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MAJOR DEVELOPMENT OPPORTUNITIES AND ISSUES IN CANADA'S REGIONS

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MAJOR DEVELOPMENT OPPORTUNITIES AND
ISSUES IN CANADA'S REGIONS

PREFACE

The purpose of this national report is to summarize and assess the significant changes that are occurring in Canada's national and regional economies. It begins with a summary of the recent economic performance and the salient issues and opportunities in each of the regions. The themes and issues discussed in this section of the report have been drawn from individual reports prepared by the Department of Regional Economic Expansion on the economic prospects of each of Canada's provinces and regions.

The regional summaries are then put in a broader geographic and historical perspective in a review of the national economy. Following the analyses of the regional and national economies, the report describes challenges posed by an uncertain international economy, evolving regional roles and social and demographic changes. Much of this third section is based on work carried out by other federal departments such as Finance and Industry, Trade and Commerce.

The report concludes with an assessment of the interrelationship of national policies and regional economic development, and notes that there will be increased emphasis on strengthening the market economy, focusing resources on areas of strength and building new partnerships among business, labour and governments.

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Bibliothèque
Page

TABLE OF CONTENTS

1. THE REGIONAL ECONOMIES.....1

 1.1 Atlantic Region.....2

 1.2 Quebec.....7

 1.3 Ontario.....11

 1.4 Western Region.....16

2. REGIONAL ECONOMIC DEVELOPMENT IN CANADA.....20

 2.1 Canada's Economic Base: The Legacy.....20

 2.2 Recent Performance.....25

3. REGIONAL ECONOMIC DEVELOPMENT IN THE 1980s.....29

 3.1 The International Environment.....29

 3.2 Evolving Regional Roles.....35

 3.3 Social and Demographic Changes.....36

4. A FRAMEWORK FOR REGIONAL ECONOMIC DEVELOPMENT.....39

 4.1 A Strong Market.....39

 4.2 Focusing Resources.....41

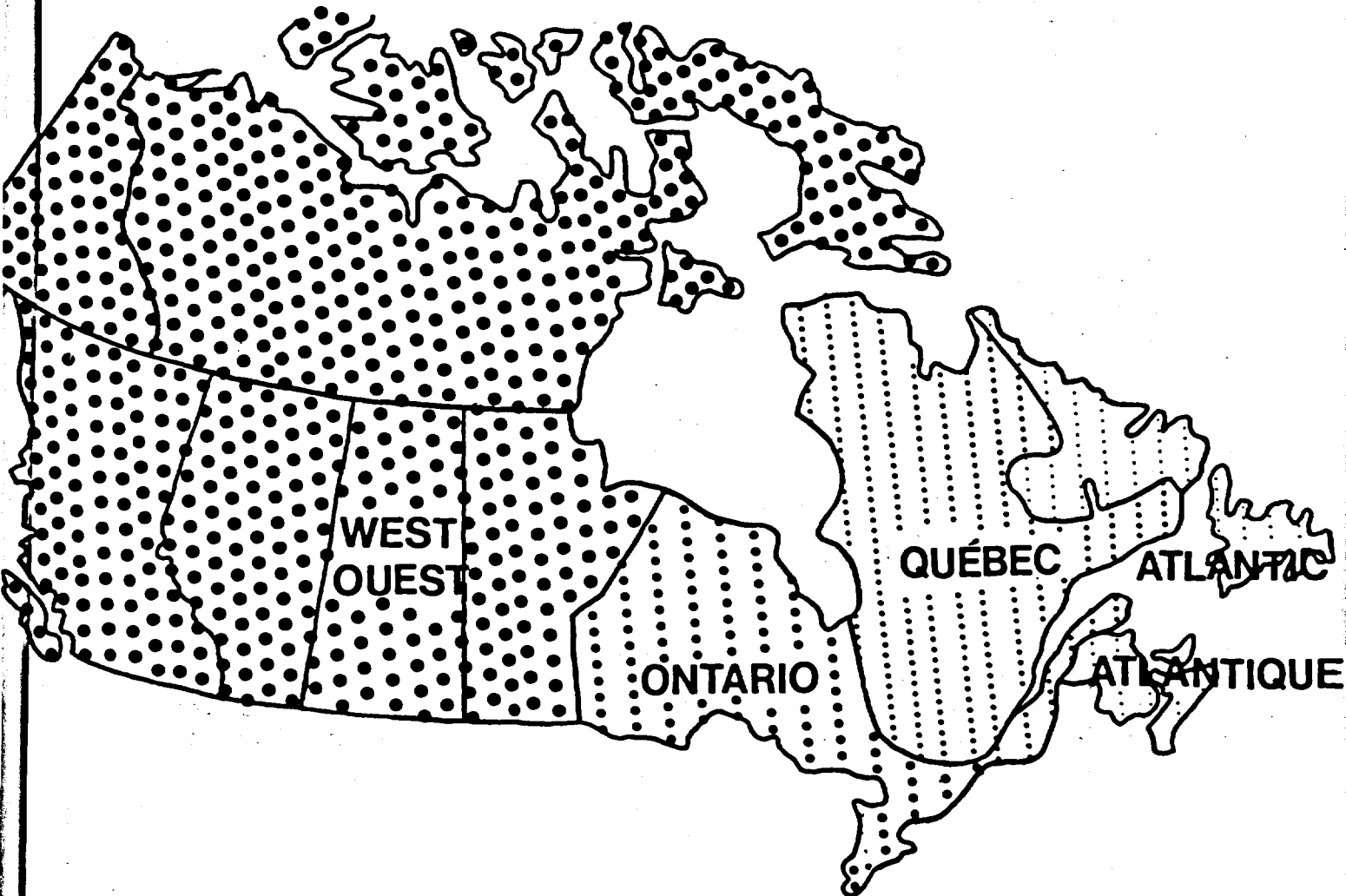
 4.3 Toward a New Partnership.....42

1. THE REGIONAL ECONOMIES

The policy review carried out by the Department of Regional Economic Expansion in 1973 was associated with a considerable degree of optimism over the long-term development opportunities apparent in all provinces and regions in the country. These opportunities were largely a reflection of the perceived distribution of economic potential among nations and regions that prevailed prior to the mid-1970s.

Many of these opportunities have now been realized: however a recent series of provincial, regional and territorial reports on economic prospects, prepared by DREE, identifies development opportunities and issues which indicate changing circumstances and a newly emerging balance of economic power and potential among the regions of Canada.

The circumstances which have influenced growth and development in each of Canada's regions during the 1970s and their economic prospects and opportunities for the medium term are summarized in this section.



1.1 Atlantic Region

Economic Performance

The Atlantic Region accounts for 5.4 per cent of the Canadian land mass and just under 10 per cent of the Canadian population, or about 2.2 million persons. By most measures, the economic performance of the region over the 1971-78 period was strong. Only the Western Region, spurred by the spectacular energy boom, grew at a faster rate. However, growth during this period was uneven, largely as a result of recessionary impacts on the economy during 1976 and 1977. The education and skill level of the population has been continually rising, and school retention rates are now approximately equal to the Canadian average. Out-migration has been reduced and the region has experienced a net population inflow of about 30 000 since the early seventies.

Existing mines in the Atlantic Region account for almost 45 per cent of the nation's known zinc reserves, over 50 per cent of its iron production and 40 per cent of all known lead and silver reserves. Recently, sizeable deposits of potash have been located, and extensive exploration for uranium is under way. Mining production in 1976 surpassed \$1 billion: this gives the Atlantic Region a higher per capita mineral production than any other region in Canada. The region has no operational gas or oil fields at present, but there are indications of sizeable quantities of gas off both Sable Island and the Scotia Shelf, as well as gas and oil off Newfoundland.

Forest industries are a major source of income, employment and exports although investment is down sharply. The medium-term outlook is not optimistic because the supply is being threatened as a result of past deficiencies in resource management and the continuing spruce budworm infestation.

In agriculture the decade of the seventies was a period of restructuring and adjustment. While total output and the number of farms fell, there was a marked increase in their size; and the revenue of the operators improved. However, there remains a significant difference between the farm incomes in the Atlantic Region and those in the rest of Canada.

With the designation of the 200-mile limit, landed fish values have been rising, and the region now accounts for 58 per cent of the value of all Canadian fish production. Potential exists for additional development in employment and value-added in both the fish and fish processing sectors. Exploitation of

this potential will require more capital investment and further adjustments in the structure of the industry. There should also be spinoff growth in related ocean industries over the medium term.

In manufacturing, the value of shipments for the Atlantic Region grew by 230 per cent in current dollar terms during the 1971-78 period, while manufacturing in Canada as a whole grew by only 160 per cent. Unfortunately this growth was not translated into a significant reduction in the level of regional disparities in terms of earned income, employment, unemployment and productivity. Investment on a per capita basis fell from 97 per cent of the Canadian average in 1971 to 72 per cent of the Canadian average in 1978. Manufacturing investment in particular suffered: it decreased by 41 per cent in current dollar terms, as compared to an increase of 108 per cent for all of Canada. It should be noted that investment levels among the Atlantic provinces varied considerably.

The greatest increase in employment occurred in the service sector. It accounted for 88 per cent of new employment or 128 000 additional jobs between 1971 and 1978. This reflects a real increase in demand resulting from higher incomes in the region. To the extent that the increase in demand resulted from rapid growth in public sector programs, it can be expected that the growth of the service sector will be less pronounced in the medium term as government restraint programs take effect.

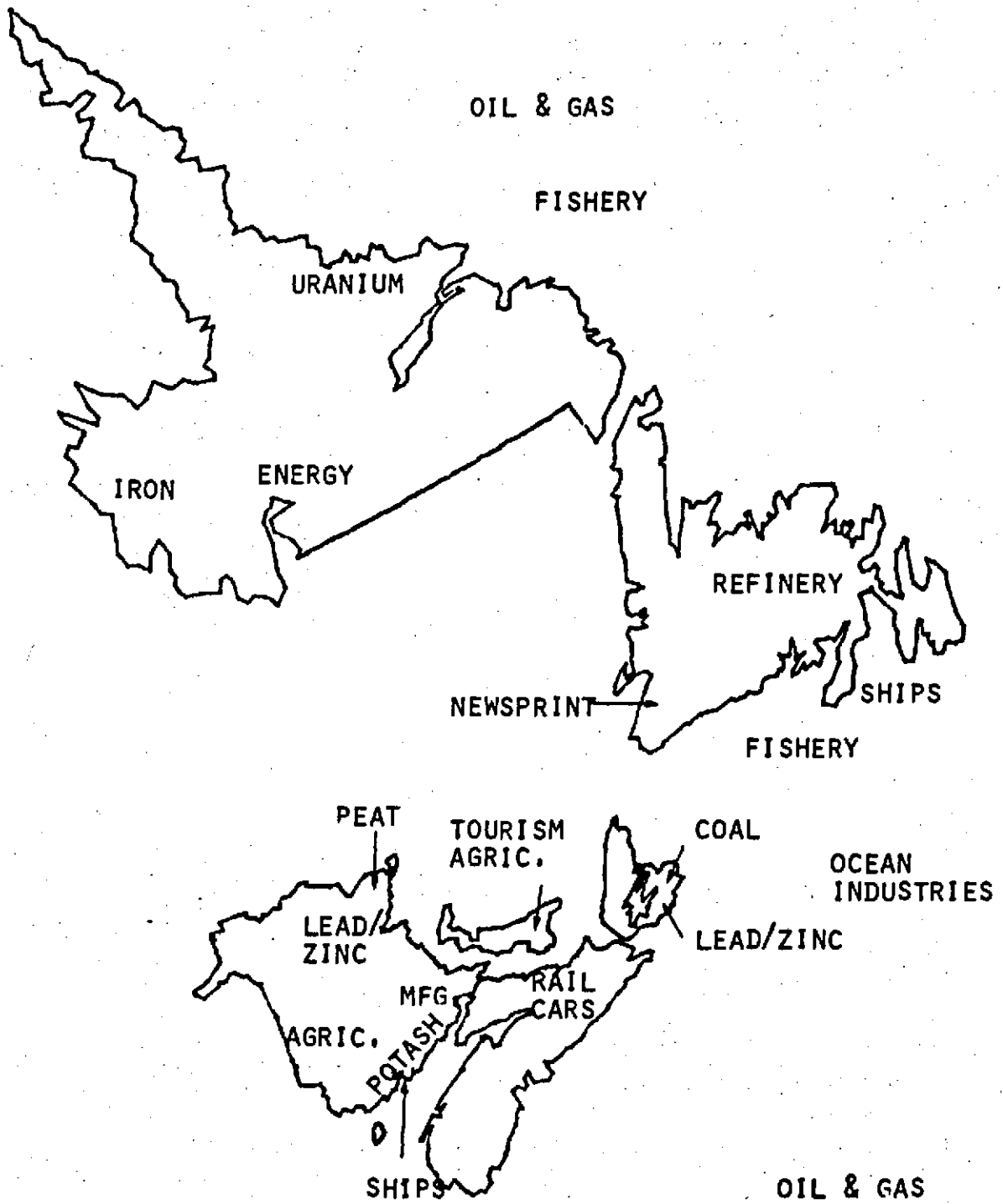
Issues and Opportunities

It follows from the preceding performance summary that the major development opportunities in the Atlantic Region continue to be in the resource and resource processing industries. (See Chart 1.1.)

