Construction.

Between 1951 and 1961 Agriculture experienced a substantial decline of 31,153 persons in its labour force, from 66,509 to 35,356. This represented a decrease of 47 per cent, a rate more than twice as rapid as the 22 per cent decline experienced nationally. As with Fishing and Forestry, this decline was the result of continuing rationalization of the region's farming activity, accompanied by a trend toward larger individual units and greater mechanization. In this way _per capita_ output and income probably increased for those remaining in the sector. Nevertheless the sector clearly failed to support any additional employment and was thus not a force for growth in the regional economy.

The Census labour force attached to Manufacturing also declined during the 1950's, by 3,305 persons. The change represented a decrease of 6 per cent, whereas the labour force in Manufacturing in Canada as a whole increased by 8 per cent. Within the sector the largest absolute changes took place in food and beverages, which increased by 4,608 persons; in textiles, which declined by 1,796 persons; and in wood industries, which declined by 6,325 persons. The most severe decline, in relative terms, occurred in clothing industries which decreased by 54 per cent (928 persons). On the other hand, there were also some instances of rapid relative growth, notably chemicals and chemical products, which increased by 79 per cent (581 persons); knitting mills, 55 per cent (368 persons); petroleum and coal products, 54 per cent (375 persons); printing, publishing and allied industries, 32 per cent (865 persons); and non-metallic mineral products, 21 per cent (377 persons).

Unlike Agriculture and Manufacturing, Construction was a strong growth sector during the 1950's. Its labour force increased by 8,237 persons or 27.5 per cent. Of this total increase, 5,467 was in building construction and the remaining 2,770 in highway construction. Although this was a remarkable rate of growth compared to other sectors of the regional economy, it should be noted that it was slower than the 35 per cent rate of expansion in Construction's labour force attained in Canada as a whole.

These changes in the "non-basic", commodity-producing sectors of the Atlantic Provinces economy may be summarized as follows:

	Change	
	Number	Percent
Agriculture	-31,153	-46.8
Manufacturing	- 3,305	- 4.1
Construction	+ 8,237	+27.5
Total, these sectors	-26,221	-14.7

The "non-basic", service-producing sectors of the Atlantic Provinces economy were Transportation, Communication and other Utilities; Trade; Finance, Insurance and Real Estate; and Community, Business and Personal Service Industries. The Census labour force increased in all four of these sectors between 1951 and 1961.

In Transportation, Communication and Other Utilities the increase was 5,557 persons - a rate of 9.4 per cent. This rate of growth was slower than the 20.6 achieved in Canada as a whole; similarly, for each branch of the sector the regional growth was slower than the national rate. The biggest absolute increases within the regional sector were in communication, 3,948 persons; and in electric power, gas and water utilities, 1,221 persons.

The labour force engaged in Trade in the region increased by 16,071 persons or almost 22 per cent - again a lower rate than the 33 per cent attained at the national level. Retail Trade accounted for 12,569 of this total gain, while the labour force in Wholesale Trade increased by 3,502 persons.

The rate of growth in Finance, Insurance and Real Estate, at 59 per cent, was much the same as between the Atlantic Provinces and Canada generally. For the region it meant an increase to the labour force in this sector of 4,249 persons.

Community, Business and Personal Service Industries also experienced slower labour force growth in the region than in the nation as a whole, 38 per cent compared to 59 per cent. This resulted in an absolute increase of 28,542 persons for the regional sector. The main contributors to this gain were education and related services (9,392 persons); health services (10,658); and personal services (4,514). It is noteworthy that the supply of both education and health services is dependent in one way or another upon provincial government financing. The schools system is operated, directly or indirectly, by provincial governments, while provision of the capital facilities required to provide health care is also increasingly a provincial government responsibility. With higher federal-provincial shared-cost programs in the health field especially, and increasing tax equalization payments from the federal government, the provincial governments of the Atlantic Region were thereby enabled to provide more and better services in both fields during the 1950's. In a sense, therefore, the <u>expansion</u> of these two service-producing industries in the region was promoted and assisted by an increasing flow of financial resources from Ottawa to the four provincial capitals. Such financial transfers, of course, represent a positive contribution to the interregional balance of payments. It will be recalled that, on our definition, both education and health were also "basic" industries of the regional economy in 1961. Now we see that each also represented during the 1950's a mechanism for the transmission of growth in employment from external sources to the regional economy.

The overall changes in the Atlantic Provinces "non-basic", service-producing sectors may now be summarized.

	Change	
	Number	Per Cent
Transportation, Communication & Other Utilities	+ 5,557	+ 9.4
Trade	+16,071	+21.8
Finance, Insurance and Real Estate	+ 4,249	+58.5
Community, Business & Personal Services	+28,542	+38.4
	+54,419	+25.4

We may now draw together a summary of the labour force changes which occurred in the Atlantic Provinces economy between 1951 and 1961. For this purpose the classifications we have adopted in this chapter of "basic" and "non-basic" sectors, and commodity-producing and service-producing sectors, will be used. The summary consists of Table 16.

The table suggests some real structural weaknesses in the Atlantic Provinces economy. As far as employment is concerned, the "basic" sectors have not been growing although they probably have contributed increasing income during the 1950's decade. Secondly, the employment growth which occurred in one of them, Public Administration and Defence, would have been the direct result of a federal government decision to concentrate additional defence facilities and personnel in the Atlantic region. This can hardly be interpreted as evidence of any growth <u>trend</u> in this key sector.

Thirdly, while there was employment growth in the "non-basic" sectors which was probably the result of additional income being available for spending within the region, it is perhaps significant that this expansion occurred in service-producing activities and did not result from growth of the commodity-producing industries. The impression suggested is of a region which increasingly relies on "taking in each other's washing" to provide much of its economic activity. The decline in employment in the "non-basic", commodity-producing sectors underlines this point - suggesting that few, if any, of such industries were developing to the point where they could even begin to export part of their output to other regions.

Fourthly, of the "non-basic", service-producing industries which did experience employment, in two cases - education and health - the growth was made possible by demand-supporting financial transfers of one kind or another to the region by other regions through the federal government. Indeed, these two industries had grown

Table 16

Changes in Census Labour Force, Atlantic Provinces, 1951 to 1961

	Change Number	Per Cent
"Basic", Service-Producing (Public Administration & Defence)	+27,839	+66.3
"Basic", Commodity-Producing	-28,000	-32.2
"Basic" Sectors	- 161	-
"Non-basic", Commodity-Producing	-26,221	-14.7
"Non-basic", service-producing	+54,419	+25.4
"Non-Basic" Sectors	+28,198	-
Industry unspecified or undefined (balancing factor)	+ 3,787	
TOTAL	+31,824	+ 6.0

sufficiently by 1961 perhaps to warrant reclassification to the "basic" category of industries. Like public administration and defence, however, their future growth will depend more on decision-making in the public policy sphere than upon any "market" forces or factors affecting the regional economy itself.

Summary and Conclusions

The Atlantic Provinces, a lagging economic region in Canada with a population of approximately two million persons, has development problems which are of long standing. The region's per capita income has remained at two-thirds of the national level since 1926 when these data were first recorded. Economic activity within the region is oriented toward the resource-based sectors of fishing, forestry and farming, but many such operations are of the subsistence variety. The region may be characterized as underdeveloped, and in particular does not possess a modern manufacturing sector.

The purpose of this Chapter has been twofold, namely, to examine the structure of this regional economy in an effort to determine the key, or "basic", sectors at the present time; and to discover which sectors have exhibited the strongest growth tendencies in the recent past. In these ways it was hoped that a method would be found for deducing a model of this regional economy which would be broadly valid. If possible, such a model should also provide some indication of the interregional relations of the Atlantic Provinces economy, which would enable its adaptation to analysis by the criteria which are implicit in the theoretical findings of Part I.

Structural relations were examined indirectly with the aid of two kinds of data: the net value of commodity-producing industries in the regional and Canadian economies for 1951 and 1961, and Census labour force in all sectors for both economies in the same years. The net value data confirmed the region's dependence on resource-based activities and the relatively underdeveloped state of its manufacturing sector. But the limitation of these data is that they do not extend to the region's service industries. This limitation does not apply to the Census labour force data next analyzed, which revealed that over 60 per cent of the region's labour force were engaged in service-producing industries in 1961.

With the aid of "location quotients" calculated for each sector and industry from the comparative Census labour force data for the Atlantic Provinces and Canada, four sectors were identified as "basic" to the regional economy. These were Forestry, Fishing, Mining, and Public Administration and Defence. Such "basic" sectors are those which employ a greater proportion of the regional labour force than of the total Canadian labour force and are therefore considered to "export" part of their output to markets outside the regional economy. They are considered as forming the "economic base" of the Atlantic Provinces, and each is thus a key sector as far as growth and development are concerned.

Recent growth in the regional economy was examined through further analysis of the same Census labour force data for 1951 as well as for 1961. The "basic" and "non-basic" sectors were treated separately for this purpose.

Of the four "basic" sectors, only Public Administration and Defence demonstrated any capacity for employment expansion during the 1950's. This was largely the result of public policy decisions to concentrate more Navy personnel in Nova Scotia and to establish a large, new Army training base in New Brunswick. The labour force attached to the other three sectors declined considerably, in Mining as a result of several coal mine closures and in Fishing and Forestry due to a continuing process of mechanization and rationalization in these sectors. The result of these divergent trends among the four "basic" sectors was virtually no change in their total labour force. Thus the "economic base" of the regional economy failed to provide any additional employment over the decade of the 1950's.

Among the "non-basic" sectors of the commodity-producing type, only Construction increased its labour force. Agriculture and Manufacturing both had employment declines. This resulted in a total decrease for the group of some 26,000 workers.

But there were increases in all four "non-basic" sectors of the service-producing type, namely, Transportation, Communication and Other Utilities; Trade; Finance, Insurance and Real Estate; and Community, Business and Personal Services Industries. The rates of growth were slower in all these cases, however, than in the same sector for Canada generally.

The analysis also revealed that, in addition to the four key sectors already identified, education and health services were industries which formed part of the region's "economic base" and which also experienced overall employment growth during the 1950's. This growth was related, however, to an increasing flow of financial resources from the federal government to the four provincial governments of the Atlantic Region, and was not due to any new source of dynamism internal to the region itself.

The picture which emerges from the analysis in this chapter is of an underdeveloped, lagging region which did not possess during the 1950's sufficient internal dynamism to be able to generate growth, at least in employment, within its "basic" sectors. Output in all four such key sectors increased over this period and in all probability, the additional "export" income earned in this way provided the wherewithal to support a rising regional demand for the goods and services produced by the region's "non-basic" sectors. The scale of this increase in externally-fed demand was, moreover, adequate to sustain a total labour force increase in these "non-basic" sectors of almost 32,000 persons during the decade. Thus total employment did expand within the regional economy.

Nevertheless it must be recognized that growth in the Public Administration and Defence sector was essentially the result of conscious public policy decisions related to the location of national defence establishments and manpower. It is quite likely that these decisions were affected by a recognition on the part of the policy makers of the need to sustain the Atlantic Provinces economy in this way. One important means of transmitting growth from other Canadian regions to the Atlantic Provinces thus lay in the locational decisions of the federal government.

Nor was the role of government restricted to this particular sphere. We have already noted that education and health services, two parts of the service-producing sectors, could both be considered as extensions of the region's "economic base" on the definition used here, and that both contributed additional employment to the regional economy over the period under review. We have also noted that the expansion of each was tied in one way or another to financing by the federal government of programs executed by the provincial governments of the Atlantic Region. By their expansion growth was also transmitted from other regions of the Canadian economy through the medium of the federal government.

If, as was argued in Chapter 3, the essential purpose of regional economic development is the interregional transmission of growth, then an important agent in this regard for the Atlantic Provinces has been the federal government. Ottawa has supported regional expansion in defence, education and health and these sectors have thereby become key ones for the regional economy. But their further growth and development will remain a continuing federal government responsibility, since they are not sectors which are likely ever to become self-sustaining.

Growth has also been transmitted, of course, to the Atlantic Provinces economy through increased sales of its fish, pulp and paper, and minerals to other regions and foreign markets. The trend of rising output in these sectors seems likely to continue as well, but the tendency will at the same time be toward further rationalization and increased productivity per man, especially in Forestry and Fishing. These sectors, therefore, offer little prospect for expanding employment in the region's "economic base", although their increasing earnings will probably continue to support some employment expansion in the region's "non-basic" activities.

The Atlantic Provinces economy, therefore, must find a new dynamic to replace the several noteworthy public policy decisions which sustained its employment growth during the 1950's, if it is to alter its status as a lagging region. Continued reliance on a helpful federal government will not do either, since this role is one which Ottawa would have to go on playing indefinitely: the sectors whose expansion it has brought about cannot be expected to achieve self-sustaining growth and so the whole process must be repeated every now and again just to maintain a rate of overall employment growth sufficient to prevent the region's relative position within the Canadian economy from becoming any worse. If the region is to find a path of growth along which it can progress and develop, it should be in some sector whose internal dynamism can be developed and encouraged. Since the region's other "basic" sectors are already subject to trends of rising productivity and higher output but lower labour requirements, the remaining, untested possibility would seem to be through the expansion of the region's underdeveloped manufacturing sector.

CHAPTER 11

The Gordon Commission and the Atlantic Provinces

A Perspective on Federal Policy

As already noted, the general impact of federal economic policy on the Atlantic Provinces has been adverse over the years since Confederation. There were, however, a number of particular measures and programmes designed to alleviate the region's economic difficulties. The Duncan Commission's report[1] led, for example, to the enactment of the Maritime Freight Rates Act of 1927, designed to enable Maritime producers to achieve a greater penetration of central Canadian markets, and also to a more specific variation of the same theme, namely, the payment of federal subventions on the transport of Maritime coal to markets in Ontario and western Quebec, in order to maintain employment in an industry of regional importance. These forms of assistance were intended to provide first aid on an *ad hoc* basis. Their purpose was essentially to prevent the region's position from deteriorating further by maintaining the existing level of income and employment. They were not, and were not conceived to be, a comprehensive programme aimed at improving the region's overall economic prospects.

Until the outbreak of World War II such *ad hoc* measures were the main element in federal economic policy towards the Maritime Provinces. Another, related field was federal-provincial fiscal relations in which Ottawa's main prewar concern was, again, with supplementing other sources of provincial revenues so as to enable

[1] This is the term commonly used to refer to the Royal Commission on Maritime Claims, which was mentioned in Chapter 9 above, after its Chairman, Sir Andrew Rae Duncan.

the poorer junior governments to carry out their constitutional responsibilities. Indeed, federal-provincial fiscal relations were the main issue considered by the Rowell-Sirois Commission which reported in 1940.[2]

The War brought a degree of economic prosperity to the Maritime provinces. In a sense, it was the federal government which was directly responsible for the concentration and buildup of military and naval operations, and expenditures, in the area. Canada's support of the Allied cause thus temporarily provided the Maritime provinces with a field of economic activity in which, because of their relative proximity to the European theatre of war and their access to ocean transport, the region had considerable locational advantages. But when the war ended, there was no comparable sphere into which Ottawa could transfer the resources it had been using in the Maritimes to support the war effort.

During the postwar years the federal government provided increasing support to various types of economic activity, but especially to the development of natural resources. The vehicle often used for this purpose was joint federal-provincial programmes with Ottawa meeting a share, usually 50%, of the expenditures involved. The Maritime Provinces participated in some of these programmes. Howland, writing in the mid 1950's referred to the reclamation of marshland areas in Nova Scotia and New Brunswick for agricultural purposes, the assistance on the movement of feed grain, the forest inventory, and the development of port facilities in the region, and to various research activities supported by the federal government. He also noted, however, that the benefits from such programmes were felt more strongly in provinces outside the Atlantic region.

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[2] Royal Commission on Dominion-Provincial Relations, Report, Ottawa, King's Printer, 1940.

Thus although the range of federal measures of assistance had been broadened to include some programmes designed to encourage economic development based on certain natural resources, there was still no overall economic policy for the Atlantic Provinces when Howland undertook his analysis in the mid 1950's.

Howland's Proposals

We have already noted, in Chapter 9, the significance of Howland's economic analysis. His policy conclusions are no less important. Not only were they the result of the most comprehensive analysis of the regional problem then undertaken, but they were also, through the influence they had on the recommendations of the Royal Commission on Canada's Economic Prospects itself, to have a profound impact on subsequent federal policy towards the Atlantic Region. This was perhaps due as much as anything else, to the existence of a policy vacuum on Ottawa's part. In any event it will be useful to consider Howland's policy conclusions, and the argument in support of them, in some detail.

We have already noted that Howland's review of the future outlook for Canada's six major economic regions indicated favourable growth prospects except in the cases of the North and the Atlantic Provinces. This prompted him to recognize the need for a special or exceptional programme for the Atlantic Region.

Howland found that the disparity in average personal incomes in the Atlantic Provinces below the national average was associated largely with the "disproportionately large number of people engaged in marginal or sub-marginal activities in these provinces. The low productivity of those engaged in these sections of the farming, fishing and logging industries of the region seriously affects the level of economic performance in these provinces and is highly contributory to the low regional average of personal income."[3] Yet

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[3]Howland, *op. cit.*, pp.5-6.

he proposed that these same activities, characterized by marginal or sub-marginal operations, should be the main basis of future regional development. "The most important promise of improved economic performance appears to lie in increased rationalization of the primary resource industries and the more extensive processing of the products of these industries .... the problem is basically one of attracting capital to these industries."[4] Such an approach would lay the foundation for more diversified development as well as for higher personal incomes.

The conclusion that the resource industries must be developed, even although they contain the bulk of the marginal or sub-marginal activities associated with the lower level of average personal income, does not follow inherently from a consideration of the regional problem itself. The solution, from a regional viewpoint, might rather be to transfer some of the surplus labour from marginal activities in the resource sectors to non-resource activities. While there is some recognition of this in Howland's suggestion that there should be more extensive processing of the products of the resource industries, this only goes part of the way to providing a logical basis for his argument. Of greater importance in this respect were national economic considerations and the way these were seen to impinge on the circumstances of the Atlantic region. One of these premises is that the bulk of Canadian manufacturing will continue to be concentrated in the central provinces. "The pattern of regional economic growth *in Canada* also directs attention to *the resource industries* of the Atlantic Provinces, for these industries *under existing circumstances must be expected to be the effective dynamic factor of growth in the outlying regions*. Closely associated with such industries would be the ports and other transportation facilities of the Atlantic Region, for these are intimately related to the future progress of Canada's import and export trade."[5]

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[4] *Ibid.*, p. 192.

[5] *Ibid.*, p.6. Italics mine.

A second major premise was that the existing tariff structure in Canada which, among other things, cut the Atlantic Provinces off from the free trade they had once enjoyed with the United States, and especially New England, would be more or less maintained.

Historically, there is no doubt that the protective tariff has been a necessary element in the process of developing Canadian manufacturing industry. From the purely Atlantic Provinces standpoint, however, its effects have been to raise the price of consumer goods manufactured in central Canada, on the one hand, and to the extent that the tariff has provoked retaliatory action by the United States in particular, to limit, on the other hand, the degree of processing which may be undertaken of regional natural resources before they are exported to the American market. Howland's assumption, and the Commission's conclusion was to the effect, as far as the Atlantic Region was concerned, that no relaxation of these limits on further processing could be contemplated.

Howland's basic strategy for regional economic development in the Atlantic Provinces may thus be briefly summarized as follows. The problem of surplus labour in the resource industries, as reflected in the heavy incidence of marginal or sub-marginal activities in these sectors was to be resolved through the rationalization of the same industries and through the more extensive processing of the products of these industries. The region, by implication, could not expect to export the products of non-resource-based manufacturing on any appreciable scale because of the expectation that Canadian manufacturing industry will continue to be concentrated in the central regions. This foundation for more diversified development would lead to secondary effects in other economic activities serving entirely regional markets on a sufficient scale to solve the region's difficulties.

Howland's faith in this last aspect was based on his conclusions that local market possibilities were not exhausted, that further diversification of economic activity would accompany increases in population and the expansion of incomes, and that continued military expenditures in the region would stimulate some local manufacturing activity as well as cause an expansion in the region's service industries. "Developments of this nature, if they are on a sufficiently large scale, can facilitate sound economic growth, notably by providing alternative occupations for those engaged in industries of declining importance or by attracting manpower away from low-income occupations."[6] Since such developments, however, were not an integral part of the basic strategy outlined by Howland, the question may well be asked, can they be on a sufficiently large scale?

Howland was emphatic in his insistence on natural resources as the base of future development:

> "The long-term and ultimately effective solution of the problem must be expected to come from further resource development. The core of the problem is the creation of conditions which will attract capital into such development. It is thus important to relate improvements in transportation or other public services, such as power, to this purpose. It has been recognized, for example, that the transportation problem of the region includes the provision of more adequate facilities of all forms of transportation. The adequacy of these facilities and of the charges made for the services rendered with or without government aid, must be measured, according to this approach, by reference to specific movements of products of the region to specified markets. The aids given would thus be directed to improving the comparative advantages of the region in respect of its particular resources."[7]

Against this formulation of the regional strategy, Howland concludes that the policy issues revolved largely around three subjects: first, the matter of increasing capital investment in the area; secondly, problems associated with the greater mobility of the

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[6] *Ibid.*, p. 192.

[7] *Ibid.*, pp. 6-7.

population; and thirdly, questions of transportation and communication. His conclusions in these respects may be briefly summarized.

There was a "basic need" for increased capital investment including expenditures for exploration and development of the resources of the region. Past experience indicated that conditions in the Atlantic Region had not proved conducive to the attraction of private enterprise. The direct approach to the encouragement of capital investment through tax incentives and other means was rejected in favour of indirect encouragement by improving the standards of basic services and facilities so as to give some support to greater private endeavour. "It is generally accepted in Canada that the most desirable approach is the more comprehensive one of improving the economic environment in which capital has to operate. The provincial governments of the region emphasized to the Commission the need of the area for increased capital, and it is apparent from their representations that they share a common view that this basic approach is the most important one."[8]

Howland's examination of labour mobility was essentially an analysis of the statistics of Canadian migration since 1921. Between then and 1955 net emigration from the Maritime Provinces amounted to 212,000 persons, or 21.2 per cent of the 1921 Maritime Provinces population. This degree of interregional mobility was exceeded among Canadian regions only by the Prairies over this period. Interregional mobility was relatively high among professional and clerical workers in the Atlantic Region, and a relatively greater proportion of young people were involved. Nevertheless, there was a certain "past rigidity" of the existing income disparity. Howland contended that there will be a need in future for greater mobility not necessarily outside the region but internally as well.

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[8] *Ibid.*, p. 194.

Transportation, Howland noted, had been and would continue to be important in the process of Canadian national development. The special circumstances of the Atlantic Provinces in this regard consisted in a certain lag in development of some forms of transportation and communication, the limited growth of port facilities, recent and prospective railway freight rate charges, and the problematical impact of the St. Lawrence Seaway on the region. The problem consisted of more than merely freight rates; "...great importance is attached to the question of improved transportation and communication facilities as well as to adjustments in freight rates, and ... these improvements must be considered vital in any programme of improved industrial efficiency and economic growth."[9]

Beyond noting that the heavy expenditures on resource explorations and additional transportation and other services required was beyond the financial capacity of the provincial governments, Howland did not make any specific recommendations regarding the legislative and institutional changes necessary to give effect to his general policy proposals. This gap was subsequently filled, however, by the recommendations advanced by the Commission itself.

The Gordon Commission

The Commission based its recommendations for the Atlantic Provinces largely on Howland's analysis and suggestions. His conclusion that this region, and the North, were the only ones whose prospects were not assured by the likelihood of national economic expansion, was repeated in the Final Report.[10] His observation about the subsistance primary activities representing a main reason

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[9] Ibid., pp. 200-201.

[10] Royal Commission on Canada's Economic Prospects, Final Report, Ottawa, Queen's Printer, 1957, p. 401.

for the region's lower level of average incomes per capita, was also made a main premise in the Commission's own argument about the course of policy action to be desired.[11]

Whereas Howland proceeded, in his line of reasoning, from this observation directly to the proposition that rationalization of such primary activities as farming, fishing and logging was necessary, and would require the attraction of new capital to these (and other) resource-based industries, however, the Commission proceeded on a somewhat more general view of the role of new capital investment:

"The lower levels of investment per worker are reflected in the lower levels of earned income in the Atlantic Region. If the rate of capital investment could be increased the earned income per capita would also increase."[12] There was no insistence here on attracting capital only to certain specified industries; the Commission seemed to favour a general increase in new investment in the region, in any kind of economic activity.

Thus the existence of surplus labour in the region, as manifested in the greater incidence of subsistence primary activities, led the Commission to recognize a need to increase new capital investment, - as it were, to provide the labour factor with more of the capital factor with which to combine in efficient production. On this basis the Commission reached its most important general conclusion about regional economic policy:

> "An objective of economic policy should be to integrate and improve the basic economic framework of the Atlantic region, including in particular the transportation facilities of the area with a view to facilitating and encouraging economic growth within the

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[11] *Ibid.*, pp. 403-4.

