OECD Territorial Reviews

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

The globalisation of trade and economic activity is increasingly testing the ability of regional economies to adapt and exploit or maintain their competitive edge. There is a tendency for performance gaps to widen between regions, and the cost of maintaining cohesion is increasing. On the other hand rapid technological change, extended markets and greater use of knowledge are offering new opportunities for local and regional development but demand further investment from enterprises, reorganisation of labour and production, skills upgrading and improvements in the local environment.

Amid this change and turbulence, regions continue to follow very different paths. Some regions are doing well in the current phase of the growth cycle and are driving growth. Others are less successful at capturing trade and additional economic activities. Many territories with poor links to the sources of prosperity, afflicted by migration, notably of young people, and lagging behind with respect to infrastructure and private investment are finding it difficult to keep up with the general trend. At the same time central governments are no longer the sole provider of territorial policy. The vertical distribution of power between the different tiers of government needs to be reassessed as well as the decentralisation of fiscal resources in order to better respond to the expectations of the public and improve policy efficiency. All these trends are leading public authorities to rethink their policies and strategies.

The Territorial Development Policy Committee (TDPC) was created at the beginning of 1999 to assist governments with a forum for discussing the above issues. Within this framework, the TDPC has adopted a programme of work that puts its main focus on reviewing Member countries' territorial policies and on evaluating their impact at regional level. The objectives of Territorial reviews are: *a*) identify the nature and scale of territorial challenges using a common analytical framework; *b*) assist governments in the assessment and improvement of their territorial policy, using comparative policy analysis; *c*) assess the distribution of competencies and resources among the different levels of governments; and *d*) identify and disseminate information on best practices regarding territorial policy.

The Committee produces two types of reviews:

Territorial reviews at the national level. Requested by national authorities, they analyse trends in regional performances and institutional settings, focus on policies to reduce territorial disparities and to assist regions in developing competitive advantages. They also concentrate on the governance framework, on the impact of national non-territorial policies on subnational entities and on specific aspects of fiscal federalism. The final report proposes territorial policy recommendations.

Territorial Reviews at the regional level. Requested by subnational authorities (local or regional) with the agreement of national ones, they concentrate on strategies for development of the respective entity. They in particular identify the role of key demographic, socio-economic, environmental, technological and institutional factors in explaining the performance of regions. Comparative analysis with regions of the same type is undertaken using the typology elaborated by the Secretariat. The final report proposes development policy recommendations.

This Review is based on the Secretariat's study of the Territorial Development Policy of Canada and on its examination by the Territorial Development Policy Committee on 23 January 2002. Further to this examination, the study was amended to integrate TDPC comments. The Committee gave approval of the Review for publication.

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Further policy analysis was provided by Dr. Andrew Ryder, Professor of Geography at the University of Portsmouth (United Kingdom); Thomas G. Johnson, Director of the Community Policy Analysis Centre at the University of Missouri-Columbia (United States); Howard Allen Chernick, Professor of Economics, Hunter College, and Member of the Graduate Faculty in Economics, City University of New York (United States); Cynthia Ghorra-Gobin, Professor in Sciences Po Paris and Director of Research in the National Centre of Scientific Research (CNRS) (France). Ms. Aurélie Hariton, Mrs. Philippa Michel-Finch and Ms. Isabelle Saint-Mezard also contributed to the report.

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Economic trends have varied impacts on provinces…

Over the last ten years, the Canadian economy has been able to rebound strongly from difficult adjustment periods, including a severe recession at the beginning of the 1990s, and turbulence following the Asian and Russian crises later in the decade. Moreover, GDP ended the decade on a strong note. From 2000, it decelerated, following the downturn in the United States, which absorbs more than 80% of Canadian exports. Provinces with the highest rate of exports to the United States such as Ontario, Saskatchewan, New Brunswick, Alberta and Quebec were more affected than others. The country as a whole is nevertheless forecast to return to a more satisfactory growth trajectory in 2002 and 2003.

… which require a new territorial policy approach.

While most of the macroeconomic fundamentals are in place, the government is pursuing an approach aimed at seeking new opportunities for development as emphasised in the 2001 Speech from the Throne. Primary resources remain an important export asset, but Canada is becoming less a resource-based economy. As such it requires the valorisation of potential competitive advantages with regard to industrial production and services, and the removal of bottlenecks (weak cluster integration, valorisation of natural resources, etc.) preventing further development. Given their often local and regional nature, this strategy should result in attaching a more important role to territorial policies. This will necessitate a re-evaluation with regard to past practices and a combination of policies addressing provincial issues and functional macroregions.

Equalisation payments have helped to reduce provincial disparities but new spatial patterns have emerged.

For a long time after Canada's fiscal equalisation programme was established in 1957, regional economic policy focused on equalisation payments between provinces so as to ensure that the standard of basic public services would be roughly comparable across the country. For what concerns provinces, this objective has been attained to a large extent – though post-equalisation fiscal capacities still remain and have even widened somewhat in the 1990s. By contrast, economic disparities among provinces, for example in their pre-equalisation fiscal capacity and GDP per capita, have remained considerably greater, though there was significant economic convergence up to the start of the 1990s. Since then, disparities have fluctuated without any clear trend. However, while disparities at the provincial level have declined, they persist among different types of regions within provincial and territorial jurisdictions and especially between three broad types of functional macro-regions that are now emerging: *i*) larger metropolitan centres, generally close to the US border, including their extended zones of influence (rural metro-adjacent region); *ii*) rural non-metro-adjacent regions with generally contiguous settlement patterns; and *iii*) the huge, very sparsely-populated northern parts of the provinces and the three Northern territories.

Canadian cities, where the majority of population and output is concentrated, face new competitiveness and fiscal challenges.

A long-term structural trend has led to significant change in geography. Today, over 85% of the Canadian population live along the US border, predominantly in urban and intermediate settings and in a limited number of metropolitan regions and their surroundings. Canadian cities have been affected by several troubling trends in the 1990s: the persistence of poverty in Canada even during the recent economic recovery, the increase in the number of very poor neighbourhoods in several large Canadian cities, the increase in homelessness in large Canadian cities. In the meantime, cities are emerging as key players in the national economy: in Ontario, Quebec, British Columbia and Manitoba, half or more of the provinces' GDP is now generated by one single metropolitan area (respectively Toronto, Montreal, Vancouver and Winnipeg). Cities must increasingly compete with one another, and with other cities around the world, to attract innovative investments and knowledge activities. Meanwhile, they need to modernise their transportation systems, neglected in the last decade, regenerate their brownfield sites, limit urban sprawl, and cope with rising social challenges due to higher population density, immigration and poverty concentration, as well as distressed areas. This has taken place in a context of federal cutbacks in transfer payments to the provinces, and the decentralisation of some social and infrastructure expenditures by certain provinces to the municipal level, in some cases with unfunded mandates. Municipalities and notably large city municipalities, created under provincial legislation, operate in a tightly controlled fiscal framework, derived from provincial legislation. With few exceptions, municipal taxing powers are limited to property taxes, which accounted for 55% of all municipal revenues in 1999.

The amalgamation of municipalities has been a policy response.

To address this issue, there has been a major policy shift in the 1990s towards amalgamation, *i.e.* the merger of jurisdictions (*e.g.* Halifax Regional Municipality in 1996, the new City of Toronto in 1998, and the Greater Montreal municipality in 2002). Amalgamations are promoted on the grounds that they reduce duplication, produce economies of scale and scope for service provision, improve accountability, enable a more equitable sharing of the burden of taxation, and contribute to improved spatial planning capacity. With amalgamation, provincial governments try to overcome the combined pressure of metropolitan fiscal fragmentation, in some cases off-loading of certain responsibilities from the provinces, and limited powers at the municipal level. A further objective is to re-balance population growth and the patterns of social structure within metropolitan areas. Amalgamations did not, however, have the support of all the hitherto independent urban or suburban municipalities.

Still, expanded flexible and functional horizontal collaboration is necessary.

Since most amalgamations have taken place very recently, it is difficult to evaluate their effects. However, the results obtained so far appear to be mixed. Cost reduction or quality increases cannot, as yet, be detected. Moreover, while the amalgamation process could probably lead to reduced fiscal competition and less social segregation along geographical boundaries, many of the objectives could have been achieved through voluntary inter-municipal collaboration on functional grounds. Merging financially stressed municipalities does not necessarily create one single strong city. In other countries, voluntary or horizontal collaboration has been successful, through incentives, among other things, to enhance a more direct participation of citizens. Still, amalgamation and the sheer size of the new large cities might, in the long-run, reduce the influence of the citizen at the municipal level, but increase awareness of urban problems at the provincial and federal levels.

There is room for more federal involvement in metropolitan issues through negotiated planning.

Urban development has not been at the forefront of the federal policy agenda since the late 1970s. While municipal (and city) affairs come under provincial jurisdiction, the Constitution does not prohibit the federal government from handling any municipal matters, as long as it fully respects provincial jurisdiction. Today, there is a new rationale for federal involvement in urban matters, in a way that does not reproduce centralised management, but rather suggests a possible paradigm shift in territorial policies. In fact, the federal government is already addressing urban issues on several fronts. The National Homelessness Initiative is fostering innovative and progressive co-operation between community players and government to address local homelessness priorities. There are also formal agreements between the three levels of government, the most notable ones being the Infrastructure Canada Programme and the Urban Development Agreements in the West (UDAs). Still, two of these three latter tripartite agreements are unfunded and one has just expired. They suggest the development of negotiated planning for local investment and development projects, where "contracts" among different levels of government may replace hierarchical forms of governance. More precisely, in certain policy fields, more formal institutional mechanisms concerning area-based partnerships between the three orders of government could be beneficial. In order to have appropriate conditions to function, these agreements need to be promoted via incentives. They would require a structured round of negotiations, with clear objectives and a precise calendar, and with monitoring and assessment components. Given that different actors are involved in designing the projects, they should be tailored to local needs. Finally, as it was done for rural areas, an "urban lens" would help to improve service delivery by federal departments.

Rural areas have been the focus of a large number of programmes…

The Rural Lens, which attempts to view all federal relevant policies from the perspective of rural residents, has led to changes in several federal departments that have improved services provided to rural regions. Conversely to urban areas, federal interest in rural areas remains strong. For several decades now, the federal authorities have intervened with economic development policies that benefit rural regions. Many of these programmes have been sector-specific, focusing either on agriculture, forestry, fishing, energy or mining. Since a sectoral approach is not sufficiently addressed to the current reality, new steps were taken after the Speech from the Throne in 1996. A Rural Secretariat was created, and a Canadian Rural Partnership was set up to promote dialogue and consultations with rural residents. This process ultimately led to the Federal Framework for Action in Rural Canada. These initiatives have been welcomed all the more as many provinces have not developed very active policies of their own. Federal/provincial partnerships have functioned relatively well. Rural regions have also benefited from a 35% increase in support through the Community Futures programme in the 2000 federal budget, as well as from several programmes, such as Community Access Programme and Smart Communities for the diffusion of information technologies, or the Infrastructure Canada Programme.

… but funding remains modest, especially for "active rural policies" such as amenities valorisation.

Although efforts to deal with a wide array of rural problems, to better assess the needs of rural inhabitants and to secure the consistency of policy initiatives are commendable, it should nevertheless be stressed that financial commitment to them has so far been minimal. Rural policy development receives relatively limited federal funding and the lead remains under the auspices of the Ministry of Agriculture and Agri-food even though rural is no longer synonymous with agriculture. A clear recognition of the important change of Canada toward place-based policy for rural areas may suggest a detachment from agriculture. Other deficiencies include insufficient support for local governance and a lack of demographic policy components.

Moreover, the support public authorities lend to productivity growth and innovation can prove to be too narrow. Finally, there is little or no evidence that the protection or creation of amenities represents a rural policy priority at the federal or provincial level. Despite the involvement of many actors in amenities projects, a national strategy is still missing.

The importance of horizontal policies has increased but local governance should be expanded.

Although Canada has made significant progress towards implementing place-based policies, notably through the Canadian Rural Partnership and associated initiatives at the federal level, this does not mean that there are fewer sectoral policies. The horizontal feature has simply been added to an underlying sectoral structure. Deficiencies in local governance remain the Achilles' heel of local and rural development. More sustainable solutions must evolve from the grassroots of local communities. Without changes in decision-making capacities at that level, it will prove difficult for economic development policies to transcend the federal/provincial jurisdictional issue and become more effective.

Federal transfers to the Northern territories are useful but their impact in the long run should be carefully reviewed.

The three Northern Territories are specific cases. Half of the population is Aboriginal and geography and climate generate extreme conditions. Their economies are largely based on non-renewable resource extraction. Northern Canada is well-endowed in mineral and oil/gas resources and the discovery of diamond mines could make Canada one of the world's top producers. This represents a great potential for economic growth, but a potential threat to the environment. Northern Canada's economy is also dependent on the public sector, the government being the largest employer at all levels. Without the creation of a tax base, such growth will be unsustainable. Moreover, like Greenland, Canadian Northern territories are heavily dependent on transfers from the federal government. Federal grant payments as a share of total territorial revenues have historically accounted for 64% in Yukon, 75% in Northwest Territories, and as much as 90% in Nunavut. In the long run, transfers may have some adverse economic effects similar to that in oil-producing countries where wages surpass productivity levels, thus resulting in reduced competitiveness.

Completion of the devolution process and other governance issues are necessary conditions to any policy strategy for the North.

The federal government strategy in the Northern territories traditionally has been implemented by Indian and Northern Affairs Canada (INAC). INAC has established regional offices in the three territories to achieve a more responsive administrative process. In the last decade, federal policy has stressed devolution of responsibilities to the territorial governments and this has so far proved to be a success. However, devolution of land and resource management still remains incomplete and needs to be pursued. This process follows a different pace in each territory and the federal government still has ultimate constitutional authority within the territories. Unlike the creation of provinces where responsibilities are, for the most part, mandated by the constitution, the negotiations between Ottawa and the territories are leading to three somewhat different approaches. Common concepts should nevertheless govern these processes, such as the concept of subsidiarity, which need to be applied with as much precision as possible to the division of responsibilities. In that context, the human resource and training component of most federal programmes for the Northern territories needs to be strengthened in order to improve the efficiency of local governments and to support territorial governments in their efforts to increase representation of the Aboriginal population in their government administration. A greater supply of skilled labour is also essential in order to consolidate the development of an efficient domestic private sector in areas such as fishing, mining, energy, construction and tourism. The experience of other countries' territories, particularly Denmark's Greenland, shows that, without a major effort in human resource development, the transition towards a competitive market-based territorial economy is particularly difficult to achieve. Establishing land-claims and self-government agreements also builds certainty for all stakeholders, an essential element for a supportive investment climate. Thus, regions should give primacy to resolving governance issues as an important strategy for economic development.

Decentralisation has put provinces in a better position to take territorial development initiatives, emphasising vertical provincial/federal relationships.

The decentralisation process is not specific to territories. All provinces significantly increased their responsibilities in the 1950s through to the 1970s and now represent just under 40% of the federation's taxing and spending power, making Canada one of the most decentralised countries of the OECD. With recent fiscal reforms that increased tax policy flexibility at the provincial level and new flexibility in social assistance, the power shift from the national to the subnational continued during the 1990s, albeit at a reduced pace. Emerging competition between provinces and United States, following the North American Free Trade Agreement, has paralleled the trend toward decentralisation and provincial empowerment and may ultimately have longer-term repercussions on them. Further integration of Canadian provinces into the North American market may, for example, place some strain on the Federation. Some provinces have actively pursued a strategy of fiscal competition by lowering tax rates. Provinces increasingly set their economic and regional policies against neighbouring US states, rather than against their own Canadian counterparts. Moreover, business cycles seem to be becoming more province-specific. A fundamental issue for the future will therefore be to reconcile decentralisation, territorial competition and national cohesion.

Federal agencies' programmes now focus increasingly on endogenous development…

At the federal level, a shift in emphasis regarding territorial development policy has taken place. Rather than promoting redistribution between provinces, the main objective of federal intervention in regions and territories is now to tap insufficiently exploited local competitive advantages. This trend, which seems now to have gained strength, was already noticeable following the 1986 Speech of the Throne when the regional policy was decentralised and four federal regional development agencies created: Atlantic Canada Opportunity Agency (ACOA) for the Atlantic provinces, the Federal Economic Development Initiative for Northern Ontario (FedNor), Canada Economic Development (CED) for Quebec, and Western Economic Diversification (WED) for the four western provinces. Consequently, territorial policy assessment requires a review of agency programmes and strategies within the regional and provincial context that corresponds to their jurisdiction, as well as their contribution to regional competitiveness. While decentralisation provides flexibility to respond to specific regional needs, the agencies must also remain compatible with broad federal horizontal policies and sectoral programmes with territorial reach.

… while adhering to a common strategic framework.

Competitiveness policies followed by the four agencies have changed over the period, but often in the same direction. First, in all regions direct aid to firms has decreased while more support was redirected to small and medium-sized enterprises (SMEs) with assistance shifting from grants to repayable loans and other forms of non-financial support. Second, assistance to communities (or the process of community development) conversely increased (in relative terms). For example, the Community Futures programme created originally as a part of Employment and Immigration Canada was transferred to the regional development agencies who became responsible for co-ordinating its integration with other programmes. Initially the programme was restricted to a few communities but over time its regional scope was expanded to embrace all rural and remote regions within the provinces. Third, while collaboration between federal and provincial government has been organised in the past according to precise and binding framework agreements, agencies are involved since the mid-1990s in more *ad hoc* negotiations and agreements. This less systematic approach allows flexibility and adaptation to circumstances and evolving priorities. Fourth, all agencies are concerned with the necessity to increase the share of R&D in public and private investment and to give central priority to innovation.

In the Atlantic provinces, attracting inward investment and inter-provincial co-operation will help to foster entrepreneurship and stimulate innovation.

Though agency budgets are relatively comparable but very small, relative to the total federal expenditure in each jurisdiction (with the exception of FedNor's, which is much smaller), their policy scope, activity profile and trajectories differ depending upon the challenges they face and their territorial economic contingencies, thus leading to different policy recommendations. On the Atlantic coast, while the economic boom in the energy sector is fuelling the recovery, structural challenges remain. The brain drain process has not lessened and most provinces are still plagued with high unemployment and low participation rates, especially Newfoundland. The Atlantic agency, ACOA, launched an entrepreneurship strategy as early as the late 1980s, producing some positive results. A clustering exercise has also been pursued in collaboration with the private sector in areas of local and regional comparative advantage. Moreover, an Atlantic Innovation Fund has been set up to compensate for regional difficulties in research and technology development and to remedy matching-fund problems. Meanwhile, a number of restructuring successes have been achieved but many of them can be attributed to local authority initiatives. The involvement of ACOA has raised employment by developing the Youth Entrepreneur Initiative and promoting the survival of new firms. In November 2001, the Council of Atlantic Premiers adopted a common work plan in the area of health and transportation regulations. In the Atlantic region, collaboration, formal and informal, are found around a number of specific areas, such as education, training and health care. Similarly, more proactive policies are needed to encourage FDI potential.

A better division of labour between the federal and the Quebec provincial government in territorial development will increase the benefit of policy initiatives.

At the federal level, Canada Economic Development (CED) in the Quebec regions focuses its efforts on *i*) delivering information and awareness services to business associations, small businesses and entrepreneurs and *ii*) addressing regional problems through strategic initiatives and partnerships with other agencies, federal departments and communities. The provincial government is also active in supporting the economy and has adopted a long-term approach consisting of a combination of investment policy and efforts to assist lagging regions. The implementation of federal and provincial policies encompasses a comprehensive policy package including tax incentives, accelerated depreciation and programmes to support transfer of technology and public investment in R&D. These policies have had a degree of success, mainly evident in R&D and the share of high-tech industries in output and risk capital. To strengthen these trends and to improve SMEs' innovation performance, a more decentralised approach could be taken to generate efficiency gains. If sub-provincial development institutions became more involved in strategic design, through setting up technological projects, for example, policies could be better adjusted to the local context. Co-operation between the different development corporations and authorities at the regional level is critical to avoid duplication and inefficiencies.

A comprehensive programme on entrepreneurship is needed in northern Ontario, while the emergence of regional innovation systems and stimulating clusters should be encouraged throughout the province, especially in the industrial heartland of the South.

In Ontario, regional policy continues to be implemented because of the persistence of major internal disparities between the North and the South, and also between the South-Central metropolitan part and its rural periphery. While the southern part of the province is particularly wealthy, the North, which only accounts for 7% of the population, is characterised by low density, a pattern of rural settlements and a number of relatively isolated small cities. FedNor aims to reduce these imbalances. Nearly 80% of its budget has been allocated to investment assistance and community partnerships that help build local development capacity and economic infrastructure. Since assuming responsibility for the Community Futures Development Corporations (CFDCs) in both the North and rural southern Ontario, FedNor has also taken on a significant role in rural areas throughout the province. A more comprehensive approach to entrepreneurship in northern Ontario, including collaboration with the education system could help to remove obstacles to job creation and growth. Efforts to reduce information and communications technology gaps and to develop new opportunities in areas such as eco-tourism should also be part of a strategy to overcome vast geography and economic disadvantages, as well as reduce dependency on mining and forest products. In the South, enhancing the R&D level could certainly contribute to helping Ontario rival US competitors and reducing the gap in multifactor productivity. However, product and process innovations are not necessarily based on R&D. Initiatives to foster linkages between firms and universities, small business and community colleges, and to enhance networking activities may prove more effective for consolidating the regional innovation systems and building a learning region than costly recourse to tax incentives. While the benefits of this approach may be realised more quickly in urban areas of the South, it would also help rural and northern regions to adapt to the knowledge-based economy (KBE). Finally, at the strategic level, the need for a more formal mechanism to co-ordinate development strategy in southern Ontario should be assessed.

While Western Economic Diversification needs to increase its involvement in the promotion of innovative businesses, support to rural economies should not be overlooked.

Transition to the knowledge-based economy (KBE) will probably be slower in the western part of the country, with the region's performance remaining highly dependent on natural resources. Over recent years, Alberta's strong growth rate has been fuelled by healthy oil and gas prices, whereas Saskatchewan is a grain-based economy. Even in British Columbia, which suffers from an economic malaise due to the decline of the forestry and fishing sectors, traditional industries still account for more than half of the goods-producing industries. There are nevertheless positive signs. KBE activities posted an average annual growth of 8% in Alberta from 1992 to 1997, the best performance in Canada. Meanwhile, the share of R&D personnel in British Columbian firms is among the highest in the country. To accelerate the trend, active policies are necessary, not only to shape an innovation and entrepreneurial culture, but also to contribute to the institutional base of technology centres. Some steps have recently been taken such as the creation of a nanotechnology centre in Alberta. The effort needs to be pursued with meaningful funding for technological infrastructure in sectors where the regions have comparative advantages. Western Economic Diversification (WED), the federal agency for the West, focuses on more than the high-tech and emerging sectors. Its tasks are more generally to help expand the narrow economic base of British Columbia and the Prairies through indirect means, including repayable contributions, limited loss reserves for banks offering loans, service and information delivery, and micro-lending to start-ups. While small business support is relayed at the local level through a network of 90 local offices and CFDCs, notably in Alberta, the framework for local development is lacking. The environment is not sufficiently conducive to bottom-up initiatives and local experiments. There is a need to promote sound endogenous development policies *e.g.* through value-added products and niche policies, fostering amenities and tourism and animating local clusters. Improvement in local governance could significantly improve the effectiveness of these policies.

In sum, expanded local and regional opportunities can improve overall mid-term socio-economic prospects. This will require redefined territorial policies.