The contribution of the mineral sector is expected to grow in relation to the rest of the economy. Additional coal production in Nova Scotia and potash production in New Brunswick are likely in the near future. Base metals and iron ore are expected to continue to be major export commodities for the region.

While it is expected that forest industries will continue to be of major importance, their level of employment is not expected to increase. The lower efficiency of Atlantic mills in relation to competitors in the United States, a lack of investment by firms, and a deterioration of the resource base pose major problems for the forest industry in the coming decade.

CHART 1.1: ECONOMIC DEVELOPMENT OPPORTUNITIES
IN THE ATLANTIC REGION



It is clear that the fishing industry is now in a period of adjustment both in terms of its structure and its markets. A major shift is predicted from traditional markets in the U.S.A. and Europe to markets in Eastern Europe and Japan. Related to this prediction is the opportunity to create a high-technology ocean industry sector that would encompass commercial fishing, offshore minerals, oil and gas, specialized services, and shipbuilding and repair. Defence, surveillance and resource management equipment also provide ocean industry opportunities. This sector has the potential to provide up to 30 000 highly-skilled, high-paying jobs; however, billions of investment dollars would be required. Given the limited availability of capital, hard decisions on the targeting of assistance for new growth areas may be necessary. For example, to facilitate such development there is a need for major improvements in highways and for expanded port facilities.

Energy costs soared during the 1970s and indications are that energy costs will continue to rise. The Atlantic Region depends on imported oil for over 80 per cent of its total end-use energy requirements. It is therefore a matter of strategic importance that the region acquire alternative sources of supply. The energy question is perhaps the most critical single issue facing the region during the coming decade.

New Brunswick's role in the development of petroleum will most likely be the provision of port facilities with a shipbuilding and repair capability for vessels delivering liquid natural gas from the Arctic. New Brunswick has followed Ontario in the construction of a nuclear site to hedge against inflation; and it shares with Nova Scotia the long-term prospects for tidal power.

The most probable east coast location for energy resource development is Newfoundland. Recently a number of wells were drilled in this province's coastal waters and several are known to have oil showings. These showings appear to be large enough to accelerate drilling over the next five years; and while it is not definite that Newfoundland will become an oil producer, the probability that it may become one has increased.

Newfoundland's hydro-electric generation potential is substantial. The Lower Churchill River has an anticipated output of 2 230 megawatts or nearly half that of Churchill Falls. It will be developed either after arrangements for transmission are made with Quebec or alternative markets are developed within Newfoundland. Additional hydro power resources are available

north of the Churchill as well as on a series of rivers with headwaters in Labrador and courses that flow south through Quebec. The latter have significant generation potential although the resultant energy would be costly to transmit to markets.

The recent economic performance and the present prospects of Atlantic Canada suggest that there are grounds for considerable optimism. The historic decline appears to have been arrested and significant new opportunities have been identified. At the same time, large discrepancies in levels of income and employment exist between this region and other parts of Canada; and perhaps even more importantly, large variations in economic health continue to exist within the region. Regional development in Atlantic Canada will continue to be given high priority by the Government of Canada in the foreseeable future.

1.2 Quebec

Economic Performance

In spite of the considerable expansion of the Quebec economy during the seventies, and the high degree of development it has already attained, there are a number of basic structural weaknesses that limit its long-term growth potential and prevent it from participating fully in the growth of the national economy. Although Quebec maintained its position during the early sixties, toward the end of that decade it found itself increasingly outdistanced by Ontario; and by in the mid-seventies the western boom and the improved performance of the Atlantic Region had caused Quebec's relative position to deteriorate even further. This trend will probably continue over the medium term. The major reasons for this include Quebec's persistently high unemployment, its somewhat weak productivity, its shortfall in private investment, the deficiencies of its industrial structure, the relative decline of the Montreal urban area, and the considerable regional disparities within the province. Indeed, the problems faced by the Quebec economy are some of the most serious in the country.

Quebec's economic development has gone through three distinct phases during the seventies. The period between 1971 and 1974 was one of vigorous growth; total investment climbed by a yearly average of 22 per cent, so that the province was able to make up some of the lag which had accumulated over the previous decade. During this period, output rose by an annual 5.4 per cent. In 1975, however, the economic problems and the energy crisis which affected the entire industrialized world caused an economic slowdown in Quebec which resulted in a marked rise in unemployment. Since the spring of 1978 Quebec's economy has shown some improvement: this may be attributed to factors such as the devaluation of the Canadian dollar, the imposition of import quotas as well as other restrictions on imports of textile, clothing and leather products, and the selective elimination of the provincial retail sales tax.

Despite improvement in 1979, Quebec's major economic problem remains its high rate of unemployment, which increased from 7.3 per cent in 1971 to more than 10.9 per cent in 1978. A large part of this increase can be attributed to a rate of job creation too low to keep up with the marked increase in the size of the labour force.

From 1971 to 1978, the average annual rate of investment growth in Quebec was higher than that in Ontario or Canada as a whole. This was due to the major public projects under way at that time, such as the James Bay project, the Olympic Games and the Montreal subway extension. In 1978, the public and quasi-public sectors accounted for more than 45 per cent of all investment in Quebec: this shows the importance of the supporting role these sectors play. Since relatively few major private and public investment projects are presently planned for the 1980s (with the exception of hydro-electric projects), the unemployment rate is expected to remain high until the mid-1980s, when the rate of growth in the labour force is expected to decline.

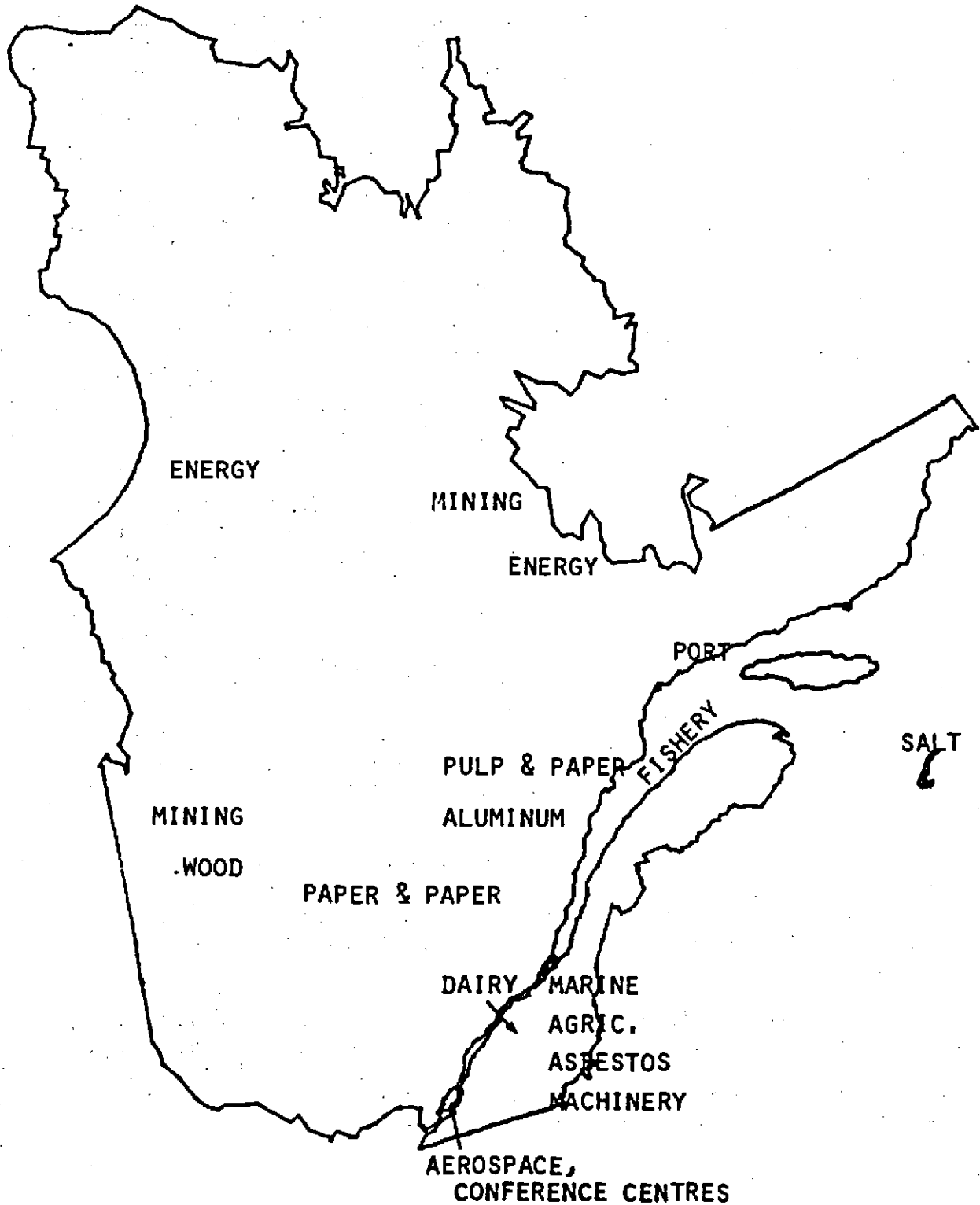
The influence of the factors which have affected the development of the Quebec economy over the past decade will probably continue into the eighties. The shift of economic activity toward the west may speed up, encouraged by the sizeable investments that will be made to exploit energy resources. However, the results of the GATT negotiations, together with the existing quotas on competitive imports, appear to have opened up new possibilities for the local processing of natural resources. Nevertheless the future of a number of traditional Quebec industries is far from certain in the face of increased international competition. Investment growth has been slow in recent years; as noted above, it was largely sustained by major government investment projects.

Issues and Opportunities

Quebec does enjoy a number of comparative advantages and development opportunities (see Chart 1.2) which can foster a higher level of development in the future, and which will become increasingly important with the opening of new international markets as a result of the recent GATT agreements. Quebec has an important domestic market, and despite the visible shift of economic activity to the west, it is still in a good position to penetrate the American and European markets. The province is also a major supplier of raw materials which could be processed locally to a greater extent.