[12] *Ibid.*, p. 404.

region. ...what is needed we believe is a bold comprehensive and coordinated approach to the underlying problems of the region in order to make the best possible use of the resources of the area and to improve transportation and other basic services."[13]

Up to this point the Commission was dealing with the nature of the economic problem itself, and was not yet focusing on the role which the federal government should play in attempts to solve the problem. The reference to transportation aside, its conclusion is both logical and reasonable, if not, in the light of Howland's analysis, almost obvious.

The reference to transportation was partly in anticipation of its subsequent recommendations, but may more fairly be interpreted as a natural reflection of the historical concern in this region with the transportation aspects of its economic difficulties. The Commission had received a large volume of representations from regional interests in such matters. Most of these submissions from the region had dealt with particular improvements to the transportation system including a system of trunk highways, increased federal assistance with the Trans Canada Highway, the proposed "Corridor" road across the State of Maine to connect New Brunswick to Sherbrooke, Quebec, the New Brunswick-Prince Edward Island causeway, additional port facilities at Saint John, Halifax, and St. John's, Newfoundland, and a greatly expanded system of roads in Newfoundland. While noting the evidence that the transportation facilities of the Atlantic Region were in need of improvement, the Commission did not consider it had sufficient evidence to make positive proposals and suggested "... that the whole question of an improved but integrated system of transportation in the Atlantic Region should be examined carefully and in detail with proper consideration being given to the costs involved in providing any new facilities and to the losses being incurred in the operating of existing services. ...such a study should include a re-examination of the present effects of the Maritime Freight Rates Act."[14]

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[13] Ibid.

[14] Ibid., p. 408.

In considering the prospects for expanding capital investment in the regional economy, the Commission canvassed the possibilities in certain specific sectors. In agriculture, the Commission noted the general need throughout Canada for better land use and that to the extent the Atlantic Provinces benefited from their proposals for consolidation of farm holdings into larger units, higher incomes in this regional sector would result. In coal mining, the mechanization programme then underway was expected to be completed by 1960 and to result in a substantial increase in output per man-hour. The Commission noted the implication of this programme as being that, if there were to be no decrease in employment, there would be an increase in total production of two million more tons per year; or, if production were to be maintained at the existing level, there would be a reduction in total employment in the industry from eleven thousand to seven thousand. The problem therefore was either to find markets for the additional potential output or be faced with the necessity of transferring 4,000 displaced miners to alternative occupations. The Commission noted that the present federal subsidies on the movement of Maritime coal would have to be increased if the Montreal and eastern Ontario markets were to be retained. "However, the most logical market for Nova Scotia coal would seem to be the Atlantic region. We suggest therefore that the emphasis of the present subsidy arrangements should be modified in order to give priority to the greatest possible use of Nova Scotia coal in this region. We believe that changes in the present subsidy arrangements should include incentives designed to encourage the use of Nova Scotia coal in the generation of thermal power in the Atlantic region."[15]

Although the Commission did not accept Howland's insistence on the resource industry as the only possible field for new capital investment, neither did it rule this possibility out. Its suggestions in this regard were rather tentative. "One obvious and highly

[15] Ibid., p. 410.

desirable step in the direction of increasing the role of new capital investment in the region is the development of a more adequate knowledge of the natural resources of the area."[16] The geological mapping of the region should be completed to expedite mineral exploration, and further knowledge of the forestry, fisheries and hydro-power resources should be sought.

The Commission's consideration of the role of electric power was also in the context of the need to attract new capital to the region. But the Commission also saw a need to relate the provision of this form of energy to the problems being encountered in the Nova Scotia coal industry. "If federal assistance is required in connection with any power development programme, we suggest that such programme be related to the needs and requirements of the coal industry in Nova Scotia."[17]

Thus far the Commission had been arguing the case for new capital investment throughout the various sectors of the regional economy and relating the prospects for attracting such capital to the problems facing certain key regional industries. When it came to making its specific policy proposals, however, the Commission re-introduced the priority for the resource industries which was explicit in Howland's prognosis but which had not been a part of the Commission's own (stated) reasoning about the regional economic problem. This insertion of the priority for resource development is evident from the first sentence of the following extract from the _Final Report_, which is quoted at some length because of its importance in influencing subsequent federal policy:

> "There is, then, a need in the Atlantic Provinces for considerable expenditures of capital on basic public facilities designed to encourage _development of the resources of the region_. These would include, but should

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[16] _Ibid._, p. 407.

[17] _Ibid._, p. 409.

not be limited to, the provision or reconstruction of adequate power and co-ordinated transportation services. The cost involved in providing these needed services, however, would seem to be beyond the financial competence of the provincial governments concerned. In view of this, we suggest that the Federal Government agree to contribute a substantial sum for capital projects in the Atlantic area to be spread over a relatively short period of years. The purpose would be to cover the costs of necessary capital investment, some or all of which would normally be the responsibility of the provincial governments. To this special contribution might be added during the specified period some or all of the considerable sums now being spent in one or other of the Atlantic provinces each year by various departments of the federal government on such things as docks and wharves, transportation including ferry and coastal shipping subsidies, the development of marshland areas and the construction of (limited) public buildings. The objective would be to co-ordinate all capital expenditures and subsidies in the area other than those on projects which are national in their scope and application such as the proposed land use classification scheme, the Trans-Canada Highway and assistance to people who are unable to make a reasonable living where they are and who wish to be relocated elsewhere. In this way, such capital expenditures, including the proposed capital grants, could be allocated in a co-ordinated manner designed to strengthen the basic economic structure of the area as a whole.

"The expenditure of federal funds in this way should of course be made and supervised by an appropriate agency of the Federal Government. With this in mind, we suggest that the Federal Government establish a Capital Projects Commission for the Atlantic Provinces, or some other appropriate agency. We do not suggest that the proposed commission or agency be a permanent addition to the existing governmental machinery. On the contrary, we believe the needed facilities should be provided over a reasonably short period and that the capital expenditures involved should not be regarded as a permanent addition to the resources of the Atlantic area. Accordingly, we suggest that when the proposed commission or agency is established it be given a limited life and be disbanded at the expiration of that time. However, inasmuch as some of the capital expenditures in question may be self-liquidating in whole or in part, it would be necessary to make provision for the continued administration of projects initiated by the Commission or other agency.

"The proposed commission or other agency, and the staff which it would require, should first prepare an over-all co-ordinated plan, including a list of priorities in connection with the proposed expenditures. Once this was approved by the Federal Government, the commission or

> agency referred to should be responsible for the implementation of the proposals, including supervision of the expenditures involved.
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> "If such a plan is to be successful, it would be important to secure the full co-operation and support of the four provincial governments concerned. They, or their advisers, should be asked to make proposals and to suggest priorities for capital expenditures by the proposed commission or other agency. Presumably, the commission or other agency would pay particular attention to projects that might be recommended jointly by the four provincial Premiers with a view to strengthening the economic fabric of the area as a whole. In addition, individual provincial governments might be expected to make recommendations to the commission or other agency respecting projects which might be of particular importance to their own provinces but which might not otherwise benefit the Atlantic area. Final responsibility for determining priorities, however, should rest with the proposed commission or other agency, subject to the approval of the Federal Government."[18]

The validity of the Commission's conclusion that "considerable expenditures of capital on basic public facilities" are needed is hard to assess, largely because the Commission did not attempt to quantify overall economic objectives for the Atlantic region. Its whole analysis is, therefore, open-ended and rather indeterminate. What does seem clear, however, is that the Commission accepted Howland's suggestion, noted above, that the improvement of the general economic environment in which capital has to operate by means of enhanced "basic public facilities", is to be preferred over the direct stimulation of private investment by means of tax incentives and other inducements. The quick, substantial expansion of public facilities was proposed as a worthwhile means of effecting the necessary transformation of the economic climate, which would facilitate and encourage the entry of new private capital to the regional economy.

The cost of such expansion in public services was not estimated except by way of noting that it was probably "beyond the financial competence of the provincial governments." This is likely

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[18] _Ibid._, pp. 410-411

true; but in the absence of such an estimate, it is not at all clear that it is within the financial competence of the Federal Government! And there is the further question, especially appropriate for such an ambitious and expensive programme, of the benefits that may be expected to follow. The Commission assumed these would exceed the costs, even although they had no information about either.

Another point to be noted about this major analytical conclusion, and the policy proposals to which it gives rise, is that the perspective used throughout is that of the Federal Government. This would perhaps be no bad thing, in a unitary system where the central government must have the final say in weighing national against regional considerations. In a federal system it is much less valid, especially when the provincial governments have important responsibilities for economic development under the constitution. This is not pointed out in order to raise constitutional issues, but rather, to make clear that the Commission placed its emphasis on what the Federal Government could contribute to the resolution of Atlantic Provinces economic difficulties, and not on how these difficulties could best be surmounted by the combined action of both the Federal Government and the four Provincial Governments concerned.

This federal perspective is maintained in the further, incidental proposals the Commission also made. Each of these, it must be emphasized, was seen as a potential auxiliary influence in promoting the region's economic growth which would support the effects mainly to be achieved through the work of the proposed Capital Projects Commission. There are three such proposals, each couched in rather tentative terms in the *Final Report*:

(1) that "a greater measure of decentralization of government purchasing policies would be beneficial to local areas";[19]

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[19] *Ibid.*, p. 411.

(2) that, "if it should prove possible to place a greater number of defence orders with manufacturing concerns in the Atlantic region without substantially adding to costs, the resulting benefits might more than justify the additional effort and perhaps inconvenience involved";[20]

(3) that, "if the railways were able to work out their purchasing programmes more evenly over a longer period, this would be of great benefit to the car manufacturing industry in Nova Scotia and help to stabilize employment in that area."[21]

These actions, together with the results expected to follow from the improvements in basic public facilities to be carried out by the Capital Projects Commission, were expected by the Gordon Commission to achieve some results in terms of the health of the regional economy. Such effects, in summary, were expected to include greater efficiency and higher average incomes in the primary resource activities as marginal and submarginal operations were improved (or removed); some further processing of the region's natural resources, although the Commission did not say very clearly whether these would be offered for sale in export markets or in central Canada; and the indirect effect of these changes in expanding the _regional_ market for locally-produced manufactured goods and for services of various kinds. Because it did not attempt either to quantify the expected effects across all sectors of the regional economy, in terms of employment changes for example, or to formulate overall objectives for the region (quantitatively or qualitatively) beyond the espousal of the resource industries already noted, it is difficult to be precise in examining the economic merits of the course of change recommended, or the likelihood of its being carried out. A further

[20] _Ibid._, pp. 411-412.

[21] _Ibid._, p. 412.

difficulty in this regard is that the Commission did not suggest any date by which the execution of its proposals should be completed.

It is clear, however, from its final series of related recommendations that the Commission expected the main burden of regional adjustment to continue to be borne by labour migration, and possibly that such migration would have to be on a scale even greater than had been the case in the past. "The adoption of the measures which we have suggested, if vigorously supported by the people of the Atlantic region, would, we believe, result in a higher rate of economic growth in the area. However, whether or not such suggestions are put into force there is bound to be some dislocation of the labour force in the Atlantic region ...as workers transfer to more strongly developing sections of the regional economy..."[22]

The Commission had considered the problem of marginal agriculture in its national context, and had made certain proposals designed to assist mobility of labour out of such activities and into other occupations. The resolution of the Atlantic Provinces' problem in this regard would be eased to some extent by such national measures. The Commission also expressed particular concern for any coal miners who might be displaced, perhaps as a result of the mechanization programme then underway. It was inclined to relate the costs of assisting the transfer of such coal miners to other activities to the costs incurred under the existing programme of coal transportation subventions; again, it may also be noted, however, the Commission revealed a certain pessimistic note about the likelihood of being able to accommodate this transfer from coalmining to other sectors. "We suggest that on economic grounds alone, having regard to the amount of the present subsidy, there would be every justification for paying the full amount of the transportation

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[22]Ibid., p. 412.

costs of all the members of any families who may be willing to move to other parts of Nova Scotia or elsewhere in Canada, for assistance in the provision of housing; and for training in other occupations, possibly in co-operation with industry."[23]

The same pessimism is notable in the Commission's concluding observation on the outlook for the Atlantic region:

> "To a considerable extent the dimensions of this problem of occupations and geographic mobility in the Atlantic region will be decided by the general strength of future economic development in the area. If the pace of investment is increased substantially and if there is a reasonable development of diversified occupations the process of adjustment will be much more readily accomplished and will be no more than is normal in Canada. This is highly desirable. If the pace of development, however, does not prove sufficient to facilitate such an adjustment easily, then those who may wish to re-establish themselves in other occupations elsewhere should, we suggest, be assisted in doing so."[24]

Although the Commission's pessimism is revealed, it would be unfair to characterize their proposals for the region as consisting mainly of a suggestion that financial aid be given to the wholesale movement out of the Atlantic Provinces of the region's surplus labour. Such a characterization was implicit in the journalistic reaction which followed publication of the Commission's Final Report and was unfair and unbalanced. In fact, the Commission's suggestions for improving labour mobility were advanced on a "wait and see" basis, as a course to be resorted to if the more essential items in the Commission's list of recommendations, were to prove insufficient for the purpose. Of more fundamental importance is the question of whether the objectives framed (implicitly) by the Commission for the regional economy were suitable, and the related further question of whether the improvements in "basic public services" to be effected by the Capital Projects Commission, were adequate for the purpose.

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[23] Ibid., pp. 412-3.

[24] Ibid., p. 413.

As to the specific matter of labour mobility, there is no question that any measures to increase adaptability, skill levels and willingness to accept change, are to be desired. It would be helpful in devising policy for labour mobility, as for other aspects of economic change, however, to have a much more precise formulation of the extent of the reliance to be placed on this particular adjustment mechanism. Such a formulation is impossible to make without a statement of regional objectives, preferably in quantitative terms, for the regional economy; and this, as already noted, was lacking from the Commission's analysis and conclusions.

The Commission did identify an important manifestation of the lack of balance in the region's labour market. It suggested a need to increase efficiency in the resource industries where this manifestation was found. It then recognized that success with this (particular) objective would increase the excess of supply over demand in the regional labour market. Its solution was to hope for sufficient expansion of alternative occupations elsewhere within the regional economy (including from further processing of the products of the resource industries), and failing that, to accept the logical necessity of transferring the surplus of labour to alternative activities in other regions of the Canadian economy.

The Gordon Commission's recommendations for the Atlantic Provinces were to play an extremely important role several years later in the formation and operations of the Atlantic Development Board. In particular, the Board's avoidance of direct assistance to industrial development in the Atlantic Region may be traced to the failure of the Gordon Commission to recognize the manufacturing sector as an important instrument for accelerating this region's economic development. The performance of the Atlantic Development Board is examined at some length in Chapter 13 below. The following chapter considers the role of the provincial governments in Canadian regional development.

CHAPTER 12

The Economic Role of Provincial Governments

The analysis and recommendations of the Gordon Commission regarding the Atlantic regional economy had been presented within a national context and clearly revealed a federal government perspective. In some ways this is perhaps the best possible framework for regional analysis since it direct attention to the national consequences of regional economic policy and, as noted in Chapter 4, the various regions of a country may be seen as competing with one another for a limited supply of national resources. At the same time, however, an absolute insistence upon a national view may be excessive and likely to distort both analysis and policy. In Canada this danger is usually reduced by virtue of its being a federal state in which the Provinces have certain expenditure responsibilities and certain taxation powers under the British North America Act.

When Confederation was agreed in the 1860's, the main source of government revenue then available was the customs tariff. In order to prevent the Provinces from imposing provincial tariffs and other indirect taxes as barriers to the interprovincial trade needed to sustain the new nation, the power of collecting customs duties was reserved to the federal government by limiting the provincial governments' taxation powers to direct taxes within their own boundaries. The federal government was given unlimited taxation powers by the B.N.A. Act.

One implication of this division of taxation powers was that, even in the beginning, the Provinces were left with expenditure requirements far in excess of their revenues, and the terms of union provided for per capita subsidies to be paid the Provinces by the federal government. Since 1867 the fields of provincial responsibility - chiefly education, social welfare, justice, and local public works -

have assumed increasing importance, with the result that the Provinces came to need even greater subsidies from Ottawa. Federal-Provincial fiscal relations are, in fact, a subject of continuing debate and no permanent solution, acceptable to all eleven governments involved, has yet emerged. The Royal Commission on Dominion-Provincial Relations (The Rowell-Sirois Commission), established by Ottawa in 1937, was an attempt to untangle the complicated tax system which had developed over the years since Confederation; but its conclusions were unacceptable to some of the Provinces and its recommendations, therefore, have never been fully implemented. Its main suggestions had been that the federal government assume all provincial debt and take over the full costs of relief in return for the sole right to levy income and inheritance taxes.[1]

Equalization Payments and Special Grants

Instead there have been a series of tax-sharing agreements between the federal government and the Provinces, the first prompted largely by the wartime demands on revenue and the consequent need to avoid competition for the tax dollar. The Wartime Tax Agreements were in effect from 1942 to 1947. Since then, further arrangements have been negotiated at five year intervals, the latest covering the five years ending March 31, 1977. Under the present arrangements both the federal government and the Provinces levy direct taxes on the incomes of persons and corporations, and succession duties. Because the yields from these vary on a per capita basis from Province to Province, the agreements also provide for the federal government to make "equalization" payments to the Provinces. These latter are based on a formula designed to raise a Province's yield from the three standard taxes (each at a specified percentage of federal

[1]Canadian Tax Foundation, "Tax Memo", No. 31, May 1962, p. 2 (from which much of the information about federal-provincial fiscal relations in this Chapter is drawn).

collections in the Province) plus its yield from 50% of natural resource revenues, to the national average per capita yield from these sources. In fiscal 1964-65, payments under this heading to the four Atlantic Provinces' governments together amounted to $68.5 million, or over 20 per cent of their total net general revenue.[2] The object of such payments by Ottawa is to enable the poorer Provinces to provide a standard of provincial government services more or less comparable with that available to Canadian residents in the wealthier Provinces. They are thus based on some recognition of "fiscal need" - the difference between the Provinces' taxable capacities and their expenditure requirements.[3]

Another important source of revenue for the four provincial governments of the Atlantic region consists in the Atlantic Provinces Adjustment Grants, which were inaugurated in 1957 as part of the Federal-Provincial Tax Sharing Arrangements negotiated that year. These further payments by Ottawa were continued under the 1962-67 arrangements at an annual rate of $35 million. In fiscal 1964-65 this amount represented another 10 per cent of the total net general revenue of the four Provinces together.

Newfoundland also received a further special grant of $8 million annually to enable it to maintain its public services at the level prevailing in the other Atlantic Provinces.

These three categories of federal unconditional grants, together with several smaller items under the same general heading, constituted 36.9 per cent of total net general revenue of the four Atlantic Provincial governments in 1964-65. The total of all federal unconditional grants was $124.6 million.

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[2] Canadian Tax Foundation, Provincial Finances 1965, Table 9A, p. 12.

[3] For a thorough discussion of this concept and a systematic estimate of the Canadian magnitudes involved see Eric J. Hanson, Fiscal Needs of the Canadian Provinces, Canadian Tax Foundation, Toronto, 1961.

In addition, the federal government makes conditional grants available to the Provinces for such purposes as agriculture and forestry, vocational training, old age assistance, blind and disabled persons allowances, unemployment assistance, health grants, hospital insurance, Trans Canada Highway construction, airport development, construction of roads to underdeveloped mining and forest resource areas, development of camping grounds and picnic areas, civil defence, and winter works. Such grants have the effect of increasing the size of total expenditures on the programs involved beyond what is available from provincial government sources, and hence represent an addition to a poor Province's resources. They can, and often do, have the further effect of directing Provincial expenditures away from other purposes to those where they will "attract" federal cost-sharing expenditures; in this way, their indirect negative effect in reducing outlays on other programs which come under provincial jurisdiction, may be significant. It is likely to be greater in poor than in rich Provinces. There has been little examination of these grants, partly because data on them have only recently come to light. Yet total conditional grants by Ottawa to the Provinces amounted to $860 million in 1963-64; and of this amount, $105 million was paid to the Atlantic Provinces.[4] This is in the order of 80 per cent as much again as these Provinces received in unconditional grants.[5]

Thus the provincial governments in the Atlantic region are extremely dependent, financially, on the federal government at Ottawa which provides over one-third of all provincial revenue. Moreover, by means of conditional grants programs, the federal government is in a position to influence the allocation of perhaps another one-quarter of provincial government expenditures. Both these forms of federal payments to the Provinces enable the provincial

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[4] Canadian Tax Foundation, The National Finances, 1965-66, Table 69, p. 139.

[5] This relates the 1963-64 figure for conditional grants to the 1964-65 figure for unconditional grants. If the 1964-65 figures were available the ratio would probably be higher.

governments to provide a higher standard of public services for their residents than would otherwise be available. Such services mainly include health, welfare, highways and education - all of which may be considered as benefits which accrue from economic development and growth. In the case of low-income areas like the Atlantic region, such benefits are the result of national economic progress and are made available to the residents of the low-income region on grounds of social equity in accordance with the national view on such matters. For such regions, in other words, they are not the result of internal economic progress.

Although it is true that some of the services mentioned, especially education, have recently been recognized as having investment as well as consumption aspects, this recognition has not been an explicit factor in the substantial growth of Canadian federal payments to the Provinces during the postwar period. The emphasis has been almost entirely on enabling the poor Provinces to supply their residents with the same sort of services as are available in the rich Provinces. One "economic" effect of this approach, however, has been to place education and health among the fastest growing sectors of employment in the Atlantic region during the 1950's.

Another implication of this approach, apparently, is that an important role of the provincial governments in Canada - at least in the low-income regions - is as agents of the federal government in distributing the benefits of national economic growth. In this, however, a fair interpretation of the provincial government role under Canadian conditions? What other responsibilities, if any, should the Provinces be expected to carry?

The Development Powers of Provinces

This is not the place to undertake a review of all the issues in federal-provincial relations; there is a vast literature on the varying interpretations which have been placed on the provisions of the British North America Act, and a long history of differences in view as between the federal and provincial governments in various spheres of government activity. What does concern us here are the nature and extent of provincial government responsibilities vis-a-vis the economic development of the Atlantic region. Do the Provinces have a role to play in this sphere? If so, what powers do they have available to carry it out? How well do they exercise such powers in this context? What additional programs might they undertake in order to encourage economic development within their borders?

These are large questions and cannot be fully answered without a careful examination of all the factors involved. For the present, we may deal briefly with whether the Provinces are concerned with economic development, and what actions in this sphere rest within their field of constitutional responsibility.

For this purpose it is necessary to distinguish between stabilization policy and development policy. Stabilization involves maintaining the smooth operation of the economy at or near full employment so as to avoid violent fluctuations leading either to serious unemployment or to inflation; as such it is normally thought to include both monetary and fiscal policy. The economic theory which guides the operation of stabilization policy is based largely on Keynes, and has been refined and generally well adapted for practical use. It is widely recognized that stabilization policy is ideally a function of the federal government because of the need to apply it nationally. The recent increases in the provincial-municipal share of total government expenditure in Canada has necessitated the establishment of regular joint federal-provincial consultative arrangements to help achieve coordination between the two levels of government in the formulation and execution of stabilization policy.

Development policy (or growth policy) comprehends a wide variety of government actions which influence the long-term development (and growth) of the economy. In Canada, while development projects requiring government aid or participation, like the railways in the nineteenth century or the St. Lawrence Seaway in the twentieth, have been an important element in national growth, the attempt to consider in a comprehensive way all the factors which may influence long-term growth and development is very recent. Moreover, the available economic theory on development planning is less certain, and thus offers less clear guidance to the policy-maker, than Keynesian theory provides for stabilization policy. The work of the Economic Council of Canada has been pioneering in this sense; it is too soon yet to say what exact framework for development policy will emerge. Nevertheless it already seems clear that development policy will comprehend a wider variety of action perhaps encompassing the whole range of government activities at all levels. One indication of this is the recent emergence of the approach which treats government expenditures on education as partly a type of investment likely to increase the productive capacity of the economy in future, as well as a form of consumption which benefits only the recipient.

Education is one field which has been explicitly reserved to the Provinces under the B.N.A. Act. Here, then, is one area where the provincial governments may affect future economic development, both within and beyond their borders because of the greater mobility of the educated members of the population. The formal education and training of its children and young people is a function which the Canadian constitution has entrusted to its provincial governments. It is they who have a much greater ability than the federal government, therefore, to affect the quality of the labour factor.

A provincial government also has extensive powers to control the terms and conditions under which its natural resources - another of the three main factors of production - are exploited. It grants mineral exploration and development rights. It manages the forest resources on Crown lands, sometimes selling the forest harvest to private interests for "stumpage" and other fees, sometimes selling land to the companies for their management and use under agreed terms and conditions. It provides advisory and other services to farmers.