In the last decade, the federal government has significantly overhauled its economic policy through tax reduction, restoring the nation's finances, and investing in skills and infrastructure. The policy changes place Canada in an advantageous position to maximise the benefits from the economic recovery expected for the second half of 2002. In the medium-term, the return to a sustained growth trajectory will be facilitated by the continuation of structural reforms and notably by territorial policies and regional development initiatives. So far, the tapping of regional comparative advantages and the realisation of the potential of local economies have not been sufficiently translated into new opportunities for growth. In many regions, weak local governance is hindering the emergence of bottom-up projects, diffusion of R&D results to SMEs is slow and dialogue between higher education institutions and firms could be improved. Federal Regional Agencies have an important margin of manoeuvre to set up an environment more conducive to business development at the sub-federal level, to encourage networks and to stimulate the shift towards more knowledge-based activities. The potential for co-operation between agencies has remained relatively untapped. Substantial benefits could be derived from jointly supported projects, especially in regions located at the border of the agencies' jurisdiction. Opportunities for growth will also be enhanced if spatial challenges are better met. Disparities between the three types of macroregions persist and may even be growing. It is important that federal agencies and sectoral departments continuously assess the consistency of their policies with regard to these macroregions in order to strengthen territorial cohesion and better tailor programmes to local conditions. Finally, there is a need for more vertical collaboration and federal/provincial/local partnerships, in particular to support the development of large cities that already account for a dominant share of regional GDP and will be of overwhelming importance for future regional growth and employment.

Chapter 1

Territorial Trends and Disparities

Canada is a vast nation with great diversity, encompassing busy cities and rural areas, Atlantic provinces and virtually empty Northern territories (Box 1). Territorial disparities exist, mainly due to unequal natural resource endowments, natural barriers to labour and capital mobility, and cultural factors. Regional development policies were established early on, but while disparities have decreased at provincial level, there is still an important gap between urban areas and rural regions, especially non-metro adjacent rural regions. This chapter will first analyse the main economic and territorial trends affecting Canada with the aim of identifying key patterns in regional development, and then review the specific challenges faced by each type of region so as to underline the major policy-making concerns.

Main economic trends at the territorial level

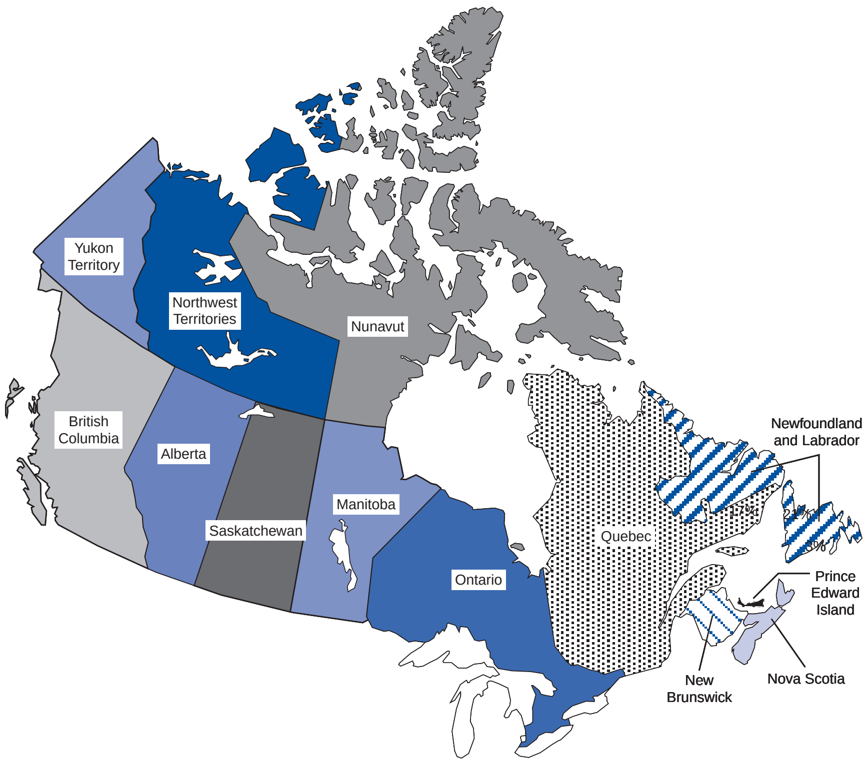
The impact of macroeconomic and structural trends

After registering high rates of expansion in the 1980s, the Canadian economy went through a difficult adjustment process in the early 1990s and experienced growth deceleration. Yet the impact on Canada of the subsequent crises in Asia and Russia – two areas with which Canada has much trade – was muted, with the economy rebounding relatively quickly from these external shocks. At the end of the last decade, Canada enjoyed strong economic performance.[1] The rebound in GDP per capita reflected a rise in the employment population ratio, which had returned to levels prevailing in the second half of the 1980s. Thus, Canada ended the 1990s on a strong note with 2.9% employment growth, the highest among G7 countries. Unemployment fell from over 11% in 1993 to around 6.5% in mid-2000. However, there was an abrupt slowdown of the economy in 2000-2001 due to the negative trade shock from the United States where decreasing demand, especially for motor vehicles and information and communications equipment, had a significant impact on Canadian enterprises. Canada's close trading ties with the United States have often had an important impact not only on the general macroeconomic performances of the country, but also on its economic structure. In the early

Box 1. Geography, population and the administrative structure of Canada

Canada is a federal state, subdivided into 10 provinces and 3 territories (Figure 1). The third territory, Nunavut, was created on April 1, 1999 from eastern and central part of Northwest Territories (data prior to this date does not make the distinction.

Figure 1. **Provinces and territories of Canada**



Source: Statistics Canada.

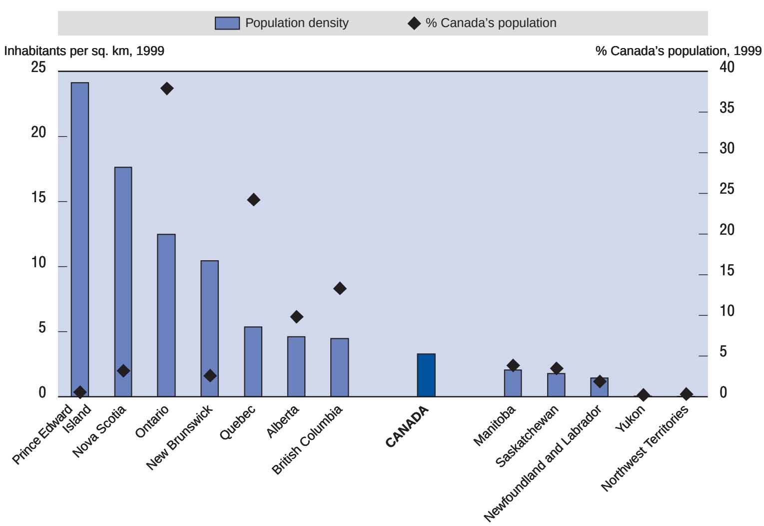
Canada occupies roughly two-fifths of the North American continent. It encompasses vast Arctic and sub-Arctic territories and is thus often considered a country of the far north. However, even if large tracts of land within the country's borders are located in the Arctic, Canada extends far south and the peninsula of southern Ontario goes deep into the US heartland. Its vast size leads to an

Box 1. **Geography, population and the administrative structure of Canada** (*cont.*)

important climatic contrast between regions. Likewise, the country's physical geography cannot be characterised in national terms, since most resources are specific to one region or another, and hence separate resource-based economies have tended to develop across Canada.

Canada has the second largest geographical area in the world (after Russia) but about the same population as the state of California, which is one-25th its size. At the last census in 1996, it numbered more than 28.8 million inhabitants – the estimated population in 2000 is 31.3 million – and with a population density of 3.1 inhabitants per square kilometre, it is the third least populated OECD country (after Iceland and Australia). Moreover, the population is very unevenly distributed among areas that alternately resemble wastelands or congested metropolitan conurbations. Canada's population density in provinces and territories varies between zero and less than 25 inhabitants per square kilometre (Figure 2). At the municipal level, which provides a better picture of population density than the one given by very large territories and provinces, density ranges from zero to 3 752 inhabitants per square kilometre, the latter figure referring to the Toronto metropolitan area. The population growth rate from 1991 to 1996 was the fourth highest of OECD Countries, with 1.14% annually. Yet population growth since1991 has slowed compared to the 1986-1991 period.

Figure 2. **Population settlement in Canadian provinces and territories, 1999**

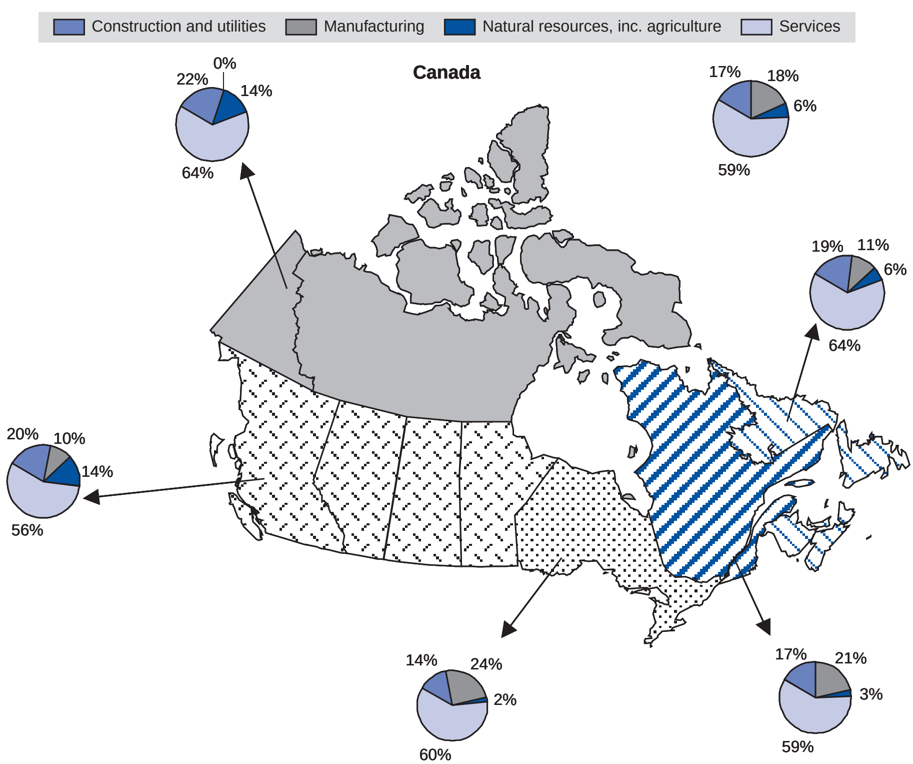


Source: OECD/TDS-TSI.

1990s, freer trade with the United States hit the manufacturing sector. Economic projections for 2002 on the whole are positive, according to the latest OECD *Economic Survey of Canada* (2001).

At the macroeconomic level these above-mentioned events have taken place against a backdrop of long-term structural change. Although natural resources have played a decisive role in the development of its economy, Canada is in fact no longer a resource-based economy. Today, exports of energy and of machinery and equipment increasingly account for the surplus in the trade balance. Nevertheless, the primary sector still plays a considerable role in exports: it is responsible for over a quarter of the country's total exports. However, Canada's economic activities are now being diversified, and the pace of this process is stimulating lively debate (Figure 3). Agriculture accounts for 2.3% of the country's GDP and

Figure 3. **Gross domestic product by industry, 1998**



Source: Statistics Canada.

employs about 3% of the labour force. Large-scale agribusiness continues to replace the independent farmer. As a result, the number of farms has fallen and the average size of each farm has risen. At the same time, the country relies on a large industrial base, which produces a third of Canada's output. Services account for nearly 60% of the country's output. This is the result of a trend among Canadian companies to subcontract a large portion of the services they require for their business. As a result, business service providers have recorded the strongest contribution to GDP and employment growth of all service sectors throughout the 1990s.

Differentiated impacts of structural change on provinces

Both long-term structural adjustment and increased exposure to international trade have had significant, though varying, impacts on Canadian regions. In particular, Canada and the United States have the largest two-way trade in the world,[2] but it differs in intensity for each individual region, reflecting geographical proximity and complementarity in production. With the growing liberalisation of world trade and the establishment of the North American Free Trade zone (NAFTA), Canada has endured significant restructuring and increased reliance on international trade, particularly with the United States.

- Central Canada has been the most affected area and has developed significant industrial clusters. The expansion of the US economy in the second part of the 1990s was particularly positive for Ontario and Quebec, which together account for the greatest share of Canada's manufacturing and business services sector.[3] The industrial heartland of Ontario is well-positioned to benefit from the rapid development of the new economy and the strong increase in the production of motor vehicles, telecommunications equipment, computers and peripherals. Also favoured by the strength of its industrial base, Quebec has enjoyed the benefits of increased trade with the United States while the buoyancy of its high-tech sectors, notably aerospace, telecommunications, and pharmaceuticals, is boosting employment. As a result, the province's unemployment, which has historically remained above the national average, dropped from an average of 11.4% in 1997 to just over 8% by the end of 1999.

- British Columbia has known a different fate. It has enjoyed high trade with Asia, shipping one-third of exports to the continent (the percentage for Canada as a whole is around 10%). Consequently, for most of the 1990s, it recorded one of the strongest growth rates of all Canadian provinces. Yet its economy, relying heavily on the primary sector, was severely hit by the Asian financial crisis in 1997-1998, and falling commodity prices drastically curtailed activity in the vital logging and mining sectors thereby slowing growth. Indeed, British Columbia carries out about 50% of Canada's logging and accounts for 30% of the pulp and paper industry's output.[4] As the Asian economies are recovering together with world commodity prices, British Columbia's prospects are improving. Significant connections with the United States affect the province as well: strong American construction activity, for example, is directly affecting the demand for forestry products.

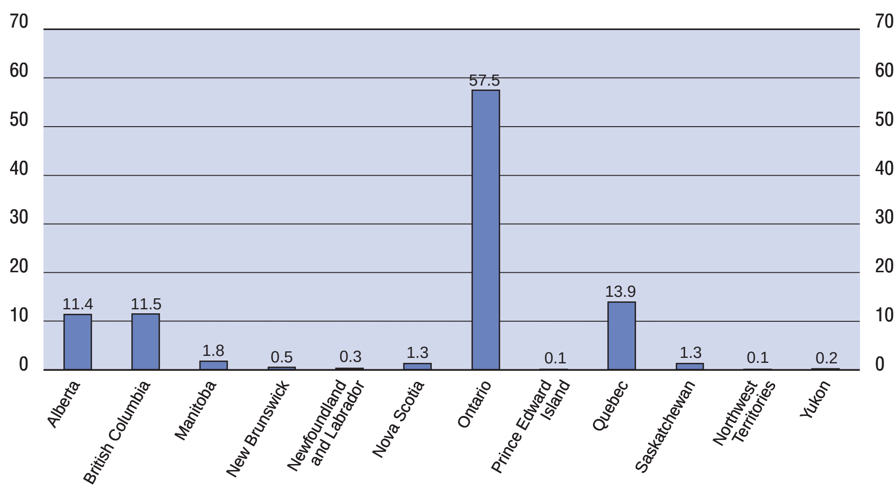
- The three Prairie provinces, Manitoba, Saskatchewan, and Alberta, recorded good economic performances until 1998, following sharp falls in agricultural and energy product prices. Thanks to surging oil prices, Alberta was quick to rebound from the Asian crisis while Calgary, its biggest city, has enjoyed an economic boom that is attracting strong capital investment and substantial labour immigration from other provinces. By contrast, the economic performance of Manitoba and Saskatchewan has continued to be hurt by declining farm cash receipts and weak mining activity. The Canadian prairies are renowned for the quality of the crops they produce, in particular their wheat and, more recently, canola (oilseed rape) harvests. In a typical year about 75% of Canada's wheat is exported, although this figure fluctuates sharply from year to year depending on harvests around the world. Canada is the world's second largest wheat exporter and is a major producer of barley, rapeseed and oats.[5]

- The Atlantic region, including New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island, faces more economic difficulties than other provinces as well as negative demographic trends. However, it has witnessed a significant economic resurgence since the mid-1990s, spurred on by the development of major infrastructure projects, which largely offset the impact of the fishing industry's collapse. In Newfoundland, the completion of the Hibernia oilfield project and continued oilfield investment and exploration resulted in GDP growth rates that surpassed the national average in 1998-1999. Similarly, Nova Scotia's economic activity has been boosted by the development of the large Sable Island natural gas field, which came on stream at the end of 1999. Likewise, New Brunswick has benefited from the construction of a major highway and the recovery that has taken place in its resource sectors. Finally, the small province of Prince Edward Island has followed a slightly different path since its economic activity has been boosted by the growth of its tourism sector. This has stemmed from the completion of the confederation bridge between the island (Prince Edward Island) and the mainland (New Brunswick) in 1997. Proximity to American borders has always represented a major asset for the Atlantic provinces, but the region has benefited from NAFTA to a lesser extent than other provinces. Moreover, its level of dependency on trade with the United States makes it particularly vulnerable. For instance, the closure of US borders to the Prince Edward Island potato has had a significant impact on the province's economy given the importance of agriculture for the Island.[6]

The strong economic ties between Canada and the United States are also demonstrated by the significance of US direct investment during the period 1985-1998. More than 60% of all foreign direct investments (FDI) made in Canada originated from the United States (Green, Mayer and McNaughton, 2000).[7] US direct investment activities are very polarised, since four provinces alone have received 94.3% of total US investment. The bulk of it went to Ontario (57.5%), followed by Quebec (13.9%), British Columbia (11.5%), and Alberta (11.4%) (Figure 4). While there is considerable diversity in investment type, wholesale activities, business services, oil and gas extraction, and computer-related endeavours are the most frequently exploited sectors. Despite very scarce data and methodological difficulties, some studies identify quite similar patterns for the provincial breakdown of total foreign direct investments.[8] Alberta appears to attract a significant proportion of the total FDI (an amount similar to Quebec) and much more than British Columbia (Rolf Mirus, 2000). Comparing FDI levels with the labour force in each province, Ontario and Alberta attract a higher proportion of FDI than their proportion of the Canadian labour force, while British Columbia and Quebec attract a significantly lower share.

Figure 4. **US direct investment in Canadian provinces and territories, 1998**

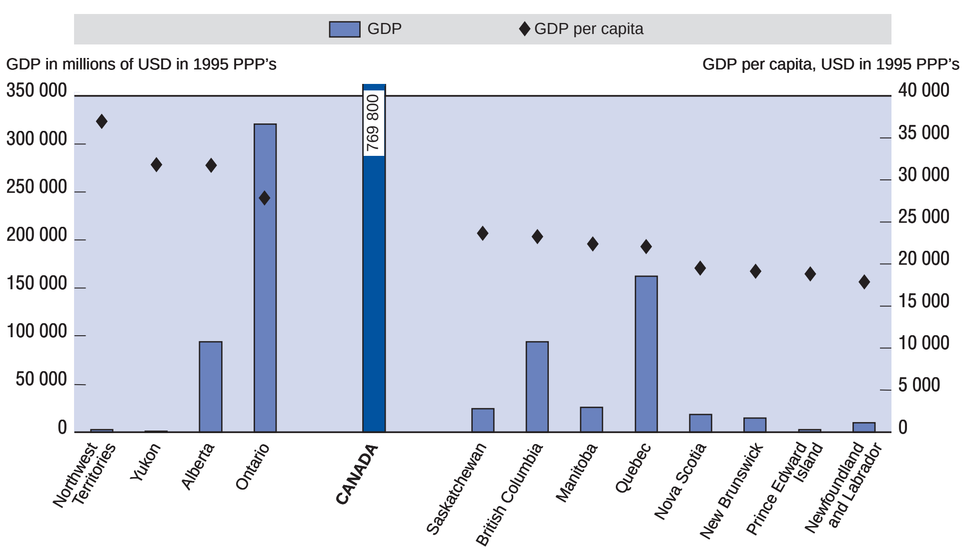
% of all investments



Source: TIERS database in Green, Naughton and Meyer, 2000.

The Canadian regions most integrated in the world economy, especially in the US economy, are those that are the main engines of national growth and have by extension, been the leaders of structural change in Canada (Figure 5). In terms of absolute contribution to Canada's GDP, Ontario and Quebec produced the greatest amount of wealth. In fact, in 1999, Ontario alone provided for more than 40% of the national GDP. Together with Quebec, it contributed to more than 60% of Canada's GDP. These two leading regions were followed by British Columbia and Alberta, each contributing about 12% of Canadian GDP. By contrast, other provinces and territories had very low output, in particular Prince Edward Island, the Northwest Territories, and the Yukon. This reflects the fact that provincial economic specialisation varies significantly throughout Canada, and that the population and the extension of the economic base are irregularly distributed throughout its geographical territory (Figure 2). Ontario has by far the largest population, with 11 670 000 inhabitants in 2000 (nearly 38% of the country's total population) and a relatively high population density compared to Canada's average. The second most populated province is Quebec, with 7 372 000 inhabitants (nearly 24% of Canada's population), followed by British Columbia and Alberta, which respectively number about 13% and 10% of the entire population. The other eight

Figure 5. **GDP and GDP per capita by province and territory, 1999**

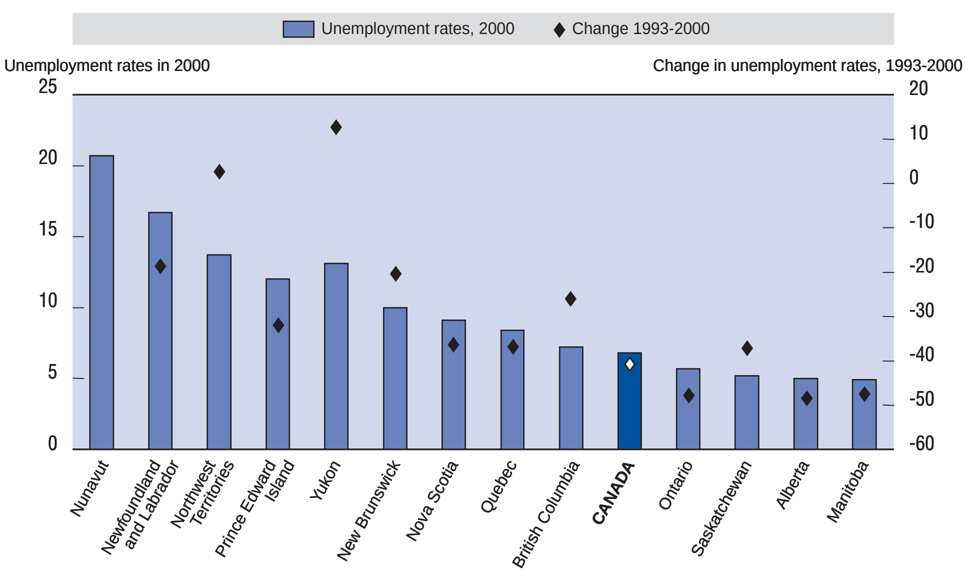


Source: OECD/TDS-TSI.

provinces and territories encompass less than 15% of the population,[9] thus the need for analysis based on GDP per capita in order to assess the economic geography of the country.