Quebec's major advantage for the attraction of industry will continue to be its relatively inexpensive hydro power; but the province's mineral resources will also continue to enhance industrial opportunities. For example, Quebec accounts for approximately 80 per cent of Canada's asbestos production, yet less than 4 per cent of the asbestos fibre mined in the province

CHART 1.2: ECONOMIC DEVELOPMENT
OPPORTUNITIES IN QUEBEC



is processed there. The provincial government's long-term objective is to raise the proportion of the extracted fibre that is processed in Quebec to 20 per cent.

Similarly, Quebec processes only 3 per cent of the iron ore it extracts. The provincial government established SIDBEC in order to increase the amount of ore processed. Development of the iron and steel industry, however, hinges on the expansion of industries using steel (e.g. manufacturers of machinery, transportation equipment).

Quebec also has deposits of uranium, low-grade silica, salt, gold and peat. Deposits located to date offer excellent prospects for both mining and processing.

The state of the pulp and paper industry has deteriorated over the past few years: more specifically, Canada's share of the American pulp and paper market decreased from 40 to 30 per cent between 1950 and 1976. With the help of both levels of government, measures are currently being taken to increase the competitiveness of the Canadian pulp and paper industry.

The textile, knitwear, clothing and footwear industries are for the most part not internationally competitive. Many have survived because of the sustained protectionist policies of the federal government and the devaluation of the Canadian dollar since 1976. It is commonly felt that, over the long term, these industries should rationalize their production, consolidate their operations and modernize. This does not change the fact that a large number of these labour-intensive industries cannot compete effectively with industry in countries where workers are paid the equivalent of 44 cents an hour (as in Korea in 1978). Over the short term, the federal government has decided to continue protectionist measures so as not to aggravate the unemployment problem.

Quebec has a diversified transportation equipment industry which employed 6 per cent of its manufacturing labour force in 1976. Industries in the province assemble automobiles, produce urban transportation equipment, build ships and manufacture aircraft engines and missiles.

The province's diversified economic base, wealth of natural resources, locational advantages, low-cost hydro power and determination to transform its aging industrial structure suggest that its longer term economic future is assured if short-term difficulties can be overcome.

1.3 Ontario

Economic Performance

Ontario, with a population of 8.5 million, accounted for 36 per cent of the Canadian population and 41 per cent of the nation's domestic product in 1978. Ontario has a highly-diversified and mature economy although over the last decade its performance, according to many economic indicators, has been sluggish in relation to Canadian averages. There are moreover significant sub-provincial variations in this performance. Southern Ontario has the most diversified economy with considerable strength in the manufacturing, agricultural and tertiary sectors; northern Ontario relies on resource-based activities; and eastern Ontario is highly dependent on both the agricultural and tertiary (primarily government) sectors. Ontario's economy is highly susceptible to international events, especially in labour-intensive industries and in resource markets, where low-cost producers and fluctuating demand have destabilized the provincial economy. Growth in eastern Ontario has been dampened by government restraint and to a lesser extent by decentralization; while southern Ontario has demonstrated an increasing sensitivity to international competition and inflation in recent years. Sustained, strong economic growth can no longer be taken for granted. However the Canadian dollar depreciation is having a positive effect in southern Ontario, and the provincial government has been intervening with direct financial assistance to manufacturing industries in an attempt to attract development involving high technology, and to facilitate rationalization and specialization.

With a highly diversified manufacturing sector, Ontario tends to have relatively fewer labour-intensive industries than generally appears to be the case at the national level. In addition, Ontario's share of the labour force, national retail sales, exports, personal income and real domestic product (RDP) is disproportionately larger than its population share. Despite these apparent strengths, the 1970s witnessed a relative decline in Ontario's performance with growth in many indicators (RDP, population, per capita income, capital investment, residential construction, etc.) registering sub-national gains. Concomitant with these trends, the rate of unemployment rose as labour force growth (due to the maturation of the "baby boom" and the increase in female participation rates) outstripped growth in employment. While moderate employment growth was registered in most sectors, non-agricultural primary industries and construction recorded declines, primarily caused by soft international markets and poor growth rates of investment in both residential and non-residential construction.

The spiraling cost of energy and the movement of investment capital to other parts of the country have also contributed to Ontario's weakening economic performance. Ontario has large industrial and residential energy requirements: it accounts for 40 per cent of Canadian energy consumption; but it has few indigenous resources. This lack of energy resources leaves the province's economic base vulnerable to external suppliers. The availability and cost of energy supplies from western Canada is therefore a major issue for the 1980s. High energy costs will counteract some of the traditional, comparative advantages of Ontario industry and will have a major impact on future development patterns.

On the positive side, the recent strengthening of world markets and the lower value of the Canadian dollar have bolstered the Ontario economy and improved business expectations as a result of increased profits and export opportunities, better capacity utilization and an improved public policy environment. The lower value of the dollar has done much to restore Ontario's competitiveness and should result in a better employment picture in 1979: strong growth is expected in the aerospace, paper and allied, machinery, and food and beverage sectors. However, these benefits are likely to have different impacts on the various sub-provincial areas.

Southern Ontario continues to have the strongest sub-provincial economy. It has a diversified industrial base, a favourable location and numerous development opportunities. Nevertheless its economy has been affected significantly by growing energy costs and the vagaries of world markets. Employment in northern Ontario reached a peak in 1973 and has subsequently been below that level. This part of the province also has had to contend with increasing competition in the extraction and processing of raw materials from Third World countries and it has suffered from serious fluctuations in demand due to variable international market conditions. Economic circumstances in eastern Ontario tend to be discouraging for the most part, despite some significant locational advantages. The industrial base is relatively antiquated and vulnerable to foreign competition due to its labour-intensive nature. The public administration sector, which accounts for almost 25 per cent of employment in eastern Ontario, has had a negative impact on the economy because of government cutbacks and some decentralization programs.

Issues and Opportunities

The key issues facing the Ontario economy are related to foreign competition, industrial adjustment partially as a result of GATT, and the high cost of energy. In addition, the high capital requirement for energy projects and their associated high

rates of return which predominate outside the province, may have implications for the generation of capital investment in Ontario. These factors along with poor international economic conditions have precipitated a basic economic realignment among the provinces: as a result, Ontario no longer enjoys the favourable position in the Canadian economy which it previously held.

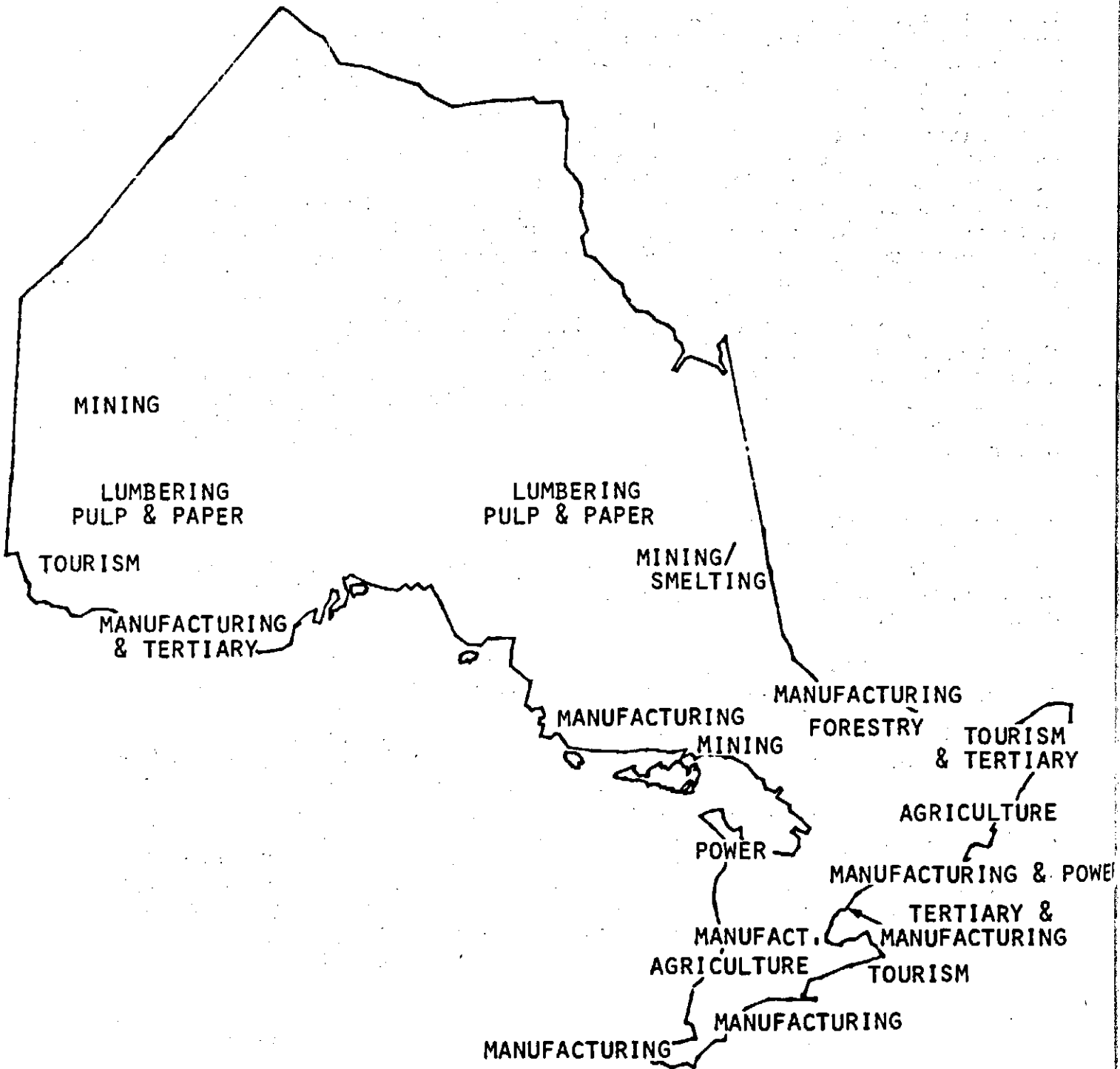
Specific problems in the resource sector include inadequate forest regeneration and management efforts, environmental regulations and health and safety requirements. The continuing loss of prime agricultural land in southern Ontario and growing concern over acid rain are additional issues. Other concerns include the impact of declining levels of immigration on the supply of skilled labour, issues related to the establishment of a STOL service from the Toronto Island Airport and the need for additional capacity at Toronto International Airport, and the weakness of the Ontario tourist industry in relation to that of the United States: the province's tourist facilities are not cost-competitive and lack the quality and diversity of attractions in the U.S.

As illustrated in Chart 1.3, Ontario's economic opportunities for the medium term are both spatially and sectorally diverse. Over the next five to seven years, over \$600 million in capital investment will be placed in the forestry sector to upgrade pulp and paper facilities and improve pollution programs.

Ontario Hydro will continue to be a major investor in the economy: the construction of three nuclear power stations and four thermal generating stations is planned during the next decade. In addition, the possible pipeline construction and tar sands projects in western Canada could further strengthen Ontario's steel industry.

Despite some troublesome uncertainties, the transportation equipment sector is also expected to provide significant opportunities in the 1980s. Expansion of the auto parts industry in Windsor and St. Catharines, increased expenditures on research and development in the automotive sector and expenditures on the higher technology associated with the specialized design and manufacture of aerospace equipment, such as the DASH-7 aircraft, will produce substantial direct as well as indirect employment through strong linkages to other sectors (e.g. the primary metal, machinery, plastics). Further expansion of expertise in the urban transportation field is also expected to result in increased possibilities for exports.

CHART 1.3: ECONOMIC DEVELOPMENT
OPPORTUNITIES IN ONTARIO



Tertiary sector opportunities are anticipated from the strong demand for retail and commercial space, the continuing role of Toronto as the financial capital of Canada and the expected growth of business services.