A provincial government may, if it chooses, also influence the capital factor. It does so directly through the investment which it carries out itself, mainly in the construction of roads and other public works. The latter may include the development of electric power generating and transmitting facilities when these are operated by publicly owned utilities. It does so indirectly, not only through the encouragement which improved highway and power facilities may give to private investment, but perhaps also by offering inducements to encourage greater private investment in various spheres. Indeed, industrial development is a responsibility which the provincial governments, especially in the low-income regions, consider their own special challenge. It is really part of a wider sphere since, through its development agencies and by offering incentives, a provincial government can influence the evolution of the structure of the whole provincial economy.

Thus the range of provincial powers is sufficiently broad to enable a provincial government to influence all three of the factors of production. Provinces, therefore, do have a role to play in the formulation and execution of economic development policy. Although it is a limited role, it is by no means negligible. This would be so even if the Provinces only influenced the labour factor through the education they provide but, as we have seen, they do more than that.

The limits on the Provinces' role are partly constitutional, partly financial, and partly the result of their own decision. The constitutional limits consist in the fields of jurisdiction which have been made a federal responsibility (such as the regulation of trade and commerce; unemployment insurance; defence; navigation and shipping; the fisheries; currency, banking, and note issue), those which the Provinces share with the federal government (agriculture, for example), and those in which their exclusive legislative powers are limited in some particular way. (In education, for example, the B.N.A. Act imposes certain restrictions relating to the establishment of schools by religious minorities.)

The financial limits are also of three main types. First, the provinces are prevented from imposing indirect taxation by the B.N.A. Act.[6] Secondly, they are limited by the combined size of their own capacity to raise revenue from direct taxation within their boundaries and of the unconditional grants they receive from the federal government. Thirdly, they are limited by being confronted, within these two sets of limits, by the basic economic problem of unlimited wants and scarce means. In short, they can only do so much at any one time. What they choose to do will be determined, at least implicitly, by the priorities they set or accept.

It is, incidentally, within this third sphere that the conditional grants offered by the federal government exert their influence. Under certain headings a Province can obtain federal assistance, most often on a matching basis. Each dollar of Provincial revenue allocated under such headings will "attract" another federal dollar; each dollar diverted to other purposes will not. Hence, the headings selected by the federal government for special assistance may exert a stronger claim to Provincial priority than other programs for which the Province is alone responsible, as Provincial allocations in these directions have the effect of further increasing provincially-administered programs by the amount of federal assistance so "attracted". These federal conditional grants also represent a direct expansion of total Provincial income. For a low-income Province, the temptation to allocate as much of Provincial revenue as possible to the federally selected activities, may be hard indeed to resist.

Thus, in addition to the three types of limits on the exercise of Provincial responsibilities in connection with economic development,

[6] Nevertheless many of them impose a retail sales tax made possible by the Courts' having ruled that such taxes are indirect taxes on the ground that the retailer acts as the collection agent of the Province!

there is the further possible complication that Provincial development priorities may be compromised. Of course, it is possible that the federal assessment of priorities is more reasonable, either from a Provincial or from a national, viewpoint. But this cannot be determined without an empirical examination of practical cases. The danger of Ottawa's compromising legitimate Provincial priorities in this way ought, at least, to be recognized.

As a source of Provincial government revenues, the importance of federal contributions to shared cost programs undertaken by the Provinces has been increasing. Such conditional grants, as they are also called, represented 8.8 per cent of total provincial-municipal revenue in the three Maritime Provinces in the 1959-60 fiscal year. Ten years later, in fiscal 1969-70, this proportion had increased to 13.8 per cent.[7] Generally speaking, the main factor in the growth of shared cost programs has been increasing expenditures for education and health services. Such programs are mainly a reflection of national social priorities in Canada, and are usually provided in accordance with standards established at the national level. As a result, the growth of such expenditures is difficult to resist, especially by the low-income Provinces in the Atlantic Region. Moreover, their continued growth has meant a corresponding reduction in the total Provincial resources available for programs intended to accelerate economic development.

In 1968 the federal government adopted a policy of cutting back on shared cost programs with the Provinces, as a means of freeing additional resources for use in the development efforts of the Department of Regional Economic Expansion, which was established a year later. To the extent that the shared cost programs are subject to built-in growth factors, this cut-back policy will be more difficult

[7]Computed from Table IV-6, page 39 in James H. Lynn, Public Finance in the Maritime Provinces, a report prepared for the Maritime Union Study, Fredericton, N.B., January 1970.

to put into effect. The outcome might well prove to be a continuing, if slower, increase in those shared cost programs which reflect social priorities.

Provincial Expenditures

Some indication of the composition and growth of provincial government expenditures, is given in Table 17.

For the four Atlantic Provinces together the largest categories of Provincial expenditures in 1965 were education (24 per cent of the total), transportation and communications (23 per cent) and health (19 per cent). These three thus accounted in total for two-thirds of all provincial government spending in the region. The same three categories represented an even larger share of Ontario's total, almost three-quarters (73.2 per cent). Within this group, the Atlantic region devoted a larger share of its total spending to transportation and communications (Ontario's share was 21.5 per cent) but a smaller proportion to each of education and health (30 per cent and 23 per cent in Ontario respectively). In fiscal 1965 transportation and communications was the second largest of the three categories in the Atlantic region, whereas in Ontario it ranked only third in the (implicit) order of priorities behind health as well as education. At this level of aggregation one cannot, of course, press such broad comparisons too far. The comparative growth records over the preceding decade may be more revealing.

The percentage increase in total provincial expenditures in the Atlantic Provinces between 1955 and 1965 was markedly less, at 154 per cent, than the relative rise of 241 per cent in Ontario. In fact, the relative increase in the Atlantic region exceeded Ontario's only in the minor categories of unconditional grants to local authorities, "other", and debt charges.[8] In each of the major

[8] The last would reflect a greater need to supplement taxation and other revenues through borrowing and is not, therefore, cause for cheering!

Table 17

Net General Expenditure, Selected Provinces, 1955 and 1965 Fiscal Years

(Current and Capital Expenditures Combined)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Ontario	All Canadian Provinces
				($000)			($ million)
1955 (actual):							
Transportation and Communications	10,405	3,410	17,251	18,117	49,183	110,127	371.0
Health - hospital care	5,973	1,071	4,973	4,709	16,726	56,490	206.0
- other	1,124	279	738	581	2,722	7,884	28.5
Social Welfare	6,049	413	3,547	3,139	13,148	25,616	123.5
Education	8,149	1,311	11,669	9,262	30,391	93,972	273.8
Natural Resources and Primary Industries	1,121	659	2,763	3,393	7,936	20,984	106.7
Unconditional Grants to Local Governments	291	112	999	2,789	4,191	18,019	36.6
Debt Charges	485	738	5,456	5,634	12,313	27,349	56.9
Other	5,489	829	5,242	3,366	14,926	60,558	181.1
TOTAL NET GENERAL EXPENDITURE	39,086	8,822	52,638	50,990	151,536	420,999	1,384.1

Table 17 (Continued)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Ontario	All Canadian Provinces
			($000)				($ million)
1965 (Estimates):							
Transportation and Communications	24,200	6,490	31,390	24,630	86,710	302,300	832.6
Health - hospital care	11,360	2,690	25,180	22,560	61,790	309,010	749.1
- other	3,570	730	3,650	3,020	10,970	16,620	102.1
Social Welfare	10,750	1,970	9,610	8,050	30,380	71,420	340.2
Education	26,370	4,960	37,060	22,320	90,710	424,290	1,190.8
Natural Resources and Primary Industries	3,520	1,040	4,980	8,110	17,650	58,920	239.6
Unconditional Grants to Local Governments	1,840	460	1,330	7,570	11,200	36,890	156.3
Debt Charges	8,990	2,220	12,820	10,530	34,560	68,820	136.6
Other	11,600	3,000	15,640	11,340	41,580	146,330	506.7
TOTAL NET GENERAL EXPENDITURE	102,200	23,560	141,660	118,130	385,550	1,434,600	4,253.9

Table 17 (Continued)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Ontario	All Canadian Provinces
			($000)				($ million)
Percentage Change, 1955 to 1965:							
Transportation and Communications	+ 132.6	+ 90.3	+ 82.0	+ 35.9	+ 76.3	+ 174.5	+ 124.4
Health - hospital care	+ 90.2	+ 151.2	+ 406.3	+ 379.1	+ 269.4)	+ 447.0)	+ 263.6
					)+274.8	)+406.3	
- other	+ 217.6	+ 161.6	+ 394.6	+ 419.8	+ 303.0)	+ 110.8)	+ 258.2
Social Welfare	+ 77.7	+ 377.0	+ 170.9	+ 156.5	+ 131.1	+ 178.8	+ 175.5
Education	+ 223.6	+ 278.3	+ 217.6	+ 141.0	+ 198.5	+ 351.5	+ 334.9
Natural Resources and Primary Industries	+ 214.0	+ 57.8	+ 80.2	+ 139.0	+ 122.4	+ 180.8	+ 124.6
Unconditional Grants to Local Governments	+ 532.3	+ 310.7	+ 33.1	+ 171.4	+ 167.2	+ 104.7	+ 327.0
Debt Charges	+1753.6	+ 200.8	+ 135.0	+ 86.9	+ 180.7	+ 151.6	+ 140.1
Other	+ 111.3	+ 261.9	+ 198.4	+ 236.9	+ 178.6	+ 141.6	+ 179.8
TOTAL NET GENERAL EXPENDITURE	+ 161.5	+ 167.1	+ 169.1	+ 131.7	+ 154.4	+ 240.8	+ 207.3

Source: Canadian Tax Foundation, Provincial Finances 1965, various tables.

categories, however, Ontario's percentage increase substantially exceeded the Atlantic region's comparable gain. Spending on health rose by 406 per cent in Ontario (275% in the Atlantic region), on education by 351 per cent (198%), and on transportation and communications by 175% (76%). To some extent, of course, these disparities in the rates of increase may be attributed largely to Ontario's faster rate of population growth over the decade.

Nevertheless, on a per capita basis the gap between Ontario and the Atlantic Provinces is substantial, as evidenced by the data in Table 18.

The enlargement of the Provinces' financial capacity during the past decade, made possible partly by the Atlantic Provinces Adjustment Grants and the special grants to Newfoundland but more importantly by the growth of health services and education programs, has increased the need for provincial governments to accept greater responsibility for influencing economic development, not only provincially but nationally. More particularly, there is a greatly increased need for Provinces to get their priorities right and also to seek the maximum results through the efficient administration of provincially-mounted programs. It is encouraging to note that an increasing recognition of these possibilities and needs has been evident among the provincial governments of the Atlantic region. Indeed, this recognition was one of the factors which prompted them to seek the special adjustment and Newfoundland grants in the mid-1950's. Similarly, it led them to press Ottawa for the enactment in 1958 of the Atlantic Provinces Power Development Act, which enabled federal loan assistance to get the Beechwood hydroelectric power project underway in New Brunswick. Another manifestation of their greater sense of responsibility for economic development was the joint initiative of the four Premiers in commissioning the examination in 1960 of the impact of national monetary policy on Atlantic regional development by Professor Cairncross, which has been discussed in Chapter 9.

Table 18

Provincial-Municipal Government Expenditure Per Capita on Selected Functions

(averages for fiscal 1961-62 and 1962-63)

	Education	Health	Transport	Resources & Other	Total
			$		
Ontario	112	80	71	10	298
Prince Edward Island	90	49	90	15	244
New Brunswick	67	57	62	14	200
Newfoundland	69	58	50	12	189
Nova Scotia	75	56	47	9	187

Source: Economic Council of Canada, Second Annual Review, Towards Sustained and Balanced Growth, Ottawa, Queen's Printer, December 1965, Table 5-16, p.133. The Economic Council refers to these functions as "growth-related"; the figures shown include federal contributions to shared-cost programs (conditional grants).

The region's provincial governments also pursued programs of industrial development more vigorously during this period. This field is a Provincial responsibility under the Canadian constitution, and each Canadian Province maintains a department which is responsible for attracting new industry and for the provision of advice and technical information. The Industrial Development Loan Board, established in 1947, makes direct loans to small industry in Newfoundland, and also guarantees bank loans for prescribed purposes; aid to large industries may be arranged at Cabinet level. The P.E.I. government extends similar assistance under its Industrial Establishments Promotion Act of 1954. New Brunswick's program of aid to industry dates from 1952 and also includes direct and guaranteed loans for new resource-using, employment-creating undertakings; in 1959 the New Brunswick Development Corporation was established and authorized to provide more extensive facilities, including the preparation of sites and the provision of factory premises. Nova Scotia's program has been vigorously pursued since 1944, and again includes direct and guaranteed loans for new capital facilities for manufacturing and tourist accommodation. In 1957 the Province established Industrial Estates Limited as a Crown corporation with powers mainly to provide buildings for lease to industrial tenants; this agency has had a considerable degree of success in attracting new industries to the Province.[9]

Provincial Pressures for New Federal Policy

During 1961 and 1962 there was a concerted effort by the Provinces in the Atlantic region, aided and abetted by the Atlantic Provinces Economic Council, to persuade Ottawa to take a broader view of the economic difficulties of the Atlantic region and to fashion new policy instruments for the purpose. The Council mounted a sustained

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[9] For a more complete description of provincial programs in this field, see Canadian Tax Foundation, Provincial Finances, 1965, Chapter 11.

program of publicity in support of direct federal government participation in a "bold, massive and well co-ordinated" development program for the region. The program should be aimed at meeting the "need for industrial expansion...in order to provide employment for a steadily increasing labour force and thus to raise per capita levels of output and income..."[10] Expansion of the region's underdeveloped manufacturing sector would require concerted action by all concerned. "Governments must take the initiative, and it is imperative that the Federal Government be active in formulating, financing and administering a regional development program."[11]

At the annual conference of Atlantic Provinces' Premiers in December 1961, the Council proposed:

(1) the establishment by the federal government of a capital fund for the Atlantic Provinces from which grants might be paid to the provincial governments to assist in economic development by means of cornerstone industries, industrial estates, or similar measures _to encourage the location and expansion of industry_, together with an appropriate agency to administer this policy; and

(2) the establishment of a federal agency to expand public investment in the Atlantic Provinces, similar to the Capital Projects Commission recommended by the Gordon Commission in its 1957 report.[12]

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[10]Atlantic Provinces Economic Council, "Incentives for Manufacturing Industries", Pamphlet No. 2, February 1962, p. 5.

[11]_Ibid._

[12]Atlantic Provinces Economic Council, _Submission to Atlantic Premiers' Conference_, Charlottetown, Prince Edward Island, November 1961 (Italics mine).

The first proposal was clearly an attempt to have the federal government become directly involved in a program of industrial development within the region. The agency proposed to administer grants to be paid to the Provinces was expected, presumably, to exert some influence in the formulation, execution, and perhaps the coordination, of the programs to be undertaken by each Province with federal financial assistance.

The second recommendation involved both a degree of agreement with the Gordon Commission's conclusion that public capital facilities in the region should be improved; and a desire to have some means of objective, independent appraisal for the range of public works projects suggested from time to time. In addition to the Corridor Road across the State of Maine, and the New Brunswick-Prince Edward Island Causeway, another spectacular project then being mooted in some quarters as a panacea for the region's economic difficulties, was the Chignecto Canal. This canal, which has been proposed intermittently for several decades, would cut through the isthmus of Chignecto which joins Nova Scotia to New Brunswick, and thereby link the Bay of Fundy with Northumberland Strait and the Gulf of St. Lawrence. Against the background of pressures for this and other major capital projects, the A.P.E.C. submission noted:

> "At the present time, a number of such projects clearly need the objective, independent study that such a body would provide. Events in recent years have indicated the need for one body charged with the responsibility of having these projects assessed and reporting upon them to governments and to the public."[13]

The Council presented another submission to the Premiers in July 1962, soon after "austerity" measures had been announced by the federal government, which noted: "The rapid expansion of public and private investment in the region will require considerable forethought and planning. As a consequence, the framework for channeling aid to the Atlantic Provinces should be created, and studies got underway as soon as possible."

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[13] Ibid.

Because of the lack of published information, the substance of discussions between the Atlantic Premiers and the federal government must remain matter for speculation. There seems little doubt, however, that the Premiers pressed Ottawa at this time for greater federal intervention in the economic development of the region. Whether they pressed for the same sort of intervention as had been suggested by A.P.E.C. is, however, impossible to say.

In the Throne Speech that autumn, the Federal Government announced its intention to establish the Atlantic Development Board. The new federal agency marked a significant step in the evolution of Canadian regional policy. The federal government, in effect, had accepted the need to undertake special additional measures to encourage the economic development of this particular problem region. This discrimination marked a change from the normal approach favoured by Ottawa of treating all provinces and regions "equally" through programs available throughout the whole country. Moreover, the new Board was given powers and responsibilities of potentially greater extent than had been conferred on regional development agencies in other countries. The Board, therefore, deserves special examination in this study, and its functions and performance are analyzed in some detail in Chapter 13.

Summary and Conclusions

To recapitulate, the Provinces, by the end of the 1950's, had come to accept an increased responsibility for stimulating economic development within their borders. The enlarged financial resources available to them as a result of the Atlantic Provinces Adjustment Grants, the special Newfoundland grants, and the federal equalization grants, had also expanded the area within which they could exercise this responsibility. This in turn led them to identify a further need for federal financial intervention in the field of stimulating economic, and especially industrial, development, partly because further financial support was considered necessary and could only come from Ottawa, and partly also in the hope that the federal government could bring about some regional coordination of the development programs of four separate, thinly populated, Provinces. The industrial development of the Atlantic Provinces probably would be less difficult if approached on an overall regional basis rather than attempted in an uncoordinated fashion by four separate provincial governments.

The review of the policy background in this Chapter has shown that the approach to economic policy formulation for the Atlantic Region has undergone a distinct change in emphasis during the postwar period, and especially during the decade since 1955. The federal government first recognized that the region's economic prospects could not be assured simply by rapid national growth and development on the scale achieved during the first postwar decade. Next, it made special extra unconditional grants available to the provincial governments in the region so that they could provide a standard of public services available to regional residents more or less comparable with that available elsewhere in Canada; in doing so Ottawa effected a redistribution of the benefits of national growth so that these were enjoyed in the Atlantic region to an extent greater than the region's own economic achievement could support. More recently, the federal government has accepted a further role, that of stimulating the accelerated development of this region by direct means. Although several important additions have been made to the range of policy instruments available to Ottawa, it remains, however, for the federal government to enunciate an overall policy for this purpose.

On the Provinces' part, the postwar period has witnessed the emergence of a more active approach to economic development matters within their purview. In part this is due to the substantial enlargement of Provincial expenditures to which the increased federal grants have contributed. To some extent also, it reflects a degree of dissatisfaction with the economic role given the Atlantic Provinces by Confederation and its aftermath - a dissatisfaction intensified by the region's failure to participate fully in the rapid national growth enjoyed in the first postwar decade. The Provinces have sought to influence their economic destinies through a variety of development programs, including measures to secure greater industrial development. If there is insufficient coordination of such programs among the four Provinces involved, there is perhaps also cause for hope in the considerable agreement among the Provinces about the need for greater federal participation in development policy, which has been an important factor in having enabled them to press their case with Ottawa rather effectively over the past decade.

As might be expected, there is still some area of disagreement between Ottawa and the Provinces about the objectives which should guide the regional development program and the means which should be used to achieve them. To some extent this conflict is largely a hangover of the difference between the Gordon Commission's diagnosis and recommendations on the one hand, and those of Professor Cairncross on the other. The willingness of both levels of government to engage in such a program as evidenced by the initiatives each has undertaken, however, suggests that such remaining conflicts will not be impossible of resolution.

CHAPTER 13

The Atlantic Development Board: An Appraisal[1]

by

F.T. Walton*

I

During his visit to Canada in 1960 to assess the impact of "tight money" policies on the economic development of the Atlantic Provinces, Professor A.K. Cairncross was impressed with the sympathetic attitude of federal government officials towards the economic plight of Canada's four easternmost provinces; nevertheless, he found a certain lack of continuity and focus in Ottawa's approach:

> "No one doubts that there is a regional problem in Canada; but no one seems to know where the responsibility rests, within the federal government, for studying the problem and framing proposals for dealing with it. This does not mean that it is not studied or that proposals are not framed. On the contrary, I found great interest in it in Ottawa and many constructive proposals had obviously been discussed. But there is a disposition, natural under a federal regime, to leave the initiative to the provinces. Perhaps this is inevitable. I see no reason why it should be. It would be a great advance if the federal government, accepting its responsibility for maintaining regional balance, tried to

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[1]I am grateful to Mr. J.T. Hughes of the Department of Political Economy, University of Glasgow, for his comments on an earlier draft. Although this article owes much to discussions with my colleagues in the Atlantic Provinces Economic Council prior to my present appointment, the views expressed are entirely my own responsibility and do not necessarily reflect the views of A.P.E.C. or anybody else.

*This Chapter appeared first in The Business Quarterly, University of Western Ontario, School of Business Administration, London, Canada, as "Atlantic Development: An Appraisal", Summer, 1968.

> work out, in conjunction with the provinces, a policy for regional development. No one supposes that such a policy would be other than tentative. But there should be more to it than haggling over equalization grants; and there should be some section of the federal government which would concern itself with the policy and would be the natural focus of discussion with the provincial administrations."[2]

When the Atlantic Development Board was created in December 1962, many observers expected it to assume this role. The Board was first given an entirely advisory function, its main object being defined as "to inquire into and report...upon measures and projects for fostering the economic growth and development of the Atlantic region of Canada..." to its Minister - a senior member of the Cabinet from an Atlantic Province constituency, capable of speaking for the general economic interest of the four-province region. The Board was given a broad field within which to examine regional development problems and to frame recommendations.

One might conclude that "fostering the economic growth and development" of the Atlantic region had been accepted as an objective of federal economic policy, and that the means of pursuing this objective were to be decided at Cabinet level. No such policy was suggested at the time the legislation was introduced except in very general terms,[3] probably because the Government expected the new Board to submit recommendations in this regard when it had had time to complete a general review of the current state and future prospects of the regional economy. The very establishment of the Board suggested, of course, that the Government was disposed to consider favourably any action proposed by the A.D.B. No expenditure commitments were contained in the legislation, as would be expected with an advisory board. The

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[2] A.K. Cairncross, Economic Development and the Atlantic Provinces, Atlantic Provinces Research Board, Fredericton, February 1961, p.33.

[3] For example, Hon. H.J. Flemming, when sponsoring the original Bill in the House of Commons, observed, "The Atlantic Provinces have special problems requiring special attention."

degree of formal independence from the Government of the day given the Board suggests that its assessments would offer effective guidance not only for the federal government but also for the Provinces and other regional interests. Moreover, its purely advisory function left the Board little option but to proceed with the formulation of proposals for an overall policy for regional development, for the Government to consider as a possible basis for legislative and other action.

These potential opportunities became academic before the Board had really begun to function, however, with the enactment of amendments to the original legislation in July 1963.

The Board ceased to be a purely advisory agency with the establishment of an Atlantic Development Fund of up to $100 million, the disbursement of which became its responsibility. The Board's function was thereby broadened to include "operating", as well as advisory, responsibilities. No longer was the Board restricted to providing advice to the Minister, and thus the Cabinet, relative to the economic growth and development of the Atlantic region. Henceforth it was also to frame recommendations for the disbursement of a $100 million Fund and to become involved in the day-to-day administrative problems of receiving and assessing proposals for disbursements from the Fund. The successful combination of such a "line" function with essentially "staff" responsibilities is acknowledged by administrative experts to be difficult, especially in an agency with a small staff.

Paradoxically, the Board's horizon as an advisory body was broadened by another subsection in the same amending Act which authorized it to:

> "prepare, in consultation with the Economic Council of Canada, an overall co-ordinated plan for the promotion of the economic growth of the Atlantic region."

It may be assumed that such a plan was desired by the Government for the purpose of guiding and co-ordinating federal economic policies vis-a-vis the Atlantic Provinces.

II

The Atlantic Development Fund

The Atlantic Development Fund was established as a special account in the Consolidated Revenue Fund. To it would be credited payments made by the Minister of Finance on the recommendation of the Minister designated for the purposes of the A.D.B. Act. Disbursements by the Board on such programs and projects would be charged to this Fund.

A total limit on such payments into the Fund was established, namely, one hundred million dollars.[4] Moreover, such payments cannot be made except for "a program or project...that has been approved by the Governor-in-Council." Thus Cabinet approval is required for all programs and projects to be supported from the Fund, and the Atlantic Development Board remains an advisory agency in that sense. The Board has no authority to make expenditures, even from the Fund, without prior Cabinet approval.

The advantages of the Fund thus consist in (a) its statutory authorization which permits payments to be made into it without their having to be included in regular Parliamentary appropriations; and (b) the general commitment by Parliament to allocate up to $100 million to assisting economic growth and development in the Atlantic region.