Provincial GDP per capita shows that Alberta is the richest province, followed by Ontario and the Western regions – Saskatchewan, British Columbia, and Manitoba – and Quebec. Despite significant improvement, the Atlantic provinces, especially Newfoundland and Labrador, lag behind. The high level of GDP per capita in Alberta and the territories is due to their important resource endowments and, in the case of the territories, the presence of high-income earners within a very small population. Quite similar patterns appear for employment trends. During the period 1991-1996, employment declined in many parts of the Atlantic provinces, in Eastern Quebec, and in the agricultural zones of Saskatchewan and Manitoba. Meanwhile, unemployment rates have significantly dropped since 1993, particularly in Ontario, Alberta, and Manitoba, which, along with Saskatchewan, also feature the lowest unemployment rates (Figure 6). The fact that the unemployed are likely to relocate has contributed to keeping unemployment rates relatively low in the Prairie regions. By contrast, unemployment rates still remain persistently above national levels in the territories and the

Figure 6. **Unemployment rates by province and territory, 2000**



Source: OECD/TDS-TSI.

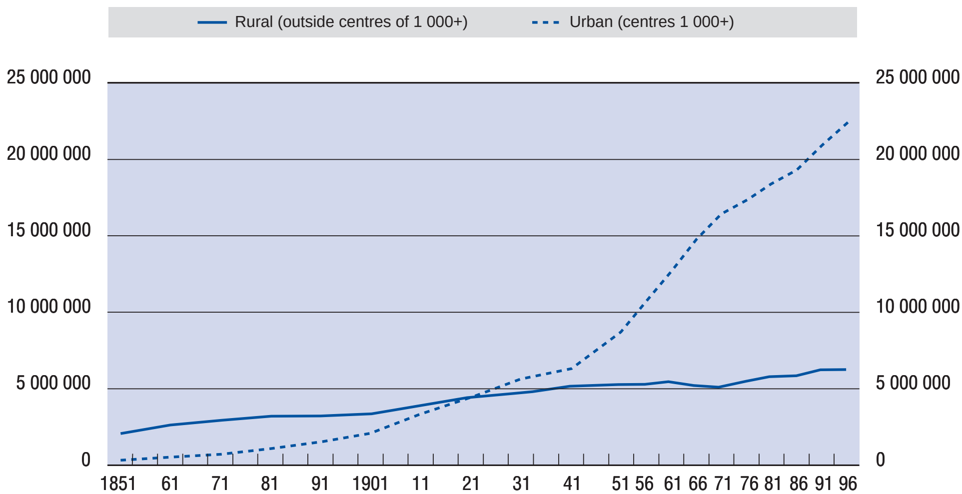
Atlantic provinces. Among the provinces, Newfoundland and Labrador is at the top end of the scale, with a 16.7% unemployment rate in 2000 (versus 6.8% for Canada) as well as, but to a lesser extent, Quebec, with 8.4% unemployment in 2000. In contrast to the Prairie regions, workforce mobility in the Atlantic provinces has played a limited role in helping to contain unemployment rates.

Despite differences across the ten Canadian provinces, a convergence process for a number of economic indicators (such as per capita income, earned income, output, and labour productivity) has occurred since the Second World War. Prior to this period, regional disparities in per capita income across the Canadian provinces were extremely high, and Newfoundland's entry into the Canadian federation only made the situation worse. At the time, regional disparity levels were higher in Canada than in any other industrialised country. Since the 1950s, the poorer provinces have tended to grow faster on a per capita basis than the more prosperous ones, and the dispersion of per capita income indicators has shown a tendency to decrease over time. In fact, both indicators of provincial relative human capital ratios and per capita incomes appear to have converged at roughly the same speed – around 5% in the 1951-1996 period – towards different steady-state levels determined mainly by relative urbanisation. Since the mid-1980s, most provinces have appeared to be within the neighbourhood of their respective steady state. It is also possible to identify two external shocks to the long-run equilibrium that occurred during the 1970s in two provinces. In Alberta, the 1973 first oil shock produced a positive structural break that generated an increase in the province's long-run relative per capita income; and in Quebec, a negative structural break, partly the result of the exodus of the highly-educated Anglophone minority, translated into a decrease of its long-run relative per capita income.[10]

Trends at sub-provincial levels

However useful the analysis of economic disparities at the provincial level may be, it provides a rather partial view of the imbalances and the territorial dynamics that are taking place within Canada. Even in the most densely populated provinces, the population is distributed very irregularly and mainly concentrated in the territory's southern fringe, predominantly in urban settings. Over 85% of the population lives within 350 kilometres of the US border, thus leaving the northern parts of the provinces and Canada's Northland sparsely populated. This is the result of a long-term structural trend: since the 1920s, the number of people living in urban areas has increased considerably compared with just a very slight increase in the number of people living in rural areas (Figure 7). Hence, given the uneven distribution of population, and the economic activities resulting from this, as well as the important trends shaping the country from within, the analysis must not be confined merely to the provincial level. Instead, whenever possible, a smaller unit of analysis must be used. The objective is to identify disparities and

Figure 7. **Population settlement trends since 1851**



Source: Statistics Canada.

opportunities for territorial development at a level closer to functional regions and more representative of the way in which economic and social relations organise themselves within the area. In Canada, the most disaggregated level of territorial unit with available and comparable data is the census division (Box 2).

In 1996, 48% of the Canadian population lived in predominantly urban regions (which represent less than 1% of the country's territory), more than 20% lived in intermediate regions (mainly in small- and medium-sized towns), and about 31% still lived in predominantly rural regions (representing 96% of the territory). The vast majority of the provincial population is concentrated within a group of metropolises and their surrounding areas. Indeed, in 1996, 62% of Canadians lived in one of the 25 census metropolitan areas (CMAs – see Box 2 for definition). According to Statistics Canada's annual population estimates, in 2000, the eight largest CMAs contained 47.6% of Canada's total population, an increase on 46.6% in 1996 (Table 1).

The Canadian population, then, is becoming increasingly concentrated within metropolitan regions, and this is taking place in a country with a pronounced rural profile (see Box 2 for definition of "rural"). As a result, the problems faced by rural regions represent an important concern in Canada. Still, territorial trends related to traditional and emerging factors, such as the challenges posed by harsh climate

Box 2. Territorial units in Canada

According to constitutional and administrative principles, Canada is subdivided into ten provinces and three territories, but other territorial units are available for economic and territorial analysis. The most largely used building block is the census division, which refers to areas established by provincial law. Census divisions are intermediate geographical areas between the municipality, which itself is a census subdivision, and the province. Census divisions represent counties, regional districts, regional municipalities and other types of provincially legislated areas. A census subdivision can also include municipalities – that is, incorporated towns, rural municipalities, cities, etc. determined by provincial legislation – plus their equivalents, such as First Nation and Inuit reserves, Aboriginal communities and unorganised reserves. According to the 1996 population census, Canada consisted of 288 census divisions. In Newfoundland, Manitoba, Saskatchewan, and Alberta, provincial laws do not contain any clauses pertaining to these administrative geographical areas. These provinces have worked in co-operation with Statistics Canada to create census divisions to facilitate the dissemination of statistical data. In the Yukon, the census division is equivalent to the entire territory.

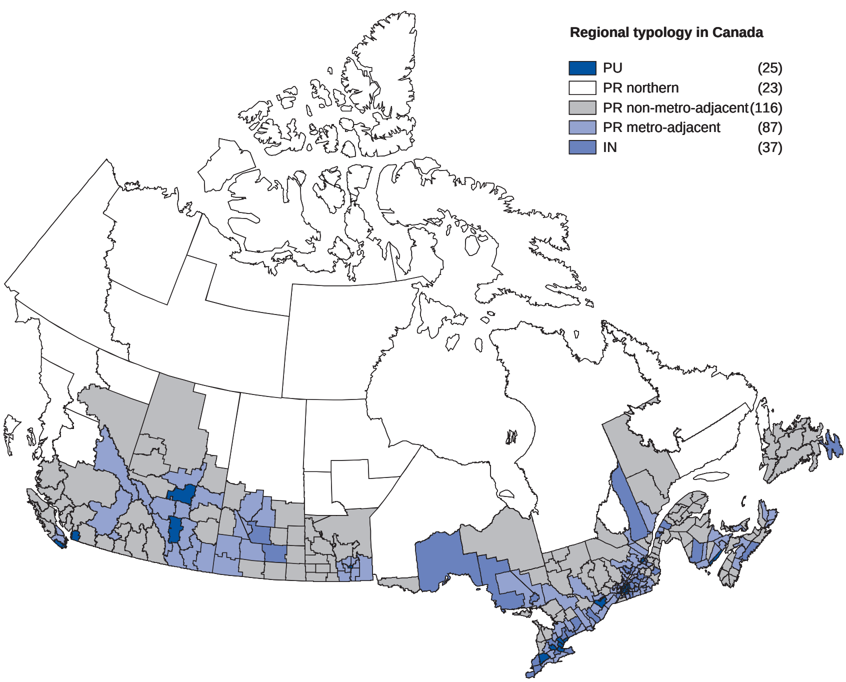
The OECD Territorial Development Service distinguishes between three types of regions on the basis of population density: Predominantly Rural (more than 50% living in rural communities), Intermediate (between 15 and 50%) and Predominantly Urban (less than 15%).* The system of territorial breakdown distinguishes between two subnational levels: local communities, which generally represent the smallest administrative or statistical unit of the country, and regions, which in most countries are the second official subnational administrative level (departments in France, provinces in Italy, counties in the United Kingdom and Hungary). To establish the OECD typology, rural local communities are defined as having a population density below 150 inhabitants/km^2 (500 for Japan). In Canada, "census division" is the term used to refer to regions and "census consolidated sub-divisions" is used to refer to communities (Figure 8). Since 1995, Canada has used OECD territorial indicators to estimate its rural population. To recognise diversity in "predominantly rural regions", Statistics Canada has further desegregated the category into three sub-groups using a Beale Code approach – "rural metro-adjacent"; "rural non-metro adjacent", and "northern regions" as defined by Ehrensaft and Beeman (1992) – so as to better understand population patterns. Indeed, an important element of rurality is the distance of a settlement from a metropolitan area and the type of settlement that predominates the local demography. The above distinction attempts to define this.

* In any study conducted at subnational levels, the choice of territorial unit is critical. The OECD's current territorial database encompasses demographic, economic, and social data at two subnational administrative levels: large regions (TL2 = some 300 such regions for the 30 OECD Member countries) and small regions (TL3 = approximately 2 300 regions). Despite all the imperfections of this breakdown for international comparability, it seems best suited to analytical and empirical work, for most of the available, updated and comparable data are found at this level. Moreover, these levels are officially established and relatively stable in all OECD Member countries, and many of them use the OECD levels as a framework for implementing regional policies.

Box 2. Territorial units in Canada (*cont.*)

Finally, Statistics Canada identifies metropolitan areas under the title of "CMA/CA" (Census Metropolitan Area/Census Agglomeration). A CMA/CA is a large urban area, and includes adjacent urban and rural areas that have a high degree of economic and social integration in that particular urban area. CMAs and CAs are defined as agglomerations around urban areas that have attained certain population thresholds: 100 000 for CMAs and 10 000 for CAs. CMAs and CAs are also delineated according to the share of the active population that commutes to the urban core of the CMAS or CA. For example, if 50% or more of the employed workforce who live in a municipality outside a large urban area work inside that area, then the municipality concerned is included in the CMA/CA category.

Figure 8. **Typology of Canadian census divisions, 1996**



Source: OECD/TDS-TSI.

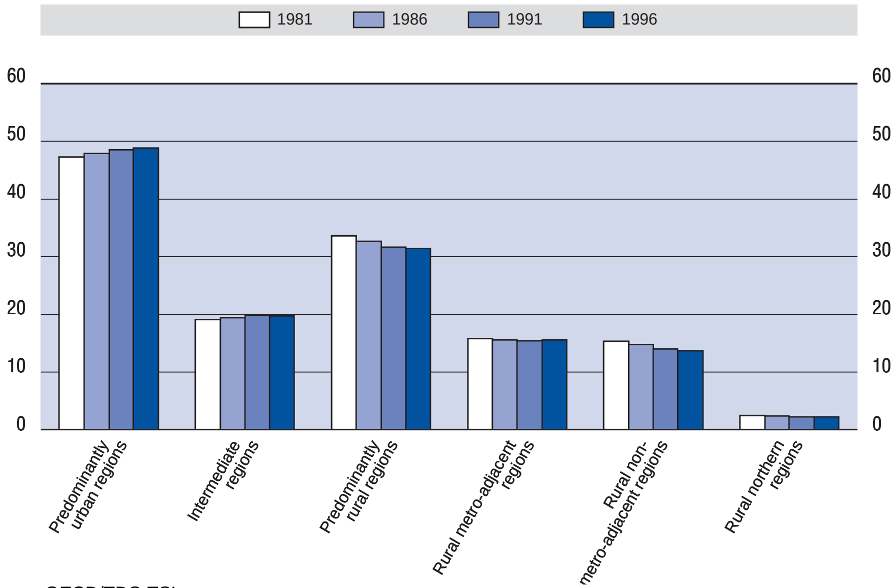
Table 1. **Population of the eight largest metropolitan areas**
Thousands

	1996	1997	1998	1999	2000
Toronto (Ontario)	4 403.1	4 499.0	4 585.7	4 665.7	4 751.4
Montreal (Quebec)	3 393.7	3 408.9	3 423.9	3 447.2	3 480.3
Vancouver (British Columbia)	1 912.1	1 967.6	1 998.4	2 027.9	2 048.8
Ottawa-Hull (Ontario-Quebec)	1 037.9	1 045.5	1 055.5	1 068.1	1 081.0
Calgary (Alberta)	845.5	873.2	902.9	925.6	953.0
Edmonton (Alberta)	885.1	897.3	914.5	928.3	944.2
Quebec (Quebec)	683.7	685.4	686.5	688.3	689.7
Winnipeg (Manitoba)	679.2	677.8	677.9	680.0	681.1
Canada total	29 671.9	29 987.2	30 247.9	30 493.4	30 750.1
Share of the eight largest CMAs' population in the total population of Canada	46.6%	46.8%	47.0%	47.3%	47.6%

Source: Statistics Canada.

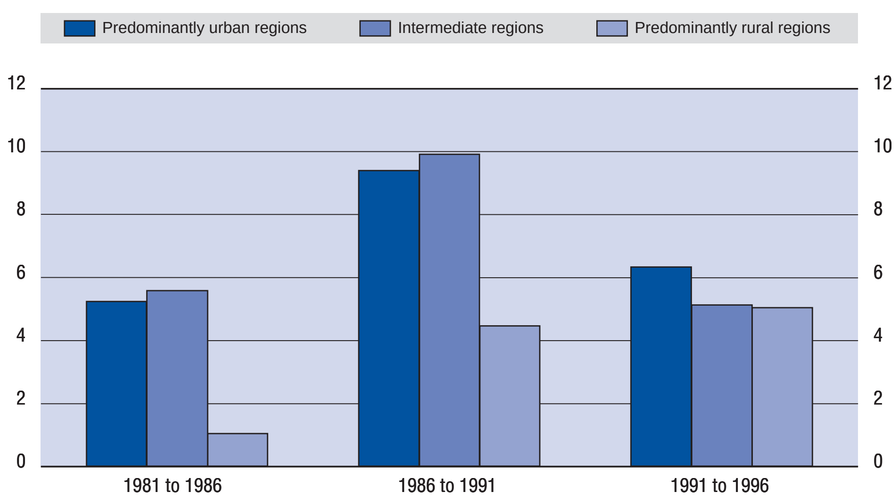
and distance, on the one hand, and fast-moving economic integration and globalisation, on the other, are modifying traditional development patterns and, consequently, having an impact on policy. For example, although some sections of the population still inhabit sparsely-populated, practically inaccessible regions generally located in the provinces' northern parts, in Atlantic Canada, or in the territories, most people in predominantly rural regions live in metro-adjacent rural regions. In fact, within predominantly rural regions, non-metro adjacent areas contain a declining share of the population, and the rural population largely concentrates in regions near cities (a population increase of 17% between 1981 and 1996), attracting commuters and retirees. Meanwhile, the territories and some provinces' northern parts feature the highest population growth (over 10%), a result of the large presence of the Aboriginal population whose birth rate is above national average. Although the population structure is undoubtedly changing, moving away from a concentration in predominantly rural regions towards concentration in predominantly urban and, to a lesser extent, intermediate regions, this change has been a relatively slow one overall (Figure 9). From 1981 to 1996, the share of population living in predominantly rural regions decreased by two percentage points.[11] Moreover, over the last 15 years, differences between the figures for population growth in rural and non-rural regions have lessened (Figure 10). Meanwhile, some densely populated regions in the south, the Atlantic provinces, much of northern and rural Ontario, and southern Saskatchewan in particular, are experiencing a decline in population.

Figure 9. **Population distribution by type of region**
Per cent of total population



Source: OECD/TDS-TSI.

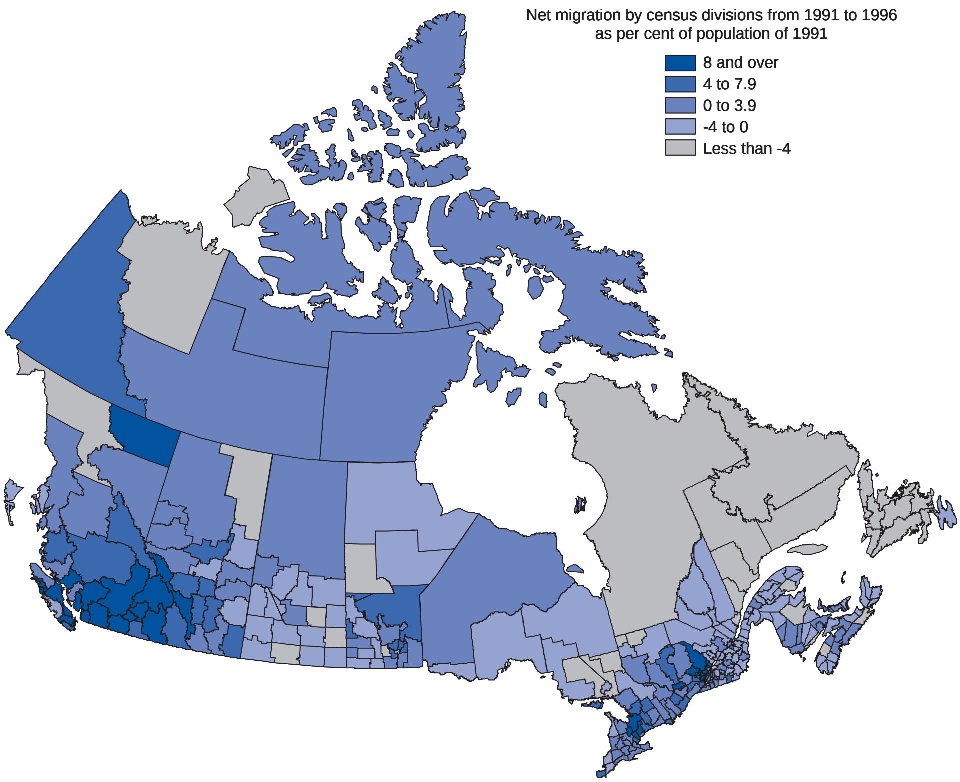
Figure 10. **Population growth, 1981-1996**
Percentage change of population over five years



Source: OECD/TDS-TSI.

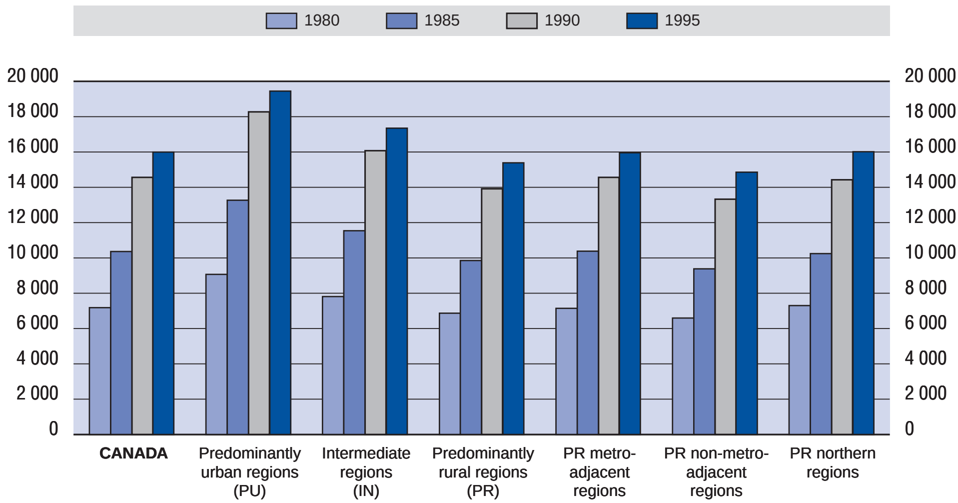
Indeed, areas gaining population are associated with cities or with desirable places to live, such as southern British Columbia, cottage country north of Toronto, and cottage country north of Montreal. Net out-migration occurred between 1991 and 1996 in Saskatchewan, most of Manitoba's agricultural regions outside the Winnipeg commuter zone, and in the Atlantic provinces beyond the reach of larger cities. Out-migration also took place in much of Quebec beyond the reach of Montreal, as well as in three Southwest Ontario counties. Overall, from 1991 to 1996, in terms of net migration (population change minus natural balance), the winners were rural metro-adjacent regions, which gained more than any other type of census division, followed by predominantly urban and, to a lesser extent, intermediate regions (Figure 11). Non-metro adjacent rural areas registered the lowest

Figure 11. **Net migration in Canadian provinces from 1991 to 1996**



Note: Net migration is population net change between 1991 and 1996 minus natural balance.
Source: Statistics Canada, Census 1991 and 1996.

Figure 12. **Total income per capita, 1980-1995**
Current dollars

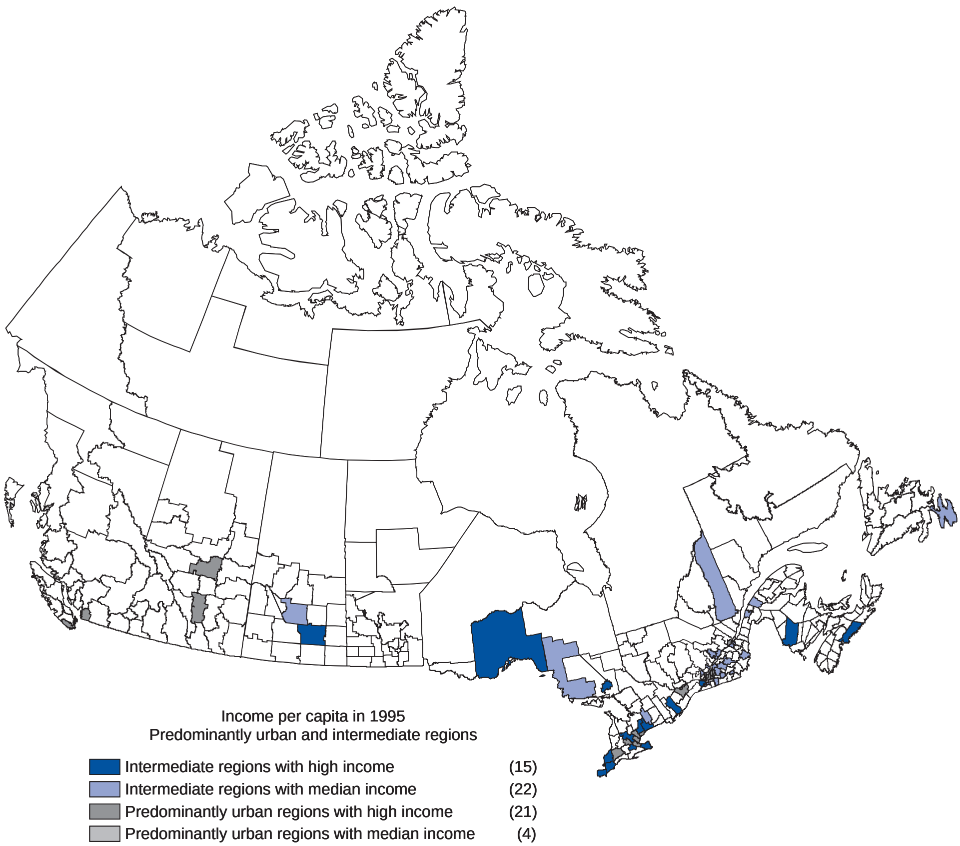


Source: OECD/TDS-TSI.

rate of in-migration. By contrast, northern rural regions suffered a net out-migration rate equivalent to 2.6% of their population.