Aside from these specific opportunities, expansion in the electronics industry and other high-technology sectors will be enhanced by the federal government's commitment to improving the Canadian research and development effort. However, many of these opportunities will depend on the effects of the GATT on Ontario's ability to access foreign markets as well on developments in other parts of Canada which may benefit Ontario.

It would appear that Ontario is now at a crossroads. Its traditional advantages have been weakened; the economic environment has changed drastically. While the provincial economy continues to demonstrate a great potential, its present development path is leading to slower growth. There is also a significant possibility that Ontario might be outdistanced economically, both nationally and internationally.

1.4 Western Region

Economic Performance

In the Western Region (the provinces of Manitoba, Saskatchewan, Alberta, British Columbia, the Northwest Territories and Yukon) growth in most years since 1971 has surpassed the national average. Despite the national recession of the early 1970s, real domestic product rose by over 20 per cent to reach \$33 billion in 1976, nearly one third of the Canadian total. This growth was supported initially by the massive international commodity requirements of the early 1970s and more recently by rapidly rising energy prices, steadily increasing fuel demands and a devalued Canadian dollar which has stimulated exports.

Western economic expansion has produced a westerly shift in Canada's centre of economic gravity. The west's shares of national new capital investment, goods-producing value-added, and new employment creation increased dramatically during the 1970s. Western personal incomes in current dollars more than doubled: they increased from 26.3 per cent to 28.2 per cent of the national totals. As a result of increased job creation in relation to labour force growth, the unemployment rate in the west dropped significantly, while at the same time the national unemployment rate rose.

Historically, the west has been dependent on its natural resources and their volatile prices. Recent increases in resource prices generally, and oil in particular, have produced a substantial boom in western Canada which is expected to gain momentum in the 1980s. These developments represent a major opportunity for western industrial growth and diversification.

There are, however, disparities in the geographic distribution of economic performance within the Western Region. For example, Manitoba's shares of both national and western real output, personal income, employment and investment have declined. In the westernmost provinces, much of the economic activity has been concentrated in the British Columbia Lower Mainland and in the Edmonton-Calgary corridor. These metropolitan areas provide a growing base of professional enterprises, financial expertise, transportation services and manufacturing production. Between 1971 and 1976, these three largest centres accounted for one-half of the population growth within the region. The other large western cities - Winnipeg, Saskatoon, and Regina - have grown far more slowly, accounting for only 8.8 per cent of the population growth in the Western Region. Significantly, some non-metropolitan regional centres, particularly in British Columbia and Alberta, have experienced faster growth rates than the largest western cities; however many of the smallest rural local community service centres, once necessary for a labour-intensive agricultural economy, continue their steady decline.

The scale of both settlement and economic activity is much smaller in the north. The dominance of the public sector in the Northwest Territories reveals perhaps the least independent economy in Canada. In Yukon a longer history of mining and some commercial tourism represents a very small but significant early stage of economic growth.

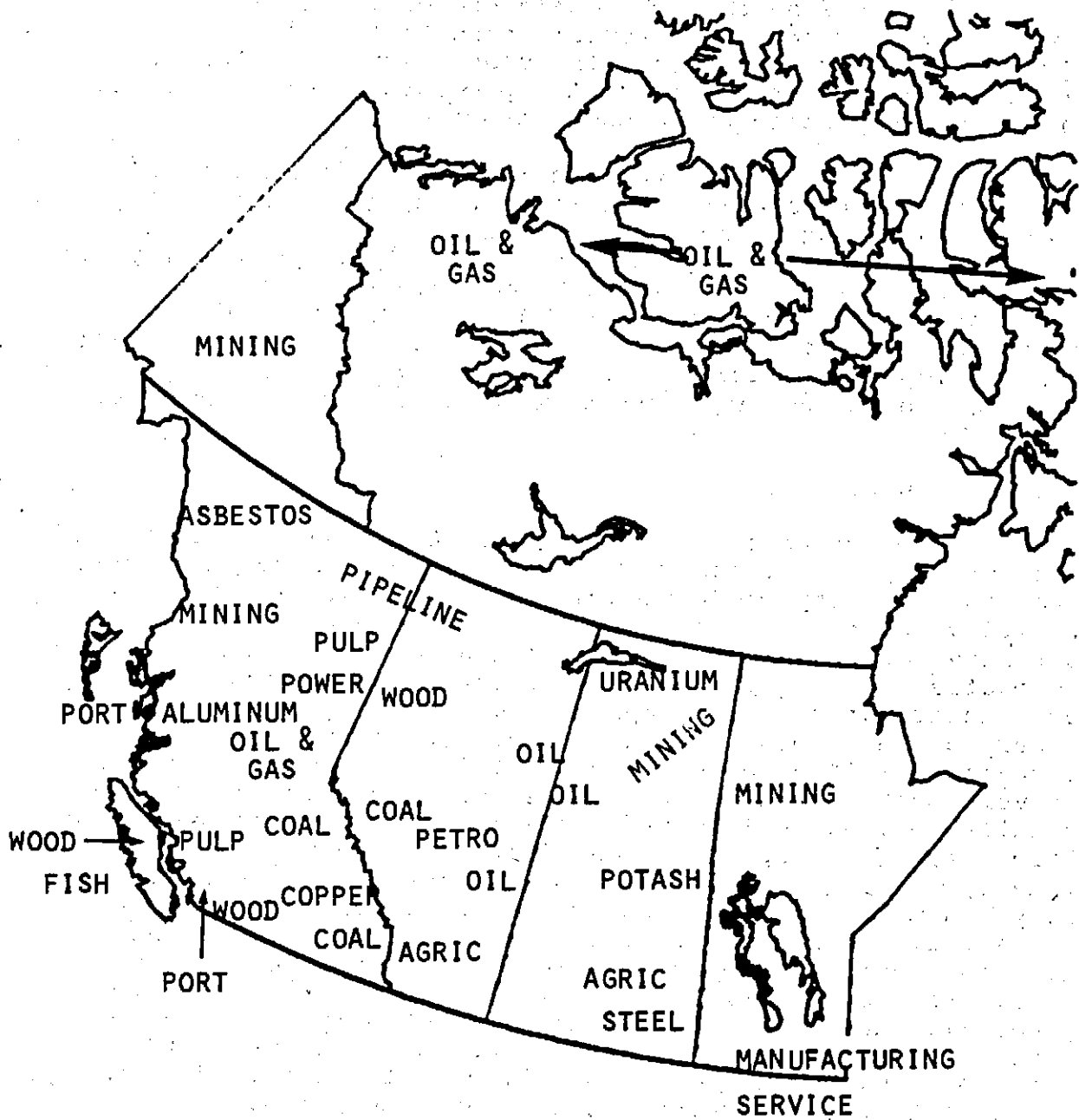
Most of the recent western region development benefits have accrued to metropolitan and resource centres west of Manitoba. Social and economic disparities continue to be a problem which may become aggravated in the 1980s, especially with respect to the native population. Nonetheless energy, interregional trade, employment and foreign trade benefits from resource developments will be substantial and the challenge for future development policies will be to integrate the slower growth areas of Canada with the more dynamic growth centres of the west.

Issues and Opportunities

The opportunities and performance of the Western Region in the 1980s will continue to be dominated by energy investments, mineral and forestry production and agricultural exports (see Chart 1.4). Current plans present a massive potential opportunity for Canadian manufacturing and service industries and the spinoffs could equal the size of the initial investment. Import substitution could replace the presently imported machinery and equipment used in resource extraction. Other opportunities will develop for consulting engineers and research and development activities which are normally carried out abroad, especially in the development of new technologies for synthetic oil production and sophisticated mining and electronic monitoring equipment. These opportunities could serve to diversify the economy and make a positive contribution to Canada's balance of trade as well as promote greater energy self-sufficiency and significant employment opportunities. However federal-provincial and public-private initiatives in the areas of transportation and manpower will have to be coordinated effectively. Furthermore because of the massive capital costs of the major projects, royalty and commercial questions will have to be solved promptly to promote the early development of energy supplies.

The outlook for thermal coal development is favourable: plans for major expansions in coal-fired electrical generation capacity have been drawn up in response to increasing demands from Ontario, Saskatchewan, and Alberta power utilities. Thermal coal might also be used for steam generation at in situ heavy oil and oil sands recovery projects; growing offshore demands, mostly from Japan, will give an additional boost to this favourable forecast.

CHART 1.4: ECONOMIC DEVELOPMENT OPPORTUNITIES
IN WESTERN CANADA



Other sectors which should perform well in the next decade include: metallic and non-metallic minerals, which will benefit from the lower value of the Canadian dollar and the nation's stable political environment; agriculture, which will benefit from rising world demand if the handling and transport facilities can be rationalized and upgraded; and the forestry sector, which is presently undergoing significant expansion and modernization. Uranium developments could also be significant although environmental concerns could dampen activities somewhat.

All of the above opportunities suggest that the west will continue to contribute strongly to Canada's balance of trade and employment situation over the course of the next decade. Significant spillovers from resource activities should accrue to eastern Canada. Finally, the resource boom presents an opportunity to integrate native people into the national economy more fully.

2. REGIONAL ECONOMIC DEVELOPMENT IN CANADA

2.1 Canada's Economic Base: The Legacy

The preceding overview of the regional economies shows that Canada's growth and development is tied closely to its ability to meet world demand for resources and the extent to which resource-related industries can flourish. The purpose of the brief historical review which follows is to place the nation's current performance and prospects in a longer run context and thus offer some insights into possible public policy issues.

At the outset of European settlement, the fur trade encouraged exploration and mapping of a vast continent, while a parallel early trading industry, the Atlantic Region fishery, led to a dispersed economy. Throughout the early growth period of these industries, economic ties to Europe, primarily to France and England, remained strong through powerful merchant interests which controlled both the industries and the resulting accumulation of wealth.

The health of both the fur trade and the fishery was vulnerable to international events. Economic stability based on the fur trade was impossible because capricious demand resulted in severely fluctuating prices. Stability in the fishery was undermined by the opening and closing of markets in a mercantilistic world and by the "pressing" of men into navies in time of war.

The American Revolution and the Napoleonic blockade of Baltic timber supplies forced Britain to develop the Canadian trade in squared timbers quickly. Shipbuilding developed in Atlantic Canada and eastern Quebec simply as a means of transporting the relatively bulky, low-value commodity to market. Since lumber was, in effect, traded for high-value, low-volume merchandise, there was an impetus to either sell many of the ships once delivery of the timber was made or to bring people back to settle the newly-cleared lands. Thus the lumber trade stimulated a linked industry, shipbuilding, and resulted in the opening up of the land for agriculture to feed a growing population.

Confederation and the "National Policy" provided the institutional framework for the first pan-Canadian effort to systematically exploit this relationship between domestic resources and international economic conditions in order to develop and diversify the country's economic base. Industrial and agricultural mechanization in Europe had increased the migratory shift of Europeans to European manufacturing centres which in

turn had led to increasing demands for food supplies. This international phenomenon enhanced the viability of prairie agriculture by increasing both the demand for wheat and the supply of immigrant wheat producers. This, in turn, led to an increasing demand for implements, goods and services from an industrializing central Canadian economy. Thus the opening of the west for agricultural development, the associated massive population movement, the major railway and other transportation projects, and the establishment of protectionist measures - all led to a growing and diversified economic base.

During and after the first world war, a further stage of industrialization took place in Canada. The availability of hydro-electricity led to the accelerated growth of the pulp and paper and aluminium industries, the continuing growth of the textile industry, and more recently the expansion of mineral exploitation and the growth of the automobile industry. At the same time many of these same factors increased Canada's dependence on international markets for export sales and access to capital.