The establishment of the Fund was an open invitation for public and private agencies in the Atlantic provinces to submit proposed programs and projects for federal financial assistance. Provincial governments had their suggestions, as one would expect; local government units, business firms and private individuals also joined the rush to qualify for some of the new largesse.

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[4] In 1966 the authorized limit was raised to $150 million by means of an amendment to the A.D.B. Act.

Thus, although the Board remained an entirely advisory body with no autonomous authority to make expenditures even from the Fund, it was given the task of receiving representations from regional interests - public and private - on all manner of schemes considered by their proponents to be crucial to the future economic growth and development of the region. Moreover, it was given this task unaccompanied by a statement of policy from Parliament, or the Government, as to what particular objectives were sought for the Atlantic Provinces economy. This lack of any clear guidance from the Government is underlined by the inclusion of the enabling clause authorizing the Board itself to prepare a "plan" for promoting the region's economic growth.

In the absence of a clearly defined federal policy regarding the Atlantic Provinces, and since a certain amount of study and planning are usually desirable before action takes place, the decision to create the Atlantic Development Fund and to charge the A.D.B. with assessing proposals for its use, appears to have been unwise. It at least had the effect of postponing the formulation of an overall federal policy for the Atlantic region, which had appeared much more likely to emerge as a result of the original legislation. The damage may prove much worse if in authorizing commitments from the Fund the Government has established precedents which tend to compromise whatever policy may eventually be adopted, or if the Board itself and its staff become wedded to the "operational" approach which has been receiving so much emphasis in its first years of existence.

It might be argued, on the other hand, that the creation of the Fund made possible the granting of federal assistance to a number of large projects which, otherwise, might not have been forthcoming. This argument depends on the assumption that such assistance could only be provided from the Fund and not from Parliamentary appropriations in the normal way. Such an assumption is hardly valid.

III

The Board's Opportunity

The establishment of the Fund distracted the Atlantic Development Board from its broad tasks of advising the federal government on the general nature and significance of economic problems in the Atlantic region and of framing recommendations regarding the future development of these four provinces. Nevertheless it seems worthwhile to consider whether, without the distraction imposed by the Fund, it might have been expected to undertake a more ambitious role.

It seems clear that the Board had been established largely in response to pressures which arose within the Atlantic region itself, and not as a result of any careful appraisal undertaken in Ottawa of the need for new regional policy, either by Members of Parliament or the Government's economic advisers in the Civil Service. This is indicated in the fact that the new regional agency was established to deal with the Atlantic Provinces, while none was set up for the other major Canadian regions. More significantly, it was reflected in the inclusion in the Act of the authority, as discussed above, for the new Board itself to initiate the federal assessment of the regional problem and the policy changes needed to deal with it. There were no arbitrary constraints imposed on it by its terms of reference; the Board was left to decide itself upon the scope of its researches and upon the manner in which such researches should be pursued. In short, in advising the federal government on Atlantic regional development, the Board was given a clear field and substantial freedom to explore it.[5]

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[5]This view of the Board's scope is reiterated in its Annual Report for the fiscal year 1964-65: "It (the Board) thus has the knowledge, the interest and the freedom to pioneer regional development policy." (p.11)

At the same time, the Board was also free to secure co-operation and assistance from the provincial governments and other regional interests. These "regionalists" could be expected to have some knowledge and understanding of regional economic difficulties from their long direct experience with them; moreover, the Board could hope that its role as federal adviser on such matters would place it in a position to exert some leadership in studying regional problems and devising solutions in a broad, comprehensive context. In this way the Board might even assist in achieving greater co-operation and consistency among the various development efforts at the provincial level. The creation of the A.D.B. was welcomed by all regional interests, especially the four provinces, so there is little basis for expecting the region to frustrate its purposes through unwillingness to co-operate.

In addition, the Board had the advantage of a frame of reference at the Atlantic Provinces, or regional, level broader than the level imposed on each provincial government by the British North America Act. Imaginative and flexible pursuit of its planning responsibilities within this wider framework, in close collaboration with the provincial governments, offered the promise of a more sensible overall approach to the problems of a major economic region than had hitherto been possible under a division of provincial responsibilities among four separate units, each responsible for only a part of the whole area.

If there are shortcomings to be found in the Board's actual performance, therefore, the major share of responsibility must rest either with the Government for establishing the Fund too soon and thereby distracting the Board from its advisory tasks, or, probably to a lesser extent, with the Board itself for interpreting its advisory-planning role too narrowly.

IV

The Use of the Fund - An Assessment

As at March 31, 1966 the projects "approved by the Governor-in-Council"[6] involved a total allocation from the Fund of $76.7 million. Of this total, $24.5 million had been spent as at March 31, 1966, mostly during the preceding fiscal year.

Actual expenditures are, however, less important than expenditure commitments which reflect the order of priorities the Board has followed.

The overriding impression to be gained from a review of the allocations from the Fund is the great preference the Board has displayed for projects involving the provision of basic capital facilities. Some of these are on a large scale, most notably the hydroelectric generating facilities and the highways construction programs. Even in the case of the assistance the Board has rendered to industrial expansion and development, the insistence on the laying of watermains and sewer pipes as the chief, almost only, form of assistance, is remarkable.

The Board has especially emphasized the role which adequate supplies of electric power should play in economic development, directing almost half the available Fund to expanding and improving electricity generating capacity throughout the region. The largest grants, $20 million each, are for the Mactaquac project on the St. John River in New Brunswick, and the Bay d'Espoir project on Newfoundland's south coast.

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[6]This is the wording used in Statement 1, Appendix I of the 1964-65 and 1965-66 Annual Reports, which comprise the reports of the Auditor-General. Presumably, such approval is synonymous with "payments into the Fund" (as a separate account within the Consolidated Revenue Fund; see above, page 324). No outward flow of funds is effected until disbursements are made by the Board.

Table 19

Commitments from the Atlantic Development Fund and Actual Expenditures by Category, as at March 31, 1966

	Approved by the Governor-in-Council	Funds Disbursed
	$	$
1. Electric Power	48,412,800	17,446,308
2. Transportation	10,675,000	5,657,459
3. Industrial Research	3,000,000	132,589
4. Other basic services to industry	14,613,269	1,261,620
TOTAL*	76,706,069	24,501,698

*also includes "Sundry expenditures" of $5,000 approved, $3,722 disbursed

Source: Atlantic Development Board, Annual Reports for 1964-65 and 1965-66, Appendix I.

Another $10.7 million has been allocated from the Fund for assistance to highway construction, chiefly the upgrading of existing trunk highways. This program is being followed by further federal aid of $30 million to highway building over a three-year period. These latter expenditures will not be a charge on the Atlantic Development Fund, however, but will come from special annual appropriations by Parliament to the A.D.B.

The $3 million for assistance to industrial research will provide new capital facilities for the Nova Scotia Research Foundation and the New Brunswick Research and Productivity Council. Both these organizations are provincial government agencies engaged in various aspects of applied scientific and industrial research.

The Board has preferred an indirect approach to the stimulation of industrial development in the Atlantic region. The chief means it has used is the provision of financial assistance with the basic services required by newly locating or expanding industrial enterprises. More recently it has also allocated some funds to developing industrial parks in certain selected localities. It has avoided becoming committed, however, to any overall industrial development policy, either in the region generally or in any one of the four provinces. Indeed, in Nova Scotia's case it has withstood requests by the Provincial Government to give general support to a scheme for attracting new industries to that province.

Table 20 indicates the main categories of the $14.6 million allocation for industrial development purposes.

Over half its industrial development commitments have been made to alleviate the Board's concern with ensuring "adequate supplies of pure fresh water for industry", and with "the protection of these supplies from pollution of both municipal and industrial origin."[7]

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[7]A.D.B., Annual Report, 1964-65, p. 21.

Table 20

Commitments from the Atlantic Development Fund for "Other basic services to industry", by Category, as at March 31, 1966

	Approved by the Governor-in-Council	Funds Disbursed
	$	$
Water supply and/or sewage systems at various locations		
- Newfoundland	4,890,067	31,674
- Maritime Provinces	3,018,869	1,073,472
	7,908,936	1,105,146
Abatement of industrial water pollution	2,010,000	9,356
Industrial park facilities	3,528,327	116,174
Miscellaneous	1,166,006	30,944
TOTAL	14,613,269	1,261,620

Most of the assistance is for some 24 fish processing firms. A number of these are already "located in the areas where fishing is the only source of income for the communities, and where the communities have no adequate water supplies".[8] Three are newly locating enterprises, and the Board's grants will enable the municipal authority to build necessary water and sewerage facilities. Of the $7.9 million total involved, some $5.1 of the grants were the direct consequence of "...the introduction in 1964 of new federal regulations requiring a higher standard of purity for water used to process fish for export".[9]

These grants apparently were made piece-meal, without sufficient attention being paid to their overall effects on employment and efficiency in this important regional industry. It would be deplorable if, in fact, the Board has thereby missed an opportunity to conduct such an overall appraisal.

The Board's keen interest in water pollution problems has led it to set aside a further $2 million from the Fund to be utilized for assistance to industry in reducing pollution.

Prior to 1965-66 the Board had been reluctant to engage in the direct stimulation of industrial development. Its only speculative venture in this field was an allocation of $118,327 to assist with the establishment of an industrial park at Summerside, Prince Edward Island to be "...used by manufacturing industries".[10] Even here, however, the form of the Board's assistance had been specified as funds "...to finance water and sewage mains to connect the industrial park to the municipal facilities at Summerside".[11]

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[8] Ibid.

[9] A.D.B., Annual Report, 1965-66, p. 20.

[10] A.D.B. Annual Report, 1964-65, p. 23.

[11] Ibid.

During 1965-66, however, the Board committed a total of over $3.4 million to assist the development of industrial parks in five more Atlantic Provinces' locations:

	Amount $
Dorchester Point, New Brunswick	1,500,000
Stellarton, Nova Scotia	700,000
Lakeside, Nova Scotia	560,000
Saint John, New Brunswick	450,000
Truro, Nova Scotia	200,000
	3,410,000

This assistance is intended to relieve municipalities of part of the burden of providing industrial land properly serviced with (once again) water and sewerage facilities, road and rail access, and electric power connections. It may also recognize that, to the extent that industrial parks are successful in attracting employment and income, the benefits will extend beyond the particular localities directly affected. The centres selected have been chosen in consultation with the provincial governments, and after obtaining the advice of outside consultants. The Board's aid is to be rendered through the provincial government in each case under terms and conditions stipulated by agreements negotiated for the purpose.

V

Planning

As already noted, the Atlantic Development Board Act, as amended, includes a provision that the Board may "prepare in consultation with the Economic Council of Canada, an overall co-ordinated plan for the promotion of the economic growth of the Atlantic region."[12]

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[12] Section 5, An Act to amend the Atlantic Development Board Act, 12 Elizabeth II, Chapter 5, Statutes of Canada, 1963.

There are many senses in which the terms "economic plan" and "economic planning" may be used. At one end of the spectrum there is the very detailed plan in which all decisions are made at the centre, a model which the Russian economy resembles to some extent. At the other end, a "plan" may be more simply defined as a set of related measures designed to achieve some stated objective or objectives. In between, numerous permutations and combinations are possible.

This variety of possible meanings should be borne in mind in assessing the role which the A.D.B. may play in "planning" the economic growth of the Atlantic region. Because the Board's "plan" can only be implemented through the joint actions of five governments, however, a general approach would appear necessary and desirable, at least in the first instance.

Unfortunately, little real indication of the Board's intentions has been given in its annual reports. We are told a certain amount about the organizational changes imposed by this new responsibility: a committee of Board members has been appointed, a Planning Division has been established as part of the staff, and certain economic studies have been commissioned. One of these consisted in an attempt to construct input-output tables showing the flow of goods and services within the regional economy - which may suggest the Board envisages a rather detailed type of planning. All of this remains a matter for conjecture, however, pending a clearer statement from the Board.

The Board's planning function cannot be carried out in isolation. On the one hand, it is necessary that its regional plan be integrated at some stage with the national objectives and policy proposals already advanced by the Economic Council of Canada. On the other hand, it is equally essential that the same regional plan not differ substantially from what provincial governments' plans envisage within their own jurisdictions. If these conditions are not met, the A.D.B.'s regional plan, however sophisticated or theoretically sound it may seem to be, is unlikely to be of much practical use.

The Board, therefore, must enlist the cooperation of both the Economic Council and the provincial governments at all stages of the planning process. Cooperation throughout the process with the Economic Council is required of the Board by its own Act. It is noteworthy, incidentally, that the Economic Council has thus far restricted itself to broad pronouncements and recommendations about economic policy at the national level without becoming involved in detailed planning. Neither does it have to administer anything resembling the Atlantic Development Fund. Consequently the Economic Council, itself the junior of the A.D.B. by several months, has issued three annual reviews in which it has advanced a broad policy strategy to foster national economic growth and development, and has also published a series of competent research studies on various related matters, while the A.D.B.'s annual reports say essentially very little about either the problems or the prospects of the Atlantic region.

The Board's annual report for 1965-66 contains a section on planning which comments on the context in which it must operate, the end uses to which it will be put, and the immediate objectives which faced the Planning Division in June 1965.

"The Planning Division role is thus seen as the creation of <u>as effective an instrument as possible</u> for joint federal-provincial economic planning, as well as for the formulation of a set of comprehensive and coherent policy proposals for the economic development of the region.

"<u>It will take some time before the initial formulation of guidelines can be completed; however, during this period, it is anticipated that the work of the Planning Division will become increasingly useful in guiding the decisions which must be taken by the Board in pursuing its more immediate objective of improving the infrastructure of the region.</u>"[13]

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[13] A.D.B. <u>Annual Report, 1965-66</u>, p. 16. Italics mine.

An important first step in planning of any kind is the formulation of objectives or goals. The Atlantic Development Board has the advantage of guidance in this task from the Economic Council's objectives for the national economy. Its regional goals should, of course, also take explicit account of the Atlantic region's own peculiar circumstances. In this goal-setting stage, no less than in subsequent stages of the planning process, enlisting the cooperation of the provinces will be absolutely imperative. This seems to be recognized by the Board which notes the need "to achieve as close a working relationship as possible with federal *and provincial* government agencies in preparing economic guidelines."[14]

Whatever their intentions and hopes for close cooperation in this regard may be, however, they cannot be helped by the Board's published conclusions about the strategy of development which should be followed. These differ fundamentally from the most recent general policy conclusions offered by agencies within the region.

By the Board's interpretation, the "general consensus on the broad development strategy...in which all agencies, public and private, might be expected to participate"[15] consists of:

1. major investment in infrastructure - water, power and transportation;
2. assisting present industry to achieve higher productivity;
3. intensifying the investigation and utilization of resources;
4. up-grading of labour force skills;
5. encouraging, by a variety of incentives, the growth of secondary industry.

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[14] *Ibid.* Italics mine.

[15] *Ibid.*, p. 11.

The creation of the Fund and, to some extent, events have resulted in the Board's placing earliest and major emphasis on infrastructural improvements. But economic planning is designed to reduce the pressure of events by tailoring economic development to particular ends or in particular directions, with a view to attaining a set of desired objectives. It is thus essential for the Board to inquire whether its policy of infrastructural improvements is consistent with such objectives. Before this can be done, objectives must be discussed and a consensus won on these: that the Board has failed to do so as yet is perhaps its most serious shortcoming.

Two agencies within the Atlantic region - Nova Scotia's Voluntary Economic Planning Board and the Atlantic Provinces Economic Council - have offered sets of objectives which are very similar, one with the other. Moreover, both sets are quite compatible with those proposed for Canada by the Economic Council. Yet each differs in fundamental respects from what the Atlantic Development Board contends is a "general consensus" about development strategy.

The Nova Scotia plan proposes as goals:

"1. the highest possible rate of growth with an equitable distribution of per capita income;

"2. the highest possible level of employment;

"3. the achievement of the highest possible increase in productivity;

"4. the development of all the resources of the province to the highest point of efficiency; and

"5. the achievement of a climate, both economic and political, that will encourage the development of new industries and the expansion of existing industries."[16]

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[16] Voluntary Economic Planning Board, Nova Scotia: First Plan for Economic Development to 1968, Halifax, Queen's Printer, February 1966, p.7.

Relating these to the changes in the sectoral structure of employment within the province, it concludes that the proper strategy for Nova Scotia "...will consist mainly of greater expansion in the size and importance of secondary manufacturing and the service industries".[17]

The A.P.E.C. document[18] discusses regional objectives in the light of the Economic Council's national goals, offers some quantification of their implications for employment, unemployment, productivity, output, and exports at the regional level, and concludes:

> "The central purpose of economic development in the Atlantic region for the immediate future, then, is increased employment through the establishment and expansion of economic activities which show good promise of becoming efficient."[19]

Thus both these assessments, one conducted under the auspices of a provincial government by its economic planning organization, the other issued by a private organization with some claim to being a spokesman for the general regional interest, differ pointedly from the A.D.B.'s "general consensus". The main differences are in the treatment of manufacturing and service industries, given priority position in both the Nova Scotia plan and the A.P.E.C. document but mentioned last (and not very emphatically) by the A.D.B.; and in the much greater emphasis given increased employment as an objective in the Nova Scotia and A.P.E.C. documents. Indeed, both A.P.E.C. and the Nova Scotia planners attempt, on the basis of demographic trends and other factors, to quantify this objective in terms of the number of new jobs needed in the medium term.

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[17] Ibid., p.8.

[18] Atlantic Provinces Economic Council, Toward a Strategy for the Economic Development of the Atlantic Provinces, Fredericton and Halifax (mimeographed), October 1965.

[19] Ibid., p. 21.

The Atlantic Development Board, after more than four years in being, has not attempted to quantify any of its objectives. What is more remarkable, it has not published even an unquantified general assessment of the economic situation in the Atlantic Provinces: its performance in this respect is deplorable compared with its national counterpart, the Economic Council of Canada whose annual reviews have provided an entirely new focus for assessing national economic progress and policy. Neither of these two exercises is beyond the resources of the Board organization, nor should they await the perfection of the planning instrument which the Planning Division has apparently set out to devise. Each is a necessary and integral step in the early stages of any economic planning process. Perfection of the machinery is not to be ruled out, of course, but it does seem more likely to result in the fullness of time from a series of approximations worked out to take account of changing circumstances and trends than from any initial effort, however prolonged, painstaking and sophisticated it may attempt to be.

There are, after all, at least two major advantages to be gained from an early - less deliberate but nevertheless realistic - assessment by the Board of overall needs. One arises from the fact that the Board is already in the process of injecting a flow of expenditures into the region which totalled almost $120 million[20] on the latest available reckoning. This scale of expenditure is bound, if nothing else, to sustain a high level of aggregate demand in the region for several years ahead. Such expenditure should, however, be related to more explicit regional economic objectives than the Board has enunciated to date. Secondly, the Board has a duty to advise on how

[20] Commitments from the Fund as at March 31, 1966 of $76.7 million, plus $12 million subsequently announced for a thermal generating electric power plant in Nova Scotia, plus the separate program of $30 million for highways construction.

the current influx of young school leavers to the regional labour force[21] can best be integrated in the economic development process. This surge of "young blood" is not only a challenge but an opportunity - without a greater sense of urgency in the A.D.B.'s planning effort, the opportunity is in danger of being lost.

It is high time the Board enunciated a long-term strategy based upon a fairly careful, although necessarily general, study of the region's economic problems and prospects. Indeed, this assessment of the regional problem and the Board's proposed objectives should become the basis for a White Paper on federal economic policy for the Atlantic Provinces. It is over four years since the Atlantic Development Board was created to fashion such an overall federal policy and surely not too soon, therefore, for the Board and the Government which it has a responsibility to advise, to set out publicly the main conclusions they have reached regarding the future of a major economic region in which one-tenth of all Canadians live.

The Board might also consider making some of the results of its research program available to a wider audience. The problem of Atlantic regional development has always been of great interest in Canada but, despite the pioneering studies conducted over the past decade by the Atlantic Provinces Economic Council, university scholars and others, there is still a lack of readily available literature. Moreover, regional development problems and policies are increasingly the subject of study by scholars in other countries: in comparative studies at the international level, this lack of literature often precludes the inclusion of Canadian problems in such analysis. The Atlantic Development Board, in addition to the studies conducted by its own staff, has commissioned a considerable number of special

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[21] For documentation of this projection and its implications, see the Economic Council of Canada's First Annual Review, Economic Goals for Canada to 1970, Ottawa, Queen's Printer, December 1964 and A.P.E.C., Towards a Strategy, Halifax and Fredericton, October, 1965.

studies by university scholars and other professional consultants.[22] Not all these would be of interest, or suited, to a wider audience, of course. But many would; and the Board is in a unique position to advance the study of the problem which is its own concern, and thereby perhaps stimulate other proposals for its solution, by publishing those of its studies which are of sufficient standard to merit it.

A related further venture for the Board would be to sponsor the publication of selected readings drawn from past studies. The assembly and review of this material presumably will be an integral part of the Planning Division's work: if so, it would not involve much further effort to arrange publication of the more important contributions made over the years.

Publication of analysis and findings would also aid the continuing dialogue between the A.D.B. and the Provinces which is perhaps the only way to resolve the conflict of purpose evident between them in their tentative conclusions about development strategy. This sort of informed discussion of regional difficulties and programs could also be fostered by the Board's making its annual report a vehicle for the purpose. The Board's task is too far-reaching for it to limit its publications to the statutory requirement of an annual report to Parliament.

It may be noted, finally, that shortcomings in its performance to date do not constitute an argument for a return to the circumstances which prevailed before the Atlantic Development Board was established. Certainly Professor Cairncross would find a much better situation in Ottawa than he did in 1960. Expenditures are being made with the deliberate intention of stimulating the development of the Atlantic

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[22]The Board's expenditures on technical and economic surveys and studies amounted to $518,985 in fiscal 1964-65, and to $456,306 in 1965-66.

Provinces, and hence positive discussions concerning this regional economy are taking place among the various federal departments and agencies involved. The Board provides a focus for these discussions as well as for the four provincial governments seeking federal aid or advice. This clearing house role should not be over-emphasized, however, since the Board is also in the unique position of being able to exert leadership for the whole regional development program, both on the other federal agencies involved and in bringing the four provinces and Ottawa together in a common effort. As it gains experience and overcomes its early difficulties the Board may yet fulfill its own stated promise "to pioneer regional development policy."

University of Glasgow,
March 1967.

CHAPTER 14

Financial Incentives for Regional Industrial Development

I have argued, in previous chapters, that the prime purpose of regional economic development in Canada's Atlantic Provinces should be to effect a profound change in the region's economic structure through a substantial expansion of its manufacturing sector. This task is a formidable one, both in view of the narrow size of the region's present manufacturing base, and because of the region's considerable locational disadvantages relative to other Canadian regions in serving the main consumer markets of Ontario and Quebec. Yet the need for new manufacturing industries persists.

In the terms of interregional economic relations as discussed in Part I above, what is required is the additional capital and entrepreneurship to the supply of factor equipment available to the Atlantic Region economy, in order to enable it to produce a greater volume of manufactured commodities for sale in the richer regions of Ontario and Quebec. The increased trade in commodities thus attained would become, potentially, an important mechanism for the interregional transmission of growth to the Atlantic Region, as suggested in Chapter 3. The additions to capital and entrepreneurship thus obtained would be combined, of course, with the region's own excess supply of labour and thus serve also to reduce the extent of unemployment and underemployment. If their transfer could be secured in such a way as not to reduce the supply of these forms of factor equipment in the rich regions, the result could be a higher total level of output in the interregional economic system. Thus it is not necessarily a case of robbing Peter to pay Paul, but of making better use of "excess" (or marginal) supplies of capital and entrepreneurship by transferring them from the rich and growing region to the poor and stagnant region.

The transfer of capital and entrepreneurship should not be approached on a general basis, but can be concentrated on the manufacturing sector. This sector can reasonably be expected, if given an adequate stimulus, to "lead" the further growth and development of the Atlantic Region economy. So it is manufacturing capital and manufacturing entrepreneurship which are the critical needs as far as the interregional transfer of capital equipment is concerned.

The Nature and Purpose of Incentives

It is important to view incentives for industrial development in the above perspective. Their purpose is not so much to reduce the operating costs of the desired manufacturing industry in the poor region to competitive levels, although this incidental objective is usually necessary also; the real test of their effectiveness, however, is whether they bring about the desired transfer of manufacturing capital and manufacturing entrepreneurship from the rich to the poor regions.

Of course, it would be possible - at least theoretically - to augment any region's supply of factor equipment from internal sources. Thus manufacturing capital might be expanded by increasing regional saving and/or by allocating an enlarged portion of such saving to manufacturing investment. It might also be hoped that, over time, the region's indigenous supply of manufacturing entrepreneurship would develop and increase. These are likely to be extremely time-consuming methods of achieving economic development in the poor region and would amount, within a national economy or interregional economic system, to unnecessarily forcing each region to develop entirely on the basis of its own internal resources.