Territorial disparities in income per capita show results similar to the population trends and, in particular, the performances of urban regions.[12] In all types of regions, total per capita income[13] has increased since 1980 but not much in real terms (Figure 12). Predominantly urban regions have the highest income per capita, well above the Canadian average, followed by intermediate regions and predominantly rural regions (Figure 13). However, between 1981 and 1996, intermediate regions recorded the highest growth in income per capita, followed by urban then rural regions (Table 2). Certain areas in sparsely-populated northern regions recorded surprisingly high income figures. These are generated by government employment in the largest cities, with high wages in the mining sector representing another contributory factor. This is part of an overall readjustment process in territorial disparities between 1986 and 1996, demonstrated by the decrease in the coefficient of variation and in the share of the most prosperous regions in income per capita (Table 3). Rural non-metro adjacent areas recorded the lowest income per capita of predominantly rural regions. This was especially so in the Prairies, the Atlantic provinces, and eastern Quebec which do not benefit from the influence of metropolitanareas[14] (Figure 14).

Figure 13. **Income per capita in predominantly urban and intermediate regions, 1995**



Note: The number of census divisions referring to a category is indicated in brackets (*).
Source: OECD/TDS-TSI.

Metropolitan areas are important centres of economic activity. Generally, a single metropolitan area is the main engine for economic growth in its province. Of the largest CMAs, three – Toronto,[15] Montreal, and Vancouver –, largely shape the Canadian economic landscape. Their outputs represent respectively 50%, 44% and 54% of their province's GDP (Figure 15). This pattern is also visible in other large CMAs. Winnipeg, for example, represents a large share of the Manitoba economy, employing nearly 64% of the provincial workforce and accounting for almost 80% of the province's economic activity (Canadian Urban Institute, 2001).

Table 2. **Income per capita change by type of region, 1981-1996**

	Predominantly rural regions		Intermediate regions		Predominantly urban regions	
	State in 1996 CAD	Change 1981-96 1981 = 100	State in 1996 CAD	Change 1981-96 1981 = 100	State in 1996 CAD	Change 1981-96 1981 = 100
Income per capita	16 143	114	18 497	120	19 964	102

Source: OECD/TDS-TSI.

Table 3. **Indexes of regional disparities**

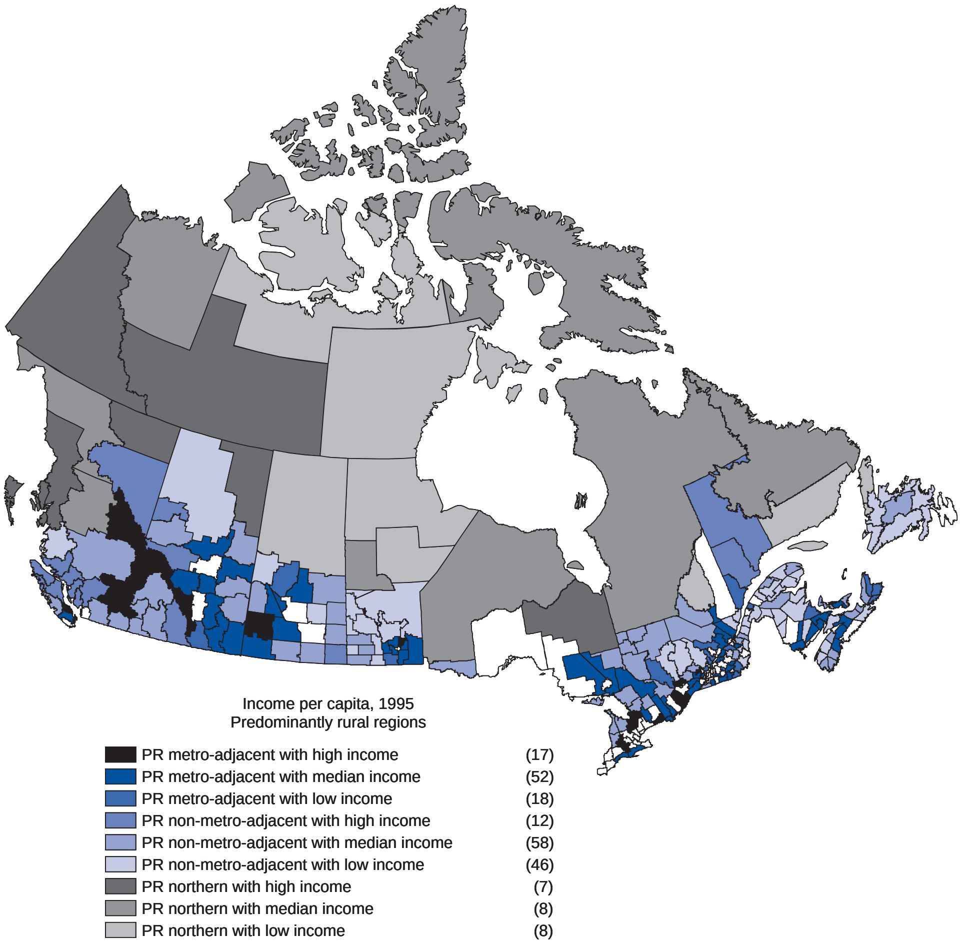
	1986	1991	1996	1986	1991	1996
	Density of population Inhabitants per sq. km			Income per capita Current CAD		
National average	2.7	2.9	3.1	12 445	17 271	18 473
Median	7.8	7.9	8.1	10 392	14 558	15 888
Regional maximum	3 501	3 579	3 752	16 964	23 748	25 934
Regional minimum	0	0	0	4 641	5 608	6 681
Coefficient of variation	1 609	1 563	1 538	17.5	16.2	14.1
	Total population			Total population		
Regional maximum[1] (%)	14.8	15.6	16.1	18.1	19.0	18.5
5 regional maxima[2] (%)	39.4	40.7	41.4	44.8	45.7	45.1

1. Includes 5 C.Ds that correspond to the biggest city.
2. Includes 25 C.Ds that correspond to the 5 largest cities.

Source: OECD *Territorial Outlook* 2001.

Territorial employment dynamics are closely linked to population dynamics and, in turn, to per capita income disparities. In the 1991-1996 period, vast areas of Canada reported a decline in employment, consistent with the on-going depopulation of many areas. Predominantly urban regions still record the highest employment levels, providing employment for more than 50% of the population in 1996, *versus* 30% in predominantly rural regions and 19% in intermediate regions (Table 4). Only rural regions that are adjacent to a major metropolitan centre have reported employment growth above national average over the period 1981-1996.[16] Meanwhile, half of the regions reporting below average employment growth were non-metro adjacent rural regions. The Northern territories and most Northern census divisions in the provinces recorded relatively high employment growth rates. This is mainly due, as stated earlier, to high Aboriginal birth rates in recent decades and the ensuing employment growth in the social services sector (education, health and government sectors) being the main source of jobs. Rurality is not

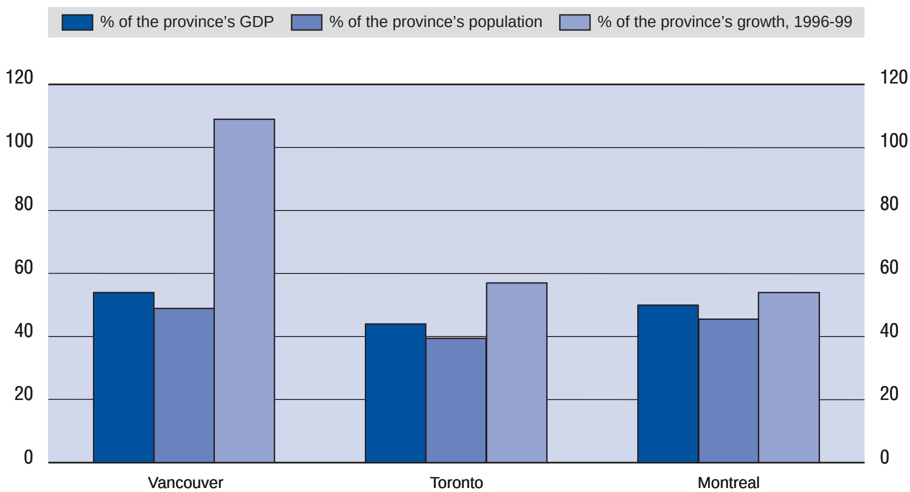
Figure 14. **Income per capita in predominantly rural region, 1995**



Note: The number of census divisions referring to a category is indicated in brackets (*).
Source: OECD/TDS-TSI.

necessarily an obstacle to employment growth but access to a metropolitan centre appears to be an essential element (Figure 16). Indeed, employment remains concentrated in major metropolitan centres. The commuter zone is, however, gradually expanding as employees seek to combine work in a metropolitan area with a rural lifestyle. Although urban regions have lower unemployment rates than other areas, especially predominantly rural regions, between 1981 and 1996, they registered the highest unemployment increase. Here again, some rural

Figure 15. **CMAs' contribution to their province's demography and growth**



Source: 1996 Census and Conference Board of Canada.

Table 4. **Employment and unemployment dynamics, 1981-1996**

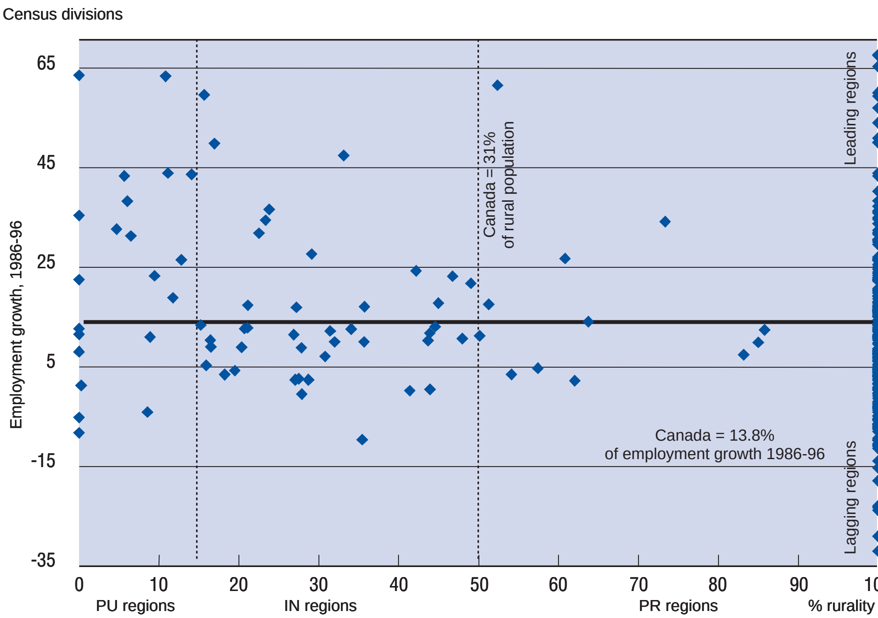
	Predominantly rural regions		Intermediate regions		Predominantly urban regions	
	State in 1996 % of total	Change 1981-96 1981 = 100	State in 1996 % of total	Change 1981-96 1981 = 100	State in 1996 % of total	Change 1981-96 1981 = 100
Employment	30	117.7	19	126.5	51	116.9
Unemployment	12	127.1	10	145.7	9	158.9

Source: OECD/TDS-TSI, Statistics Canada.

census divisions in predominantly rural regions have been successful in reducing unemployment (Figure 17).

One of the main consequences of unemployment is the rise in poverty and its associated forms of social exclusion. Canada has had a good record in terms of poverty, ranking third after Norway and Austria on the United Nations Human Development Index (UNDP) as of 2001 (from 1993 to 2000, it ranked first). This is notably due to substantial investments to build a strong social safety net. However, globalisation and its associated forms of economic change have tended to widen the gap between rich and poor in economic, social, and spatial terms by

Figure 16. **Employment change and rurality, 1986-1996**



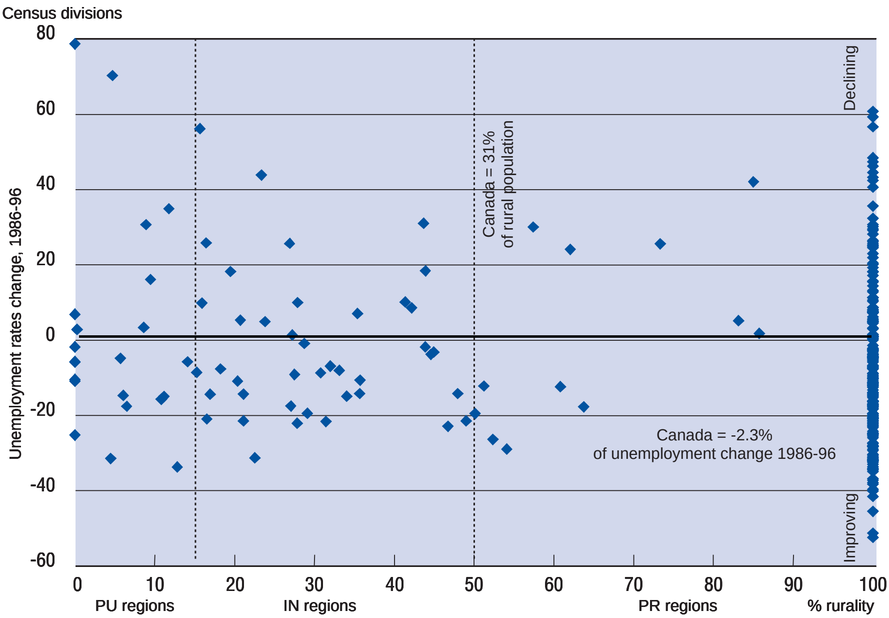
Source: OECD/TDS-TSI.

stimulating the growth of high-wage occupations at the expense of marginal low-skill jobs. This trend has been particularly acute in cities. Poverty increased everywhere throughout the 1990s but more so in metropolitan areas.[17] In most provinces in 1995 CMAs registered the highest poverty rates (21.6%), followed by urban areas outside CMAs (17.2%) and rural areas (15.7%) (Canadian Council on Social Development, 2000).[18] Moreover, in the 1990-1995 period, the poor population within metropolitan areas grew by 33.8%, far outstripping the overall population growth of 6.9%. The highest poverty rates were registered in Quebec's cities, especially Montreal, and the lowest in the cities of southern Ontario other than Toronto. By contrast, the poor population in areas outside metropolitan regions increased 18.2%, compared to an overall population growth of 4.7%. The highest poverty rates within metropolitan areas are to be found in the largest CMAs, especially in the three largest.[19]

Main patterns of disparities

After a turbulent decade, Canada's economy has recovered relatively well. However, its increasing integration in the world economy has coincided with a

Figure 17. **Unemployment change and rurality, 1986-1996**



Source: OECD/TDS-TSI.

major structural shift, which makes it more vulnerable to exogenous shocks, especially from the United States. Moreover, provincial disparities have significantly lessened since the 1950s, inter-provincial distribution having contributed to effectively smoothing over regional differences[20] (Coulombe, 2000b). However, economic growth has not benefited every region to the same degree and disparities remain visible at a more disaggregated level. Some settlement readjustment is taking place between rural and urban regions, mainly to the benefit of intermediate or metro-adjacent rural regions, while urban fringes continue to attract a large number of people and sprawl further outwards. There are also larger growth differentials between the North and the South of the country.

The growing performance of urban regions and the decline of remote, rural ones should not, however, be interpreted as the expression of a rigid correlation between agglomeration size and economic development. Unsuccessful as they may be, rural regions, even those that are non-metro adjacent, are not in themselves synonymous with decline. For instance, census divisions in Northeast British Columbia, which are non metro-adjacent rural regions, exhibited high income per capita in 1995 (Figure 14), and were classified as leading regions for the period 1991-1996 (*i.e.*, with above national average employment growth). At the same time, urban regions are not in themselves synonymous with success and some areas have opposite performances with respect to the well-known winners. Saint John County in New Brunswick belongs to the category of predominantly urban regions with median income and considered to be lagging regions (it has experienced employment growth below the national average).

Broadly speaking, Canada's territory can be divided into three main areas. The first is what could be called the core. This encompasses the corridor stretching from coast to coast and follows the country's southern border. The majority of the population is concentrated in this zone, predominantly in urban and intermediate settings, and particularly in a limited number of metropolitan regions and their surroundings. More precisely, the main settlements are situated along the Saint-Lawrence Valley, which includes Canada's two largest cities, Toronto and Montreal, and the federal capital, Ottawa. Elsewhere in the core, only the capital regions of the Southern provinces have relatively high population densities. The second area consists of predominantly rural regions that are mostly adjacent to metropolitan areas. It includes the fringe area above the core of Canada and extends to the Atlantic Provinces. The third area which is characterised by remote and peripheral areas covers the northern part of the provinces, including Labrador in the Atlantic provinces, and the Northern territories. It is extremely sparsely populated, with its relatively few inhabitants made up mostly of Aboriginal communities. An additional criterion distinguishes Western and Eastern Canada. Indeed, with its heavily concentrated population settlements, the Saint-Lawrence Valley contrasts starkly with the central and western parts of the country where there are only a few metropolitan centres, the most important being Vancouver, Victoria, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg.

Comparative advantages and main challenges faced by regions

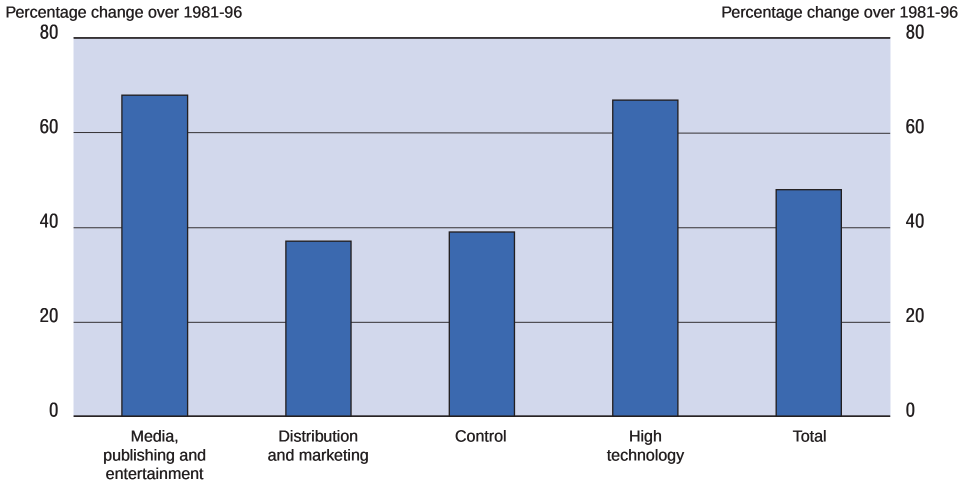
The three main areas outlined above face specific challenges for future development. These challenges will be discussed in the following section so as to highlight the major policy making concerns.

Metropolitan regions

Economic competitiveness

Urban regions are emerging as key players in the national economy. Four major metropolitan economic activities can be identified: media, publishing and entertainment; high technology; distribution and marketing; and control.[21] During the 1981-1996 period, the share of these four major functions in total employment rose from 21 to 25.5% (Figure 18). Large cities generally feature some specific

Figure 18. **Employment change in the eight largest CMAs, 1981-1996**



Note: Control function includes activities in the following sectors: accounting, management consulting, banks, realtors, investment agencies, insurance brokers, insurance and real estate agencies.
Source: CED 2000.

comparative advantages. Among the three largest CMAs, Toronto, which has a very diversified economy, is Canada's financial capital, but also the leading manufacturing centre; Montreal has an increasing concentration of knowledge-intensive industries; while Vancouver has Canada's largest and most diversified port (Box 3). Winnipeg has the second highest concentration of aerospace and consumer durable jobs in the country, while Calgary, traditionally known as an energy industry hub, has recorded its highest job creation figures in business services, finance, and high-tech industries. Meanwhile, Halifax, in the Atlantic provinces, still features a high employment rate related to government service industries[22] but has enjoyed a growth in service-producing industries and its strategic location enables the shortest ocean voyage for ships operating on the North Atlantic and Suez routes (Figure 19).

Whatever their economic specialisation, the largest metropolitan areas have experienced a rebirth sparked by the high-tech innovation spilling over from universities, hospitals and R&D facilities. This generates a larger and more specialised workforce, better markets for goods and services, and more efficient knowledge transfers. Major cities – especially the big three – are also the centres of the entertainment industry, higher education, museums and "high culture", journalism, and publishing. This cultural dimension has a direct impact on tourism

Box 3. Economic structure and specialisation of the three largest CMAs

The three largest CMAs – Toronto, Montreal and Vancouver – altogether contain over one-third of Canada's population, and they each contain about half of the population of their respective provinces (Figure 16). Furthermore, the three cities are by far the preferred place of residence for most Canadian immigrants (two-thirds of total immigrants). According to the most recent estimates, Greater Toronto is now North America's fifth largest city-region, after Mexico City, New York, Los Angeles, and Chicago. Its population exceeded that of Montreal by 1980, Detroit and San Francisco by 1990, and Philadelphia by 1995, to reach its present-day population of more than 4.5 million. The population of Greater Montreal (3.3 million), was overtaken by that of Washington in 1985 and that of Dallas in 1990, and is now slightly larger than Greater Houston's population count. The population of Greater Vancouver has been growing at a similar rate to those of its neighbours in the Pacific Northwest of the United States: it is now 1.9 million, just slightly below that of Greater Seattle.[1]

The economic structure of the three cities differs considerably from one city to another. In the manufacturing sector, Toronto is the leading CMA: in 1996, it represented 18% of all Canadian jobs in the sector, compared to 14% for Montreal and 5% for Vancouver. Toronto has risen to the top in the manufacturing sector through increased industry concentration and specialisation in food and transportation equipment industries. Automotive, which is its largest economic sector, contributes to nearly 15% of the region's traded output, most of it being exported to the United States. The Greater Toronto Area (GTA) is home to assembly plants of the American and European majors (General Motors, Ford, and Daimler-Chrysler), not to mention Honda's plants.[2] The automobile industry is a key sector in the GTA economy (one in six GTA jobs is linked to this sector), and the industry is a major engine of growth in the GTA and Ontario economy as a whole. Toronto ranks third after Detroit and Cleveland in terms of the share of manufacturing in total employment (Courchene, 2001). Manufacturing growth has also been substantial in Vancouver, though the city still contributes to slightly less than 5% of manufacturing on a national level. While Toronto and Vancouver have both experienced growth in this sector, Montreal has registered a decline, especially in the traditionally labour-intensive industries such as textiles and clothing (Vinodrai, 2001).

Toronto is Canada's financial capital, with the third highest concentration of financial services activity in North America after New York and San Francisco (Courchene, 2001). In Canada, it ranks first in the FIRE sector (Finance, Insurance and Real Estate), accounting for 25% of all Canadian jobs in the sector, versus 12% for Montreal and 9% for Vancouver (Figure 19). Thus, the Toronto region has become a "post-industrial" economy where tourism, financial services, and business and professional services are the most prominent activities (City of Toronto, 2000b).