To sum up; Canada's economic history describes an economy which has been, and remains to a very great extent, dependent upon merchandise trade based upon resources and resource-related industries. Accordingly, the viability of the Canadian economy would appear to be directly related to international economic growth and price movements. Thus recent relatively large price increases in world energy commodities, notably oil, are of major importance for both recent and future national growth and development. Canada is an energy-rich country not so much because of its endowment of conventional reserves but because of international price escalations and technological innovations which have increased our ability to extract conventional reserves as well as harness non-conventional reserves.

Throughout its history, Canada has taken advantage of positive movements in international prices to develop new export opportunities. Often the transition period between key exports has not been an easy one. In 1979, the country faces yet another period of transition. The existence of established energy reserves, primarily in the west (as well as the increasing likelihood of the discovery of new reserves in the east) places Canada in the enviable position of being able to exploit the growth and development opportunities associated with these resources. At the same time, the possibility of another period of buoyant national growth based on energy and other related resources underlines the continuity of Canadian economic history:

once again, the stimulus for internal growth and development is a function of changes in international commodity markets.

At the risk of oversimplifying, one could say that in Canadian economic history, the exploitation of resources for export has been the main stimulus for growth. This resource-based growth has led, through industry linkages, to the growth of other related manufacturing and service activities, an increase in population and a partial dependency of industries on an increasing domestic market.

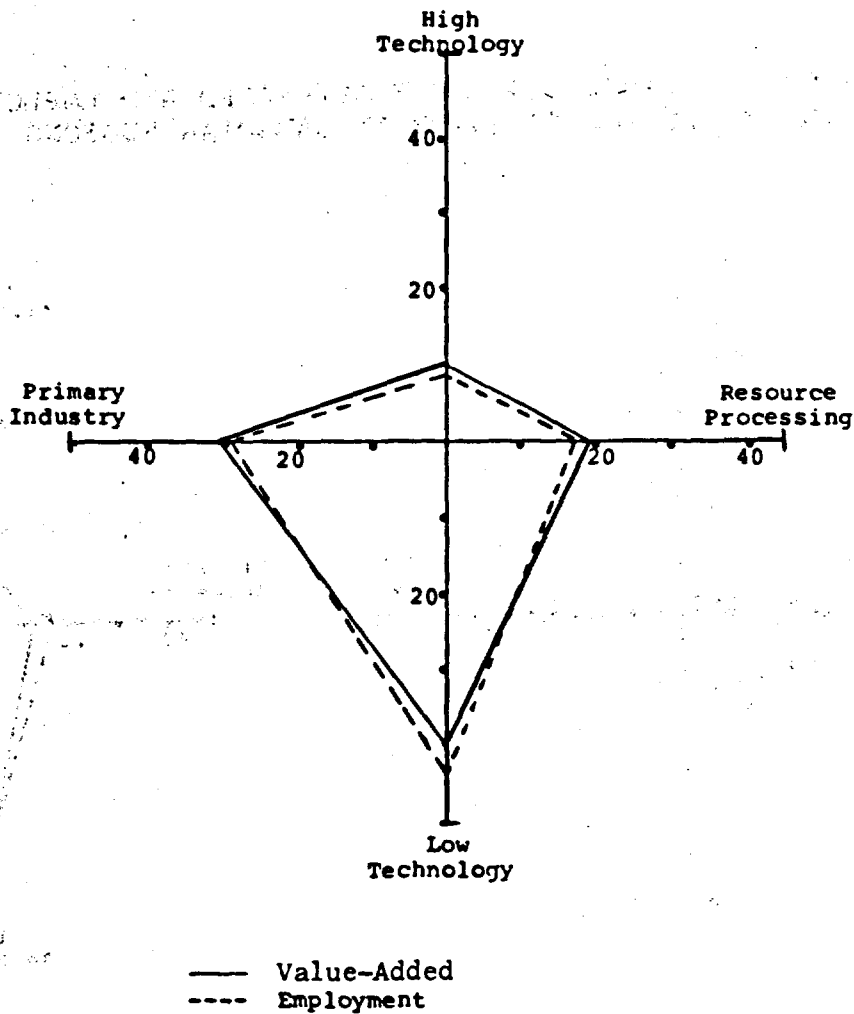
The Economic Base: Industrial Structure

This section describes how the historical dependence of Canada on the international market environment is reflected in the national industrial structure. It will demonstrate that although the growth of the economy has been led by a range of commodities, its industrial structure continues to reflect the importance of resource development and exploitation.

As the opening summary of regional economic circumstances and prospects indicated, each of the regions in Canada is unique in overall structure and anticipated medium-term prospects. Indeed, as the opportunities for development illustrate, there are significant differences in the comparative advantages of the provinces and regions. Canada's industrial structure is, however, an aggregate representation of regional industrial structures. Chart 2.1 illustrates that the national industrial structure tends to confirm that the Canadian economy is heavily weighted toward primary resource extraction and low-technology processing and manufacturing. The allocation of industries in Chart 2.1, even if it is admittedly somewhat arbitrary, suggests that both Canada's value-added and employment are concentrated in sectors with established technology. Given the emphasis on low labour skill requirements in comparison to other industrial nations, it is evident that Canada has not developed its high-technology industries extensively.

Similar "diamond" shaped representations of Canada's regional industrial structures appear in Chart 2.2. The economy of the Western Region is seen to be heavily dependent on primary resource extraction: comparatively little resource processing is carried out. More specifically, its industrial structure reflects western Canada's current dependence on agriculture, energy and other primary resources, which are largely distributed to other regions of Canada for direct input to their production processes, or exported in unprocessed or semi-manufactured forms.

**CHART 2.1: PERCENTAGE OF VALUE-ADDED AND EMPLOYMENT
BY INDUSTRIAL ACTIVITY
CANADA 1975**



INDUSTRIAL STRUCTURE CATEGORIES

● PRIMARY INDUSTRY

Agriculture
Fishing
Forestry
Mining

● LOW TECHNOLOGY

Food and Beverages
Tobacco
Labour-Intensive
Secondary Processing
(textiles, footwear,
furniture, etc.)
Metal Fabricating
Transportation (excluding
aircraft and parts)
Electrical (excluding
major appliances,
communications, and
industrial equipment)

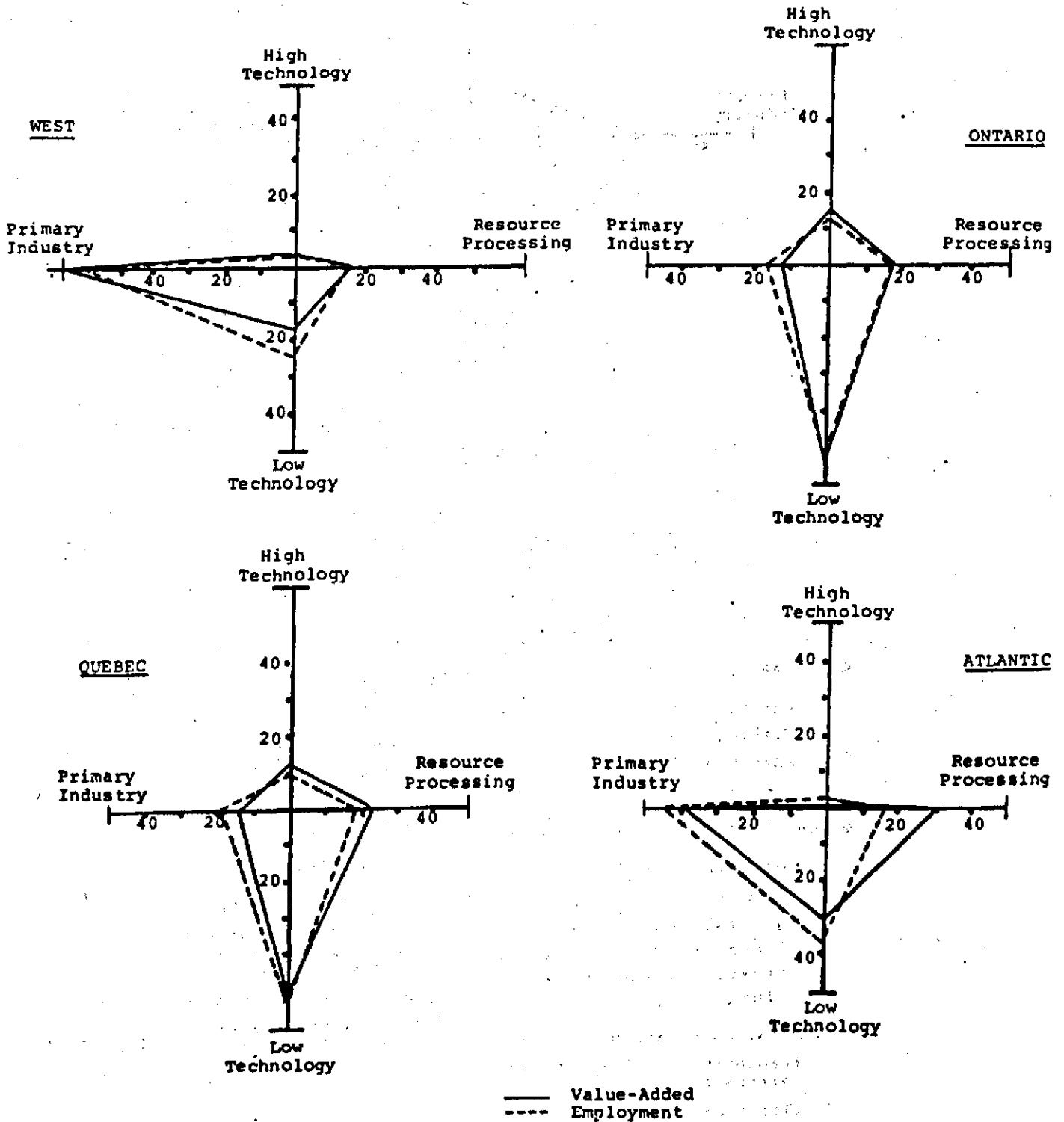
● RESOURCE PROCESSING

Wood Products
Paper and Allied
Primary Metal
Non-Metallic Minerals
Petroleum and Coal

● HIGH TECHNOLOGY

Aircraft and Parts
Electrical (Major appliances,
communications and
industrial equipment)
Chemicals and Chemical Products
Miscellaneous Scientific
and Professional Equipment

CHART 2.2: PERCENTAGE OF VALUE-ADDED AND EMPLOYMENT
BY INDUSTRIAL ACTIVITY IN CANADIAN REGIONS
1975



The industrial structures of the central Canadian economies of Ontario and Quebec are similar; their "diamond" graphs illustrate that these central provinces significantly influence the national pattern. Both economies are dependent on secondary manufacturing and the processing of resources. Quebec, more than Ontario, relies on the production of semi-manufactured goods, primarily pulp and paper and other forestry products. Both economies exhibit a dependence on relatively low-technology industries.

Atlantic Canada's industrial orientation is toward both primary industry and, to a significant degree, preliminary resource processing. The apparent relative diversification of eastern Canada's economy can be attributed to the nature of its resource base (primarily forestry and fishing), and the fact that the processing carried out is in most instances minimal, using a standard or traditional technology.

Although the above description of Canada's national and component industrial structures is limited to specific sectors of the economy and is thus only roughly illustrative, it provides a broad historical outline of the nation's development; further, it illustrates the comparative advantages and bases on which medium-term opportunities have been developed. The regional and national patterns of industrial activity reflect indigenous resource endowments as well as the resource orientation of Canadian public policy. Thus present indications suggest that Canada's medium-term comparative advantage will rest largely in the continued development of both renewable and non-renewable resources.

2.2 Recent Performance

Since the mid-1970s the national economy has been characterized by modest growth, high levels of unemployment and high inflation. Closer examination reveals, however, that this general statement does not apply equally to all areas of the country. As Chart 2.3 illustrates, there has been a significant divergence in regional trends since 1973. During the past decade primary resource development associated with energy production and distribution has significantly altered both the relative growth rates and the shares of economic activity among the major regions.