Industrial development incentives, if properly conceived and implemented, offer an alternative method of increasing the poor region's supply of manufacturing capital and manufacturing entrepreneurship by transferring these types of factor equipment to the poor region from other regions within the national economy. Such incentives thus afford a possible short-cut to achieving the industrial development of the poor region. Instead of reducing the cost structure of the region's own manufacturing industry, the incentives can be aimed as well at manufacturing enterprises in the rich region in the hope of attracting their interest in investment opportunities in the poor region. Such investment opportunities, of course, are means by which manufacturing capital and manufacturing entrepreneurship can be transferred from one region to the other.

Thus the purpose of industrial development incentives is to increase investment in manufacturing in the poor region by influencing the locational decisions of manufacturers in the rich region and thereby securing some displacement of their total investment toward the poor regions.

With the increasing tendency of national manufacturing firms to finance their expansions through the use of retained earnings, such incentives have become more necessary as an instrument for regional industrial development. If only manufacturing capital were needed in the poor region, the national banking system would provide an effective alternative, lending to borrowers in the poor region the necessary wherewithal to "import" new capital equipment from the rich region. But capital <u>and</u> entrepreneurship are both needed. In today's complex, modern society where national and multi-national firms exercise the greatest control over modern technology and its development, the main source of knowledge about such technology - and the greatest familiarity with existing marketing channels - tends to lie with large corporate enterprises operating at the national level. If the poor region is to base its manufacturing development on modern technology and to have the necessary access to substantial marketing channels for its new products, then it must somehow tap this major source of existing entrepreneurship - the existing national (or international) manufacturing firm.

In this sense industrial development of the poor region becomes primarily the attraction of new manufacturing plants from other regions and other countries. Incentives, if they are to be used for this purpose, must therefore be designed to influence the locational decisions of manufacturers in other regions. Among other things, this requires the active participation of the national government if the industrial development incentives are to apply to firms outside the poor region, which are outside the jurisdiction of Provincial or regional governments.

The Locational Decision

The essential element in attracting new industry to a poor region is an ability to influence the decision of manufacturing entrepreneurs to establish new or expanded factories by somehow enticing them to choose a location in the poor region. One of the most important, although also one of the most neglected, prerequisites for industrialization is this ability to affect the decisions being made by manufacturing firms. If a poor region is to achieve any success in attracting new industry, it simply must develop - and exercise - some sort of mechanism for influencing a sufficient number of the locational decisions currently being made in the manufacturing sector of the total, or national, economy. If, at the same time, the poor region lacks a manufacturing tradition and therefore cannot rely on indigenous expansion as a significant source of new manufacturing employment because it therefore lacks a sufficient internal supply of manufacturing entrepreneurs, the task becomes essentially that of influencing the locational decisions of manufacturing firms in <u>other</u> regions. To many of these firms the idea of establishing new production facilities in the poor region is likely to seem a remote possibility, perhaps even a strange suggestion. For many such firms will not be disposed even to consider locating their new factory in the poor region.[1]

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[1]See, for example, R.E. George, <u>Costs in Manufacturing in Alternative Locations: Nova Scotia compared to Ontario</u>. Halifax (mimeographed), 1965.

This is a neglected aspect of industrial development planning in Canada, where the emphasis has been on the form which financial and other inducements to the attraction of industry should take. Yet, obviously, any program of such inducements should be aimed at a recognizable and defined target. It is necessary, in short, to consider whose locational decisions need to be influenced before one can choose the type and range of incentives to be offered in a sensible way. Are these decisions currently being made within the poor region, elsewhere in the same country, or in some other country or group of countries?

There is probably no firm, conclusive answer to this question for any region desiring industrial expansion. But some approximation to an answer would be a desirable aspect of formulating an appropriate industrial development strategy.

This aspect of the problem has been touched upon by Thomas Wilson in his Financial Assistance with Regional Development[2] when he emphasized the importance to accelerated regional development of maintaining a high and sustained rate of national economic growth. Rapid national growth is a prerequisite for achieving progress with the economic development of less prosperous regions. Translated to the particulars of the industrial sector, this criterion may be interpreted as stressing the need for adequate expansion in the manufacturing sector of the national economy as a necessary basis for diverting some of that expansion to the less prosperous regions. Indeed, if manufacturing is not undergoing some expansion at the national level, there would appear to be little chance of expanding manufacturing employment and output in the less prosperous regions. With such a climate of expansion in the nation's manufacturing sector, however, the strategy for regional industrial development

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[2]Thomas Wilson, Financial Assistance with Regional Development, Atlantic Provinces Research Board, Fredericton, 1964.

should incorporate a mechanism for somehow persuading more national manufacturing firms to locate their new factories in the poor region.

In practical terms, however, we lack a proper appreciation of the problem parameters. For example, there is no estimate available of how many locational decisions are made each year, on average, by Canadian manufacturing firms and therefore we do not know the total number of such decisions that might be influenced by regional location policy. This situation may be contrasted with the Scottish case, where the Toothill Committee[3] estimated in 1961 that, on average, some forty firms came to Scotland each year to establish new factory premises. Nor, in a country whose manufacturing activity is carried out to a great extent by subsidiaries of United States firms, can we be sure that the really important locational decisions are not mainly made by the American parent companies in their U.S. head offices.

In the absence of hard statistical information along these lines, it is possible merely to theorize about the sort of industrial development strategy which would be appropriate to the circumstances of Canada's Atlantic Region. For this purpose it may be useful to denote three groups of locational decisions:

(a) those made by manufacturing firms within the Atlantic Region;
(b) those made by Canadian manufacturing firms located in other regions (chiefly Ontario and Quebec);
(c) those made by manufacturing firms located in other countries than Canada, but involving the choice of a location within Canada for new production facilities.

The strategy of location policy is likely to vary among these three categories. Group (a) is likely to be easiest to influence by public policy carried out at the regional or provincial

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[3]See Chapter 5.

level. For firms already operating in the poor region, there will be relatively little need to persuade them to consider a regional location through, for example, a program of publicity concerning the advantages of the area. With these latter these regional firms will be familiar by direct experience (as they will be also with the area's disadvantages). The main need rather will be to encourage such firms to expand their markets, to innovate into new product lines, and generally to develop the scope and quality of their entrepreneurial capability. Assistance may take a variety of forms, of which financial inducements are perhaps not so important - especially if it is intended that subsidization be avoided and efficiency is to be encouraged. The sort of assistance appropriate to this group of firms is more likely to consist of various extension-type services provided by a provincial or regional government and its agencies that will help such regional firms to recognize, and develop, their expansion potential.

These forms of assistance should be more forthcoming for firms which stand reasonable chances of exploiting non-regional markets. It is not so appropriate to make them available to firms which merely serve a residentiary demand, and have little real prospects of breaking into extra-regional markets.

Group (b) is perhaps the most important to consider. For the industrial development of a poor region is likely to come about as a "trickling-down" effect (to use Hirschman's terminology) of the growth that is taking place in a richer region. There is also the consideration that this group of locational decisions can be influenced by a national government even if they are not affected critically by the policy of the provincial or regional government in the poor region itself. Indeed, the greater chances for success if the national government is involved is the most powerful argument, in pragmatic terms, for making regional industrial development a goal of national economic policy.

Entrepreneurs in national manufacturing firms are not likely to be well acquainted with the potential strengths of a poor region as a location for new industrial enterprises. It would seem, therefore, that the prime element in a strategy for regional industrial development based on influencing the decisions of national manufacturing firms (located at present in other, richer regions of the national economy) is some method of making such firms take a hard, serious look at the possibility of establishing branch operations in the poor regions. In the U.K. the system of industrial development certificates (I.D.C.'s) serves this purpose. In certain, "congested" regions of the British economy, notably London and the Midlands, I.D.C.'s are hard to get from the authorities in the Board of Trade, while in the so-called "development areas" they are easy to come by. Once a firm in a congested region is made aware that an I.D.C. will be hard to get, an attempt can then be made by Board of Trade officials to persuade the firm to consider locating its expanded facilities in a development area - e.g., in Scotland, Wales or Northern Ireland. The next step is for the firm's representatives to visit these less prosperous regions to see at first hand what the possibilities are for establishing new production facilities there. It then becomes possible for development agencies and officials in these areas to come into direct contact with manufacturers with a definite and direct interest in expanding their enterprises into the less prosperous region. They can make their best efforts to induce such firms to choose a location in their region by direct contact and can deal with such firms on a specific basis by attempting to satisfy each firm's special requirements. Thus the I.D.C. serves to bring the development agencies of less prosperous regions into direct, meaningful contact with firms actually contemplating investment in new manufacturing facilities.

Canada, however, does not have a counterpart to the British I.D.C. system. Moreover, in a federation where the attraction of new industry is a provincial government responsibility, it is very unlikely that the federal government would be willing to impose this sort of control on the expansion of industry in the wealthier, and more industrialized, provinces. Thus provincial governments in poor regions must adopt some alternative method of inducing national manufacturing firms to consider locating their expansion facilities within their borders. This alternative is likely to consist of either a suitable publicity program emphasizing the advantages of the region as a manufacturing location, or the offer of financial incentives as a means of overcoming the area's locational disadvantages. Usually some combination of the two will be implemented. But it should be emphasized that the ability of the poor region to attract the real interest of national manufacturing firms is likely to depend to a greater extent, at least in the first instance, on an effective advertising program than on the scheme of financial incentives which it offers.

A further possibility which has much to commend it, would be for the national government to make financial incentives available to national manufacturing firms on the express condition that they erect their new productive facilities in the poor region. This would have the effect of making the industrialization of the poor region a national economic objective. Such a policy is more likely to exert an impact on national manufacturing firms than any program of publicity mounted by a provincial government. But there may be political resistance to such an approach by the federal government in view of the objections to it that may be encountered in the richer provinces where the incentives scheme would not apply.

Thus a regional industrial development strategy based upon an attempt to influence the expansion plans of national manufacturing firms will consist, in Canadian circumstances, of two sorts of approaches. At the provincial level, the emphasis should be on an effective publicity program to make the region's manufacturing potential better known to national entrepreneurs, supported by suitable financial incentives. At the federal level, if possible, it should also include a scheme of financial incentives for manufacturing investment conditional upon such investments being made in the poor region(s).

For location decisions in Group (c), the same sort of strategy could be adopted. Firms in other countries are even less likely than national manufacturing firms to have a sound, adequate knowledge of the poor region's industrial potential. They are also less likely to be influenced by a provincial government's publicity program. It is certain, at the same time, that they cannot be forced to consider a location in a poor region for any new Canadian operation they may have in mind. Here too the best the provincial government can do is hope to interest them, in the first instance, in considering such a location - and this will depend, as with Group (b) firms, mainly on an effective publicity program stressing the advantages of the poor region as a location for new industry. Again, also, the province can back up this program with the offer of some scheme of financial incentives. As with Group (b) also, the provincial effort will be greatly strengthened if the federal government actively encourages, through a regional industrial incentives scheme, or otherwise, foreign investors establishing new Canadian enterprises, to locate their facilities in the poor regions.

Financial Incentives for Regional Development in Canada

In Canada many provinces conduct regular publicity programs designed partly to interest potential industrial investors in a location within their borders. All provinces also provide loans and other types of financial assistance to firms establishing new manufacturing facilities or expanding existing activities.

Since 1960 the federal government has also gradually become involved in providing fiscal or financial incentives designed to induce increased investment in manufacturing in certain less prosperous regions.

The first move into this type of regional policy came in the supplementary budget of December, 1961. A "double depreciation" program was instituted to permit a faster write-off of assets acquired to produce a product "not ordinarily" manufactured in certain areas of the country where unemployment was high. The allowance was equal to the maximum normal depreciation in the first year of the asset's existence, but it could be applied in any of the first three years after the asset was acquired, or spread over the three-year period.

To qualify for this type of assistance, areas were required to make application to the federal Department of Labour for designation as a "surplus manpower area". Twenty-four (24) areas within the Atlantic Provinces submitted applications under the program, and as of May 22, 1963 eleven (11) had been designated.[4] Thus the program was not actually designed to attract industry to the whole Atlantic Region, but only to those areas within the region which had applied for, and received, designation as "surplus manpower areas". By their very nature these areas, moreover, were likely to be the greatest problem areas, with the heaviest unemployment, rather than those locations within the region with the greatest potential for industrial development.

Once an area had been designated, firms intending to manufacture a new product there were further required to apply to the federal Department of Trade and Commerce for certification that they qualified for the "double depreciation" assistance. If granted this certification, they could then claim the "double depreciation" in their annual income tax returns to the Department of National Revenue. The administratively cumbersome aspect of the application procedure was a further source of criticism for the "double depreciation" program.

The program was short-lived, and it is difficult to assess its impact in terms of industrial development on the Atlantic Region. APEC reported in its Submission to the Royal Commission on Taxation that, as of May 22, 1963, the total value of assets approved in the region for double depreciation under this program was $7,210,386.[5]

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[4] APEC, Submission to the Royal Commission on Taxation, Ottawa, November 1963 (mimeographed), pp. 28-29.

[5] *Ibid.*, p. 29.

In the Budget of June 1963, a new federal program of incentives to manufacturing industries locating in slow growth regions was announced. New manufacturing and processing enterprises locating in areas of slower growth were to be granted a three-year exemption from corporation income taxes. In addition to this "tax holiday", such firms were to be permitted, in the fourth and fifth years of their operation, to write off the cost of new machinery and equipment - in other words, at the rate of 50 percent per annum on a straight line basis. Finally, such firms were to be permitted to write off the cost of new buildings located in areas of slower growth at the rate of 20 per cent per annum, or in as little as five years.[6]

The instrument for implementing this revised incentives program was the new Area Development Agency within a new Department of Industry, and its powers were defined in the Department of Industry Act, which received royal assent on July 22, 1963.[7] These powers included the preparation and execution of programs and projects to improve the economic development of designated areas.

One of the first tasks undertaken by the new Area Development Agency was to recommend which areas should be designated as eligible for the new "tax holiday". Accordingly, in September 1963 the Government announced the designation of thirty-five areas within Canada as "areas of slow growth". The criteria for selecting these areas essentially were high levels of unemployment and slow rates of growth. Again, the program did not apply to the whole of the Atlantic Region because a number of areas within the region had not experienced sufficiently high unemployment or sufficiently slow growth and, therefore, were not designated.

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[6]The normal write-off under Canadian income tax law is 5 or 10% p.a. for buildings on a diminishing balance basis, and 20% p.a. for new machinery and equipment, also on a diminishing balance basis.

[7]12 Elizabeth II, c.3, pp. 59-63.

This new program was criticized mainly on two grounds.[8] First, it was pointed out that the areas designated had been selected by reference to criteria which virtually ensured they had particularly bleak records of unemployment and growth, without sufficient attention having been paid to their prospects for successful development. It was argued, especially in an Atlantic Region context, that the most promising centres within the region, were not eligible for the tax incentives offered. Secondly, it was argued that the provision of an income tax holiday would not be likely to have the desired effect of stimulating new industrial investment in the designated areas, since new manufacturing plants would probably not earn profits at such an early stage of their operations. It was not a form of aid which would outlast the initial, difficult, settling-in period for new plants.

Professor Thomas Wilson advanced several recommendations in his 1964 report to the Atlantic Provinces Premiers which may be quoted here:

(a) "...the proper procedure is to ensure that the areas chosen are large enough to include within them what are likely centres of industrial growth. Within these larger development areas, public investment should be so planned as to foster the expansion of the centres of growth and special measures, including assistance with housing, should be devised in order to facilitate the movement of labour towards them."[9]

(b) "In general, direct grants are to be preferred to tax inducements. The value of grants can be better assessed beforehand, and their receipt will help a firm during the difficult settling-in period. Grants can also be used more selectively than tax incentives. It is, therefore, recommended that the federal government

[8] See, e.g., APEC, op. cit.; T. Wilson, Financial Assistance with Regional Development, Atlantic Provinces Research Board, Fredericton, 1964, pp. 20-44, and Brewis, T.N., Regional Economic Policies in Canada, Macmillan, 1969, Chapter 7.

[9] Wilson, op. cit., p. 69

> <u>should provide grants towards the cost of fixed capital in the Atlantic Provinces in preference to the remission of corporation tax. ...The value of the grants should not be reduced by a corresponding deduction from the amount a firm can claim in subsequent years against depreciation</u>."[10]

Although the nature of the tax concessions was changed, and although the individual areas no longer had to apply for designation, the changes did not remove the basis for the earlier criticism that the program concentrated on small areas of heavy unemployment (or slow growth in employment). This criticism was contained in the A.P.E.C. submission to the Royal Commission on Taxation[11], and was among several comments on this program made by Professor Wilson in his report to the Atlantic Provinces Research Board in 1964. Professor Wilson went further, however, and suggested that even if the whole Atlantic region were designated, "the concession would still have been too small" because many new manufacturing operations are unlikely to attain a <u>profitable</u> level of operation only three years after their establishment.[12] This consideration is the more important too, he noted, since the tax holiday did not apply to extensions of existing factories. For these and other reasons, largely concerned with administrative and accounting difficulties, "a tax holiday is not a satisfactory substitute" for other possible inducement devices. The alternative favoured by Professor Wilson was direct capital grants. Proposals based on Professor Wilson's recommendations were submitted by the Nova Scotia Government to the Atlantic Development Board in 1964.[13]

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[10] <u>Ibid</u>., pp. 70-71.

[11] <u>Ibid</u>., pp. 61-2.

[12] <u>Ibid</u>., p. 44.

[13] Government of Nova Scotia, Submission to the Atlantic Development Board, 1964 (mimeographed).

In August, 1965, the federal government issued a new list of regions qualified under the Area Development Agency program chosen on the basis of a new formula which included low family incomes as well as high unemployment and slow employment growth, in the criteria for designation. On this basis the whole of the Atlantic region except the Halifax-Dartmouth labour market area in Nova Scotia and Fredericton and Saint John areas in New Brunswick, became eligible for assistance. The form of assistance was also changed from corporation tax concessions to direct capital grants.[14] The grants - one-third of the first $250,000 of capital investment, one-quarter of the next $750,000, and one-fifth of any excess over $1,000,000, subject to a maximum grant of $5 million - would apply to buildings, equipment, water supply, sewage disposal facilities, electric power supply, and company-owned wharves and docks. In line with Professor Wilson's recommendation, both new firms and expansions of existing firms were made eligible to receive them, provided the expansion creates income and employment opportunities. The changes also incorporated Professor Wilson's further suggestion that the grants not be deducted from the capital against which capital cost allowances may be claimed for tax purposes.[15]

Thus direct grants for income and employment generating capital investment by new or expanding manufacturing and processing firms became available from the federal government throughout the whole Atlantic region with the three exceptions of the Fredericton, Saint John, and Halifax-Dartmouth labour market areas. The omission

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[14] The "Tax holiday" would continue to be available until March 31, 1967. Also, firms which so preferred could claim the equivalent value of the new capital grants as deductions from their income tax liabilities in lieu of accepting direct cash grants from the Government.

[15] The Chronicle-Herald, Halifax, August 6, 1965.

of the Halifax-Dartmouth and Saint John "growth centres" from the industrial assistance program was criticized at the time by the Atlantic Provinces Economic Council. A.P.E.C. noted that these two areas were the most populous and the most industrialized centres in the entire region, which helped to explain the fact that they had higher incomes and lower unemployment than most other areas.

> "Their growth has greatly assisted economic adjustment in the region in the past", he said, "by providing jobs not only for their own residents but also for former rural residents seeking new jobs in the city.
>
> "Moreover, their growth has resulted in higher income and more jobs throughout the wider economic areas which surround them."[16]

This revised program of ADA capital grants remained in existence until 1969 when the Regional Development Incentives Act was passed. Our purpose here is not to assess its overall impact on a nationwide basis, but simply to consider the effect it has had on the economy of the Atlantic Region. For this purpose it must be borne in mind that the program was never designed to meet the specific industrial development needs of the Atlantic Region, although the designation of the entire region with the exception of the Halifax-Dartmouth, Saint John and Fredericton labour market areas made it tempting to consider it a reasonable approximation to such a regional program. This was especially the case since the Atlantic Development Board - another federal agency whose operations were discussed in Chapter 13 above - possessed the power to make equivalent assistance to industrial development available in those parts of the

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[16] As reported in The Chronicle-Herald, Halifax, August 7, 1965.

Atlantic region which had been omitted from the ADA program. Nevertheless the fact remains that the ADA incentives were not designed particularly to augment the industrial structure of this regional economy, but were intended mainly to bring new jobs and income to (generally smaller) areas where unemployment was high, growth was slow, and family incomes were below average.

Some indication of the contribution made by the ADA program to industrial development in the Atlantic Provinces is contained in Table 21.

Table 21 reveals that some 16,000 jobs were created in the Atlantic region under the ADA program. This figure is based upon estimates of prospective employment reported by assisted firms to the ADA authorities at the time of making application. As such it may understate or overstate the number of jobs actually provided eventually in the assisted plants. A more serious limitation is that some of these jobs would have been created anyway in those cases where the new investment would have taken place in the absence of the ADA program.

In summary, perhaps the most serious shortcoming of the ADA program, insofar as it applied to the Atlantic Provinces, was its failure to incorporate a "growth centres" approach to industrial development. Professor Wilson, in his 1964 report, had based his recommendation regarding the specific types of incentives to be employed, on the general principle that industrial development assistance should be available in the major population centres in the region, to which migrants from the depressed rural areas could be attracted, and whose growth should be fostered by a policy of concentrating the provision of infrastructure in such growth centres. Such a policy is necessary as a means of persuading prospective industrialists to establish new production facilities in less prosperous regions, for it is only in the more progressive urban environments of such regions that there is any real hope of finding, or creating, the sort of economic conditions within which new industries can take root, grow and prosper. Only in such growth centres can new industrial firms begin to duplicate the "external economies" already available to them in the major population centres of the rich regions. Such "external economies" are perhaps far more important than any financial incentives in determining the location of new manufacturing enterprises.

Table 21

Job Opportunities, Investment and Value of Incentives Under ADA

December 1963 to December 1967

		Job Opportunities Under ADA		Investment		Value of incentives under ADA			
	Total (number)	Per 1,000 of labour force in designated areas (number)	Per 1,000 of labour force in province or region (number)	(a) Under ADA in fixed assets in designated areas ($000,000)	(b) Private and public, in province or region ($000,000)	(a) as % of (b)	Total ($000,000)	Per 1,000 of labour force in designated areas $	Per 1,000 of labour force in province or region $
Newfoundland	3,912	28	26	220.7	1,471	15.0	26.6	191	187
Prince Edward Island	767	21	21	7.2	284	2.5	1.7	47	47
Nova Scotia	6,674	39	26	243.3	1,916	12.7	39.4	233	159
New Brunswick	4,955	34	24	204.4	1,743	11.7	38.3	267	187
Atlantic Provinces	16,308	33	25	675.7	5,414	12.5	106.1	217	168
Canada	49,957	26	6	1,846.0	69,926	2.6	370.4	200	49

Source: T.N. Brewis, Regional Economic Policies in Canada, Table 7:1, pp. 158-9.

CHAPTER 15

New Measures: The Department of Regional Economic Expansion

It is necessary now to make some note of the more recent changes which have taken place in Canadian regional policy, to assess their significance for the Atlantic Provinces - the region with which I have been particularly concerned, and to comment briefly - and generally - on the extent to which these changes are consistent with the recommendations advanced in previous chapters. These changes may be discussed under four main headings:

(a) the establishment, by the federal government, of a new Department of Regional Economic Expansion;

(b) the institution of a new program of financial incentives for industry under the Regional Development Incentives Act;

(c) the designation of certain "special areas" to be the subject of more intensive federal-provincial development planning and expenditure programs; and

(d) the establishment of an Atlantic Development Council to take over responsibilities somewhat similar to those formerly carried by the Atlantic Development Board.

The Department of Regional Economic Expansion

Canada elected another Liberal Government in April 1968, this time with a new leader in the person of Pierre Elliott Trudeau. One of the principal themes during the preceding election campaign was the need to promote greater national unity. In a post-election interview the new Prime Minister cited three main policy issues whose successful resolution would be necessary if the goal of greater national unity was to be achieved:

(1) the fear in a lot of French-Canadians that their cultural identity was being destroyed;

(2) the under-development of the Atlantic Provinces;

(3) a sense of alienation which had developed at the other end of the country, because of the increased affluence and because of the geographic distance.[1]

The elevation of the problems confronting the Atlantic Provinces' economy to the same high order of priority accorded the difficulties associated with French Canada, is significant in itself, but the statement seemed also to reflect the intentions of the newly elected Government for their legislative programme. It appeared also the emphasis was to be placed on promoting development rather than welfare in the Atlantic region: "...if the underdevelopment of the Atlantic Provinces is not corrected - not by charity or by subsidies 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."[2]

The following year a new federal Department of Regional Economic Expansion was established, under the authority of Part IV of the Government Organization Act, 1969.[3] This legislation gave the Minister of Regional Economic Expansion broad powers relating to "economic expansion and social adjustment in areas requiring special measures to improve opportunities for productive employment and access to those

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[1] Interview of Prime Minister Trudeau by Peter Newman, as reported in Saint John, N.B., "Telegraph Journal", April 27, 1968.