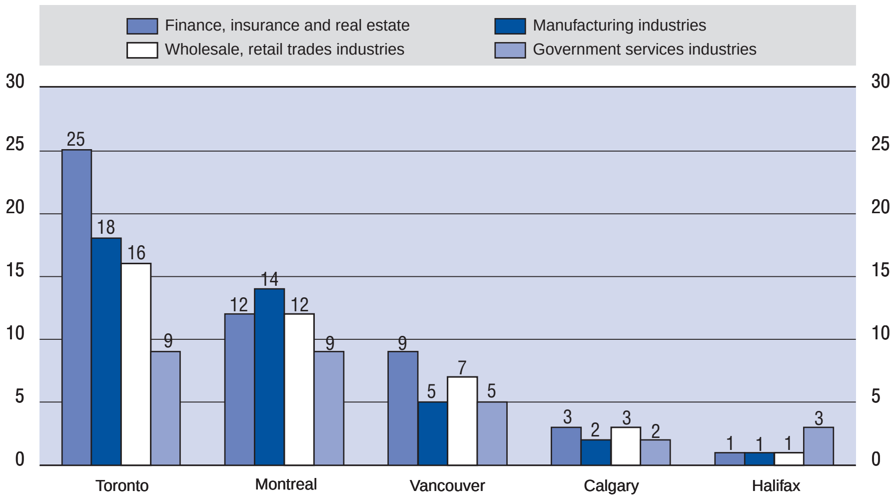
Box 3. Economic structure and specialisation of the three largest CMAs (*cont.*)

The economies of the three largest cities include a larger percentage of knowledge-based and technology-related industries than those of other cities. Of the three, Montreal has enjoyed the highest growth in science-based manufacturing industries, especially in the three major sectors of aeronautics, pharmaceuticals, and computing services. Montreal also comes first for the number of knowledge-intensive jobs in the region, which increased by one-third between 1987 and 1997, compared to a one-fifth increase for Toronto (CED, 2000). However, the ripple effect of knowledge-intensive sectors on other sectors of the economy is weaker in Montreal than in Toronto. In Toronto, employment increased for all sectors between 1987 and 1997, with 10% growth for low-level knowledge sectors, whereas in Montreal low-level knowledge sectors posted negative job creation performance (–7%). Vancouver has also seen good growth levels for employment in high technology but is still lagging behind in low-level knowledge sectors, and lacks a major technology player.

The three largest Canadian cities have experienced substantial structural changes in their economies. Toronto and Vancouver have been the fastest growing urban regions, though Vancouver has had faster growth since the end of the 1980s. Unemployment remains high in Montreal: over 7.7% in 2000, versus 5.9% in Vancouver and 5.5% in Toronto (6.8% for the national average). The three cities have substantial competitive advantages. Toronto is far and away the financial, industrial and services capital of Canada. Meanwhile, both Montreal and Toronto are well-situated in the information and culture sectors, with Montreal ranking fourth in North America. Toronto is now the third largest live theatre centre in the English-speaking world after London and New York, and the third largest film production centre in North America (Courchene, 2001). Montreal and Toronto are also major higher education centres, ranking respectively fifth and eighth in North America (while Montreal ranks first in absolute terms). Thus, they can be seen as technological centres of the future, with a skilled labour pool. Finally, Vancouver is a major North American seaport for trade with Southeast Asia.

1. These data are provided by the United Nations (OECD, 2001).
2. "Toronto" refers to three entities defined on three different scales, as is the with many other Canadian cities. The first Toronto is a city which was incorporated in 1834, and which annexed adjacent suburban districts until 1914. Its boundaries remained unchanged until the end of 1997. The second Toronto is the Municipality of Metropolitan Toronto (commonly referred to as "Metro"), a federation of 13 municipalities created in 1953 to provide physical infrastructure for growing suburban districts through local taxes. In 1966, the Ontario provincial government consolidated the thirteen municipalities into six (Etobicoke, North York, Scarborough, York, East York, and the city of Toronto). Then, in 1998, it merged Metro with its six constituent municipalities into a new, greatly enlarged City of Toronto. The third Toronto is the much larger Toronto urban region. This entity has no legal existence at present; it serves only as a basis for collecting data and analyzing trends and issues related to Toronto's expansion. The Greater Toronto Area (GTA) is composed of five regional municipalities (24 local municipalities). The Toronto Census Metropolitan Area (CMA) is smaller than the five-region GTA.

Figure 19. **CMAs' employment shares by type of activity**
As % of total employment in Canada



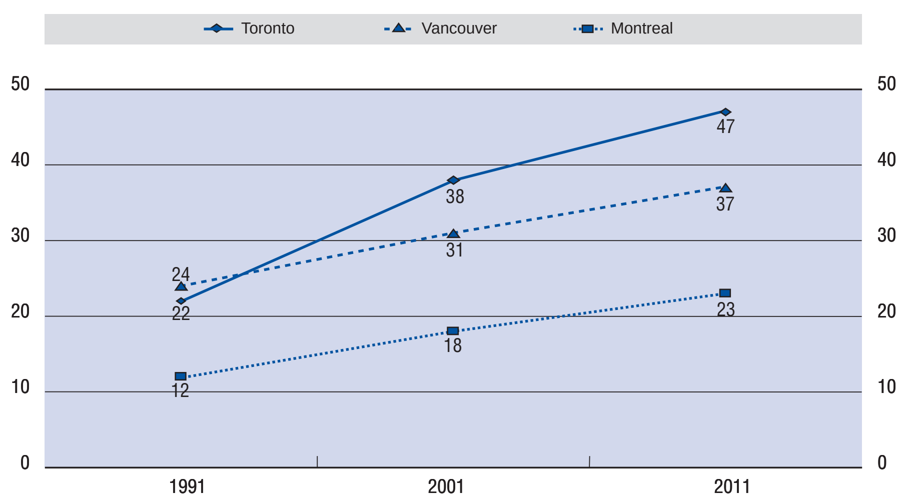
Source: Conference Board of Canada and Census, 1996.

and attracts educated workers to the area. Overall, these CMAs are the key loci of transnational flows and are often referred to as "global city-regions" since their local economic activity and political issues are closely related to the world system.[23] In the context of NAFTA Agreements, their main challenge is to capitalise on this legacy within the more competitive North American environment as a whole. Representing important economic platforms, global city-regions function as essential spatial nodes of the global economy. The pursuit of competitiveness in these regions has become a major local and national policy objective requiring innovative measures. Competitiveness and liveability are increasingly perceived as two sides of the same coin. Quality of life has been identified as a key indicator of competitiveness. Reconciling policies aimed at positioning metropolitan areas on the international chessboard while insuring social, spatial, and environmental sustainability is a major challenge for cities.

Poverty and social dislocation issues

Social problems are often sensed most acutely in cities. Poverty, as mentioned above, and many other social ills including crime, homelessness, and drug abuse, are mainly prevalent in metropolitan areas and affect some population groups more than others. In 1999, 11.8% of all Canadians, or about 3.6 million people, were in low income (post-tax Low Income Cut Off).[24] After climbing throughout the early 1990s, the low-income rate peaked in 1996 at 14.0% and has been declining ever since. However, certain groups in Canada are more likely to live in a low-income situation: people with disabilities, lone parents, Aboriginal Canadians and recent immigrants. These groups face poverty rates more than twice the national rate. Nonetheless, these last figures represent a major challenge for the cities, particularly as they are expected to attract a growing proportion of immigrants and Aboriginal population in the years to come. Indeed, much of the population growth in urban areas is not coming from migration from rural areas, but from immigration and, especially in the West, from the high birth rates among the Aboriginal population. According to projections, by 2011, the share of visible minorities in the total population of the three largest cities will rise to 37% in Vancouver, 47% in Toronto and 23% in Montreal. By 2016, the majority of Toronto's inhabitants (51%) will belong to visible minority groups (Figure 20). Similarly, many Aboriginal people are moving into urban settings. The highest proportion is to be found in the city regions of Manitoba and Saskatchewan (Figure 21). Urban Aboriginal populations experience the same problems as their rural counterparts, but cities often lack the means of support necessary – such as adequate social infrastructure – to meet their needs. (Canada West Foundation, 2001).

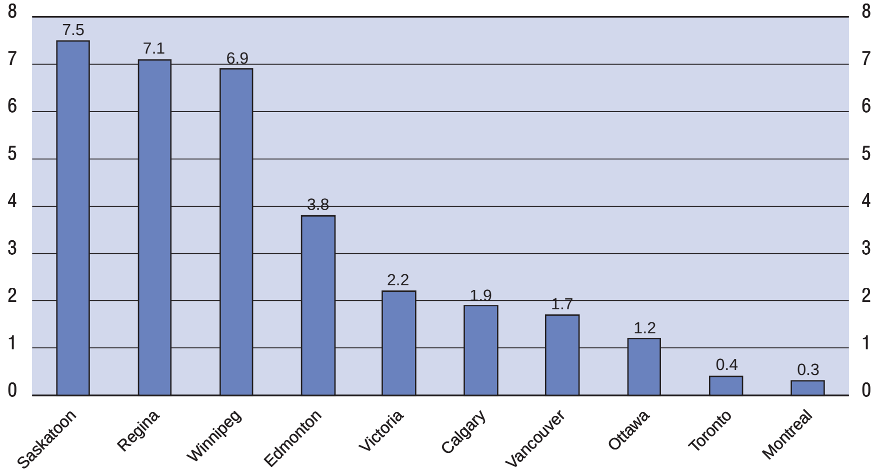
Figure 20. **Visible minorities, current and projected**
% of total population



Source: Statistics Canada.

Figure 21. **Aboriginal population in urban areas, 1996**

In % of urban population



Source: Statistics Canada (1996 Census) and Canada West Foundation.

Poverty is also highly geographically concentrated in urban neighbourhoods. Between 1980 and 1995, the population of metropolitan areas grew by 6.9%, while the poor population in these areas grew by 33.8%. The poor are also becoming more concentrated within urban neighbourhoods. Since 1980, there has been a sharp increase in the number of very poor neighbourhoods (with poverty rates more than double the national average).[25] While between this period the population in high poverty tracks has generally declined rather than increased, the number of high poverty census tracks[26] has risen sharply from 334 to 567, with the highest numbers to be found in Montreal and Toronto. These neighbourhoods are mainly located within inner cities. Indeed, despite being the traditional cores of most metropolitan areas, inner cities have the highest poverty rates: their inhabitants number about half of the total metropolitan population but account for almost two-thirds of the urban poor. Moreover, there are indications that social problems may tend to spread from inner cities to outlying suburbs.

Inner city decline

The stark reality of inner city poverty has acutely raised awareness of the problems of inner city decline and the relationship between the core and the periphery of urban areas. Some researchers argue that Canadian inner cities are evolving towards the US experience, where old urban areas (city centres and their downtown) are in a poor state and high growth sectors choose to locate to new suburbs. In fact, Canadian downtown business areas are in a healthy state as compared to US inner cities (Box 4). Still, the attractiveness of the suburbs represents a challenge to Central Business Districts (CBD).[27] Canadian outer suburbs are mainly composed of privately owned single-family detached homes, and they supply a limited volume of lower-priced housing for rent or for sale. The suburbs are also characterised by large homogeneous employment districts (industrial or office parks and commercial zones). Most of the new job growth is taking place in these employment districts, especially a disproportionately large share of the blue-collar jobs. However, often isolated from residential areas, the districts suffer from poor local transit connections to the regional commuter system and to rapid transit stations within the Metro, or inefficient connections to and from suburban residential districts. Therefore, there may be a growing spatial mismatch between housing and transportation options for less well-off city residents, on the one hand, and the distribution of employment opportunities, on the other.

Urban finance and governance

At the same time that cities are clearly emerging as Canada's leading social and economic drivers of growth, municipalities are assuming greater financial responsibilities, and most are under financial pressure. Urban population growth is a strain on existing infrastructure as it causes it to deteriorate more rapidly, thus creating a need for renewing and replacing infrastructure, which in turn stretches municipal expenditure budgets to the breaking point. More specifically, transportation planning, particularly as it pertains to roads, transit, and rail, represents a major concern.[28] Reducing traffic congestion and preventing gridlock is seen as vital to enhancing the quality of life. Similarly, a broader range of housing stock options is needed in many municipalities, especially in the major city-regions, where a lack of affordable housing is endemic. Besides their traditional urban responsibilities, cities also have to find funds for new investments in social services (such as shelters for the homeless) and in other kinds of services (such as combating crime and drug problems). Meanwhile, cities are increasingly focussed on attracting investment, revitalising their downtown business districts, promoting growth and economic development, and increasing their competitiveness.

The growing financial responsibilities of municipalities have not been accompanied by suitable legislative changes: the Canadian Constitution still fails to recognise the municipality as a legal entity. Moreover, the devolution of former provincial service responsibilities and cutbacks in provincial and federal transfer payments and programme spending have raised questions about

Box 4. Inner city/suburb relationships in US and Canadian metropolitan areas

In 1970, the majority of US inhabitants in large metropolitan areas were already living in suburbs. Two decades later, the demographic distribution within metropolitan areas was 63% for the suburbs and 37% for the inner cities and in the case of the 25 largest metropolitan areas, the percentages were respectively 75% and 25% (Frey, 1996). Besides the loss of their population, American inner cities have also lost most of their economic functions, including production of manufacturing and services, although specialised services to global companies remain. Most inner city inhabitants are therefore disconnected from the job market (even for entry-level jobs) and live isolated from mainstream society in a sort of "spatial mismatch" and "skills mismatch". Spatial mismatch implies that inner city residents do not have access to entry-level jobs located on the periphery for the simple reason that many of them do not own cars, and skills mismatch implies that they do not have access to inner city jobs because they are insufficiently qualified. This spatial and social isolation, exacerbated by an increase in the concentration of poverty in inner city neighbourhoods, may lead to involvement in drugs and crime.

In the two largest Canadian metropolitan areas, Toronto and Montreal, employment is highly concentrated in the inner cities. At the beginning of the 1990s, about 20% of jobs in the two urban regions were located in their inner cities while roughly 50% of Toronto's office space and 60-70% of Montreal's was located in inner-city areas (GAD, 1999). Besides important retail concentrations, these central areas have high-order public and semi-public services, including prestigious universities, community colleges, major hospitals, and various cultural facilities such as museums and performing arts centres. Consequently, government agencies are important employers in both these city centres. Moreover, the inner city areas boast an architectural heritage closely associated with the history of their respective cities. Last but not least, there are also substantial residential areas, which have been growing since the 1980s, and comprise public housing projects and shelters. In Toronto, although there are public housing projects and shelters, mostly built during the 1960s and early 1970s, the vast majority of housing units built in the City of Toronto during the 1980s and 1990s were market priced to luxury units. Many of Toronto's wealthiest residents still live in the inner city. This contrasts sharply with most US inner cities areas which are home almost exclusively to low income populations.

One of the most striking features of the reshaping of Montreal and Toronto inner cities since the 1950s has been the development of office space. Financial districts have emerged and white-collar office workers have progressively replaced a blue-collar labour force. In fact, the office development boom and a rapidly expanding white-collar workforce have balanced out the suburban drain of population, retail, and manufacturing. However, office space has developed more rapidly in the suburbs than in the inner cities. This has been the case in Toronto since the 1970s. The same phenomenon occurred a decade later in Montreal where new inner city office development only represented 46.5% of the regional total. Meanwhile, Toronto city centre's

Box 4. Inner city/suburb relationships in US and Canadian metropolitan areas (*cont.*)

share of regional office space had fallen to below 50% by 1991. Despite plummeting in the 1980s, central Montreal's share was still about 58% in the 1990s

Between 1981 and 1991, there was an absolute decline in head office employment in Montreal's CBD, affecting several sectors including primary, manufacturing, construction, transportation, communication, utilities, and trade (Coffrey, Polese, and Drolet, 1996). At the same time, an absolute increase in head office employment in the "producer service sector" and a strong absolute increase in high-order services employment (financial and business services) took place. A "natural" specialisation process has occurred where the more rapidly growing, centrality-seeking activities have forced other activities, less capable of paying the high rents in the CBD, into the suburbs. Thus, instead of CBD decline, one might suggest CBD specialisation in centrality-sensitive functions (Chaplin and Polese, 2000). The same conclusion can be applied to Toronto, whose city centre recorded employment growth in the 1980s. In Toronto's downtown, restrictions on office construction have driven up prices, increasing the area's specialisation in high-order services. However, CBDs face an uncertain transition at the beginning of the 21st century. Financial activities, especially insurance companies, have moved away from Toronto's Central Area, and many banks have transferred offices to the suburbs. In the late 1990s, the Toronto suburb of Mississauga benefited from a boom in office development, mainly driven by high-tech companies.

In Toronto, a significant proportion of the GTA's moderate-income residents tend to be concentrated in the old city and inner suburbs (*i.e.* within the new City of Toronto, former Metro Toronto) where the vast majority of social housing and private low-rent units are located. The City of Toronto is also well served by an extensive public transit system. The migration of "blue-collar' jobs from the City to the outer suburbs which have relatively low levels of social, rental housing and public transit service has created a spatial mismatch between jobs and labour force. Inner city residents without a car cannot easily access jobs in urban peripheries. This spatial inequality of access to jobs can be a cause of unemployment. From the late 1960s onwards, there was an emphasis on community-based solutions in the provision of social housing, including the creation of income-mixed housing owned by third-sector (non-profit and co-operative) groups. Income-mixing allowed for a portion of assisted units to be occupied by higher-income households. Similarly, when in the mid-1980s, the federal government limited social housing funding to households in need to enhance targeting, efforts were made to reduce average project size to allow for better integration into surrounding neighbourhoods. Integration into the community also requires that all orders of government make a concerted effort to retain and attract quality jobs within the City to reduce the need for residents to distance suburban locations for employment and to make effective use of the existing and extensive public transit network.

the fiscal sustainability of municipalities. Cities consider themselves to be at a distinct fiscal disadvantage, since their major source of revenue is from property tax, and, to a lesser extent, user fees and development charges. Unlike federal and provincial governments that tax income and consumption, whose revenues tend to increase during periods of economic growth, cities tax land. Municipal property taxes account for about 6% of total taxes collected in Toronto whereas provincial and federal taxes account for 94%. Although some cities have been able to cope with fewer resources and an increasing number of challenges, this is by no means an optimal situation for their long-term fiscal health.

A problem linked to the structure of metropolitan governance also exists. As in many other OECD countries, the growth of agglomerations in Canada and their sprawl has been accompanied by the "functional separation" of the residence and the workplace and "social segregation", a spatial differentiation in income categories that leaves the less-privileged strata restricted in their freedom of choice to move to the suburbs. Some aspects of the Canadian political and fiscal system have exacerbated this trend. Generally, a city has a smaller population than its CMA. If a large part of the CMA's growth occurs outside the city, then that city does not benefit from the expanded property tax base possibly appearing in other areas of the CMA. Furthermore, new residents from other municipalities continue to work, shop, and seek entertainment within the city, thus using its infrastructure. Consequently, the city bears many of the expenses associated with urban growth without enjoying its benefits. A good governance framework is crucial to strengthening cities' abilities to perform in such a context. Amalgamation is considered a solution by some, as it ostensibly forces wealth to be shared across the new amalgamated city. However, it remains to be seen whether this would actually be the case.

Rural regions

Technological change, globalisation and localisation

Economies of rural regions are highly dependent on sectors that have been fundamentally affected by technological change. Productivity, especially in the extractive sectors, has been boosted by combining greater amounts of capital with each unit of labour. Moreover, since the demand for many goods has risen only modestly, the same industries have experienced decreasing employment. Rural regions are losing some of their traditional niches, *i.e.* the specialisation in commodity-producing industries that use labour extensively. Agriculture is the most ubiquitous of these sectors, taking place at significant levels in both metro and non-metro regions and even in some parts of the far North. Farms have increased in average size but are employing fewer people, and fishing has suffered from stock depletion.

In other sectors, the impacts of technological change have been compounded by the lack of comparable access to information and communication technology (ICT) in rural and urban communities.[29] Remote rural regions lack both the local markets and the infrastructure necessary to compete in global markets. Furthermore, low population density makes it hard to find the appropriate mix of labour skills to produce the quality and volume of products required to compete in the high-value-added markets. This same phenomenon, especially in the non-metro-adjacent regions, also reduces tax bases and increases per capita cost of public infrastructure. Furthermore, rural communities, especially those that are more remote, are increasingly dependent on a very small number of firms. This limited economic base manifests itself in economic instability, seasonal shifts,[30] and an over-dependence on federal transfers. Together, these disadvantages highlight the need for innovative economic and social structures to cope with changing technology.

The rhythm of technological change has left many predominantly rural communities unsure of their best economic development strategies. Especially with regard to the changes in ICT, which allow firms to decentralise in spatial terms but centralise where information is concerned. Traditional industrialisation incentive programmes, the mainstay of many rural regions, are very risky. Even when successful in attracting investors to the region, the same employers are often lured away by another community offering more appealing incentives. The declining role of goods, especially raw materials, in production, has provided both traditionally factor-oriented and market-oriented industries with a wider choice of potential locations. Many factor-oriented manufacturing industries choose to transport their raw materials to areas where they are closer to their markets, where amenities are better, or where factors other than raw products cost less. On the other hand, the recent technological changes allow many services and otherwise market-oriented industries to locate at a distance from their markets.

Predominantly rural regions are at a potential disadvantage when compared with the localisation advantages of urban regions. Their lower population density increases the cost of infrastructure, reduces the size of markets, including that of the labour market, and represents a decided handicap in sectors where economies of scale are important. In addition, low population density means that rural regions will always be last to receive the benefits of technological change. However, although they are not expanding as rapidly as urban regions, many metro-adjacent rural regions are growing as people and businesses seek the mix of amenities that they provide. Indeed, in 1996, Environment Canada warned that "(t)he trend towards concentration of Canada's population into the country's largest metropolitan regions has been paralleled by a trend towards deconcentration of the urban centre at a relatively low density into the surrounding countryside. As a consequence of these trends, urbanisation in Canada has had a disproportionately high impact on productive agricultural land, prime wildlife habitat, aquatic systems, and other valued components of regional and local ecosystems". This trend often leads to traffic congestion, conflicts over land-use, and other disputes related to sprawl.

Changing demographics

A declining, ageing, and increasingly diverse rural population will create enormous challenges for rural regions of Canada. Predominantly rural regions grew in population by 11% between 1981 and 1996. The growth is focused on recreation and tourism, high-amenity locations, and resource development. But the growth is very uneven. Much of the rest of rural Canada, especially the non-metro-adjacent regions, continues to lose population, with Saskatchewan, Manitoba, and parts of the Atlantic accounting for most of this decline (Box 5). Moreover, as the baby boom generation begins to turn 50, and as life expectancy continues to rise, the overall population is becoming older. The elderly, especially the baby boomers, tend to be quite mobile and are increasingly choosing non-metropolitan communities as their retirement destination. Since the poorer elderly may not migrate as readily as the wealthier, declining communities may experience rising poverty and increased demands for social services The dependency ratio, the proportion of elderly and children in the population, is higher for rural regions than for urban regions of Canada. Growing rural communities, primarily in the metro-adjacent regions, will face increased demands for other public services and amenities.

In many rural regions, the most striking demographic change is in the ethnicity of their inhabitants. Because of higher birth rates among Aboriginal families, this group is growing relative to non-native Canadian born residents. In general, rural non-Aboriginal populations are older than metro populations, while Aboriginal populations have very high numbers of children and youth. Together these trends lead to higher dependency ratios in both the provinces in the South and the territories in the North. As a consequence, education, training, health care, and geriatric care are all becoming more complicated and expensive. New labour force preparation programmes, retraining programmes, and social services programmes will be needed to deal with these challenges.