From Chart 2.3 it is obvious that the three westernmost provinces, and Alberta and Saskatchewan in particular, have generally performed better than the national average. As measured by indicators such as fiscal capacity, their performance has so far outranked the rest of the country that a downward relative bias is exerted on provinces with a modestly good performance.

CHART 2.3: PROVINCIAL CHANGES IN ECONOMIC INDICATORS
RELATIVE TO NATIONAL AVERAGES SINCE 1973

	<u>B.C.</u>	<u>Alta.</u>	<u>Sask.</u>	<u>Man.</u>	<u>Ont.</u>	<u>Que.</u>	<u>N.B.</u>	<u>N.S.</u>	<u>P.E.I.</u>	<u>Nfld.</u>
Population Growth	+	+	-	-	=	-	-	-	=	=
Unemployment Rate*	+	+	+	+	-	-	-	-	+	-
Employment Rate	=	+	+	=	=	-	-	+	+	-
GDP	=	+	+	-	-	=	-	-	-	-
Income Per Capita	-	+	+	-	-	+	+	=	-	+
Fiscal Capacity	-	+	+	-	-	-	-	-	-	-

+ Higher than the national average

- Lower than the national average

= Approximately equal to the national average

* A plus sign means an unemployment rate below the national average.

By way of contrast, the three central provinces of Manitoba, Ontario and Quebec, each with a significant secondary manufacturing base, have not performed well. From this perspective, Manitoba's prospects are improved somewhat as a result of its proximity to the more dynamic economies of Saskatchewan and Alberta. It is expected that Quebec's relative economic performance will continue to be lower than that of the west, largely as a result of the industrial structure of the province in general (and the Montreal Plain in particular) and its vulnerability to increasing competition from foreign manufacturers (despite the growth potential associated with hydro-electric and related industries). The problem of Quebec's industrial adjustment will, therefore, be given high priority by the federal government.

Although the adjustment problem in Quebec was anticipated, the apparent softness of the Ontario economy was generally unexpected. Concern is currently being expressed over the ability of the Ontario economy to compete in international markets, particularly in the labour-intensive manufacturing sectors. Despite indications of the need for industrial adjustment measures in Ontario, such as the province's relatively poor performance since 1973, it can be expected that industries such as steel will become the major input manufacturers linking central Canada to western expansion.

Chart 2.3 illustrates a somewhat mixed performance in the Atlantic provinces, because the resource potential now emerging, notably in energy, has not been captured in these indicators. Despite the relative fiscal weakness of the provincial governments in the Atlantic Region, it has performed at levels comparable to or better than those of central Canada since 1973.

Performance in Canada's regional economies, particularly since the middle of this decade, very strongly reflects both the indigenous resources and the local industrial structures. Recent trends suggest continuing buoyancy in the three westernmost provinces, some uncertainty about the competitive position of central Canada, and growing optimism for Atlantic Canada based upon both energy and ocean-related resources. To some extent, these economic perceptions may reflect cyclical patterns; but they also indicate significant changes associated with the evolving international economic environment.

Canada's economic prospects have historically been associated with international demands for resources and resource-related products. This continues to hold true: certainly the emergence of western Canada as a stronger economic and political force in the federation is a reflection of the crucial

role of energy and other non-renewable resources in the world economy. The relative softening of the central Canadian economies can be traced, at least in part, to more competitive international markets in both partly and fully manufactured goods. To a very great extent these changes in the international economic environment have been responsible for a realignment of both economic circumstances and prospects among Canada's regions in this decade. It is, therefore, exceedingly important that a discussion of current and future economic prospects for Canadians include a review of recent and likely developments in the international economic environment. These developments are dealt with in the following section and provide an introduction for the discussion of the challenges Canada will face in the medium term.

3. REGIONAL ECONOMIC DEVELOPMENT IN THE 1980s

3.1 The International Environment

First and foremost among the changes taking place in the international economic environment is the impact on virtually all western economies of the rapid increase in the world price of oil. As documented in Chart 3.1, the value of oil imports for Canada and the other countries listed has increased substantially. Between 1972 and 1978, Canada saw increases in the world price of oil turn an oil trade surplus into a deficit of over \$1.5 billion as estimates of Canada's domestic conventional reserves shrank and exports were curtailed to ensure domestic supplies. While the Canadian, German and Japanese economies have managed to retain and, in the case of the latter two, increase their trade surpluses on all goods in the face of increasing oil prices, the effect on the U.S. economy and, to a lesser degree, on the economies of Italy and the United Kingdom, has been to increase their respective trade balance deficits.

Other factors have had, or will have, equally significant impacts on the international economic environment. After the end of the Vietnam War, for example, and in conjunction with the rapid oil price increases, the United States economy experienced its worst recession of the post-World War II period. Indeed, the recession was international in scope; and, as the major industrial nations attempted to maintain past growth rates, often inflating their economies, the post-1973 period became characterized by unemployment, high rates of inflation and declining national growth rates. The emergence of less-developed countries as producers of both resources and low-cost manufactured goods was of particular importance to Canada. In nominal terms, total exports from developing market economies almost tripled between 1973 and 1977, from \$108 trillion (U.S.) to \$289 trillion (U.S.). Chart 3.2 illustrates the changes in the world export share of manufactured goods of selected nations. During the 1970-77 period only Japan and the countries which have been classified as developing market economies showed an increase in their share of exports.

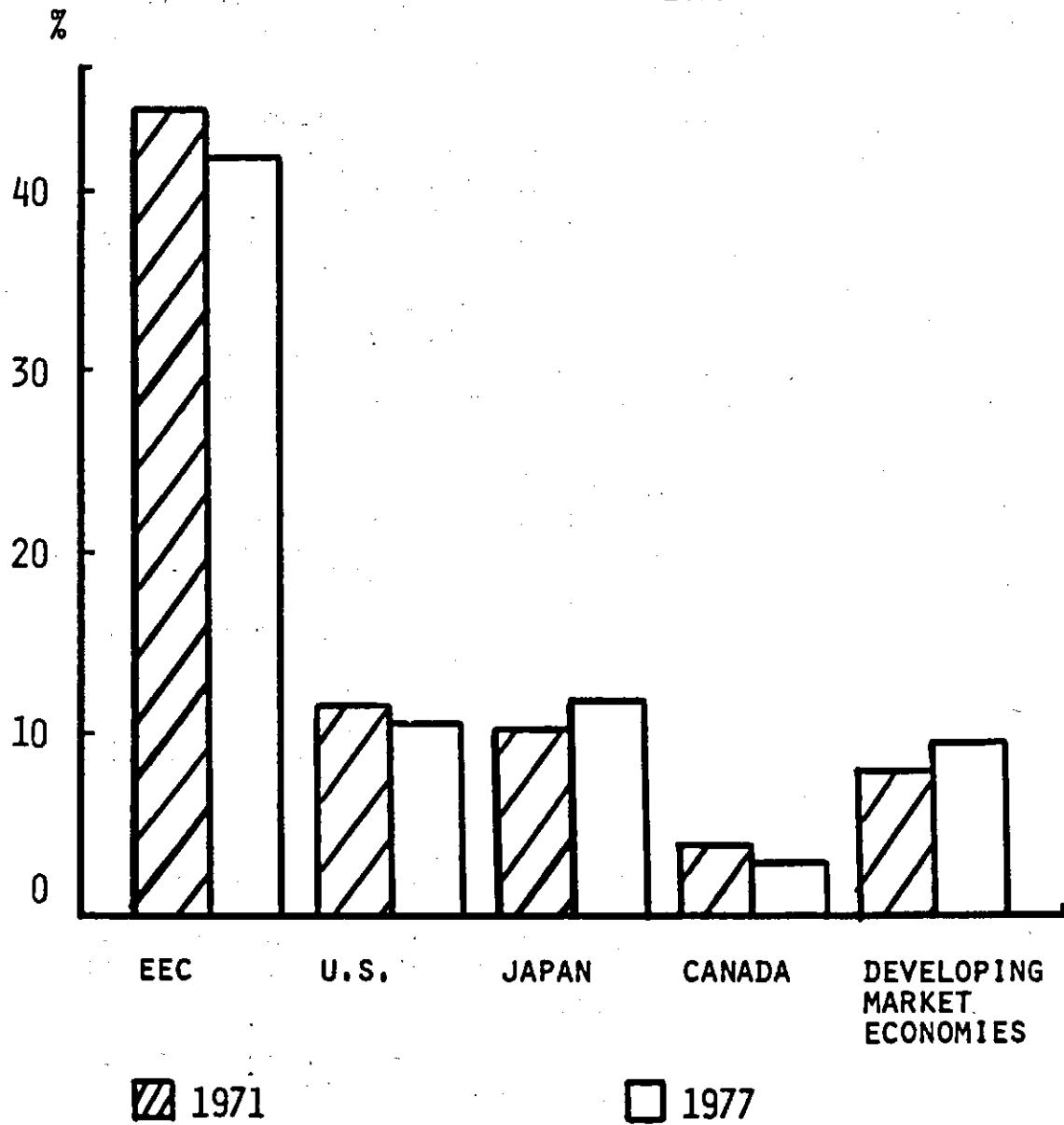
Since 1976 the downward trend in the value of the Canadian dollar in relation to the U.S. dollar has provided a stimulus to Canadian manufacturing industries. Because of the geographic concentration of some industrial sectors, this stimulus has had a significant impact on regional economic performance and prospects. For example, the devaluation of the Canadian dollar has greatly improved the domestic competitiveness of industries such as the textile industry in Quebec. To the extent that future large-scale resource development projects in Canada may affect the exchange value of the Canadian dollar, it

CHART 3.1: OIL AND THE BALANCE OF TRADE
MILLIONS OF DOLLARS (U.S.)

	<u>1972</u>			<u>1978</u>		
	<u>Gross Oil Imports</u>	<u>Trade Balance</u>		<u>Gross Oil Imports</u>	<u>Trade Balance</u>	
		Oil	All Goods		Oil	All Goods
CANADA	868	+ 296	+1 012	3 226	- 1 593	+ 1 875
U.S.A.	4 299	-3 855	-6 439	39 109	-37 548	-39 563
GERMANY	3 298	-2 898	+6 510	16 198	-14 617	+20 279
ITALY	2 619	-1 829	- 713	10 847	- 8 375	- 2 517
JAPAN	4 299	-4 407	+5 120	25 913	-25 774	+18 189
UNITED KINGDOM	2 921	-2 373	-3 525	8 601	- 4 507	- 6 923

Source: Energy Economics Research Ltd., "Oil and Energy Trends", June 1979, Table 15

CHART 3.2: SHARES OF WORLD MANUFACTURING EXPORTS
1971 AND 1977



is important for both levels of government to recognize that the impact of their development policies, and the manner in which policies affect the Canadian exchange rate, may significantly influence the viability and competitive position of many Canadian manufacturing industries.

Also of importance to Canada over the medium term will be the effects on the international economic environment of recent changes to the General Agreement on Tariffs and Trade (GATT). However the effects of changes to the international structure of tariffs will be felt slowly as they are phased in during the 1980s. As illustrated in Chart 3.3, the average reduction in domestic tariffs for the manufacturing sector as a result of recent GATT changes has been relatively slight, although significant reductions in the degree of protection afforded high technology and resource processing industries are evident.

Anticipation of the likely effects of the changes to GATT, the assured continual increase in the world price for energy and related resource commodities and the increasing importance of developing countries as competitive exporters: these are the major factors which will both characterize and influence the international economic environment into the medium term. It is because of the openness and dependency of the Canadian economy on international trade that these and other international events have shaped, and will continue to reshape, the pattern of economic activity within Canada. For example, the rapid growth of western Canada in recent years is a reflection of the crucial role of energy in the world economy. Chart 3.4 dramatically illustrates the fact that increases in the Canadian export price of both natural gas and crude oil have greatly exceeded relative price increases in other major export commodities; and that since 1973, energy commodities have claimed an ever-increasing share of the value of world trade. This trend will continue through the medium term.