[2] Ibid.

[3] Chapter 28, Statutes of Canada, 1968-69, 17-18 Elizabeth II, assented to 28th March, 1969.

opportunities." It also provided for the integration within the new Department of a number of separate regional development programs authorized by earlier legislation and administered previously by various federal departments and agencies. These included the financial incentives for regional development offered by the Area Development Agency, discussed in Chapter 14 above. In general, the new Department represented an effort to combine, and coordinate, all federal programs and legislation relating to regional economic development in Canada. It would be concerned with all regions of the country, including the Atlantic Provinces.

In a statement to the House of Commons on March 21, 1969, the Minister-designate of Regional Economic Expansion, Hon. Jean Marchand, outlined the programs which his new Department intended to pursue, as follows:

(1) to improve opportunities for industrial employment, new legislation would be introduced to replace the ADA program. "This program will be especially important for Nova Scotia, New Brunswick and eastern Quebec, though it will be of considerable importance to slow growth areas in all provinces."

(2) to work out, with the provinces, plans for the economic and social development of the main centres within slow-growth regions. Federal resources would be made available to help these centres respond to growth opportunities.

(3) plans to encourage and help the development of medium sized and small towns as trading centres and smaller industrial centres, especially on the prairies.

(4) with provinces and local groups, plans for development and adjustment in rural areas of eastern Canada, including the further improvement of those already undertaken under the Fund for Rural Economic Development Act, 1966.

(5) the P.E.I. plan, covering a whole province, is a special case. There will be another special plan for a whole province in the case of Newfoundland.

(6) with provincial co-operation and local involvement, special plans to combat the problems of areas where Indian and Metis people are a large proportion of the population.

(7) improved transportation will be an important element of the proposed Newfoundland plan. There will also be a long-range transportation plan for Nova Scotia and New Brunswick that will include federal assistance for trunk highways and federal action for some major port development.[4]

(8) resource development programs on the prairies, to be coordinated eventually with social development programs.

(9) rural resource development and rationalization in Ontario and British Columbia through the Agricultural and Rural Development Act.

(10) to work with the provinces in certain areas where tourism offers one of the main prospects for improved employment and earnings.

In concluding his statement the Minister noted that the new department is, "in effect, merely a framework". The success of its efforts would depend upon the availability of financial resources, the soundness of the various plans and programs, the co-operation of other federal departments and agencies, and the co-operation of the provincial governments concerned.

That the new government intended to attach a high priority to its regional development program was indicated not only by the Prime Minister's statement already referred to, but also by the appointment of Honourable Jean Marchand to be Minister of Regional Economic Expansion. Mr. Marchand is a senior member of the Government, the acknowledged leader of the Quebec wing in the federal Cabinet, and a close confidant of the Prime Minister himself.

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[4]The new Minister of Regional Economic Expansion went on to say: "I think one point that was raised many times during the debate was some Hon. Members were afraid that what we were spending now, partly through the Atlantic Development Board, on infrastructures would be eliminated in future. This is not true. I hope we will spend more than we have been spending for this purpose under A.D.B. because there is no doubt in my mind that it is useless to think of economic development for certain regions or cities if the infrastructures in those regions or cities are not built or rebuilt. Therefore, we require authority to do this. It is clear from the statute that public works and facilities are available to this end. As I say, we do not intend to do less than the A.D.B. used to do in the Maritimes; I hope it will be more, much more."

The Regional Development Incentives Act

As Mr. Marchand had noted, the legislation establishing the new Department provided a framework, but did not specify very clearly the nature of the development program to be pursued in the Atlantic Provinces and other regions of the Canadian economy. The first major indication of the type of program contemplated came with the passage of the Regional Development Incentives Act, which was assented to 9th July, 1969.

This act authorized the Minister of Regional Economic Expansion to award development incentives to firms proposing to establish a new facility or to expand or modernize an existing facility in a designated region, subject to the Act and regulations made thereunder. The program was to run from August 7, 1969 to December 31, 1976.

"Designated regions" were to be determined by the Governor-in-Council after consultation with the Province(s) concerned, for a period to be specified in the order. They might comprise the whole of a province, or any portion thereof not less than 5,000 square miles in size. To be designated, a region would have to be considered "to require special measures to facilitate economic expansion and social adjustment". This would involve the application of two more specific criteria, namely:

(1) existing opportunities for productive employment in the region would have to be exceptionally inadequate; and

(2) the provision of development incentives under this Act for the establishment of new facilities or the expansion or modernization of existing facilities in the region could be expected to make a significant contribution to "economic expansion and social adjustment" within the region.

On August 7, 1969 the Minister announced the boundaries of the regions designated, by the Governor-in-Council, for the period from August 7, 1969 to July 1, 1972. Some regions were designated in all ten provinces. In the case of the Atlantic Provinces the entire region, with the exception of Newfoundland Labrador, was designated. Thus, to all practical intents and purposes, the Regional Development Incentives Act was made applicable throughout the Atlantic region and became in effect, the main, basic part of federal regional development policy there.

Under the legislation there would be two types of development incentive:

(1) a primary development incentive available for the establishment, expansion or modernization of a facility; and

(2) for a new facility, or the expansion of an existing facility to enable the manufacturing or processing of a product not previously manufactured or processed in the operation, a secondary development incentive.

Maximum amounts were established for both types of incentive. For the primary development incentive, the maximum would be 20 per cent of approved capital costs or $6,000,000, whichever is less. Secondary development incentives were not to exceed 5 per cent of approved capital costs, plus $5,000 "for each job determined by the Minister to have been created directly in the operation".

In cases where both primary and secondary incentives could be awarded, total assistance was not to exceed:

(a) $30,000 "for each job determined by the Minister to have been created directly in the operation";

(b) $12,000,000; or

(c) one-half of the capital to be employed in the operation;

whichever is least.

Unlike the previous grants provided by the Area Development Agency, the development incentives under the new legislation were not to be awarded automatically on the basis of any clearly specified formula. Rather, one important feature of the new program consisted in the considerable discretion afforded the Minister of Regional Economic Expansion in evaluating applications and awarding grants. Perhaps the most pointed aspect of his discretionary powers lies in his authority to determine the amount of the incentive to be awarded in each particular case. In addition to stipulating the maximum amounts that may be awarded, the Act requires that the Minister take the following factors into account when determining the amount of an individual grant:

(a) the extent of the contribution that the establishment, expansion or modernization of the facility would make to economic expansion and social adjustment in the designated region;

(b) the probable cost to provincial, municipal or other public authorities of providing services or utilities required for or in connection with the facility;

(c) the amount or present value of any federal, provincial or municipal assistance given or to be given, other than under this Act, in respect of the establishment, expansion or modernization of the facility;

(d) the probable cost of preventing or eliminating any significant air, water or other pollution that could result from the establishment, expansion or modernization of the facility;

(e) in the case of any proposal to establish or expand a facility constituting the necessary components of a processing operation, whether the resources to be exploited would be adequate, on a sustained-yield basis, to support the facility together with existing facilities that utilize the same resources; and

(f) such other factors relating to the economic and social benefits and costs of the facility as the Minister considers relevant.

These factors, although seemingly rather general in nature, do provide some guidelines for the Minister to follow in awarding incentives. But the inclusion of the last, "residual" factor clearly gives the Minister great scope for introducing other factors as well. The overall effect would seem to be that the Minister, and his Departmental officials, are in a position to exercise considerable discretion in the awarding of grants. Conversely, of course, he would also be able to adopt a closely regulated or highly legalistic method of administration if he should choose to do so. Thus the actual operation of the grants' program would be guided largely by Ministerial, or Government, policy, and therefore subject to change from time to time, rather than dictated by the legislation itself.

The definition of "facility" given in the Act indicates that the development incentives program is aimed mainly at secondary manufacturing. "Facility" means the structures, machinery and equipment that constitute the necessary components of a manufacturing or processing operation, other than an initial processing operation in a resource-based industry. It would appear from the Regulations that the latter clause is intended primarily to exclude the production of mineral concentrates from ores, the manufacture of wood pulp and newsprint, and oil refining, from eligibility under the program.

Thus the Regional Development Incentives Act provides a program of capital grants to manufacturing and processing operations establishing, expanding or modernizing facilities that applies throughout the Atlantic Provinces (except Newfoundland Labrador). The amount of each grant is related to the size of the capital investment involved, and in some cases also the number of jobs to be created, but subject in all cases to the discretion of the Minister of Regional Economic Expansion (and his officials). In the case of newly established facilities, the grants may run as high as 50 per cent of the capital to be employed in the operation - which is a level of assistance that is high by comparison with grants offered under regional development programs in other countries.

The Regional Development Incentives Act is generally intended to affect the location of manufacturing investment, to direct some industrial expansion from growth regions to the development regions. Although the industrial development certificate (I.D.C.) used in Britain to prevent the expansion of industry in certain "congested" regions is not incorporated in the Canadian program, it could well prove to be the case that provision of grants as high as 50 per cent of capital costs, is sufficiently generous to serve as an effective substitute.

It is not generally recognized that the program is also likely to raise the level of manufacturing investment in Canada generally. Thus, for example, some firms in Toronto may well have projects they could carry out but in which - to put it in Keynesian terms - the marginal efficiency of capital is less than the rate of interest. Without the incentives program, these projects would simply not be undertaken. With the incentives, however, the marginal efficiency of capital is increased, and more projects now become profitable, only on condition that they be located in other regions. To the extent that firms in the expansion regions respond to these additional investment opportunities, the effect of the incentives program can be to raise the level of industrial investment in the national economy.

"Special Areas" and Growth Centres

The Government Organization Act, 1969, also provides for the designation, by the Governor-in-Council, of so-called "special areas". These would be designated after consultation with the provincial government concerned. They are described in the legislation as "any area ... that is determined to require, by reason of the exceptional inadequacy of opportunities for productive employment of the people of that area or of the region of which that area is a part, special measures to facilitate economic expansion and social adjustment".

Section 25 of the Act further authorizes the Minister of Regional Economic Expansion to formulate plans "for the economic expansion and social adjustment" of special areas and, subject to the approval of the Governor-in-Council, to provide for coordination in the implementation of those plans by other federal departments and agencies and to carry out aspects of those plans which cannot be undertaken by other federal departments and agencies. The formulation of such plans is to be done in cooperation with other federal departments and agencies, and the Act stipulates there is to be "appropriate cooperation" with the Provinces concerned in both the formulation and implementation of plans for special areas.

In addition, the Minister is authorized under Section 26 to formulate a plan of "economic expansion and social adjustment" in a special area jointly with the provincial government concerned. With the approval of the Governor-in-Council, he may also enter into an agreement with a Province for the joint carrying out of such a plan. Such federal-provincial agreements may provide for the use of the services and facilities of other federal departments and agencies, for federal sharing of the costs of programs and projects to be undertaken by the provincial government, and for the joint federal-provincial incorporation of an agency (or agencies) to implement or undertake programs and projects in the "special area". These federal-provincial special-purpose agencies would be jointly controlled by Canada and the provincial government concerned.

Section 27 provides specific authorization for the Minister, with the approval of the Governor-in-Council, to enter into agreements with the provinces for the payment of grants or loans towards the capital cost of establishing, expanding or modernizing "any work or facility" for the economic expansion of a special area. Before such agreements can be entered into, however, the Minister must be satisfied both that the project concerned is essential to the successful implementation of a "special area" plan, and that assistance is required to enable the project to be carried out.

Finally, the Minister is empowered by Section 28 also to provide certain kinds of assistance towards the establishment, expansion or modernization of "commercial undertakings" in a special area. As with the capital assistance to provincial government works and facilities, the Minister must be satisfied both that the project concerned is essential to the successful implementation of a "special area plan", and that special assistance is required for the project to proceed. The types of assistance covered here are:

(a) federal guarantees of loans (principal and interest) required to finance the establishment, expansion or modernization of the undertaking concerned;

(b) federal grants or loans towards the capital costs so incurred; or

(c) "settling-in" grants, i.e., towards those costs of bringing into production and operating, for the first three years, the new, expanded or modernized undertaking, that are attributable to factors associated with the location of the undertaking in the "special area".

The availability of financial assistance to "commercial undertakings" under Section 28 of the Government Organization Act is severely restricted, however, by Section 14 of the Regional Development Incentives Act. If the commercial undertaking is eligible to receive a development incentive under the latter legislation, that is, if the undertaking is a manufacturing or processing operation of the eligible type <u>and</u> the "special area" is located within, or synonymous with, a "designated region", then a federal loan guarantee may be negotiated only if the approved capital costs of the undertaking would exceed:

(a) $75,000 for each job directly created, or

(b) $30,000,000.

Moreover, in such circumstances, neither federal capital loans or grants, nor "settling-in" grants, may be paid to commercial undertakings in special areas under the Government Organization Act. The effect of this restriction is to eliminate the possibility of "settling-in" grants for manufacturing and processing facilities in "special areas", and to subject this type of undertaking to the maximum amounts available under the Regional Development Incentives Act.[5]

In March 1970 the Department of Regional Economic Expansion announced the designation of 22 "special areas" across Canada. All provinces were affected except Prince Edward Island and British Columbia. Twelve of the "special areas" were located in the Atlantic Region - two in New Brunswick, two in Nova Scotia, and eight in Newfoundland.

Six of the Newfoundland "special areas" were selected in order to develop their potential as population resettlement centres for persons moving from the province's outports. Their designation would permit federal financial assistance, in particular, for the community development facilities required to accommodate the influx of new population.

The other six "special areas" apparently have been chosen for development as industrial growth centres. They are all medium-sized or large urban centres with the exception of the Strait of Canso area in Nova Scotia. The others are Halifax-Dartmouth in Nova Scotia, Saint John and Moncton in New Brunswick, and St. John's and Corner Brook in Newfoundland. In these locations the initial emphasis has been placed on the construction of infrastructure facilities expected to be required by incoming industrial enterprises. Federal-provincial agreements have been negotiated which provide for federal assistance with such expenditures. In New Brunswick, for example, a special Canada-New Brunswick growth centre committee has been established to coordinate the development planning for Saint John and Moncton; and it is comprised of senior officials of both the federal and provincial governments, and employs a full-time Executive Secretary and supporting staff.

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[5]There are no maximum amounts specified in the legislation for grants under the Government Organization Act.

The omission of Prince Edward Island from the "special areas" program was doubtless influenced by the fact that a comprehensive development plan, negotiated under the Fund for Rural Economic Development Act, had been signed in March 1969. Thus P.E.I. was already a special kind of "special area".

The Atlantic Development Council

One of the former agencies absorbed in the new Department of Regional Economic Expansion was the Atlantic Development Board, whose activities were examined in Chapter 13. The Government Organization Act, 1969, provided at the same time, however, for the establishment of an Atlantic Development Council.

The Council consists of a membership of no more than eleven, appointed to reflect the economic structure of the Atlantic Provinces after consultation with the provincial governments and other organizations in the region. Unlike the former A.D.B., the Council is entirely an advisory body. Its function is "to advise the Minister, in respect of the Atlantic region, on matters to which the duties, powers and functions of the Minister extend ...".

More specifically, the Council is charged by the Act "to give consideration to, and make reports and recommendations to the Minister on:

"a) plans, programs and proposals for fostering the economic expansion and social adjustment of the Atlantic region;

"b) the feasibility of particular programs and projects and the contribution those programs and projects will make to the economic expansion and social adjustment of the Atlantic region; and

"c) such other matters ... as the Minister may refer to the Council for its consideration."

The Council has a full-time Secretary and employs a small staff. Its operations are financed from funds appropriated by

Parliament to the Department of Regional Economic Expansion. Most of the staff formerly employed by the A.D.B. have been absorbed in the new Department, which includes a Planning Division.

In January 1971 the Atlantic Development Council submitted "A Strategy for the Economic Development of the Atlantic Region, 1971-1981", to the Minister of Regional Economic Expansion. This document was published soon afterwards, and contains a comprehensive analysis of the development opportunities and problems confronting the Region.

Concluding Observations

It is perhaps too soon to attempt a critical appraisal of the new program of regional development in Canada as it affects the Atlantic Provinces. For one thing, the program itself is still emerging through the time-consuming process of federal-provincial negotiation. Also, experience with the new incentives program, recent and limited, is insufficient basis for analyzing its impact on the region. Moreover, some of the capital expenditure programs - for infrastructure in "special areas", for example - can only be expected to exert their effects over a period of several years. Nevertheless it is possible to offer a few general observations regarding the implications of the new federal approach for the Atlantic Provinces, and to comment on whether the revised program may be considered consistent with the conclusions put forth in previous chapters.

The absorption of the Atlantic Development Board into the Department of Regional Economic Expansion means that there is no longer a separate federal program directed specifically at the economic problems of the Atlantic Provinces. Any regrets at this outcome must be tempered, however, by a recognition that the problem of regional disparities in Canada generally has been given nation-wide prominence and a much greater priority among the objectives of federal economic policy. Also, the region has retained some degree of special treatment with the establishment and efforts of the Atlantic Development Council.

The departure of the A.D.B. does seem to imply, however, some diminution of the federal acceptance of responsibility for preparing an overall plan for the development of the Atlantic region. The Atlantic Development Council has set itself the important, but less ambitious, task of devising a development strategy for the regional economy. On the other hand, the geographic framework for planning by the Department proper, in consultation with the provinces, apparently has shifted from the multi-province region to subprovincial regions of the "special area" type.

In the absence of overall planning, and notwithstanding the strategy recommendations advanced in 1971 by the Atlantic Development Council, the focus for assessing the likely impact of the new federal policy must shift to the programs actually being carried out by the Department of Regional Economic Expansion. The latter have included, in their emerging form, the elements of industrial incentives and growth centres recommended above, along with other elements as well. By and large, the main objective appears to be to make the Atlantic Provinces more self-supporting in an economic sense, since the emphasis is clearly on promoting development of the regional economy and not on re-distributing income. Obviously, also, the program is aimed particularly at expanding the size of the region's manufacturing sector. In general terms, then, the new program is quite consistent with the proposals advanced in previous chapters.

It is not clear, however, whether the more fundamental objective of increasing interregional trade in commodities through increasing interregional complementarity of factor equipment, as discussed in Part I above, has been recognized. It is true that the provision of capital grants to industry can be regarded as consistent with this principle, but other objectives besides increased interregional complementarity could also be used as a basis of justification for offering this type of inducement. The point here is that this important objective can only be pursued in the course of administering the incentives program. The new policy framework certainly permits the application of this criterion. Indeed, because the federal government operates the program on a nation-wide basis, and because the scale of incentives offered seems generous enough to have an effect on most industrial investment decisions being contemplated within Canada, the program offers a significant opportunity to institute a policy of actively promoting increased interregional complementarity.

As regards the financial incentives to industry, the whole Atlantic region (except Newfoundland Labrador) has been designated as eligible. This represents a considerable improvement over the situation that existed under the previous A.D.A. program, when the region's major population centres were not covered. With the new program the framework has thus been created within which a growth centres approach to industrial development can be pursued.

The industrial incentives take the form mainly of capital grants, as proposed, and the discretion afforded the Minister in their administration should enable a considerable degree of flexibility. But the grants have not been made eligible for subsequent depreciation against income tax liabilities, contrary to the suggestion made by Professor Wilson in 1964. There are no tax concessions included in the federal program, nor is there any specific provision for industrial estates and advance factories. Presumably, however, the opportunity exists to include the latter in the infrastructure programs for the "special areas" to be developed as growth centres.

Whether or not a growth centres approach is to be effectively or adequately implemented, however, remains to be seen. The use to date of the "special areas" device would seem to point in this direction. But much will depend on the nature of the infrastructure and other expenditures under the federal-provincial agreements for the "special areas" and, more generally, on whether the proper approach is taken to planning the development of the growth centres themselves. Much will depend too, as already noted, on whether the administrators of the industrial incentives take adequate account of the desirability of increasing the extent of interregional complementarity between the Atlantic and other regions of the Canadian economy.

Finally, it should perhaps be repeated that the success of the new Canadian regional development effort will depend, to a considerable extent, on whether there is growth and expansion in the Canadian economy at large. The emphasis of the regional effort is on industrial investment to create employment, and on diverting a portion of this investment to less prosperous regions, including the Atlantic Provinces. Without a high level of investment nationally to give rise to an adequate flow of investment decisions by the private sector, such an approach to regional development stands little chance of achieving the desired effects. This, of course, is what makes regional development policy a long-term activity for the federal government, the Provinces, and - indeed - the private sector.

CHAPTER 16

A Recommended Approach to the Economic Development of Canada's Atlantic Region

Introduction

My main original purpose in undertaking this study was to consider what lessons could be drawn from the Scottish experience with regional policy and applied to the Canadian scene, particularly to development policy for the Atlantic Provinces. The inquiry thus started with a very broad field of analysis and it was necessary, at an early stage in my research, to choose somewhat more limited aspects as a basis for making comparisons. The task of selection was considerably facilitated by the simple fact that Scotland's situation as a lagging region within the British economy is fundamentally different in character from that of the Atlantic region within the Canadian economy. Essentially, Scotland's development problems are the result of declining tendencies affecting her manufacturing industries due to technological change, and the challenge for policy is to replace these industries with new ones, whereas the Atlantic Provinces depend more on primary, resource-based activities but have not industrialized to any appreciable extent. There the policy task is to get the industrialization process underway. Thus the two regional economies have rather different structures, and although both display the same sort of symptoms of regional retardation such as higher unemployment and lower average income, there seemed little purpose to be served in making detailed comparisons of them. What they do have in common, nevertheless, is a need to encourage the growth of new industrial activity. Since this policy objective has been recognized and pursued in Scotland since the 1930's, whereas Canadian efforts with regional policy are much more recent, it appeared to be only sensible to examine the Scottish experience with such policy. In other words, the purpose of the study became that of examining Scottish regional policy to see whether, and to what extent, it would be applicable in the somewhat different circumstances of the Atlantic Provinces' economy.

At the same time, it seemed necessary to conduct the analysis within some sort of theoretical framework. Unfortunately, however, regional development theory is not far advanced, a reflection perhaps of the relative youth of this branch of economic theory: the effort to devise regional policy has preceded, and stimulated, the evolution of theoretical constructs. A number of concepts have been borrowed, however, from other branches of economic theory and sometimes applied without much regard for whether they are suitable for effective transplantation. Against this general background it seemed sensible to undertake a review of certain theoretical contributions to the regional economics literature, and to develop a number of working assumptions from this review as a basis for the comparative study of policy in Scotland and the Atlantic Provinces. The theoretical review is contained in Part I above.

Another decision was to concentrate on regional development policy at a broad, comprehensive level or, in other words, to deal with these regional economies at macroeconomic level. This was because the examination of policy affecting the Atlantic Provinces' economy had not yet been treated from such an overall viewpoint. Recent studies have been concerned with explaining, in a statistical sense, the disparity which exists between this region and Canada generally, with measuring the forces of change in the regional economy, or with particular aspects or sectors of the regional economy. Such studies contribute, of course, to a better understanding of the regional problem. But my special interest was in shedding some light on the question of whether policy towards this regional economy has been appropriate. It is just possible that the policy framework has been basically unsuitable for accelerated development of the regional economy.

Similarly, it was necessary to choose some focus for the analysis of Scottish experience. The policy framework was found to consist primarily of physical planning carried out by the Scottish Development Department, and the location of industry policy of the United Kingdom Government as executed in Scotland by the Board of

Trade. This framework is a more explicit basis for development policy in Scotland's case than in the case of other British regions in view of the existence of special Scottish departments of government at Edinburgh under the Secretary of State of Scotland. In a sense, this arrangement makes Scotland more comparable to the Atlantic region, whose four provinces comprise units in the Canadian federal system of government.

My research was greatly stimulated by the opportunity afforded me in 1966-67 by the Scottish Development Department to assess the process of selecting "growth areas" for Central Scotland in 1963. This exercise marked an important turning point in Scottish regional policy, and represented, among other things, an attempt to integrate physical planning programs and industrial development policy. The adoption of a "growth areas" policy by the Government of the day also involved a decision to pursue a more comprehensive approach to regional development. My analysis of the selection process of 1963 provides the basis for Part II above.

Thus the pattern of this study evolved. Part I, as already noted, reviews certain theoretical aspects of regional economic development. In Part III, an attempt is made to specify the real nature of the development problem confronting Canada's Atlantic Region, and to examine the type of policy response to which it has given rise in the past. This examination includes, in Chapter 13, an original analysis of the activities of the Atlantic Development Board, a federal agency established in 1962 specifically to stimulate the economic growth of the Atlantic Provinces. Part II contains the analysis of regional development policy in Scotland, particularly of the significance of the "growth areas" approach adopted in 1963.

It remains to integrate these three Parts into a coherent whole; this is the purpose of the present chapter. The approach used is to develop a set of recommendations regarding the future development of the Atlantic Provinces' economy in the light of both the theoretical findings of Part I and an interpretation of the Scottish experience as covered in Part II.