Productivity and economic growth

On the macroeconomic front, Canada has improved its fiscal situation remarkably. It has trimmed federal expenditures and balanced its budget. Taxes (and public benefits, *e.g.* a universal health care system) are still significantly higher than in the United States but have a decreasing trend. Economic growth has been

Box 5. Senior population in Canada

Like most OECD countries, Canada has an ageing society. Although it still is one of the younger industrialised countries with 12.6% of its population over the age of 65, its seniors constitute one of the fastest growing segments of the population. It is projected by the year 2041, that over 23% of the Canadian population will be seniors.

While the spatial distribution of seniors mirrors the overall of the distribution of the total population in Canada, the proportion of the population that is over 65 varies considerably between regions. In absolute numbers, close to 85% of seniors live in one of the four large provinces (Ontario, Quebec, British Columbia and Alberta). Seniors represent the largest shares of provincial populations in Saskatchewan and Manitoba. In 2001, 15% of all residents of Saskatchewan and 14% of residents in Manitoba were aged 65 and over, 13% in British Columbia, Ontario, Quebec, Prince Edward Island, Nova Scotia and New Brunswick; 12% in Newfoundland; and 10% in Alberta. At the same time, seniors represent smaller shares of the populations in the territorial regions of the Yukon (6%), the Northwest Territories (4%) and Nunavut (3%).

The majority of seniors live in an area classified as urban, especially in the large urban centres. In 1998, 31% of all seniors in Canada lived either in Vancouver, Montreal or Toronto. Victoria, British Columbia and St. Catharines in the Niagara area of Ontario have overall the highest concentration of seniors at 17%, while Calgary has just 9% of its population over the age of 65 years. Seniors are more likely than younger adults to live in rural areas and small urban centres and therefore, many non-metropolitan areas have high percentages of their residents over the age of 65. This is a reflection of the locational decisions not only of seniors, but also of the rest of the population. Many communities are experiencing ageing-in-place because young people depart and the seniors remain behind. Other communities act as retirement destinations attracting seniors because of amenities and services. Overall, there is a significant geographical pattern that characterises the distribution of the elderly population in Canada.

Source: Statistics Canada (*www.statcan.ca*).

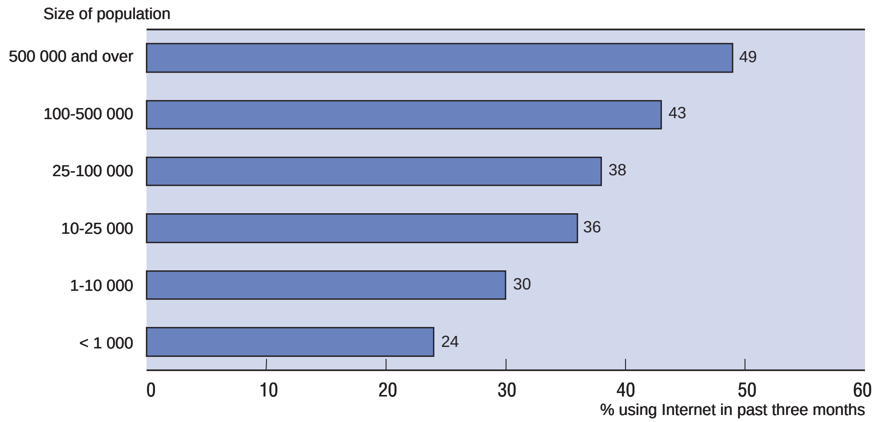
strong and unemployment has been low. However, productivity and productivity growth continue to lag behind those of the United States. Small and medium enterprises (SMEs) are an important source of growth, especially in rural regions, yet the productivity of SMEs continues to grow at a slower rate than for large firms and for similar firms in the United States.[31] One of the reasons for this productivity gap has been the low level of cutting-edge technology adoption by Canadian SMEs. A related problem has been the very low level of e-commerce adoption by firms, especially SMEs, in Canada. Together, these gaps leave Canada losing competitiveness.

Infrastructure

One of the consequences of federal and provincial fiscal constraints has been reduction of public funding of transport infrastructure. Some of the slack has been taken up by the local transport authorities, which have been following a downward path to levels below economic efficiency. These cannot be estimated in aggregate, but only at the local levels. However, it is likely that in certain cases, it has led to a decline in the quality and accessibility of transportation. Information-intensive industries undoubtedly necessitate new infrastructure – ICT, Internet access, wireless systems, satellite systems – but it also requires the maintenance of old infrastructure, including roads and highways, airports and ports. In addition, economies of scale mean that companies, especially those in rural areas, need market access over large distances, and this requires efficient, reliable transport and communication systems.

Canada's transportation policy has changed significantly over the last decade. First, *The National Transportation Act* of 1987 ushered in an era of deregulation in the transport sector. The deregulation of the legislative framework was completed by *The National Transportation Act of* 1996. One cannot disentangle the effects of deregulation from other factors, freight rates, for instance, have fallen by CAD 6 billion or 28% in real terms since the mid-1980s. The commercialization or divestiture of the Canadian transportation infrastructure lead to the sale of a large part of Canadian transportation infrastructure to the private, not-for-profit sector, or provincial or local governments. As a result, significant structural change is occurring in the transportation sector. In 1999, Air Canada acquired its largest rival, Canadian Airlines and its regional subsidiaries. The Canadian government granted the take-over on the condition that service be maintained to smaller, remote airports during a transition period ending in 2003. The September 11 events have exacerbated the precarious financial situation of some Canadian air carriers and led to the downfall of one carrier, Canada 3000. In the meanwhile, the sector has seen the emergence of several new, smaller airlines. These changes raise the issue for rural communities to develop a transport infrastructure adapted to their needs. Nowhere is the so-called digital divide wider than between metro-adjacent and non-metro-adjacent regions, with the latter suffering from far fewer high-capacity, reliable telecommunication systems. According to a recent report by Industry Canada, residents of cities numbering at least 500 000 people are twice as likely to have used the Internet as residents of a town numbering less than 1 000 (Figure 22). This gap is even larger for low-income and less-educated rural Canadians. Highways in Canada carry 9% of intercity passenger traffic. Highway goods carriage represents 85% of the value of domestic freight services. Almost the entire population of Canada (99.5%) is located within convenient access to a primary or secondary highway.

Figure 22. **Internet use by population size, 1998**



Source: Ekos' Information Highway and the Canadian Communication Household, 1999.

The only exceptions are those isolated, largely Aboriginal communities located in the far North, especially in the Nunavut territory.

Organisation of government

Most predominantly rural regions of Canada need support to develop their local governance capacity. The provincial governments govern and provide most public services to the vast rural regions centrally. Yet the challenges of the New Economy will require local solutions. Another problem that rural regions face is related to the horizontal nature of their problems. Governments are generally organised vertically into sector-oriented departments and agencies – departments for agriculture, transportation, health, education, economic development, etc. Rural issues cut horizontally across these sectors. Rural regions have problems with unemployment and underemployment, under-scaled markets, remoteness, etc. Responses by vertically-oriented agencies to horizontal problems of this nature are often described as "stove-pipes" or "silos". The consequences of silo programmes include duplication of services and the attendant inefficiencies, programmes that work at cross-purposes with each other, gaps in programme coverage, political rivalry among agencies, and an incentive to promote policy aimed at forestalling and countering change rather than embracing it. Together, these inadequacies in policies and programmes frustrate and discourage citizens, and lead to disillusionment with policy solutions. Co-ordination is the solution to silo programmes, but is difficult to achieve in bureaucratic public administrations.

Northern regions

Northern regions include the three Northern territories and much of the northern parts of the provinces.

Extreme remoteness

Remoteness takes on dimensions in the North that are distinctly different from other isolated regions. Not only are transportation costs high because of distance, as they are in any remote region, but vast areas are virtually inaccessible. Furthermore, many communities are physically cut off from the rest of the world for periods during the year. Highways are closed in the fall and the spring during transition between summer ferry services and winter ice bridges. Water transportation is cut off during the winter; many winter roads over lakes are usable only in the winter. In other places, air transportation is not available when lakes are frozen and when weather closes airfields. Because little food is produced in the North, remoteness requires that fresh produce be flown in. Together, these conditions raise the cost of living, limit consumer choice, and increase the criticality of medical emergencies.

Remoteness is perhaps the most significant disadvantage faced by Northern Canada. Of course, it is also what makes it unique and what defines it. It is both its greatest disadvantage and advantage in a world that values uniqueness. Remoteness means higher costs of all goods and services, but it also means higher wages in order to attract workers to remote destinations and with promise of greater opportunities. It is the reason that many Southerners move to the North. But remoteness extends to other dimensions as well. Northern Canadians believe that Southern Canadians do not understand the North and that they cannot relate to the different issues with which it must contend. Residents of the North do not feel that governance processes designed for the rest of the country can appropriately govern them.

Economic, environmental and social challenges

One of the main challenges faced by the Northern territories is the lack of economic diversity and growth. Their economies are based almost entirely on non-renewable resource extraction, tourism, transfer payments, and government services. The first sector does not only carry disadvantages, of course. The North has 25% of Canada's known oil/gas resources and 50% of projected reserves. It also boasts world-class diamond deposits, such as Ekati and Diavik mines in the Northwest Territories (NWT) and there is project for a new gas pipeline. In 1999, mining and minerals contributed CAD 731.1 million, (CAD 17 572 per capita) to the NWT economy, CAD 129.9 million (CAD 5 196 per capita) to the Nunavut economy, and CAD 91 million, (CAD 2 972 per capita) to the Yukon economy. This tremendous resource endowment has placed the territories firmly on the international investment map. In NWT, companies have committed to carrying out more than CAD 700 million of work in the Mackenzie Delta and Valley over the next four or five years. This renewed interest is affecting regional economies and promises to have a noticeable impact at the territorial level soon. Meanwhile, in the high Arctic Islands and adjacent off-shore, large natural gas reserves holding great potential are known to exist, and proposals for pipelines (requiring investments from CAD 3 to 10 billion, depending upon routes) to tie Arctic natural gas supplies to markets are likely to be made within a year. In response to a bid by industry to acquire exploration rights, Indian and Northern Affairs (INAC) has proceeded with a call for nominations in Nunavut. Likewise, the North is expected to place Canada in the world's top half-dozen diamond producers within five years. Large metal deposits are in advanced exploration, and potential is high for discovery of further multi-billion dollar reserves. The vast size of the North and the fact that it is relatively unexplored present great potential for additional significant finds of this nature.

A boom is thus likely in all three Northern territories, as increased demand for energy and minerals and new exploration techniques lead to further mineral (particularly diamond) and energy discoveries across the Arctic. The North's resource potential also holds promise for the country as a whole, with world-class deposits attracting international investors and contributing to exports. Northerners' incomes will rise, but Southern suppliers of consumer goods and services will also benefit as equipment is sourced from them. GNWT-sponsored studies by the Conference Board of Canada and the Canadian Energy Research Institute estimate that, in the event of mine, highway, pipeline, or gas field projects in the NWT, the majority of Canadian employment in these sectors (65-80%) and from one-third to two-thirds of the GDP impact would be captured in the Northern territories. Government revenues flow south as well. Federal royalties and corporate income tax from the new diamond mines are projected to total almost CAD 3.5 billion over the life of each mine.

However, despite offering a promise of prosperity to the territories and the rest of the country, there are disadvantages inherent in such growth. Not only is it potentially threatening to the environment, but it will also strain public and private infrastructure and put further pressure on the traditional Aboriginal culture. Furthermore, mining and energy production are generally subject to "boom and bust" cycles. Although there is usually a great deal of growth during the development of new resources, during the production phase prices are highly variable. Mines eventually "play out" and economies decline. All three territories need plans and analytical tools in place to anticipate and respond to the pressures of change. The possibility, for example, of developing value-added activities related to the extractive sectors is very attractive, but such a project calls for appropriate implementation or it could reduce investment, delay development, and even represent an added cost burden to the people of the North. Any such strategies must be based on sound analysis of options and consequences.

The Northern territories provide a multi-season market for high-end adventures and eco-tourism. As global incomes rise, the demand for unique and extraordinary tourism experiences like these should remain strong for the foreseeable future. With its great intrinsic potential, there is room to expand tourism in all three territories. Domestic and international tourists are looking for opportunities to experience nature and adventures, learn about Aboriginal cultures, fish, hunt, and visit parks, protected areas, and historic sites. In 1999, Yukon's well-established tourism industry was thriving: 233 000 visitors (95% leisure), up 36% in the five years since 1994, spent CAD 63 million there. Tourism recorded a 40-fold increase in NWT and Nunavut from the mid-1960s to the mid-1990s. The season extends into winter with aurora-viewing for Asian markets, and tourist spending of CAD 31 million in the NWT and CAD 10 million in Nunavut. Yet tourism has not grown as fast as it could have in much of the North. With a sound tourism policy, *i.e.* oriented to promote high value-added and sustainable tourism, the sector could generate a much larger share of the economic base of the territories. Tourism, appropriately managed, can have a positive effect on culture, customs, and traditions by increasing the value of these societal characteristics. However, it is a highly seasonal activity, especially in the far North. For the most part, tourism generates jobs situated in the low-to medium-income range. Only in rare cases does tourism generate many moderate to high-income jobs.

Each of the territories' economic bases is being transformed by the developments in the ICT sector. As elsewhere in the world, technological change is reducing the labour input in key sectors and requiring a smaller labour force, but one with more specialised skills. Moreover, economies-of-scale are growing in importance, and very low population density (100 000 dispersed over an area of 3.9 million km^2) makes it harder for Northern Canada to compete with firms in larger markets. This is further aggravated by problems with transport infrastructure and access: the NWT for example has 34% of its population outside a 25 km band from its major highways and the Nunavut Territory has no access to a primary highway. The high fixed costs of the regions' infrastructure lead to inordinately high per capita costs when the aggregate demand is so low. One small offsetting advantage in the North is that most residents live in communities rather than in the open countryside. The so-called "last mile problem" (the cost of connecting individuals to the system once communication infrastructure is extended to the community itself) is reduced when most people live within a very short distance from the centre of each settlement.

Another important issue is the high dependency of the territories on transfer payments. Federal grant payments as a share of total territorial revenues account for 64% in the Yukon, 75% in the NWT, and as much as 90% in Nunavut. The economy of Nunavut, in particular, is heavily dependent on transfers and government expenditures, primarily for personnel. Government purchases alone account for 55% of the economy. Transfer payments are a part of every economy and as long as the population continues to age on average, they will be a growing part of all economies. Transfers are stable and certain, at least in the short- to medium-term. But transfers generally have a relatively small multiplier on an economy and by themselves provide few opportunities for youth. In the long run, as the population ages and there are more claimants and relatively fewer working adults, transfer payments can be reduced and regions can become less dependent on them, as illustrated by welfare reform in the United States and elsewhere.

In addition to the economic challenge, there is the threat to the environment linked to the extraction of non-renewable resources. Canada's far North is a finely balanced ecosystem where populations are themselves delicately intertwined with the environment. This means that they have limited resiliency when impacted by even negligible disruptions. Otherwise minor environmental assaults can be catastrophic in an ecosystem that takes years to degrade substances that would take days or weeks in a southern climate. The territories also have a number of unique health and social problems. Alcoholism in the territories is significantly higher than the Canadian average. For example, the incidence of heavy alcohol consumption in the Northwest Territories is twice the Canadian rate. While life expectancy is not significantly different in the territories than in the rest of Canada, the rate of accidental death is much higher. Moreover, there are chronic and serious shortages of skilled health professionals in the North.[32]

Organisation of government and unresolved land claims

Like the rest of rural Canada the North faces problems that are horizontal while governments offer vertical (or sector-specific) solutions. However this is probably more of a problem in the rest of the country than in the North. Indian and Northern Affairs Canada (INAC) is somewhat atypical of government agencies in that it is multi-sector. It provides research, advice, policy and legislative support for public governance, and northern political development. Activities include the negotiation of devolution agreements with northern governments; support for Intergovernmental processes; appointment of Territorial Commissioners; provision of information for Members of the Legislative Assemblies, Cabinet Ministers and Deputy Ministers in the territorial governments; and maintenance of a database on Yukon and NWT statutes. INAC has regional offices in the North, which allows it to be a more effective advocate for the North.

The most pressing issues in government organisation relate to the yet incomplete processes of Aboriginal self-government and devolution and, connected to these, the problem of unresolved Aboriginal land claims. The federal policy on Aboriginal people outlined in *Gathering Strength – Canada's Aboriginal Action Plan* pledges to expedite the process of settling Aboriginal land claims. This policy proposed the creation of an independent claims body to render binding decisions on the acceptance or rejection of Aboriginal land claims in order to streamline the process and reduce the costs and time involved in protracted negotiations. Until these issues are resolved, they create an environment of uncertainty that delays growth and increases transaction costs. For the private sector, the uncertainty surrounding the unresolved land claims represents one of the most significant barriers to economic development in the North. Exploration is very expensive in the region, and when the uncertainty is compounded by the likelihood of lengthy delays, legal costs, negotiation costs, and unknown costs to gain approval for the right to mine, investors regularly choose to go elsewhere. According to many sources, exploration in the Canadian territories is at least 10 years behind comparable regions.

Notes

1. It should be noted, however, that the per capita income gap compared to the United States has widened in recent years.
2. Canada and the US two-way trade represented a total of USD 213 billion in goods, services, and income in 1999.
3. Ontario represents 57% of Canada's exports to the United States and 75% of Canada's imports from the United States, whereas Quebec accounted for 18% and 10% in exports and imports respectively.
4. Likewise, significant amounts of timber, pulp, and paper are produced in Ontario and Quebec.
5. Although the Prairies have a larger share of their GDP in agriculture, all provinces are involved to various extents. Hence, the province of Ontario has the largest total farm income in Canada. Its principal crop is corn, and fruits, vegetables, and tobacco are also grown in the province.
6. The lumber dispute between Canada and the United States has also an impact on the Atlantic Provinces, especially New Brunswick, where lumber represents 10.4% of its total export to the United States.
7. The United Kingdom also makes up a sizeable component of total foreign direct investment (9.6%) followed by Japan (4.1%), France (4%) and Germany (3.2%).
8. There have been very few studies in Canada on the spatial distribution of foreign direct investments. Most empirical research has concentrated on aggregated investment inflows into Canada but with little consideration on where the investment agglomerates. Statistics Canada has devoted substantial resources to a provincial breakdown of its national FDI figures, but has encountered methodological difficulties that prevented publication of its internal estimates.
9. Note that the relatively limited area they cover explains high population density in low populated provinces and territories – Prince Edward Island, Nova Scotia and New Brunswick.
10. These are the main results of extensive research on provincial disparities made by Serge Coulombe (Coulombe 2000a and b).
11. Between 1981 and 1996 population increased by 22% in urban and intermediate regions, compared to only 11% in rural regions.
12. However, these conclusions should be balanced according to differences of the cost of living between regions.
13. Total income per capita in each census division includes government on the transfer side, but excludes government on the tax side. In the case of the Northern areas, it can

be a rather misleading measure of economic performance due to the important intra- and inter-provincial transfers towards sparsely populated areas with financial difficulties, which, by the way, are a source of continuous discussions between inhabitants, provinces, and the federal government.

14. Note that income per capita fluctuates more over time in predominantly rural regions than in other types of census divisions. Some census divisions saw their income per capita rise relative to other regions in Ontario, southern Manitoba, and to a lesser extent in some of the Atlantic provinces. On the other hand, the opposite trend was common in Quebec and the Western provinces.
15. Conference Board of Canada estimates shows that the GDP for the Toronto CMA is CAD 165 billion *i.e.* greater than that of all Canadian provinces with the exception of Ontario and Quebec.
16. Data are based on the residential location of the individual.
17. The most commonly cited measure of poverty in Canada is known as low-income cut-offs (LICOs). They are based on the 1992 family expenditure data, which indicated that Canadian families spent, on average, 34.7% on basic necessities. For 1990 and 1995, the revised cut-offs were adjusted by changes in the Consumer Price Index between 1992 and the reference income year. The low-income concept applies to economic families (all persons related by blood, marriage or adoption and living together) and unattached individuals 15 years and over (persons living alone or with non-relatives). All members of an economic family share the family's income status. It is on this basis that the incidence of low income in the population is calculated. LICOs are also are adjusted for the urbanisation class in which the household is located. This is a *de facto* adjustment for the differential in the cost of living (where the main difference is the cost of housing) among urbanisation classes.
18. Exceptions to the rule were Newfoundland and Saskatchewan, where poverty rates were highest in rural areas.
19. In 1995, poverty rates were above the national average for seven of the nine largest CMAs. Montreal had the highest poverty rates (27.3%) and Ottawa-Hull the lowest (18.9%).
20. Almost one-half of the positive long-run effect of the oil shock on the Alberta economy was redistributed to other provinces and similarly, almost one-half of Quebec's economic decline after 1970 was buffered by interregional distribution.
21. Control functions include activities in the following sectors: accounting, management consulting, banking, realty, investment agencies, insurance brokers, insurance and real estate agencies (CED 2000).
22. The Department of National Defense (DND) is the city's largest employer.
23. According to Statistics Canada, a city-region has a slightly larger population than a CMA, although at least 90% of the population of the city-regions is shared with its corresponding CMA.
24. The most common measure of low income in Canada is Statistics Canada's Low Income Cut-Offs (LICOs). In the absence of an official, accepted definition of poverty, these statistics are often used to study the characteristics of the relatively worst-off families in Canada. LICOs define a low income household as one that spends significantly more of its income than an average equivalent household on the necessities of life (food, shelter and clothing) and thus has much lower absolute and relative discretionary income

than the norm. The LICO line is calculated by adding 20% to the spending of an average equivalent household on food, clothing and shelter. Currently, the average household spends about 35% of income on these items, so a low income household is one that spends more than 55%.

25. The percentage of poor Canadian families in high poverty census tracks has increased from 11.8% in 1980 to 18.3% in 1995.
26. According to Statistics Canada, "census tracks" are small geographic units within large urban centres (with an urban core population of 50 000 or more).
27. CBD is not a rigorously defined concept. As employed here, CBD is a synonym for downtown or the traditional commercial core of the city.
28. Those issues were highlighted in a report based on an interview conducted in 2001 by the Policy Research Secretariat, which was held in ten different Canadian urban areas (Policy Research Secretariat, 2001).
29. Information and communication technology (ICT) has changed the nature of distance. Distance has been made less important by technology, but that same technology has increased the importance of being connected and connected to the right places. As Malecki points out: "For people in local places, it is important, perhaps crucial, to have links to the global networks of large firms where information, commerce, and decisions are centred. Links to global networks no longer require proximity, but they do require having links and using them to obtain and exchange information. The 'links' are those of individuals' personal networks and the business networks of highly competitive firms with their suppliers, customers, and other sources of knowledge. The cost of being unconnected or remote is a higher cost of operation, usually in the form of a time penalty" (Malecki, 1996).
30. A calculation by Statistics Canada estimates that the seasonal employment fluctuations are twice as large in rural regions compared to urban regions.
31. See the Business Development Bank of Canada, Summary of Corporate Plan 2000-2006, *www.bdc.ca/bdc/download/english/plan2000.pdf*
32. See section on Aboriginals in chapter on "Policies for Rural regions and Northern Territories".