The structure of the international market is of crucial concern to Canada because approximately one quarter of national output is exported and an equally high proportion of the Canadian domestic market is served by imports. It has already been noted that recent regional economic performances have taken place largely as a result of external development. Similarly, anticipated changes in offshore markets will have a significant impact on the scale, nature and distribution of national and regional economic activities. We can expect to witness a rapid growth of labour-intensive manufacturing in the less developed countries, an increasing size and complexity of enterprises involved in "big payoff", high-technology industries, a general strength in energy resource and raw materials markets and gradual reductions in tariff barriers to international trade. Market entry in the international sphere will tend to be more difficult

CHART 3.3: AVERAGE CANADIAN TARIFF RATES
BEFORE AND AFTER CHANGES IN GATT

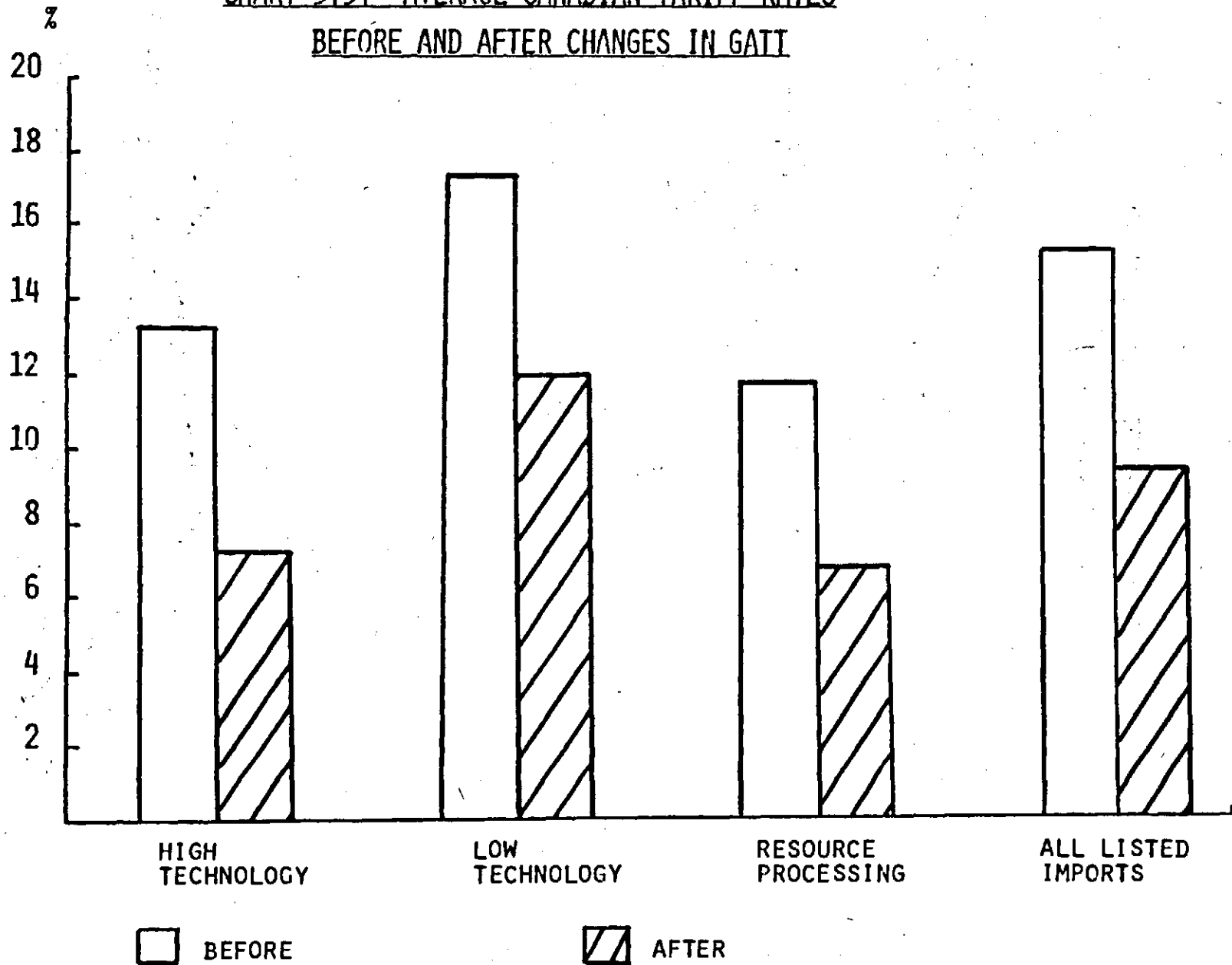
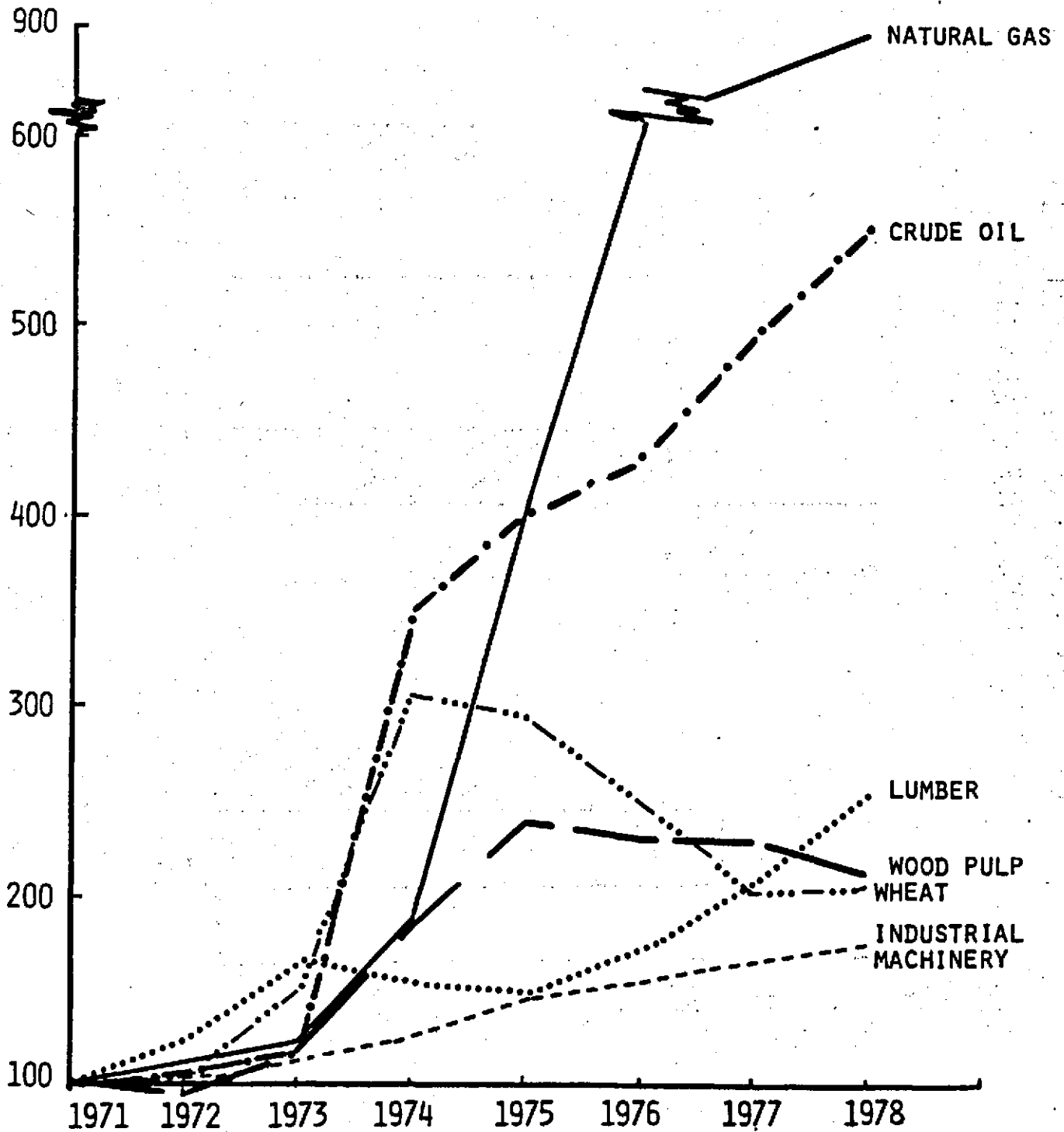


CHART 3.4: CANADIAN EXPORT PRICE INDICES
1971 = 100



and may well require both sophisticated skills and systematic consultative arrangements involving the public and private sectors. Taken together, these changes are likely to result in continued divergent growth rates among Canada's regional economies.

3.2 Evolving Regional Roles

The diversity of Canada's economic regions in terms of relative growth rates, comparative advantages, both domestic and international, and in terms of medium-term opportunities has altered significantly over the past decade. While this change in relative economic strengths and weaknesses among the regions is partially attributable to uncontrollable market forces, it is also the result of the intrinsic characteristics of regional industrial structures.

With the exception of Ontario and, to a lesser extent, Quebec, provincial and regional advantages over the medium term rest primarily with natural-resource-based industries. There is, however, a substantial difference among the regions in the degree to which their respective resource-based advantages and opportunities will assist and support equivalent levels of regional development and growth. During the past decade, primary resource development associated with energy production and distribution has altered both regional growth rates and relative shares of economic activity significantly.

Canada is, currently, in a period of major economic transition stimulated by the rapid increases in the international price of commodities that the west is particularly well-suited to produce. There is, in addition, increasing optimism that east coast offshore resources will also be harnessed. This general optimism, while primarily associated with petroleum, also holds for hydro generation in Quebec and British Columbia as well as east coast fishery production. The economic transition dictated by international price movements will perpetuate the rapid growth of the west and perhaps stimulate a similar pattern on the east coast.

The shift toward an energy-resource-dominated economy carries with it major implications which affect the Canadian economic and monetary union. The vesting of provincial property rights over natural resources in the British North America Act was designed to give provinces an ongoing revenue source. Because resources are not evenly distributed across the country, some provinces have had only limited funds to finance their functions. On the other hand, a resource boom such as that being experienced in Alberta has led to significant accumulations of capital. The capital accumulations in heritage funds will

clearly continue to grow. While the projected amount of revenue to be generated by the Alberta fund depends upon a host of variables, such as international and domestic oil prices and interest rates, by 1990 the fund could produce an annual income greater than the present level of the fund's assets (currently valued at approximately \$5 billion).