The Case for Regional Development Policy

The Atlantic Provinces have been characterized as a lagging region, exhibiting the usual symptoms of regional retardation such as higher unemployment and underemployment, lower labour force participation rates, lower per capita income and output, a high rate of emigration, and a generally lower average standard of living. There is a disposition prevalent in Canada which favours the pursuit of policies to reduce "interregional disparities" of this kind. In general, however, the policies which have been adopted involve an attempt to raise standards of living in the lagging region through the redistribution of income on an interregional basis by such means as transfer payments to persons, tax equalization payments, unconditional and conditional grants to provincial governments in the region by the federal government, and the provision of various public services on more or less the same standard of quality as is available elsewhere in Canada. In other words, policy towards the Atlantic Provinces has leaned heavily towards the redistribution of national income and has not emphasized the development of the region's own economy. The attitude implicit in this approach to policy is that the Atlantic Provinces will continue to be a lagging region within the Canadian economy requiring continuing support from the rest of the country.

Related to this approach to policy is a fairly widespread attitude that there is little real chance of making the regional economy viable by encouraging and promoting its further development and growth. This attitude is clearly exemplified in the writings of Anthony Scott which were discussed above in Chapter 2. It is not surprising, therefore, that the federal government did not become active in regional development policy until the 1960's. By then the attitude towards encouraging the internal economic development of Canada's main lagging region, the Atlantic Provinces, had become more receptive and more positive.

Since the purpose of this chapter is to consider a suitable approach to the future development of the Atlantic Region economy, it will be well to begin by reviewing the case for regional development policy generally.

I have argued, in Chapter 4 above, that regional economic development should become a long term objective for the nation as a whole. This contention is based not on "economic" arguments, but on due consideration for the whole social framework within which individuals live and pursue activities of various kinds. In a democratic society where government assumes some responsibility for influencing the conditions in which that society operates, such responsibility extends to the various major regions which comprise a nation. This means that the national government has a responsibility to help create the conditions in which residents of every major region can make positive contributions to the economic, social and political life of the nation. Regional economic development is an important means to achieving this objective, because it involves attempting to create, at the regional level, the kind of conditions in which regional residents can contribute to national and regional life. The economic, social and political goals of a region, after all, differ very little from those of the nation of which it forms a part. Thus a region's aspirations differ very little from a nation's.

The attainment and maintenance of regions that are viable economically and in other ways, therefore, are matters deserving attention from the national government.

This does not relieve the region of all responsibility for its own condition. It must continue to tackle its own problems, and to work out proper solutions by its own efforts whenever possible. Also, it must accept some share of the responsibility for achieving national objectives. In fact, in pursuing its own objectives the region should be constrained by the national interest. Its objectives must be made consistent with national economic and social objectives, as much as possible.

This is not to argue that the main concern of regional and national governments should be with the region as such, and not with the individuals who reside in the region. Quite the contrary; the focus of policy-making for a lagging region should be the people who live there. This principle applies especially in a development context. The purpose of regional economic development is to create outlets for the creative energies of the region's people, not merely to make the best use of the natural resources which happen to be located there. Thus the object of policy for regional development is twofold: namely, to provide employment for the region's population who seek it and, in this way, to make it possible for them to enjoy a standard of welfare comparable with other parts of the same country. In other words, regional economic development is concerned with generating economic opportunity so that the region can itself support a national standard of income and welfare for its individual residents.

In these terms, regional economic development can be viewed as a means of supporting a rising standard of living for the region's residents. It is not the only means available for achieving this purpose, of course. The logical, extreme alternative would be to encourage the further growth and development of richer, more developed regions in the national economy, and then to transfer part of the income earned in the richer regions to the less prosperous regions. As long as growth is sufficiently rapid in the rich regions not only to support a rising standard of living there, but also to provide an extra "dividend" which can then be redistributed to the poor regions, it may even be the case that this alternative offers a more efficient way of raising living standards and average welfare in the poor regions. That is, a policy of promoting growth in the rich regions, with suitable provision for redistributing a portion of the income thereby obtained to the poor regions, might even prove a more <u>efficient</u> method, from a national viewpoint, of bringing about increases in the living standards enjoyed by the residents of the poor region.

But the greater efficiency of this approach cannot be assumed on a priori grounds. Indeed, the very fact that there is a gap between the rich and the poor regions may well mean that there exists a greater potential for development in the poor region in the form of those investments required to catch up. That is, the poor region might be in a position to reap the advantages of being a latecomer.

Moreover, relying entirely on redistributing the benefits of growth in the rich regions would have the effect of relegating residents of the poor regions to the status of "poor cousins", dependent for their welfare upon the efforts of residents in other regions. In the long run such a course of action might prove extremely risky for the nation as a whole, since the effort to find economic opportunities in the poor regions would be neglected, perhaps even abandoned. A failure of growth in the rich regions would, under such circumstances, expose the whole nation to stagnation or decline.

Regional economic development is thus a superior alternative for several reasons. First, it may prove to be more efficient than redistributing the benefits of growth in other regions. Secondly, it reduces the risk associated with relying too heavily on the economic performance of a single rich region, or a few such regions. But perhaps more important than these considerations is the implication it holds for individual residents of the poor region and their future prospects. Regional economic development has a certain dignity not possessed by a policy of redistribution, in that it attempts to encourage, and capitalize on, the creative energies and efforts of the region's own residents instead of merely offering them a certain minimum standard of living as a right associated with common citizenship of the same country with residents of the rich and growing regions. This is the essence of development: to seek out, to encourage, to stimulate people to exploit economic opportunities, and then to reward them when they are successful in doing so. The premium is on individual effort, talents and abilities, and on making the most of them. A policy of regional economic development involves a recognition that such individuals, and such opportunities, are to be found in any economic region regardless of what its present economic status happens to be.

A word is in order here about the strength of the national government's commitment to the goal of regional economic development. In the past regional policy has too often been treated as a minor, peripheral policy purpose. Instead, this goal must become a primary objective of public policy which receives continuing attention from both national and regional governments; only in this way can real progress with its attainment be made.

This basis of justification for regional economic development suggests a number of general guidelines for the sort of regional policy to be pursued:

(1) The objective should be to make each major region as economically self-supporting as possible. That is, each region should produce in total as much as it consumes in total. Since regions have differing resource endowments, however, they cannot be expected to produce all commodities and services with the highest possible efficiency. So they resort to trade with one another, exchanging those they produce more efficiently for those which other regions produce more efficiently. A region will be economically self-supporting when it is able to support its consumption of all types of goods and services by producing an excess of its requirements for those it produces more efficiently, sufficient to pay for them. This is not the same thing as making each region economically self-sufficient in the sense that it produces all its own consumption requirements without resort to trade with other regions. Specialization in certain lines of production, and trade with other regions, are to be expected.

(2) Programs and projects for regional economic development should be assessed on the basis of their likely impact in terms of this objective.

(3) A policy commitment to eliminate interregional disparities entirely should be avoided, for two reasons. First, such a commitment runs the risk of dulling the incentives for individual enterprise in search of reward, which is one of the important elements for any development effort. Secondly, it might interfere with interregional and intra-regional factor mobility which is a useful adjustment mechanism.

(4) Permanent subsidy of economic activities should be avoided. The effort should be concentrated on encouraging and assisting activities which show good, long term prospects of becoming efficient and self-supporting.

Technical Aspects of Regional Development

In terms of "economic" considerations, the justification for regional economic development is that the effective use of unused, relatively immobile labour resources in the lagging regions contributes to increases in national output, and thus to a higher rate of national economic growth. It may also be pointed out that failure to pursue a regional development policy is not without its costs since this alternative, as noted above, involves the national government in unemployment insurance payments, a greater degree of social assistance programs, transfer payments, and the like. These are telling arguments for regional policy. Nevertheless they are probably less important, on the whole, than the justification noted above that a national government has some responsibility for ensuring that residents of each major region have the opportunity to pursue useful lives and to contribute to, as well as to enjoy the benefits of, national economic progress without necessarily moving to other regions in order to do so.

It is only when a commitment to regional economic development as a policy objective has been accepted by the national government, and thus by the nation generally, that the economist can make some contribution to understanding the problems confronting a lagging region, and to working out policies, programs and projects for their solution. My purpose has been to analyze the difficulties facing one particular region, the Atlantic Provinces, as a basis for outlining the approach to be followed in stimulating this region's economic development. Before becoming specific, however, let us consider the general implications of the regional economic theory reviewed in Part I.

The technical purpose of regional economic development is to foster increased interregional trade in commodities, to enable the lagging region to increase its output and thereby earn a higher standard of living. If the region is already enjoying a higher standard of living than it earns through its own production, as a result of receiving transfer payments and other "unearned" income from other regions, it should be recognized that even with faster growth, there can be no closing of the gap in personal income per capita until such time as regional earnings are brought into line with regional income. Thus the focus of regional development policy is on output, not income, since no overall increase in regional income can be expected until the need for interregional income transfers has been eliminated by the substitution of productive capacity within the region itself. This lack of early direct benefits from a regional development program may help explain the difficulty sometimes experienced in gaining general support from within the region for such development efforts; some people will prefer to seek increases in average welfare instead, through larger flows of transfer payments and other "unearned" income to the region from outside. This conflict of purpose is evident in approaches by provincial governments in the Atlantic region to Ottawa for increased assistance both with accelerated regional development and in the form of more interregional transfer payments of one kind or another. As a long term solution to "regional disparities", federal support for accelerated regional development is to be preferred to higher transfers, for two main reasons:

(1) it will encourage greater self-reliance on the part of the affected region and its residents;

(2) it will be in the national interest to help develop regions capable of themselves supporting the average standard of welfare enjoyed in the country at large.

I am assuming that there are development opportunities capable of being exploited in the lagging region. Indeed, there is no basis for making the opposite assumption in a major economic region such as Canada's Atlantic Provinces. If this sort of assumption had been made by the Fathers of Confederation a hundred years ago, there would be no Canadian economy today. Economies are man-made entities, not results of some "natural" evolutionary process. Basic decisions are often involved, and such a basic decision - whether to pursue economic development consciously and with vigour - is required in the case of the Atlantic Provinces. Once such a decision has been made, the problem resolves itself into seeking out and exploiting such development opportunities as do exist.

In abstract terms, interregional trade in commodities is an alternative to interregional factor mobility, of course. This does not mean that one must choose one or the other. In fact, some of both will continue to be required in the interregional economic system, since each is a useful <u>adjustment mechanism</u> for achieving greater interregional equality and balance. What is suggested here is that the main emphasis should be put on fostering interregional trade in commodities as a basis for overcoming the problems of the Atlantic Provinces, without placing any restrictions on the migration of labour from the Atlantic Provinces to other regions. At the same time, it should be expected that there will be some migration of the labour factor <u>into</u> the Atlantic Provinces, especially in the case of skilled labour.

To foster increased commodity trade between regions, it will be necessary to expand the productive capacity of the lagging region.

At present such trade which takes place between the Atlantic Provinces and other Canadian regions is largely in one direction only, namely, from central Canada to the peripheral Atlantic Provinces. The problem, therefore, is to increase the exports of the Atlantic Provinces to other Canadian regions and abroad. As a complement to this approach, it may be desirable to stimulate some "import substitution" in certain lines, i.e., those which can be produced within the peripheral region as efficiently and as cheaply as they can be produced in other regions and imported into the lagging region.

Of crucial importance to increased interregional trade in commodities is the existence of interregional complementarity of factor supplies. That is, as noted in Chapter 3, policy should seek to make factor equipment in the lagging region more unequal; in other words, the lagging region must be enabled to specialize in certain lines of production for the total market comprised of both the peripheral and the central regions. This condition has not existed in the case of Canada's Atlantic Provinces. For example, the region's natural resources are competitive with those of Ontario and Quebec: indeed, except in the case of fish and a few selected agricultural products, the resource endowment of the Atlantic region is of inferior quality compared to that in Ontario and Quebec. The peripheral region has managed to develop its natural resources on the basis of export to foreign markets, but it is significant that it does not sell them in central Canada since these provinces have their own sources of supply. The Atlantic region must find, and develop, alternative products which it can sell to other Canadian regions.

The other side of this coin was also noted in Chapter 3. There must be a demand in the other regions for the goods to be selected for production in the lagging region. In the Canadian case, this may require an implicit decision by the richer regions to refrain from producing certain commodities so that the lagging region may establish a specialization in these lines. This, of course, is a further specific reason why the participation of the national government in a regional development program is required, since it is rather unlikely that the provincial government(s) of the rich region would accede to this suggestion readily.

Pursuit of a policy which encourages new specializations in the lagging region to serve the total market comprised of all regions would be consistent with another suggestion made in Chapter 3, namely, that policy should seek to reduce any tendencies for further increases in total production to be concentrated in the rich regions. In Britain, this aspect of regional policy has been made explicit in the system of industrial development certificates (I.D.C.'s).

A further aspect of regional policy is that the economic activities to be sited in the lagging region should include some which are capable of exploiting economies of scale in producing commodities to be traded with richer regions.

The proper focus for regional policy-making, then, is to increase interregional trade on the basis of increasing the interregional complementarity of factor supplies. This will require a selective approach to the commodities in which trade is to be fostered. Success with this effort will strengthen Hirschman's "trickling-down" effects and thus enable growth to be transmitted from the rich regions to the poor regions. Such interregional trade, based on complementarity of factor supplies, will lead eventually to a relative increase in the poor region's total supply of productive factors. In the Atlantic Provinces case, this increase in productive factors seems likely to take three main forms:

(1) an increase in the capital factor;
(2) increased entrepreneurial capacity;
(3) improving quality of the labour factor.

Long term programmes designed ultimately to influence either internal or external sources of supply of these productive factors are thus the <u>gist</u> of regional economic policy.

It should be noted that the regional development effort need not be based upon exploiting whatever natural resources the region may possess. If the region's natural resources are complementary to those available in other regions, so much the better. If, however, they are competitive with those in other regions and of inferior quality, it would only constrain the regional development effort still further to make them a necessary basis for the region's economic development. It would be better in such circumstances to place greater emphasis on other types of productive factors in developing increased exports from the peripheral region to other regions.

The Real Nature of the Atlantic Provinces Problem

According to economic base theory, a region's exports determines the size of its internal market and thus the extent of its "residentiary" industries which produce the goods and services required by regional residents. Those economic activities which sell all or part of their output in markets outside the region are termed the region's "economic base". Expansion of the regional economy thus depends on increasing the size of this economic base, either by increasing the output of present exporting activities or by adding new lines of economic activity producing for markets outside the region.

The economic base of the Atlantic Provinces during the nineteenth century consisted of wooden shipbuilding and the associated carrying trade. When these activities declined, the region lost its economic base. In time, another developed to take its place but the process of adjustment has been slow and painful.

The analysis in Chapter 10 revealed that, in 1961, the economic base of the Atlantic Provinces economy consisted of Forestry, Fishing, Mining, and Public Administration and Defence. The earnings of these sectors probably contributed positively to the region's balance of payments. A further credit to the balance of payments came in the form of the various interregional transfers paid by the federal government to residents of the region and to the four provincial governments, as discussed in Chapter 12. These additional export earnings enabled the region to import a total volume of goods and services produced in other regions that was thus larger than what the region could have purchased with the income earned from its exports of goods and services.

In these terms, the problem confronting the Atlantic Provinces economy is to expand its economic base. Associated with this need is the corresponding desirability of altering the region's present status of being a "kept region", dependent for a good part of its present standard of living on the generosity of Canadians in other regions of the country, exercised through the present system of interregional transfer payments. Successful expansion of the region's economic base would also serve to integrate the Atlantic Provinces more fully within the Canadian economy.

In Chapter 10 it was shown that of the four basic sectors mentioned above, only Public Administration and Defence demonstrated any capacity for employment growth during the 1950's. Moreover, the growth of this sector was the result of public policy decisions, and not indicative of any growth trend in the sector. Such employment expansion as did occur in the region was in service-producing activities: in two such industries, education and health, the new jobs resulted indirectly from an increasing flow of intergovernmental transfer payments; the others concerned were of the non-basic, or residentiary, type of activity. If one purpose of regional economic development is the interregional transmission of growth, then an important agent in this regard for the Atlantic Provinces has been the federal government through its decisions with regard to the location of defence activities and in respect of various payments to the provincial governments. But continued reliance on a helpful federal government will not suffice as a solution to expanding the economic base of the Atlantic Provinces economy.

It is contended that the proper means of expanding the region's economic base is through stimulating the growth of the region's under-developed manufacturing sector.

Thus the objectives of policy for the economic development of the Atlantic Provinces should be:

(a) to foster the interregional transmission of growth;
(b) to develop increased interregional trade in commodities, based upon greater interregional complementarity of factor supplies;
(c) to expand the region's economic base;
(d) to stimulate the growth of the region's manufacturing sector in lines that can become regional specialities and export all or part of their output to other regions and abroad; and
(e) thus to contribute to the achievement both of faster national growth and to the more effective deployment of unused labour resources in the Atlantic Provinces.

Techniques for Industrial Development in the Atlantic Provinces

It has been argued above that the main particular purpose of an Atlantic Provinces development program should be the selective expansion of the region's manufacturing sector. This is not intended to rule out efforts to increase output and efficiency in resource-based activities and other, non-manufacturing sectors; indeed, such efforts should be continued and intensified. Also, an important aspect of expanding the manufacturing sector may prove to consist of successful development and expansion of processing industries which use regional raw materials as inputs. In this connection, too, the region should support a policy of freer trade that would permit the export of further processed resource products, especially to markets in the United States. Programs and policies to increase output and the degree of processing in the natural resource sectors, however, should not be at the expense of the drive to expand the region's manufacturing sector. The addition of new secondary industries to the region's economic base should become the prime focus of regional development policy. All development efforts should be concerted as much as possible to this important major objective.

In pursuing this objective a necessary assumption will be that further growth and development of manufacturing in Canada can be expected in future. If this condition is not met, there will be little chance of locating new secondary industries in the Atlantic region. The problem facing the region may be seen as one of diverting a fraction of national manufacturing growth to the Atlantic Provinces. Whether or not there is likely to be manufacturing expansion at the national level raises a number of important issues, but their consideration lies beyond the scope of this thesis.

It is recommended that the effort to increase employment and expand the region's economic base by stimulating the growth of the manufacturing sector should be pursued in two main ways:

(1) through the development of a number of "growth centres" or "growth areas" within the region as locations for manufacturing enterprises; and

(2) through the provision of suitable incentives to stimulate the attraction of such manufacturing enterprises to the region.

Each of these techniques will now be considered in greater detail.

"Growth Areas" or "Growth Centres"

As the analysis in Part III revealed, the Scottish "growth areas" had four main aspects. First, they offered the intending industrialist a range of various possible sites in Central Scotland from which to choose a location suited to his particular needs. Taken together, the Scottish "growth areas" thus were designed to permit the attraction of various types of manufacturing industry. Secondly, they provided a geographic focus for the effort to stimulate the development of the whole region. An important characteristic of growth centres is that their development is designed to encourage the economic expansion of the broader region within which the centres are located. The objective is greater than the expansion of the growth centre itself. At the same time, this approach requires the public authorities to concentrate the provision of infrastructure and other expenditures on the selected growth centres rather than diffusing them across a wider area, with the hope of achieving some economies in the process. Thirdly, they were designed to serve as centres of attraction for migrants from rural areas and other centres within the region, some of whom might otherwise emigrate to other regions or abroad. In this way they provide a useful means of complementing urban and industrial expansion with the adjustment and rationalization of economic activity in the rural areas of the region. Fostering such a relationship has special significance for the Atlantic Provinces where, as Howland has noted, the regional problem is manifested in a considerable excess of workers tied to marginal, subsistence operations in rural resource sectors. Fourthly, the adoption of a "growth areas" approach represented the integration of various strands of social and economic policy, as Cameron and Reid have pointed out. In other words, the programs and policies pursued by various departments of Scottish government were oriented and directed toward the major development objective of attracting more industry to Central Scotland.

It is recommended that a relatively small number of growth centres should be selected and designated in the Atlantic Provinces. They should then be developed as suitable locations for new manufacturing industries to be attracted to the region. Their development as growth centres should be on a basis similar to that projected in Central Scotland in 1963. I shall elaborate this point presently; first, however, it is necessary to consider the characteristics which are desirable for Atlantic Provinces' growth centres.

The single most important characteristic for such growth centres is that they be included in whatever area is declared eligible for the industrial incentives to be discussed below. The fact that the Halifax, Nova Scotia and Saint John, New Brunswick labour market areas were excluded from the federal ADA grants program begun in 1965, made it almost impossible for federal and provincial authorities to pursue a growth centres' policy in the Atlantic Provinces, for these two areas are perhaps the most obvious candidates for selection as growth centres in the region. Much the preferred solution to this sensitive issue would be to make the entire Atlantic region eligible for any federal incentives program, and leave the differentiation of certain cities and towns as growth centres to be accomplished in other ways. This would also permit the incoming industrialist to make his own choice of location within the development region - a desirable state of affairs since presumably he knows his requirements best, and these are likely to differ somewhat from one firm to another.

Secondly, the designated growth centres should contain a reasonably ample supply of serviced industrial sites. Although the industrialist should be left free to choose his own site, a growth centres policy does involve an attempt to concentrate new manufacturing activity in the selected centres. In this way "economies of agglomeration" may be achieved, and local governments will economize on the provision of serviced industrial land. As an extension of this need for industrial land in growth centres, it may be appropriate to develop a number of industrial estates, perhaps equipped with one or two advance factories, in the growth centres.

Another desirable feature of a growth centre is that it should have access to a large potential labour supply. This will include not only its own residents, but also the population within feasible commuting distance of the centre. This criterion implies that cities and towns located at central locations on the region's highway system have special claims for designation as growth centres.

Fourthly, each growth centre should be capable of expanding its supply of housing accommodation. This will be particularly important if the growth centre's expansion is to offer an effective alternative destination for migrants from rural areas in the region who might otherwise move to urban centres in other regions. Also, many workers may move to an Atlantic Provinces' growth centre who would not consider migration to other regions, but would instead remain tied to a marginal, subsistence livelihood in farming, fishing, or logging.

Fifthly, the selected growth centres should possess good road and rail access to other regions, as well as easy connections with one or more of the region's seaports and airports. This will be an especially important consideration for incoming industrial firms which export their output to markets outside the region, and those which import raw materials and component parts from other regions or abroad.

Thus the growth centres to be designated should be eligible for industrial incentives offered by government, should contain an adequate supply of industrial land, should have access to a large potential labour supply, should be in a position to increase their supply of housing accommodation, and should enjoy advantageous location in the region's internal transportation system with good access to external markets and supply sources.

On what basis should growth centres be planned and developed?

One fairly obvious implication is that each centre should be the subject of careful, effective physical planning. A comprehensive development plan should be prepared for each city or town selected as a growth centre; but such plans must be more than the customary result of a "town planning" exercise as understood in Canada. For their purpose is not merely to enable the growth and development that is expected or forecast, to be accommodated with the space they need. What is required is something that extends far beyond the "zoning" of land for housing, industry, commercial and other uses.

The purpose of growth centres is to "trigger" economic development and growth not only within the boundaries of the designated city or town, but also throughout its hinterland. Taken as a group, the purpose of the growth centres to be selected for the Atlantic Provinces is to spark and encourage the growth of the whole region. In this, their most important particular purpose is to serve as attraction centres for the new manufacturing industry the regional economy requires. Essentially, this means they should be designed and developed as a system of centres to promote (and accommodate) the necessary expansion of manufacturing activity within the region.

To make the selected growth centres attractive locations for new manufacturing industries will involve a careful review, reappraisal, and reorientation of various government programs and policies to serve this objective. In this sense the implementation of a growth centres policy will involve an integration and coordination of various government programs to serve the major objective of developing growth centres as locations for new manufacturing activity. This does not rule out other objectives for such programs, such as the encouragement of resource-based activities in rural areas. Rather it means adding an additional dimension to the set of criteria by which each such program is assessed; does it contribute as effectively as possible to the development and growth of the regional growth centres?

In the provision of various types of infrastructure, governments should also concentrate their expenditures as much as possible on the selected growth centres instead of diffusing them around the region. Hospitals, schools and training facilities should be built mainly in the growth centres, expenditures of this kind being designed to service the population distribution which is projected as a result of pursuing the growth centres approach, rather than the existing population distribution. The highway network should be planned and developed with the selected growth centres as its most important nuclei, and should be designed to facilitate the migration of labour from rural areas to the growth centres, the movement of raw materials and other components needed by the anticipated new industry, and the outward shipment by such industries to their markets. In this connection an important particular requirement is to permit the greatest possible access to markets outside the region. Major airports should be sited at or near the selected growth centres. The centres should have good access to seaports as well, so that their industries can ship their finished products to external markets with relative ease.