Chapter 2

Territorial Development Strategies and Policies

In a country as large as Canada, regional policy has always been a matter of concern and an area for considered policy thinking and design. Within this context, regional economic development policy has had a continual presence as the vast size and economic diversity of the country has led to disparities in economic opportunities and outcomes. An important milestone in this strategy-building process was the decision in 1986 to decentralise the federal regional policy administration and to create four agencies located in the regions. The task of these agencies is to translate national priorities at the territorial level and represent regional and territorial interests in national programmes and policies. While at the broad level many of the activities undertaken by the Regional Agencies are similar (*e.g.* a focus on SMEs, reduced reliance on direct assistance to business, increased focus on innovation and communities), the programming varies from region to region in order to be responsive to local conditions and address specific gaps. The Atlantic Canada Opportunities Agency (ACOA), which plays a leading role in the economic development of the four Atlantic provinces and which initially focussed its effort in the development and growth of SMEs, is progressively putting emphasis on innovation and commercialisation of R&D. Canada Economic Development (CED), Quebec's agency, has concentrated its regional development policies on SMEs, business services, and programme delivery. Meanwhile, FedNor in Northern Ontario has recently moved to a more community-based approach while still encouraging and promoting broader federal priorities such as upgrading telecommunications infrastructure and supporting investment in SMEs. Western Economic Diversification (WED), the agency for Western Canada, has eliminated all direct assistance to firms and has chosen instead to identify innovation opportunities and local development issues, while at the same time providing business planning and development services to western entrepreneurs. Although the agencies' budgets have, on average, been reduced since the mid-1990s, they have inherited several sector-specific programmes, and the importance of their partnering role at the provincial or regional level has been increasingly recognised. The first section in this chapter presents the historical background as well as recent changes in regional policy. The second one aims to assess the scope of regional problems in each of the four agencies' areas of remit. Further objectives are to review federal programmes and their integration within the provincial policy context. It also emphasises some recommendations linked in the East, with the need to involve more the agencies in the federal efforts to attract foreign direct investment and to enhance inter-provincial development programmes; in Ontario, the need to stimulate organisational learning, innovation and northern entrepreneurship, and in the West, the need to prioritise the reinforcement of the research infrastructure, the modernisation of amenities policies and the management of urban growth. Finally, the third part analyses the territorial impact of several sector-specific programmes and policies.

Trends in regional policy

The emergence of explicit regional policy was incremental in Canada. The first major instruments used by the federal and provincial governments to reduce territorial disparities in the provision of a minimum level of public services were equalisation payments introduced in 1957.[1] In order to tackle deeper, structural disadvantages of certain areas, the federal government created several regional development agencies and programmes. Such a proliferation led to the creation of a new Federal Department of Regional Economic Expansion (DREE) in 1969, which became responsible for developing and co-ordinating programmes and policies aimed at eliminating or reducing regional problems. It also injected a regional dimension into federal policy-making by examining the regional implications of federal policies and co-ordinating sector-specific policies at the regional level. Federal-provincial partnerships were developed through General Development Agreements (GDAs) setting development objectives and priorities agreed on by both federal and provincial authorities, while the creation of a new Ministry of State for Economic and Regional Development in 1982 aimed at making federal departments aware of regional development issues. Taking over the programmes that used to be managed by the DREE, a new Department of Regional Industrial Expansion (DRIE) was established as well as its provincial counterparts. Since the late 1980s, regional policy has undergone a major shift. Despite over 25 years of regional assistance targeted specifically at promoting growth and eliminating regional disparities, by 1986 it became evident that disparities persisted; transfer payments were not promoting growth, and private sector development was insufficient. It became apparent that the objectives of lowering income and unemployment disparities among regions had generally not been met. Income differences had been reduced, but mainly because of government transfers to persons. Differences in unemployment had fluctuated, but there had been no trend towards the reduction of the gaps (OECD, 1994).

The result was a fundamental reorganisation of regional development policy, as presented in the Speech from the Throne in 1986. Regional policy was redefined as helping regions to realise their economic potential, and the administration of regional policy was decentralised to a series of more locally-based agencies. A new economic development department – the Department of Industry, Science, and Technology – was created to promote the integration of advanced technology and business operation. Simultaneously, one agency and one department were created: the Atlantic Canada Opportunities Agency (ACOA), set up to serve the four Atlantic provinces, and the Western Economic Diversification department (WED), established to deal with regional issues in Manitoba, Saskatchewan, Alberta, and British Columbia. The Department of Industry, Science, and Technology took over responsibility for regional development initiatives in eastern Quebec and northern Ontario. In 1987, it implemented a regional development programme in northern Ontario called the Federal Economic Development Initiative for Northern Ontario (FedNor) while federal responsibility for economic development in southern Ontario resides with Industry Canada and for the Northern Territories with Indian and Northern Affairs Canada (INAC). Subsequently, in 1991, a new regional agency was created for Quebec, initially called Federal Office for Regional Development – Quebec (Ford-Q) today renamed Canadian Economic Development-Quebec. This new agency has a remit that covers the entire province.

All four agencies have similar overarching aims: namely, to design and implement policies and programmes promoting the economic development of its region. This remit includes an advocacy role on behalf of the regions they serve. One of the agencies' key functions is to participate in the implementation of national economic development priorities as part of the industry portfolio in order to maximise the benefits for every region (Box 6). At the same time, they are meant to work to promote federal programmes, services intended for SMEs[2] and economic development through new ideas and strategies, such as skills and innovation enhancement. They are also expected to work with national, provincial and local agencies to optimise the impact of national policies and programmes on the development of the economy. Furthermore, they are expected to harmonise federal activities by contributing to the integrated management of regional economic development issues of concern to the Government of Canada, to design and implement multi-sector federal strategies for the economic development of their respective regions, and to formulate economic adjustment measures to adapt the application of some national policies to the regions. As part of a final mandate, the agencies must respond to specific local economic issues, often on an *ad hoc* basis.

The decentralisation of agencies is also intended to promote greater co-operation between local communities and provincial authorities on the subject of programme design and operation, creating a kind of bottom-up approach to policy development and implementation. One feature of regional development agencies is *partnership agreements*.[3] These are designed to promote economic growth in areas

Box 6. Canadian priorities and strategic vision

Public decision-making in Canada is consistent with a certain vision of a desired future for the country but federal government does not sponsor or undertake national long-term plans. The main components of this vision and the policy elements required to implement it are notably reflected in the annual Speeches from the Throne in Ottawa and in the provinces.

The opening of the 37th Parliament by the Governor General and the address by the Prime Minister in 2001 clearly underlined a number of points. Several macroeconomic objectives were reasserted, including the need to reduce debt to GDP ratio and balance the budget (allocating half of any surplus to tax cuts and debt reduction and the other half to social and economic needs). In addition, several strategic objectives and policy means by which to achieve these objectives were emphasised, including:

Creating opportunity: a broad-based package of CAD 100 million took effect at the beginning of the year. The government will also work towards creating a free trade area in the Americas.

Innovation : Canada is to become one of the top five countries in R&D by 2010, and the Government plans to have raised federal research investment in that year by at least double the current amount.

Skills and learning: although Canada's youth is the most highly-educated generation in the country's history, many adults still lack the advanced literacy skills needed in the new economy. Canada wants to see at least one million more adults pursue training opportunities over the next five years.

Connecting Canadians: the government is striving to make wide broadband access available to communities and individuals by 2004, and will continue to put its services online.

Good health and quality care: the government will reform primary care and promote community-based health (through prevention measures and increases in funding for health institutes).

Children and family: new social development initiatives will concentrate on early childhood development and assistance to families.

Contributing to sustainable development: where environmental issues are concerned, protecting the wilderness and wildlife and reducing the greenhouse effect will represent an important part of the government's environmental programme.

Strong and safe communities: a more focussed approach to crime reduction will be introduced.

of joint federal-provincial strategic interest. In fact, they are the old GDAs in a new form. They are based on a matching funds principle. Projects are selected by both federal and provincial authorities, but the federal share of funding is delivered through the regional development agencies. Aid is likely to go towards furthering the development of strategic clusters. In British Columbia, for example, money has been committed to support the development of a fuel cell cluster, including fuel cell research, demonstration projects, pilot testing, and related activities. Money sometimes goes towards supporting local and regional economic development initiatives, marketing local products, promoting economic diversification, and developing entrepreneurial potential. Similar agreements exist elsewhere, including in Atlantic Canada, where they are called the Co-operation Agreements.[4]

The regional development agencies' remit has grown recently, reflecting a stronger emphasis on territorial policies. In this context, management of several support programmes developed in other ministries and by other Federal government departments has been transferred to the agencies. An example of this is the Community Futures Programme. It was created in 1986 as part of Employment and Immigration Canada's Canadian Jobs Strategy, although one can trace its origins back to earlier initiatives. The original aim of the programme was to help rural communities cope with chronic disadvantages or deal with acute economic shocks, such as the closure of a major factory or other large employer. However, through its emphasis on long-term strategic planning and small business development through investment and other services, it became linked, in rural areas, to local economic development programming. In 1995, the programme was transferred to the regional development agencies in recognition of its economic role. Initially, it was restricted to just a few communities, but over time its regional remit was expanded to embrace all rural and remote regions, that lie within provinces. Today, there are some 240 Community Futures Corporations across Canada. Of these, 41 are in Atlantic Canada, 53 in Quebec, 90 in the West, and 56 in Ontario.[5] In the Atlantic region, they are known as Community Business Development Corporations (CBDCs) while in the rest of Canada they are Community Futures Development Corporations (CFDCs) and in Quebec Société d'Aide au Développement des Collectivités (SADC).

The implementation of regional policies: agency profiles and achievements

Although growth in output and employment extended to all regional and provincial economies by the end of the 1990s, regional development agencies are still facing difficult issues. They are responsible for promoting sustainable economic development and diversification with a focus on SMEs, promoting regional interests in federal policy making, while supporting federal government priorities and addressing gaps in national programmes. In recent years, some agencies also had to face budget cutbacks. Although such cutbacks were largely due to sweeping changes introduced in the late 1980s and early 1990s to reduce budget deficits, they also reflected structural difficulties in the earlier programme. Some provinces or regions say that they are still unable to claim the full amount of money available because they are not in a position to raise the matching funds from their own revenue sources. In 1996, the architecture and interrelation between the agencies and federal departments were altered to accommodate more inter-sector programmes and develop portfolio approaches. Co-ordination of national programmes and provincial initiatives is still proving a difficult task. The decentralised policy model is now more than ten years old. Searching for ways to enhance its benefits remains a key issue. Focussing more on endogenous development and on facilitating the transition towards more knowledge-based activities are possible policy responses to this challenge.

Atlantic Canada

Federal regional policy

Created in 1987, Atlantic Canada Opportunity Agency (ACOA) was mandated to increase opportunities for economic development, and more particularly, to enhance the growth of earned incomes and employment opportunities in the Atlantic Canada. The region, which represents a population of 2.4 million, includes the four provinces of New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island. ACOA is confronted with several regional challenges:

a) *Restructuring of leading industries*. The region indeed suffers from a concatenation of difficulties affecting the traditional industries. These industries have experienced a slump for several years due to the decline in Atlantic fisheries, falling commodity prices, a shift away from coal and their distance from central Canadian and US markets. As a result, the long-term economic growth in the four provinces has always lagged behind the rest of the country, averaging 1.5% compared to 2.4% nationally between 1983 and 1997. Since the mid-1990s, however, the Atlantic economy has become more buoyant thanks to new and emerging industries and notably oil and gas.

b) *Lack of critical mass*. The region is very sparsely populated and the Atlantic provinces are characterised by low levels of urbanisation. Even if rural depopulation has fuelled the growth of cities like Fredericton, Charlottetown, St. John's and Moncton, their sizes remain modest by North American standards. Only the Greater Halifax area exceeds 350 000 people in July 2001. In addition, because of declining natural growth rates, a negative inter-provincial migration balance, and a very low rate of immigration from overseas, population growth is slow. This bias towards small settlements and low densities increases the cost to the government of providing infrastructure and local services.

c) *Brain drain*. Statistics show that 69% of those leaving the region have post-secondary training. This is substantially higher than the overall regional average of just 44% of the adult population. That figure includes all age groups. While 71% of immigrants to the region have some post-secondary training, a smaller number of people immigrate to the Atlantic Provinces than leaves the region.

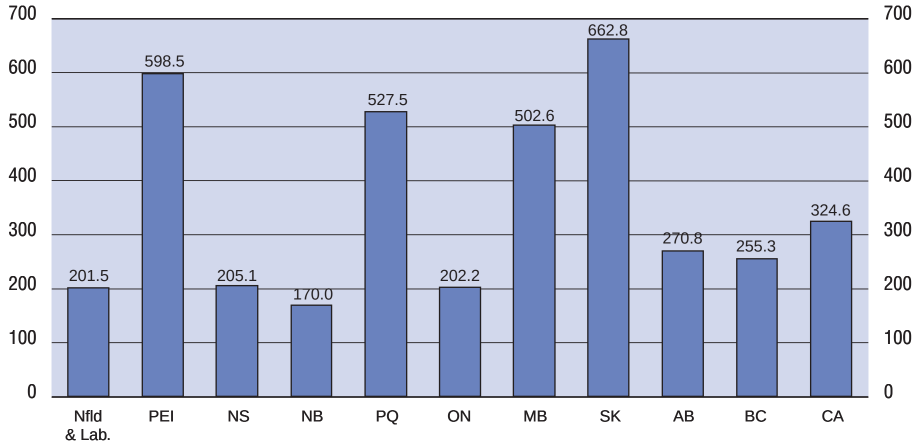
d) *High unemployment*. In October 2000, the unemployment rate ranged from 9.3% in Nova Scotia to 16.6% in Newfoundland and Labrador, 8.7 points higher than the Canadian average. However, since 1997 it has declined in all the Atlantic provinces. Many workers lacking post-secondary education have been made redundant, and skills mismatch represents a major source of unemployment. The large amount of part-time and seasonal employment available may have worsened these trends. Moreover, high unemployment is accompanied by a labour force participation rate far below the Canadian average. Newfoundland stands out with a participation rate 10 percentage points below the national average and substantially lower than the other Atlantic provinces. With the exception of Prince Edward Island, the Atlantic provinces have the lowest labour force participation rates in the entire nation.

e) *Rural problems*. Nation-wide, a lower proportion of the rural population is of working age: 59.9% in non-metropolitan areas versus a metropolitan average of 64.7%. There is also a higher share of seasonal employment in rural areas than in urban areas: 20% in 1999, versus a metropolitan area average of 17%. In New Brunswick and Newfoundland, however, part-time jobs account for a larger share of employment in metropolitan areas than in non-metropolitan areas. Non-metropolitan areas are also beset by higher unemployment and labour force participation rates are lower, government transfer payments represent a higher share of income, and incomes are lower.

To respond to these challenges, ACOA has initiated important policy changes since its founding. In earlier years, ACOA emphasised its direct support to SMEs, its approach progressively moving away from subsidies to promote the provision of loans to businesses. This focus on small business was a departure from previous federal approaches of favouring large business development, the smaller locally grown businesses being recognised for their greater stability based on greater loyalty to the region. While ACOA funds represent about 1.5% of federal funds to the Atlantic region, ACOA's mandate requires it to cover a vast array of development responsibilities. In addition to managing the Community Business Development Corporations (CBDC), ACOA manages Federal Provincial co-operation agreements, which are 70% funded by the federal government (the provinces paying the remaining share). Contrary to common conceptions, this programme has not resulted in a massive effort to finance firms. Subsidies provided to Atlantic businesses on a per capita basis are among the lowest in Canada (Figure 23).

Figure 23. **Subsidies to businesses per capita in Canadian provinces, 1998**

CAD



Source: APEC Summer report 2000.

In recent years, the Agency has reoriented itself to focus on areas of greater opportunities and needs while also reflecting the national priorities. In 2000, a new Atlantic Investment Partnership was announced, which spells out the new strategic priorities of the Agency: *i*) Innovation and Research and Development; *ii*) Entrepreneurship and Business Skills Development; *iii*) Community Economic Development and *iv*); Trade and Investment.

i) *Innovation and research and development*

The region is undergoing a structural change with the growth of its energy-related projects, expansion of the knowledge based sectors such as information technology and a transition from the primary resource dependent economy to one driven by innovation, technology and growth in non-resource sectors. The region's resource sectors have been transforming through the integration of new technologies. This growth however lags other areas of the country as Atlantic Canada has lower overall productivity, lower manufacturing productivity, lower per capita R&D investments, and is slower to adopt new technologies. The Atlantic region needs to develop networks between its research centres and with national and international research centres. The region also needs to strengthen its R&D capacity and infrastructure and its networks to take advantage of the current economic change and to promote greater technology adoption and commercialisation.

Between 1997 and 2000, several studies were done in order to measure the competitiveness of its region and assess its fundamentals for growth. ACOA examined the region using three different measurement standards: quality of life, economic competitiveness, and government initiatives.[6] It found that the Atlantic region measured up well using these benchmark measures. The agency then identified two sets of clusters (each containing three elements), which they thought had growth potential[7] (OECD, 1997). One cluster set is specific to particular provinces, and the other has a regional import. Clusters identified as important at the provincial level are food processing in New Brunswick, ocean technology in Newfoundland, and medical devices and services in Nova Scotia. Those which are viewed as having growth potential at the regional level are aquaculture, information technology (IT), and geomatics.[8] A key factor in clustering was the recognition by local leaders of the existence of a cluster, the existence of local champions, that is the extent of support within the business community and the state of entrepreneurship (Box 8) . Other critical factors included the availability of capital, the nature of formal and informal information networks, the local education and research base and the potential long-term staying power of prospective clusters.

ii) E*ntrepreneurship and business skills development*

Given ACOA's new priorities, human capital has taken on a much greater importance in the region. ACOA has partnered with the provincial education departments to improve entrepreneurship curricula. In 1999, for example, it helped establish a forum for colleges and universities in the region, grouping together all of the region's 18 universities. The purpose of this forum was to foster co-operation on research and development, to make universities participants in the Atlantic Innovation Fund, and to link universities to local and national businesses. ACOA has also worked with the region's extensive network of community colleges, helping them buy technical equipment and forge links with local firms, and matching up funds with the development of new training programmes. To some degree, community colleges moved to meet local skills needs long before universities did, and are the main providers of intermediate level technological skills. Human Resource Development Canada has supported the community colleges' recent shift towards more sophisticated technical training, often purchasing training schemes from local colleges and helping them to respond to training needs. However, despite ACOA's efforts and provincial initiatives, education and

Box 7. Entrepreneurship education in Nova Scotia and Newfoundland and Labrador

In Nova Scotia, the Centre for Entrepreneurship Education and Development was opened in December 1995. The centre is a public-private partnership, funded by the Nova Scotia Department of Education and the Canada – Nova-Scotia co-operation Agreement on Economic Diversification. The latter is jointly managed by ACOA and Nova Scotia Economic Development. Private sector participants include the Canadian Broadcasting Corporation, Royal Bank Financial Group, and Atlantic Progress Publishing. Additional government partners include the Nova Scotia Department of Community Services and, at the federal level, Human Resources Development Canada. It is estimated that training has led to the creation of over 700 businesses and 1 200 jobs in the province.

The centre also sponsored the creation of a network of 9 youth-oriented entrepreneurial centres called Open for Business. An additional centre has been opened in New Brunswick, and there are plans to extend the concept to other provinces and countries. A national licensing agreement establishing up to 20 such centres has been signed with Sweden.

In Newfoundland and Labrador, ACOA has been involved in providing entrepreneurship education in schools for over 10 years. The Agency initially participated in efforts to develop an entrepreneurship curriculum. Since then, activities have expanded. The main thrust of ACOA involvement is still what is now known as the Enterprise Curriculum, which consists of fostering entrepreneurial spirit among high-school students. This has been developed in partnership with the province's department of education. It provides general training in economics as well as specialised training, including how to prepare a business plan. By 2001, Newfoundland and Labrador was the only province to require that students earn credit in enterprise education.

In connection with training in entrepreneurship, ACOA has supported the creation of the Y-enterprise centre, which is aimed at supporting entrepreneurship among young people. It provides counselling and small business information for young entrepreneurs. It also organises an Enterprise Olympics, which showcases the best business plans developed in enterprise education courses. In addition, the centre provides in-house training for teachers and administrators.

A final programme is Futures in Newfoundland and Labrador's Youth (FINALY). Founded in 1996, the programme is designed to give young people a chance to share their views with governmental agencies and organisations, particularly on the subjects of recreation and education. FINALY organises an annual forum in each of the province's 20 regional development districts, and each forum selects one representative to sit on the Regional Economic Development Board as a youth representative. Regional representatives are also selected to serve on a province-wide council, advising the province on its strategic social plan. The FINALY model has been adopted for use by the World Bank.

training levels, especially for the older population, are still lower than in the rest of Canada.

The emphasis on school and university is also driven by the agency's determination to promote an entrepreneurial culture across the region. While Atlantic Canada is characterised by a higher rate of start-ups, the rate of "business exits" is also higher. Between 1983 and 1997, 75.2% of new small firms in Atlantic Canada failed, as opposed to a national failure rate of 66.3% (Table 5). The "business exit" rate for all new firms (large or small) in the region was 75.1% during that same period, versus a Canadian average of 66.1%. More importantly, the failure rate of firms during their first year of business was particularly high: 40.6%, versus a Canadian average of 26.3%. Among small firms, the failure rate was only slightly lower: 40% in the first year, versus a Canadian average of 26.4%. Within the region, first year failure rates vary among provinces. They are highest in Newfoundland and Labrador and lowest in Nova Scotia.

ACOA's aim is to make more people aware of opportunities for business creation and support. The end goal is to increase the rate of small business creation and the success rate for small businesses. By 1995, ACOA and provincial governments[9] had developed relevant curriculum materials for use from kindergarten up to grade 12, and over 250 000 students – over 60% of the total public school population – were exposed to entrepreneurial values and concepts in the classroom. Teachers were given in house training to implement the new curriculum material, and annual student entrepreneurship conferences were held. This effort caused considerable controversy, with debate over enterprise *versus* entrepreneurship teaching (OECD, 1996). A related area was the development of entrepreneurship skills among post-secondary students. Because of its long-term effect, ACOA's policy strategy is difficult to assess. While the net annual rate of increase in the number of Canadian firms doubled during the first half of the 1990s, instability and failure rates (as outlined above) remain high.

Table 5. **Bankruptcy for new companies by province, 1983-1997**

Percentage rates of bankruptcy for all new companies at the end of as period in business, 1983-1997

	After 1 year	After 5 years
Newfoundland and Labrador	44.2	80.0
Prince Edward Island	42.9	74.7
Nova Scotia	37.7	72.7
New Brunswick	38.9	72.3
Atlantic provinces	40.6	75.1
Canada	26.4	66.1

Source: ACOA (2001).