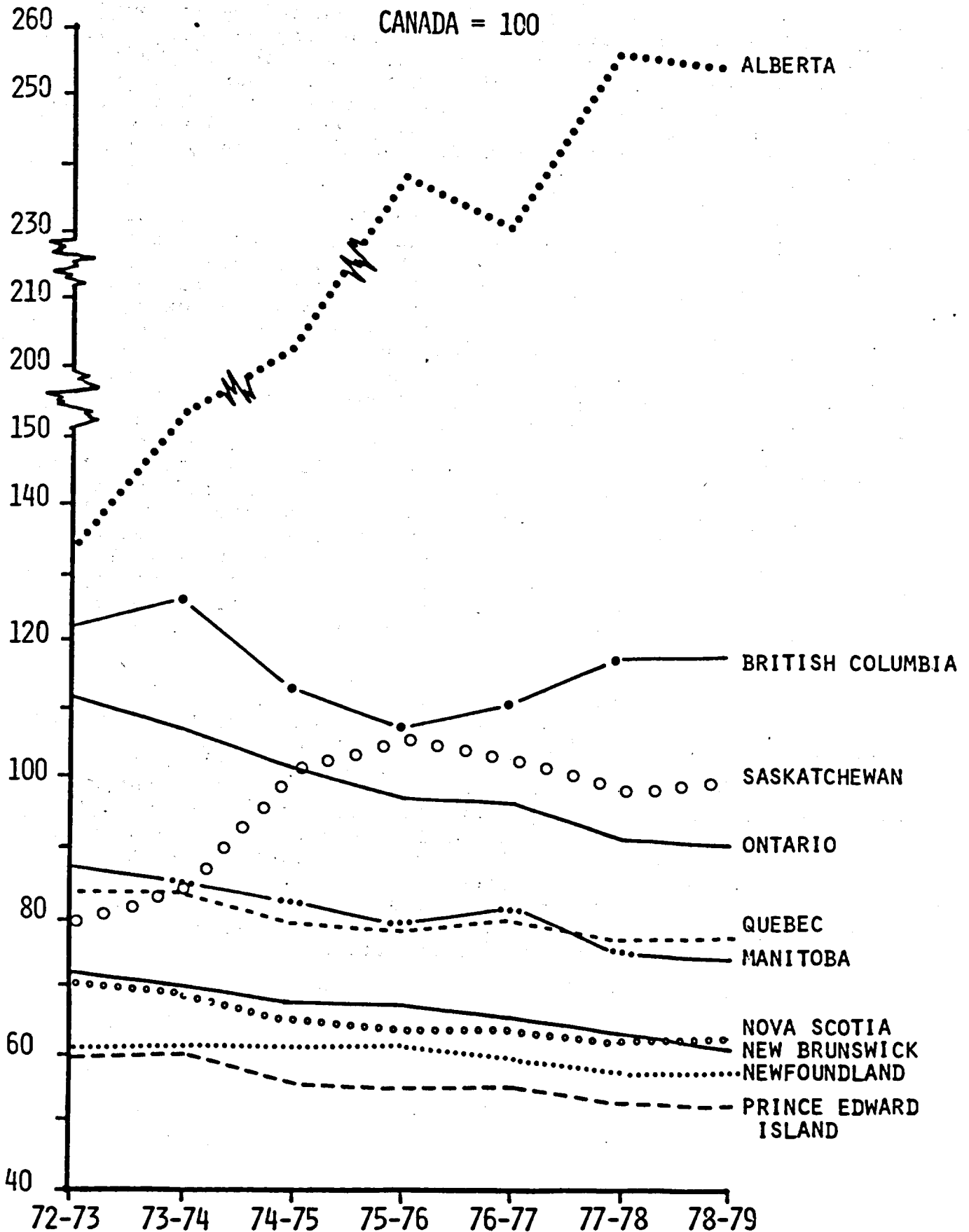
Newfoundland's potential as a resource-rich province along with Alberta, Saskatchewan and British Columbia suggests that provinces with small populations in relation to the whole of Canada may well become the "have" provinces of the 1980s. At the same time, the existing equalization structure has been based upon a society in which the recipient provinces contained a small percentage of the population while net donors resided in provinces with large populations. Role reversals in equalization, whereby populated provinces become poorer and sparsely-populated provinces become richer by national standards could increase the difficulties of maintaining a fiscal balance among the provinces. The impact of energy resource revenues on relative provincial fiscal capacity since 1972 is indicated by the tremendous expansion of Alberta's fiscal capacity in relation to the other provinces (see Chart 3.5).

In summary, the domestic economic environment has evolved significantly since the present approach to regional development was implemented. There has been a realignment in the relative strengths and potential of Canada's major regions; in the foreseeable future, a spatial imbalance between needs and opportunities for development is likely to continue. At the same time, Canadians can benefit from the emergence of a greatly expanding energy resource sector. Maximization of energy and other resource benefits will be founded on the manufacturers' ability to supply inputs to growing resource industries. Success will also depend on the maintenance of an economic union that facilitates rather than impedes adjustment through reduced international and interprovincial barriers to trade, migration and flow of capital. In a country where provincial resource revenues are large enough to lead to the accumulation of substantial heritage funds, maintaining capital mobility will require a coordinated national development effort in which all of the provinces have vested interests and in which the advantages of trade among provinces and regions can be identified and realized.

3.3 Social and Demographic Changes

Much of Canada's economic growth during the 1960s and early 1970s was associated with increased participation rates, due largely to a burgeoning labour force within an increasingly productive economy. The post-war babies grew up and a larger proportion of the new adults went to work. The potential

CHART 3.5: INDICES OF PROVINCIAL FISCAL CAPACITY



capacity of the labour force was further enhanced by improved education levels and a willingness of increasing numbers of women to enter the labour force. Although the maturation of the baby boom and the increased participation rate have ensured a more than adequate growth in the labour force, taken as a whole, there have been persistent deficiencies in some sectors and areas, e.g., skilled tradesmen in the west. These deficiencies give rise to public policy choices.

Part of the policy solution to the shortage of technical skills will be a shift to technical education: such a shift has, in fact begun in recent years and may help to alleviate these shortages. In addition, some external migration may be required to supplement the internal migration to the rapidly-growing regions of the country. The level of required internal or external migration may be quite high. For example, just by projecting recent growth rates in employment and contrasting job creations with the anticipated labour force it appears that the west may face a labour shortage of several hundred thousand employees by 1990. In eastern Canada a rapid resource boom in, for example, Newfoundland, would initially reduce unemployment as well as stimulate a return migration of those qualified to work in the energy resource industry. Thus, internal mobility will remain a significant factor in facilitating full employment of Canadians in areas of current and potential rapid growth. Public policies to promote community stability and regional economic growth may need to be designed both to ensure the traditional right of the free movement of labour and to pursue national growth efficiently.

The demographic structure of the country and the composition of its labour force combine with geography and public sector resources, to set limits within which regional economic policies must be developed. Any regional development policy must be sensitive to these considerations as well as to the central wealth-creating role of the private sector. Taken together, they suggest that a successful policy will be one which integrates and balances a wide range of social economic policies within a coherent federal-provincial framework. This framework must be sufficiently flexible to respond to the fundamental economic realities of the regions in a way that can serve to focus public effort and minimize private sector uncertainty.

4. A FRAMEWORK FOR REGIONAL ECONOMIC DEVELOPMENT

Canada's regional economies have significantly different opportunities and prospects which relate directly to their industrial structures and the anticipated national and international demand for their products. These differences are significant enough to have resulted in fundamental shifts in regional roles over the past decade. In general terms, Canada's economic prospects continue to be based on the ability to capture the wider economic benefits associated with primary resource development. However, Canadians must be aware that substantial opportunities for development lie in other sectors of the economy. The summaries of regional economic circumstances and prospects at the beginning of this report point to opportunities for the medium term that range from ocean industry development in Atlantic Canada and secondary manufacturing in central Canada, to energy and other resource-related development in western Canada. Given these basic realities and opportunities, Canadians will need to:

- (1) ensure that there exists a strong market within which emerging opportunities can be exploited;
- (2) focus research and development as well as scarce human and capital resources in areas where Canadian strength exists; and
- (3) create and maintain cooperative relationships that will allow governments, business and labour to work together as partners.

4.1 A Strong Market

A strong, stable market within which opportunities can be identified and developed is a prerequisite to regional economic and social development. The development of private sector confidence and the resultant willingness to take the risks associated with investment requires a clear, coherent and stable public policy framework which minimizes uncertainty and administrative inefficiency. Such a market can provide the economic flexibility which allows opportunities in one industrial sector, or in one region, to be transmitted to other linked sectors and other geographic areas. The free flow of information, ideas, labour, goods and capital within Canada will allow Canadians to exploit their growth potential fully.

In other words the extent to which all regions can benefit from location-specific opportunities for development, such as those in western Canada, will depend on interregional linkages and the degree to which the existence of barriers to trade and mobility limit the distribution of benefits among people and places.

To illustrate this point, the magnitude of economic gains from energy-related opportunities in western Canada substantially exceeds the gains anticipated in central or eastern Canada over the medium term. At the same time, both central and eastern Canada will experience significant demand for factors of production and goods if the potential in ocean industries, hydro-electric development and industry rationalization to improve Canada's competitive position internationally, is to be realized. To the extent that limited economic resources are assigned by the market according to the returns and risks inherent in each of these opportunities, resources, in terms of capital and labour, will be distributed appropriately among the regions. If, however, access to capital and labour becomes constrained as a result of either natural or public sector barriers, the result will be a loss of domestic growth, that is, growth which would have occurred in the absence of barriers. The magnitude of this loss has yet to be clearly identified. It is, nevertheless, of importance to note that domestic non-tariff barriers may impose a considerable opportunity cost on the realization of efficient economic development in Canada's major economic regions.

In the Canadian context, such barriers to the free flow of resources are of major concern in light of the substantial differences evident in both the resource bases and goods-processing capabilities of the regions. Of immediate concern, is the degree to which spinoffs from development opportunities are internalized within the country.

In its simplest form the issue of domestic barriers to trade and mobility does not pit the public sector against the private; rather it becomes a question of how Canada's optimal economic development can be realized. There is, accordingly, a need to closely examine the extent to which the public sector may be able to stimulate and support regional development and private sector growth through a rationalization of barriers. This option carries with it the possibility of an overall reduction in public sector market interventions, but it does not limit the ability of governments to assist the private sector through the removal of natural barriers and to assist in developing opportunities with the intention of correcting market imperfections.

4.2 Focusing Resources

The challenge for public policy is to determine how scarce public resources are allocated among competing uses. As Canada adjusts to the economic transformations that are working through the international economy, the capacity of the national economy to react quickly and effectively and focus its resources in areas of strength, will be of central importance. Part of the response to this challenge is outlined above, in the discussion on the need for a strong domestic market. The flexible and decentralized decision-making structure of the market is a pre-condition to efficient resource allocation.

The public sector therefore must accept responsibility for the prudent use of limited resources. Even without slower economic growth, and continuing inflation, there would be a need for greater economy in government. In practical terms this means more emphasis on productive expenditures to promote viable economic development which builds on existing regional and sectoral strengths.

If the benefits and rents generated by economic activity are to be re-invested in areas of activity which will provide a continuing basis for economic growth and stability in the long run, the public sector must not appropriate these gains simply to distribute them for current consumption. Where these benefits result from a windfall capital gain on a depleting resource, it is doubly important that the non-renewable capital in the ground be transformed into renewable capital (investment) in areas of sustainable growth. In addition, it is important to realize that a resource-based economy can also produce competitive and efficient high-technology, knowledge-intensive industries if enterprise, supported by the public sector, is encouraged to exploit the linkages and complementary functions among sectors and regions.

The prudent focusing of resources to facilitate diversification and sophistication within a strong market economy will require the stability of industrial and intergovernmental agreement and cooperation: it will require a "new partnership".

4.3 Toward a New Partnership

Economic development in a regionally-diverse federal state requires intergovernmental cooperation. Economic development in a market economy with established collective bargaining rights requires the cooperation of both industry and labour. In both respects, Canada's record in recent years has been less than satisfactory.

The federal government has taken significant steps to improve the prevailing climate. A new open and cooperative approach to federal-provincial relations has been initiated, typified by flexibility on constitutional issues and extensive economic consultations. A comprehensive system of policy and financial coordination and control has been introduced in Ottawa to ensure economy in government and to reduce delays in policy formulation and implementation. The mandate of the Department of Regional Economic Expansion - to promote regional economic development and social adjustment in cooperation with the provinces - has been strengthened. In short, cooperation within and among governments and between the public and private sectors is a much more important element of public policy formulation in Canada today than in the past.

Canada is unique among industrial countries in its wealth of opportunities. Canada is also unique in its institutional complexity. The challenge facing Canadians is to ensure that their institutions lead and encourage, rather than restrain and inhibit, both regional and national growth.