Of special importance in a growth centres policy is housing. New housing accommodation of various types should be concentrated in the growth centres. Moreover, it should be built on a large enough scale to accommodate the influx of workers, and trainees, which will be required by the new industry to be developed in them. In many cases this will mean building houses somewhat in advance of need, so that prospective industrialists can be assured of an adequate labour supply. This is especially the case in the Atlantic Provinces where the existing labour reserves are located in large part in the more remote, rural parts of the region. An imaginative housing program can help a great deal in fostering the necessary population migration within the Atlantic region.

Concentration of expenditures on infrastructure and other social overhead capital, and co-ordination of various government programs and policies in support of the development of the selected growth centres, is especially necessary in the Atlantic Provinces in order to overcome the region's severe locational disadvantages in supplying markets in central Canada. The essential problem is to select those centres in the region which possess the least disadvantages, relative to rival central Canadian locations, to overcome or reduce such disadvantages as much as possible, and thus to make the selected growth centres as attractive as possible as locations for new manufacturing enterprises. What is required is a serious commitment to concentrate the industrialization effort on the selected growth centres, and the systematic, continuing pursuit of various programs and policies co-ordinated to this purpose. The development of the growth centres must be seen to be the central, critical aim of regional development policy - not just an incidental objective.

Even if it is pursued on this basis, a growth centres policy by itself is not likely to be sufficient. It will serve to create the "external economies" which can be extremely important to new manufacturing firms. But more direct assistance to such firms will be necessary to attract new industry on the scale required; in this regard financial incentives to newly establishing and expanding enterprises are relevant.

Incentives for Industry

The pursuit of a growth centres policy along the lines indicated above is intended, as it were, to prepare the way for incoming industry and also to enable existing industry to expand. It is an equally important part of the industrialization effort to generate a flow of new industry to the Atlantic region, and to stimulate by positive means the growth of existing industry. Since the growth centres policy is essentially permissive, it must be complemented by more direct methods of bringing about industrial expansion of the type and scale required. A number of such direct methods may be considered: new industries might be established and operated by the public authorities themselves; there might be an attempt to identify desirable feasible lines of manufacturing activity which could be promoted with prospective industrialists as worthy of their attention; or, a range of fiscal, and/or financial, inducements could be offered by government to interest private entrepreneurs in an Atlantic Provinces location. Of these available approaches, perhaps the most acceptable in Canadian circumstances is to offer a suitable program of fiscal, and/or financial, inducements.

As noted in Chapter 14, the purpose of such incentives is to transfer manufacturing entrepreneurship and manufacturing capital from richer regions to the Atlantic Provinces' economy, and in the process,increase total output in the interregional economy. A related objective is to increase investment in Atlantic Provinces' manufacturing by influencing the locational decisions of manufacturers in the rich region, to secure some displacement of their total investment towards the Atlantic Provinces. Here the incentives program would be directed at manufacturing firms in central Canada. Such firms are most likely to be interested in an Atlantic Provinces' location for those products for which the Atlantic region market is large enough to support a plant of economic size. In some cases they might choose an Atlantic Provinces' location as a base from which to supply certain foreign markets, e.g., western Europe, more economically as a result of closer proximity to ocean shipping services. Thus the incentives must be effectively brought to the attention of, and made available to, manufacturing firms in central Canada. This is an important reason for having such incentives made available by the federal government. Those offered by provincial governments within the Atlantic region are not likely to be nearly as well known to, or have much impact with, manufacturers in Ontario and Quebec. A federally-operated scheme of regional industrial development incentives also stands a better chance of compensating for the absence in Canada of anything like the policy of industrial development certificates administered in the U.K. by the Board of Trade.

Incentives should be aimed at manufacturers in central Canada to encourage them to establish, in the Atlantic Provinces:

(a) branch plants to supply the Atlantic Provinces' market; and

(b) plants to supply overseas and other foreign markets.

There is an even more important need, however, which is related to the major policy objective of fostering the interregional transmission of growth from central Canada to the Atlantic Provinces. This need is for new manufacturing plants which can sell their output in central Canada. In this regard two main comments may be made. First, it would be desirable to apply a careful selection process to the products concerned. The idea would be to identify those items for which demand in the rich region is enough to support an economic-size plant in the Atlantic region, or likely to reach that level in the near future on present growth trends. Another, even more important characteristic, would be a reasonable prospect that production of the product concerned would not be undertaken also, or later, within the rich region. In other words, the Atlantic Provinces would somehow be granted the opportunity to become the supplier of certain selected product lines for the whole national market. Certain products at present imported into Canada from abroad might satisfy these criteria. Secondly, the capital, technology and entrepreneurship needed in such cases is more likely to come to the Atlantic Provinces from abroad than from the rich region of central Canada. Hence, the industrial incentives program should be directed also at manufacturing enterprises in foreign countries. British and other western European sources might prove especially relevant to such an effort, since a number of firms in these countries might well be interested in gaining a realtively accessible location as a "beachhead" for supplying the Canadian, and possibly the North American, market. Therefore, the incentives program should also be made known to manufacturing firms in foreign countries, especially in Europe. This is a further reason for having the incentives program operated by the federal government.

Thus, incentives for industrial development in the Atlantic Provinces should be made available by the federal government and aimed at influencing the locational decisions of manufacturers at present located in central Canada and in foreign countries, especially in western Europe. It, perhaps, should also be pointed out, in view of the shortcomings of the A.D.A. program discussed in Chapter 14, that the industrial development incentives should be available for new plants and expansions located within the designated growth centres of the Atlantic Provinces. In this connection the sensible procedure would be to make the incentives available on an equal basis throughout the Atlantic region, and to let the industrialist choose his own location. The attempt to encourage the concentration of manufacturing industry in the selected growth centres could then be pursued by other means open to government authorities, along the lines discussed above. But the private industrialist's prerogative of deciding where best he can carry on his operations within the region, would be respected.

There remains the important consideration of the type of incentives to be offered, and the justification for them.

As to justification, we may begin with the familiar "infant industry" argument. According to this line of reasoning, new industries are likely to encounter abnormally high costs during the first few years after their establishment in a new location. But these same industries should be able to operate as efficiently as their competitors elsewhere if they can survive the initial settling-in period. The policy problem is, therefore, to reduce the firm's settling-in costs so that it can successfully survive the initial difficult period and attain a state of profitable, efficient operations. Thus, the "infant industry" argument supports a policy of temporary, initial assistance to a new industry but does not justify permanent, continuing subsidy from the public purse.

The "infant industry" argument would seem to apply in the case of new manufacturing plants being established in the Atlantic Provinces. The region does not have a manufacturing tradition; consequently, many of the "external economies" enjoyed by firms in central Canada, are simply not available. For example, the labour supply will be neither as concentrated geographically, nor as suited to the needs of modern industry. There will, thus, have to be a conscious effort to attract large numbers of the rural population at present tied to the resource sectors, into those urban locations where new manufacturing is to be concentrated. Also, programs of industrial training for these workers will be necessary on a more intensive basis than in central Canada so that they can be equipped with the skills, aptitudes and attitudes required by the newly establishing industries. Some of these costs are already borne by the public sector in Canada, e.g., manpower training programs. But some others will become part of the new plants' operating costs, especially where the technique of "on-the-job" training is used. It is important to recognize that costs such as these will not have to be borne indefinitely, that after a reasonable initial period the new manufacturer will have developed an adequate, well-trained labour force. During the training period, however, these extra costs would make it difficult, perhaps impossible, for the new plant to compete successfully with other firms located elsewhere. The burden which they impose should not have to be borne entirely by the newly establishing industry, since the training program involved is an essential part of the whole process of long-term regional development.

Other similar types of settling-in costs for the new plant are associated with establishing suitable sources of supply for raw materials and components, with "running in" its capital equipment and machinery and its production process, and with establishing the necessary markets for its final products. Of these, marketing costs are of special significance, since a key objective in the whole regional development effort is to locate plants in the Atlantic Provinces which can export their output to central Canada and abroad, and thereby contribute to strengthening the region's balance of payments. Such marketing costs involve more than just added transport costs, and include maintaining adequate product inventories in distant market areas so as to assure customers of continuous supplies, developing regular contact with important customers there, advertising in the distant market, etc. All these items are added costs for the firm in a peripheral region, but each is likely to be higher during the plant's initial years of operation. Where the plant produces a product not available in the rich region from local suppliers, there is a reasonable prospect that such costs can be absorbed in the selling price. But to the extent that these costs are higher during the settling-in period, the new plant will require outside assistance. Much attention has been paid in Canada to reducing interregional transport costs on a general basis through the public provision of transport facilities and such programs as the subsidies paid the railways under the Maritime Freight Rates Act, but a better approach might well be to reduce the incidence of all types of marketing costs by applying direct assistance to those Atlantic Provinces' manufacturing firms which sell a significant portion of their output in markets outside the region. This principle especially applies to financial assistance offered new manufacturing firms in the regions during their settling-in period.

Thus the "infant industry" argument provides a basis for temporarily subsidizing new manufacturing industry in the Atlantic Provinces - for reducing the burden of the firm's initial settling-in costs. It is one of the reasons for giving financial and/or fiscal incentives to assist the establishment and development of new industry. This argument by itself, however, would not justify permanent subsidization of regional manufacturing industry.

Yet continuing public assistance may be necessary for some time in certain cases, for example, in developing those industries which sell their output in extraregional markets. Such assistance can be justified on two grounds:

(a) the growth and development of these "leading", export-oriented manufacturing industries will generate expansion of output, income and employment throughout the regional economy; and

(b) the cost of such subsidies to production in the long run, may well prove less than present expenditures on unemployment insurance and other interregional transfer payments.

On an overall regional basis, such subsidization of key manufacturing industries should also prove effective over time in enabling the Atlantic region to achieve a national standard of consumption and welfare on the basis of its own productive efforts. Here again, any subsidy paid such "leading" manufacturers should be assessed in terms of their overall impact on the entire regional economy, and not interpreted simply as specially favoured treatment for the particular firms concerned.

The above comments provide a basis for suggesting the type of incentives for industry to be offered in a development program for the Atlantic Provinces' economy.

It is recommended that, in addition to industrial training programs mounted by the public authorities, three main forms of assistance should be made available to manufacturing firms establishing new plants, or expanding their existing factories, in the Atlantic Provinces, as follows:

(a) To help such firms in overcoming their initial, settling-in costs, direct grants towards the cost of new capital facilities should be provided. Assistance with capital should be the main form of inducement used in the development program, and its availability should be widely advertised throughout Canada and in western Europe and the United States. While the program should be based upon some formula, so that its effectiveness can be gauged beforehand by prospective industrialists, it should also contain a degree of flexibility. In particular, it should permit especially generous treatment to be afforded those new plants which propose selling a significant proportion of their output in markets outside the Atlantic region. As Wilson has pointed out, direct capital grants possess several advantages over other types of financial inducements: their value can be assessed beforehand by the prospective industrialist; they help during the difficult, settling-in period; and they can be used on a selective basis.

The assistance provided to a firm by capital grants may outlast the settling-in period, but will not continue indefinitely. For capital facilities eventually wear out; if the firm does not prove viable, it will be unable to finance the necessary replacements when they are required in future. One concession that can usefully be made, however, is that recommended by Professor Wilson and adopted in the A.D.A. grants program in 1965, namely, the grant-assisted firms can be permitted to claim capital cost allowances under the Income Tax Act equal to the full original cost of their capital facilities, and not be required to deduct the capital grants from the amounts they claim as depreciation for income tax purposes. It is recommended that this feature of the A.D.A. grants program be retained in the capital grants available to new manufacturing plants in the Atlantic Provinces.

(b) As a further inducement to attract new manufacturing industry to the region, factory buildings should be constructed by the public authorities, sometimes in advance of need, and leased or sold to incoming enterprises. There are three main reasons for offering this type of assistance to manufacturing investment. First, by locating such industrial estates and advance factories in the selected growth centres, governments can encourage the desired concentrations of industrial activity within the region that represent an explicit purpose of the whole growth centres policy. Secondly, in this way the governments concerned can give a clear, public indication of the degree to which they are committed to stimulating the accelerated economic development of the Atlantic Provinces and its integration within the Canadian economy. Thirdly, the availability of factory premises ready for early occupancy has been found, in Britain and elsewhere, to be one of the most powerful factors affecting location decisions by the individual firm.

(c) Special income tax concessions should also be offered, on a selective basis, to take care of two types of special case which are not covered by direct grants and factory premises constructed with public funds. Some newly establishing factories in the Atlantic Provinces may be branch plants of profitable concerns already located elsewhere in Canada. Such firms may prefer for one reason or another to recover the costs of their new branches by retaining a larger share of the profits earned elsewhere rather than accept outright grants from the public purse. This is a reasonable preference; to accommodate it, such firms should be permitted to claim income tax concessions "equivalent" to the amount of capital grants for which they would otherwise be eligible. Secondly, an additional, special tax incentive should be devised for those firms which manage to sell a certain proportion of their output in markets outside the Atlantic Provinces. This inducement should be offered on a continuing basis, a sort of permanent subsidy for those firms which constitute a part of the region's economic base. But the utilization of this form of assistance should be conditional upon the firm's success in extraregional markets, and not applied generally to all manufacturing firms. Such unconditional assistance as the Regional Employment Premium recently introduced in the United Kingdom and the subsidies paid under the Maritime Freight Rates Act, are less desirable than the special tax inducement proposed here, because they are simply an indiscriminate, permanent subsidy of all regional industry, quite unrelated to the underlying objectives of regional development policy.

Non-Manufacturing Activities

I have argued above that a regional development program for the Atlantic Provinces should concentrate on increasing the size of the region's manufacturing sector. It should be emphasized, however, that the essential purpose of the regional policy is to expand the region's economic base and thus establish a stronger connection with richer, faster-growing regions. In this sense the manufacturing sector seems to offer the best prospects for achieving such expansion of the economic base, mainly because it contains a sizable number of industries with strong growth prospects in the North American economy. Yet such opportunities for rapid future growth may also exist in other sectors than manufacturing: for example, with increasing affluence the greatest increases in demand recently have affected the service-producing industries in both Canada and the United States. The resulting tendency for services employment to grow faster than employment in commodity production, moreover, seems likely to continue. Consequently, there may well be significant opportunities for a peripheral region like the Atlantic Provinces not only to participate in the growth of services output and employment, but even to "export" some types of services to other regions. We have already noted, in Chapter 10, the importance of Public Administration and Defence, Education, and Health Services, in this regard for the Atlantic Provinces. It may be that other, service-producing activities can be stimulated to occupy similarly basic roles in future.

In this regard two particular types of such service activities come to mind. The first consists in the possibility of decentralizing some federal government operations to the Atlantic Provinces, in much the same way as the Post Office Savings Bank was transferred a few years ago from London to Glasgow. The possibility of similarly moving existing federal administrative activities from Ottawa to the Atlantic Provinces, or of locating new activities in the peripheral region, should be kept continuously in mind. Expansion of the region's economic base in this way would make a useful contribution to Atlantic regional development.

Secondly, present efforts to promote tourism in the Atlantic Provinces should be continued and made as effective as possible. In this case a serious limitation, however, is the short duration of the summer tourist season. This implies that tourist development and promotion, while important, should not be substituted for a more frontal assault on the problem of extending the region's economic base. In this manufacturing development appears to offer the greatest prospects.

The Division of Effort in Regional Policy

(a) The Federal Role

There is no denying the federal government an important role in the effort to accelerate the economic development of Canada's Atlantic Region. For one thing, there has been an increasing acceptance of direct federal involvement in regional development programs in Canada in recent years. Critics of Ottawa's effort have pointed to the lack of coordination in various federal programs, and sometimes questioned the apparently inadequate formulation of objectives for regional policy, but nobody has suggested that Ottawa should leave the responsibility for regional development entirely to the Provinces. This probably reflects a clear recognition that the provincial governments in the low-income regions lack the financial resources at present, to undertake regional development on the scale required.

But there is more to it than mere money. The provincial governments also lack the ability to influence a number of the important variables which influence regional growth. If, as I have suggested, the essential problem is to endow the Atlantic Provinces with a growth connection with central Canada by transferring some manufacturing entrepreneurship, capital and technology from central Canada to the Atlantic region, then the development effort must be undertaken in such a way that it can influence manufacturing enterprises in central Canada and, indeed, abroad. This means, in particular, that the industrial development incentives recommended above must be made available by the federal government. Even if they could afford them, such incentives offered by the Provinces, are not likely to have much impact in industrial board rooms in Ontario and Quebec; moreover, they can readily be counteracted by similar incentives which might then be offered by the provincial governments of the industrialized regions. The only alternative is for the federal government, as the representative of a "national interest" which is interpreted to include Atlantic regional development, itself to make available capital grants, advance factories, and income tax inducements of which Canadian industrial entrepreneurs are certain to become aware, and which cannot be cancelled by the actions of provincial governments in other regions. Such federally-financed and federally-administered industrial inducements would also be consistent with the notion that Atlantic regional development had been accepted as an explicit objective of national economic policy.

The central importance of regional industrial expansion to the overall development program also implies a need for active federal participation in the process of selecting the growth centres to be developed in the region. While many of the facilities to be constructed in such centres are within the purview of provincial governments, nevertheless it must be recognized that the purpose of developing the growth centres is thus to stimulate the expansion of the regional economy. Therefore, the task of choosing the growth centres must be undertaken in a regional context. Federal involvement in such a task is made even more necessary by the fact that there are four provincial governments in the Atlantic region, each of which is likely to display a natural inclination to choose centres for their potential impact on provincial, rather than regional, development. Left to themselves, it is naturally to be expected that the total number of growth centres selected by the provincial governments, would probably be greater than would be the case if the selection is made in terms of the region as a whole.

A further, related field of direct federal participation in the development program would be in helping finance the buildup of infrastructure facilities in the selected growth centres. In general, such facilities are the responsibility of the provincial governments and every effort should be made by them to concentrate provincial expenditures of this kind on the selected growth centres. But a point may well be reached where the financing of such expenditures cannot be handled, or carried, by the Provinces themselves. If so, because the development of growth centres, is such a critical part of the regional development program, the federal government should stand prepared to assist the Provinces with financing infrastructure expansion in the selected growth centres.

A number of other federal programs have an important bearing on economic development in the Atlantic Provinces. Of these, manpower and transportation come most readily to mind. In the course of reviewing these and other such federal programs, a continuing effort should be made to relate them as much as possible to the regional development program. The relevant question to be asked in such cases is whether they contribute as effectively as they might to achieving the objectives of Atlantic regional development.

Since an alternative to manufacturing expansion as a means of expanding the economic base of the Atlantic regional economy is to locate a greater proportion of nation-serving government operations in the region, the federal authorities should watch continually for opportunities to establish new administrative, scientific or research activities in the Atlantic Provinces, or to decentralize existing ones. Ottawa's recent record in this respect, it should be noted, is reasonably good, as evidenced by the establishment of Camp Gagetown and the expansion of Naval activities in Halifax during the 1950's. The oceanographic research facilities at Halifax offer another case in point. The federal authorities could make a significant direct contribution to expanding the region's economic base by further decisions of this type.

Ottawa is perhaps also in the best position to make another, more indirect contribution to long term development. The Atlantic Provinces are generally considered a major economic region and yet, probably because there is no <u>regional</u> government, the framework for analyzing the regional problem in aggregate economic terms, for deciding upon the major objectives of policy and their relationship to other key aggregate variables, and for working out suitable policy measures to deal with the problems, is lacking. Each provincial government determines its fiscal and economic policy within the framework of the provincial economy to which it is related; the result is four sets of provincial policy which are unlikely to add up to a proper policy for the region as a whole. The federal government similarly lacks a proper analytical framework for devising and assessing the programs it undertakes in the Atlantic Provinces. In this situation the federal government should take the initiative in preparing and developing a macroeconomic model of the regional economy which could become a framework for decision-making in the field of development policy by both the federal and provincial governments. Much of the statistical data and analysis required as a basis for this exercise is already available, and the task is by no means insuperable. That it has not been accomplished before now is perhaps the most serious criticism that can be made of the Atlantic Development Board. This important gap in knowledge of the regional economy should not go unfilled any longer.

With such a macroeconomic policy model made available, the process of agreeing development objectives and the strategy of policy between Ottawa and the four provincial governments could take place within a common framework. At least one part of the basis for federal-provincial disagreement would have been thereby removed.

The above suggestions regarding the federal role in Atlantic regional development may now be summarized:

(1) If regional development is considered a legitimate objective of national economic policy, it will be up to the federal government to represent the national interest by actively participating in the regional development effort.

(2) In more practical terms, Ottawa's direct involvement is necessary because the provincial governments of this low income region lack the financial resources to spark

the development effort by themselves. More specifically, the federal government should assist the Provinces in building infrastructure in the "growth centres".

(3) Moreover, if the effort is to be successful it should be recognized that there are certain factors which influence the regional economy and may be affected by federal policies and programs, but which are quite outside the ambit of Provincial policy. A particular example here consists of industrial development incentives.

(4) The federal government should participate in the process of selecting "growth centres" in the Atlantic region.

(5) As much as possible, other federal programs, including transportation and manpower, should be coordinated with the regional development effort, and made an integral part of it.

(6) Ottawa should maintain a continuing watch for opportunities to locate new federal activities in administrative, scientific and research fields, in the Atlantic region as a means of directly expanding the region's economic base.

(7) Finally, the federal authorities should take the initiative in preparing a macroeconomic model of the Atlantic Provinces' economy to be used as a framework for analysis and policy-making by both Ottawa and the Provinces.

(b) Provincial Governments' Responsibilities

Although it seems necessary that the leadership, organizational framework, much of the money, and a number of key instruments of development policy must, for various reasons, be provided by the national government, it is also true that without the active and vigorous support and participation of the four provincial governments, the whole regional development effort for the Atlantic Provinces is unlikely to succeed.

The approach recommended above involves the use of (federal) financial incentives to attract new industry to certain selected "growth centres" in the Atlantic Provinces as a means of expanding the region's economic base. The direct financial assistance is to be complemented and reinforced by measures to improve the facilities which these "growth centres" have to offer incoming industry. Such facilities extend to, and include, not only basic capital works such as roads, water and sewer services, but also housing accommodation to ensure an adequate supply of labour, educational and health services including industrial training, and cultural and other amenities.

Expenditures on these types of capital works and services are primarily the responsibility of provincial governments. If the facilities are to be expanded on the necessary scale in the selected growth centres, it will probably be necessary for the Provinces to forego other programs in other localities. Thus one important requirement for pursuing this policy is that the Provinces concentrate their expenditures of this kind in the selected growth centres.

Perhaps the most critical need which arises from this situation is for the right kind of political leadership. For the deliberate discrimination in favour of the "growth centres" will have to be explained to the electorate at large. It will thus be up to the provincial government members to persuade the people throughout each province:

(a) that the concentration of infrastructure expenditures on the "growth centres" is necessary to attract the new industry;

(b) that such new industry is needed in order to expand the region's economic base and thus permit future growth and development; and

(c) that, in time, the expansion of the "growth centres" will permit, and contribute to, increases in income and economic welfare throughout the region.

Assuming, however, that the Provinces are willing to adopt a "growth centres" approach, its pursuit imposes additional requirements on the Provinces.

For one thing, it is also their responsibility to undertake the physical planning of the selected growth centres. This task will be more complicated by virtue of the variety of objectives which "growth centres" are intended to serve. As already noted, the provision of facilities and services on an expanded scale is intended to attract new industrial enterprises: that is essential, if the policy is to work at all. At the same time, however, the "growth centres" are intended to serve as alternative destinations for persons who might otherwise migrate out of the region. So some attention must be paid to providing the kind of housing and other services which will attract these people. Then too an effort should be made to ensure, as far as possible, that the industrial expansion in the growth centres does have a stimulating effect on other areas and centres within the region. All these tasks, in the final analysis, fall to the provincial governments.

To accomplish them properly, the provincial government should coordinate their entire expenditure budget to the "growth centres". Each program should be related to the development effort and modified so as to give the maximum possible support to the "growth centres" industrialization policy. Indeed, as the Scottish experience has shown, the very essence of the "growth centres" approach is the integration and coordination of public expenditures programs to the objective of regional growth and development.

To recapitulate, then, the role of the provincial governments in Atlantic regional development is:

(1) to concentrate their expenditures on economic overhead capital required by new industry, and social overhead capital as well, on the selected growth centres;

(2) to persuade their electorates that such a discriminatory policy is both necessary, and likely to generate a greater degree of regional growth and development;

(3) to plan the development of the "growth centres" so as to provide not only suitable locations for new industry, but also attractive destinations for migrants from other areas in the region, and to ensure, as much as possible, that the expansion of the "growth centres" generates expansion in the other areas of the region; and

(4) to coordinate their entire expenditure program to the "growth centres", so as to provide maximum support to the regional development effort.

If such an effort is made, and properly coordinated with the type of <u>federal</u> approach recommended above, the Atlantic Provinces may yet become integral, functioning and proud components of the Canadian Confederation.

All of which is respectfully submitted.

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Fredericton, Canada
January 14, 1974.

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