In addition to helping colleges and universities develop broader links to industry and to each other, ACOA has also underwritten the creation of industry associations such as the Newfoundland Association of Technical Industries. ACOA has also helped small firms to meet quality assurance standards, thus enhancing their chances of obtaining contracts from larger firms now moving into the region in search of oil and gas(Box 7).

iii) Stimulating local development

In Atlantic Canada, local governments provide a range of services, which, depending on the province, include maintaining roads, collecting garbage, and a few remaining cases, organising the police. Generally, provincial authorities monitor local governments closely. Provincial governments assess local government budgets and provide subsidies to make up for budget shortfalls. However, since the late 1980s, subsidies have been cut, forcing local governments to raise taxes, creating problems for local policy representatives. In cities with a population of between 20 000 and 100 000, which have strong local councils with long experience in self-government, local authorities can generally cope with adversity. In the case of smaller municipalities, deficits and the need to search for new revenue often lead to problems.

a) Assistance to communities: the example of Newfoundland and Labrador

Under the Municipalities Act, effective January 2000, and as part of Newfoundland's reforms of local government, municipal councils were empowered to undertake economic development work. In conjunction with the province's Regional Economic Development Boards, ACOA responded by working with the Newfoundland and Labrador Federation of Municipalities to foster the acquisition of development skills at the local government level. The project is expected to last several years, and a number of stages have already been completed. These include a formative, introductory stage, which aimed to raise awareness among all local governments of the work of the regional economic development boards, emphasising their strategic economic plans. Eleven workshops were held throughout the province and over 150 municipalities (out of 291) participated. The second phase moved from planning to action. Representatives of the Regional Economic Development boards shared examples of success stories, but their main aim was to provide a practical manual on economic development. About 170 municipalities participated in this round, including all the municipalities in Labrador. The next stage consisted of a series of study visits to allow the participants to learn from other jurisdictions and see examples of best practices in action. Study tours were organised to four locations in Scotland, Kentucky, and British Columbia. The phase also included workshops, which

Box 8. Modernisation and development of oil and gas industries in Newfoundland and Labrador and Nova Scotia

In the late 1990s, the development of offshore oil and gas started to have a major impact on the economy of Newfoundland and Labrador.[1] The offshore deposits have led to a provincial-federal conflict, both governments claiming jurisdiction over the drilling rights and royalties. This was resolved by federal-provincial agreements, which legislated the sharing of royalties, responsibilities, and regulatory regimes. In Newfoundland and Labrador, offshore oil and gas resources are managed by the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NOPB), an autonomous body in which both governments participate. A similar board has been set up for Nova Scotia, the Nova Scotia Offshore Petroleum Board.

Between 1996 and 1999, the oil and gas industry spent CAD 12.3 billion on exploration, development, and production, of which CAD 5.8 billion was spent on production in the Hibernia field.[2] By 1998, the oil and gas industry was contributing 5.2% of Newfoundland and Labrador's GDP, ahead of fisheries (4.1%) and mining (4.2%). Oil and gas production has turned the economy of Newfoundland and Labrador into the fastest growing of all the Canadian provinces. In 1999, crude oil already accounted for 17% of the province's exports and about 7% of the province's industrial output, and in 2000, the province accounted for about 13.5% of Canada's oil production.

The province and the oil industry have undertaken a joint assessment of the skills, training needs, and problems facing the province. They examined labour force characteristics, the current employment situation, issues of retaining and attracting labour, and the problems of training and guaranteeing collaboration with local firms. They found that there are relatively few training and skills gaps.[3] The Memorial University of Newfoundland and Labrador is considering expanding post-graduate training in specialist areas, including oil and gas studies, oil and gas engineering, petroleum geology, and marine safety. Long-term aims include the development of a harsh climate technology base. Despite this, concerns remain about obtaining high-end gains from the oil and gas industry in research and development, management, and head-office functions.[4] The life span of an oil or gas field can range from 15 to 25 years, and, although more fields are likely to open in the near-term, the province needs to consider the consequences of some fields closing down.

1. In Atlantic Canada, off shore exploration for oil and gas started in the 1950s and started exploring for gas in Nova Scotia in 1992. Gas production started at the end of 1999. Natural gas was Nova Scotia's single most valuable export commodity in 2000. In 1977, in anticipation of future oil and gas discoveries, the Newfoundland Offshore Industries Association was created. This association is both a grouping of oil and gas related firms and businesses, and those firms and businesses which would like to become associated with the industry.
2. The Hibernia oil field is about 300 kilometres off shore, south-east of St. Johns. Production of oil was initially limited to 7.9 billion cubic metres per year, but later raised to 10.5 billion.

Box 8. **Modernisation and development of oil and gas industries in Newfoundland and Labrador and Nova Scotia** (*cont.*)

3. The government of Nova Scotia has launched an Offshore Training Programme for Students. The goal is to link employers with post secondary students across many disciplines linked with the Offshore business for mutual gain; This programme is sponsored by the Canada/Nova Scotia Development Fund, Nova Scotia Economic Development and the Nova Scotia petroleum directorate.
4. Newfoundland and Labrador Offshore Industries Association, Petroleum Industry Human Resources Committee (February 2001) Analysis of Gaps and Issues Related to Labour Supply and Demand in Offshore Exploration and Production in Newfoundland and Labrador.

shared the findings from the study tours. Another phase is being discussed, which could include the implementation and evaluation of pilot projects within the province.

b) Assistance to small firms

ACOA's main delivery of business support services remains its Business Development Programme (BDP) through which the Agency is in direct contact with businesses and their associations, providing information services as well as financial assistance in the form of loans. While direct financial support has been reduced compared to earlier days of the Agency, it still contributes to the creation and development of SMEs in the region, and is of great value in areas where access to capital is limited. With the current shift in the Agency's priorities, the programme was also adjusted to promote innovation investments by private firms and to encourage more investments in training and skills development within firms.

Important agents for delivery of business support services in rural Atlantic Canada are the Community Business Development Corporations (CBDCs), which are the local equivalent of the Community Futures Development Corporations found elsewhere in the country. These corporations are linked to provincial networks, and are sometimes amalgamated to form province-wide associations, as is the case in Nova Scotia. The CBDCs provide business support, technical assistance, and entrepreneurship development and training. They also supply loans, loan guarantees, and equity financing up to CAD 25 000 to existing firms and start-ups. According to the central Nova Scotia association, the CBDCs activities "complement the services and assistance provided by mainstream financial institutions and other partnering agencies. Clients are often those who may not have access to the services of outside professionals and/or do not meet the credit standards of conventional lending institutions" (CBDC Nova Scotia, 2000). According to the 1999-2000 Annual Review, corporations had provided businesses with 4 600 loans worth a total CAD 96.9 million. Furthermore, in the 1999-2000 fiscal year, it was estimated that the corporations had supplied 398 loans worth a total CAD 11.5 million and leveraged a further CAD 16 million from owners and other investors, thus helping to retain 697 jobs and create another 426.[10]

iv) Trade and investment

As part of the Atlantic Investment Partnership, a Trade and Investment component was also introduced to strengthen the region's export performance and attract foreign investment to Atlantic Canada. Because of its limited population base and small domestic market, Atlantic Canada's economy has always relied on exports, and the region's growth continues to depend on increased trade and investment. While Atlantic Canada has enjoyed significant export growth in recent years, since the institution of the Canada-US Free Trade Agreement the region's exports have not kept pace with the rest of the country leading to an increasing trade performance gap. Between 1990 and 2000, international exports of goods from the region increased by 135% compared to an increase of 171% for Canada as a whole. As a result, Atlantic Canada's share of national exports decreased over the decade. The total number of exporters in Atlantic Canada grew by 11.4% between 1993 and 1997, however the national increase was 28.7%. Underlying this gap is the fact that growth in exports at the national level has been driven by goods and services with an increasing knowledge content.

Initiatives undertaken under Trade and Investments includes the Team Canada Atlantic trade missions undertaken twice a year and are multi-sector in nature. The missions are led by Federal Ministers (sometimes the Prime Minister), the four Atlantic Premiers and the provincial ministers of Trade and Economic Development, giving high promotional visibility to the companies participating to these trade missions. The objective of these missions is to facilitate new business partnerships, increase trade and investment and build strategic alliances between business in Atlantic Canada and selected US and European markets. This initiative is pan-Atlantic in nature and is cost-shared in a proportion of 70/30, between ACOA and the four Atlantic Provinces. Since 1999, five missions were held in New England, the Southeast United States and Atlanta. Which resulted in increased sales, establishment of networks and distribution partnerships of Atlantic companies with US agents.

Provincial policies and initiatives

All four Atlantic provinces have their own growth strategy and economic development priorities, although similarities can be identified in their strategic approach and identified sectors of interest. In Newfoundland and Labrador, the strategy for job creation and economic growth is aimed at increased efficiency in traditional sectors such as fishery, agrifood and tourism, as well as emerging sectors which include information technology and cultural industries. The core economic development focus for the provincial government of Prince Edward Island is on building a knowledge-based, innovation and technology driven economy. The Nova Scotia strategy sets out a vision for the whole province and identifies seven strategic areas in which efforts will be concentrated to achieve that vision. Those strategic areas – business climate, infrastructure, innovation, labour force, investment, exports and regional capacity – will be tools to build the province's economy particularly in key economic sectors identified in the document including foundation industries based on ocean resources, land resources, agriculture, tourism and culture and growth opportunities in the digital economy, energy, advanced manufacturing, education and knowledge services and life sciences. The New Brunswick government is currently finalising a comprehensive ten-year plan, setting out objectives to secure the province's long-term economic future. The plan focuses on four key building blocks: investing in people, creating a competitive fiscal and business environment, embracing innovation and building strategic infrastructure. Existing measures will continue such as the use of tax relief to stimulate economic growth, continued viability, good management and increased value-added of key natural resource sectors. In late 2001, the four Atlantic Premiers agreed on an action plan for regional co-operation setting out initiatives to be jointly pursued over the coming two years.

Summary and assessment

Although its budget was cut from CAD 350 to 305 million between 1996/1997 and 1999/2000, thus resulting in some streamlining, direct business financing still accounts for 27% of ACOA's budget. However, the agency's spending now targets more direct innovation investments as well as indirect initiatives such as CBDCs, stimulation of networking, and investment in human resources and research infrastructure. In 2000, an additional CAD 700 million was announced to be invested over the next five years in Innovation, trade and investment, entrepreneurship, business skills development and strategic community investment (SCIF).

Policies for community economic development seem to have proved reasonably efficient because they were adjusted to local conditions without applying a normative model. While several (often rural) areas are still struggling with decline and depopulation, adjustment funds provided by the federal government have helped many communities overcome the short term impacts of a major closure or change in local economic base. For example, following the closure of the Newfoundland Railway, the federal government provided transitional funding to Bishops Falls, a former railway centre, to help it through the initial adjustment period. In addition, a Bishops Falls Development Corp was created to promote the area, and to provide advice and support. In Summerside (Prince Edward Island), after the closure of a military base, a more top/down approach proved successful in attracting new activities. Meanwhile, in Isle Madame (Nova Scotia), an association set up to implement the process of reconversion of the fishing industries is now demonstrating an excellent employment creation record. Finally, Moncton (New Brunswick) which has been facing widespread firm closures, is an example of a city that has been aggressively promoted by its local government, and now boasts a 7% population growth. It has reinvented itself as a business and logistics centre.

At a more aggregate level, the main policy shift consisted in tapping the development potential of the region more effectively, rather than focussing on bridging performance disparity between the region and Ontario, Quebec, and western Canada. The Atlantic Investment Partnership synthesises this new strategy which also aims at enhancing regional knowledge resources and skills and creating long-term employment opportunities. While it is too early for results to be measured, the strategy has its logic and is backed up by viable means. The Atlantic Innovation Fund will invest in increasing private sector and institutional research and development capacities including that in universities and research institutes. Meanwhile, the National Research Council network will be strengthened with new initiatives in New Brunswick (in e-commerce and IT) and innovation centres in Cape Breton (software) and Prince Edward Island (bio-resources and environment). Altogether, this represents a five-year CAD 110 million investment. A trade and investment partnership will design measures to encourage increased exports and initiate a new regional foreign direct investment strategy. Moreover, partnership for entrepreneurship and business skills development will help small business owners and their staff acquire the latest in business and technological skills and provide career opportunities for youth within the Atlantic region. Finally the Partnership for Community Economic Development will aim at elaborating on the above successes and best practices and improving access to funding for strategic community investments.[11]

While much remains to be done, ACOA has so far achieved some measurable success. In a 1995 review of the agency's work, the Auditor General of Canada found that projects could still have gone ahead without agency support in 19% of all cases – that is to say, in 81% of cases the agency made a real difference. Using the Conference Board of Canada model, it was found that, between 1988 and 1997, the CAD 3.2 billion spending package generated CAD 3.9 billion in personal income and sales taxes. Moreover, it was found that the Atlantic unemployment rate would have been 2.8% higher without ACOA's assistance. Another discovery was that ACOA-assisted firms have an average survival rate that is 2.5 times longer than that of all new businesses in Atlantic Canada. Employment impact over the last five years averaged 12 000 jobs per year, and GDP increased by CAD 5 for every dollar invested by ACOA. Finally, youth entrepreneur programmes provided 1 400 low interest loans, helping create 1 850 jobs.

It seems however that some areas have been under-emphasised by ACOA, in particular:

a) Co-operative agreements between Atlantic Provinces. These are few in number, and Federal/Atlantic agreements rarely target pan-Atlantic co-operation. These areas of opportunity are not sufficiently promoted, even if recent initiatives have been taken at the provincial level. Appropriate programmes could be designed using European experience as a model (Box 9).

b) FDI potential has not been sufficiently exploited. More proactive policies are needed to encourage such investments.

Quebec

Quebec is one of Canada's main industrial provinces. Ontario produces about one half of the country's industrial output, Quebec about one-quarter. However, the economy is growing more slowly than the rest of Canada, despite a boost from the implementation of the Free Trade Agreement (FTA) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994. Ranked among the 10 provinces and 50 US states, Quebec comes fifty-second in terms of GDP per-capita for the 1995 to 1997 period. The trend in GDP per capita is very similar to the rest of Canada,[12] but the province remains relatively disadvantaged when compared with other parts of the country, in particular because of its very low demographic growth (Box 10). Disposable income among 18 to 64 year-olds is CAD 4 500 below that of Ontario and CAD 2 200 below the national average. On average, government transfers constitute 24.4% of all personal income sources, and the province is the main beneficiary of federal government equalisation payments, which in the 2000-2001 financial year amounted to some CAD 4.7 billion. Key spending areas in the province are education, health, and paying a huge gross provincial debt (about 52.2% of the GDP in 1997-1998).

Federal regional policy

Canada Economic Development – Quebec (CED), the federal government's regional arm in the province, supports a number of initiatives through its 14 regional offices, which cover the entire province. CED's work has involved the creation of a network of Community Futures Development Corporations (CFDCs)

Box 9. The European Union INTERREG programme

The INTERREG programme, a source of European funding provided by the European Regional Development Fund (ERDF), began in 1991 and is currently in its third stage (INTERREG III, 2000-2006). Its objectives are to strengthen economic and social cohesion in the European Union by promoting cross-border, transnational, and interregional co-operation, thus stimulating economic growth and contributing to balanced development of EU territory. Supported projects include common infrastructure, environmental protection and eco-system management, and public services. The programme's long-term goal is to encourage the establishment of co-operative networks that are built to last beyond the programme's fixed period.

INTERREG III builds on the experience of the two previous INTERREG Initiatives. The guiding principle behind this third initiative is that national borders should not represent a barrier to the harmonious development of Europe. To this end, three different types of co-operation are supported: **cross-border co-operation**, that is co-operation between regions that have a common border, directly neighbouring on each other; **transnational co-operation**, contributing to an integrated and harmonious territory across the European Union; and **interregional co-operation** which, by the same token, aims to improve the policies and techniques of interregional economic development.

The rising success of INTERREG compared to other European Community policies can perhaps best be seen in the increase of its allocated budget figures, which doubled between each new initiative period: from EUR 1.034 billion for INTERREG I (1991-1993), to EUR 2.4 billion for INTERREG II (1994-1999) to a total EUR 4.9 billion for INTERREG III (2000-2006). Furthermore INTERREG has received the largest budget among the four so-called Community Initiatives, evidence that the development of cross-border and transnational co-operation under the programme is considered by the EU to be the most significant in terms of Community added value.[1] Finally, since the changeover from the second programme to the third, a single Steering committee has been introduced. It will be responsible for the joint selection of operations (projects) and the co-ordinated monitoring of their implementation. This implies that European regions will work together in even closer co-operation than before.

INTERREG II's impacts have already been evaluated, and, at Community level, the initiative has had a number of positive results. It has contributed significantly to European construction and to the integration of regions belonging to the member states' different institutional structures. It has furthered economic and social cohesion of regions penalised by the existence of borders. It has encouraged the opening-up of labour markets and the harmonisation of professional qualifications, thus furthering labour market unification at European level. Through encouraging local and regional actors as well as socio-economic partners to participate directly in economic development, it has helped establish the success of subsidiarity and partnership principles. Finally it has paved the way for European enlargement by encouraging co-operation and the transfer of know-how between EU member regions and EU membership candidate countries.[2]

Box 9. **The European Union INTERREG Programme** (*cont.*)

On a more concrete level, several noteworthy initiatives of INTERREG II have been conducted promoting technological innovation, improving local production and developing tourism across the EU. For example forty different projects are underway in Champagne-Ardenne (France), including a partnership with its counterpart the Walloon region of Belgium to encourage innovation, research and technology transfer, and a tourist promotion programme. The Swiss experience with the programme has also proved positive. A recent report on INTERREG II qualified the European/Swiss programme as a truly innovative one providing strong economic development incentives to regions through encouraging local actors to carry out pilot projects and allowing them to liaise with each other through cross-border networks.[3] Meanwhile, the North Sea Region INTERREG II programme has aroused a high level of interest.[4] In 1999, more than 250 project ideas were presented to the secretariat, resulting in over 120 written assessments and 55 formal applications. Out of 57 eligible regions, 53 were involved in projects in some capacity, demonstrating the extent of regional involvement. Finally, co-operation between Galicia and Northern Portugal, the largest single cross-border INTERREG II programme anywhere in the EU, has resulted in the development of common programming and implementation strategies, with impressive results on the ground. Examples of programme initiatives are a project to improve cross-border transport infrastructure links, a common strategy to improve intermodal transport infrastructures, and a project to develop the technology and support for transfer of know-how.

The message from all regions participating in INTERREG II was clear; the better the common strategy and the cross-border dialogue, the more value they obtained from development funding. With the impending enlargement of the European Union, which will increase the number of internal borders and move its external frontiers further east, the future importance of this type of co-operation now seems even greater.

1. This is backed up by a statement from the EU Economic and Social Committee on PRISM (Progress Report on Initiatives in the Single Market): "The INTERREG programme specifically and other technical and financial framework arrangements proposed by the European Commission aim to – and really do – contribute, to the cross-border dynamic in that they encourage projects by lending financial support."
2. "La problématique particulière de la coopération transfrontalière maritime dans l'Union européenne au regard de l'Initiative communautaire Interreg relative à la coopération transeuropéennne." See whole document in *website:www.rennes.iep.fr/html/Fauvet/Memoires/Memoires-/Memoire-en-ligne/Andro.pdf*
3. Synthesis report "Évaluation finale de l'arrêté fédéral INTERREG II" drawn up by the CEAT (Communauté d'études pour l'aménagement du territoire) and the IDT-HSG (Institut für Öffentliche Dienstleistungen und Tourismus), available at *www.interreg.ch*
4. INTERREG IIC North Sea Region Programme, Annual Report 1999 – Section C. Available to order at *www.northsea.org/InterregIIc/Publications/publication.html*

throughout the province, as well as contributing to the setting up of regional Community Economic Development Centres in disadvantaged urban areas. Total grants and contributions to CED from the federal government amounted to CAD 226 million in 2001/2002. Planned spending will rise to CAD 444 in 2002-2003 and will have decreased to CAD 316 million by 2003-2004. This variation in the

Box 10. The demographic issue in Quebec

Quebec has 24% of Canada's population, and produces 21% of Canada's GDP. 82% of the population of the province is francophone, with most of the rest being English-speaking. Quebec also contains 56 First Nation and Inuit communities, with a population numbering 72 000 (less than 0.5% of the population) located for the most part in remote northern communities.

The province is the largest in Canada by area and the second largest by population. It contains two major cities: Montreal (population 3 438 500) and Quebec (population about 688 000), as well as four other census metropolitan areas (CMAs): Gatineau (part of the Ottawa-Gatineau CMA); Chicoutimi-Jonquiere, Sherbrooke, and Trois Rivières. Until the mid-1970s, Montreal was the largest city in Canada, and in many respects, its leading economic and financial centre. However, during the 1970s, Toronto overtook it and, during the 1990s, growing by about 0.56% per annum during that period.

The province is to a considerable extent demographically isolated from the rest of the country. Relatively few migrants from elsewhere in Canada come into the province, and relatively few leave. Although a substantial number of provincial residents are foreign born, the rate of immigration is relatively low, particularly when compared with Ontario or British Columbia. To some extent, this is a reflection of changing flows and means of immigration. Up until the 1950s, immigrants came mainly from Europe, and by boat. Montreal was a leading port of entry for them. Today, immigrants come from the Far East as well as Europe, and fly into the country, bypassing Montreal. Fertility in the province is declining as well. In the late 1990s it had fallen to 1.3 children per woman of childbearing age. Comparing Quebec with other OECD countries, this rate would place it among the lowest ranking countries. If this trend continues, the population growth rate for the province will become negative by 2025.

Intra-provincial migration is altering the regional balance within the province. Rural areas are declining in population and more developed areas around cities are growing. Montreal is a particularly good example of this. Peripheral rural areas are especially hard hit, particularly the Gaspé region and the Iles de la Madeleine, but metropolitan areas in less central parts of the province are also losing population or growing very slowly. These include Chicoutimi, which declined at an average rate of 6% during the 1990s, and Trois Rivières, which grew by only 0.33% per annum (Statistics Canada, 2000).

annual budget allocations stem from the recent reconduction of the Infrastructure Programme and the transfer to the agency of the Canada permanent Job Creation Programme previously administered by HRDC.

The agency is concentrating on fields where the federal government has real added value for business and regions. Its mandate consists of developing strategy, formulating plans, and establishing an integrated federal approach to regional development. In this context, the agency has two important tasks to fulfil: *a*) delivering information and awareness services to business associations, SMEs and entrepreneurs and *b*) tackling cross-sector issues by joining forces and establishing partnerships with other agencies, federal departments, the provincial government or communities. This could be achieved through enhancing the capacities of local actors. Particular aims include the recognition and activation of regional strengths and support to improve local competitive advantages.

a) The range of services available to business customers has been extended through partnerships with specialised service providers and local intermediaries. It now includes advice to exporters, support for innovation and productivity enhancement, technological incubator services, and university entrepreneurship centres or SME fairs (Box 11). CED is also using CFDCs to enlarge the supply of services to rural areas and young entrepreneurs. The fact that CFDC boards are composed of volunteers facilitates local empowerment and helps adjust the services on offer to local demand.

b) The Canadian Rural Partnership is an example of trans-sector management. CED is the leading body of the Quebec rural team set up in 1998 to implement the Canadian Rural Partnership in the province. A pilot project offering information on federal projects and services in rural communities has been completed in Abitibi-Temiscamingue. Within the framework of three other pilot projects (in Estrie, Bas Saint-Laurent and Montérégie), a federal co-ordinator has been appointed to mobilise rural communities in order to improve the supply of federal services in those regions.

CED is also involved in urban regeneration, notably through its support for CEDCs that are funded in a tripartite fashion by the federal, provincial and municipal governments. The CEDCs have a strong community development bias and work toward alleviating a series of social distress situations that plague urban centres. They also support specific development opportunities and assist with industrial regeneration community projects. The technopole, Angus, which is overseeing the conversion of locomotive maintenance shops to other business uses and the Réseau du sud-ouest (RESO) which is helping the southwest sectors are two examples.

Finally, the agency is concerned with more reflective and strategic tasks such as policy assessment and economic intelligence. It has recently created an

Box 11. CED's main assistance programmes

IDEA-SME: This programme is mainly designed for Quebec's SMEs and SME intermediary support organisations. It provides services and funds activities in the following areas:

- Innovation, research and development, design: This programme attaches a particular importance to identifying and supporting emerging sectors. The multimedia sector is a case in point. CED has established a Multimedia Experimentation Fund to cover pre-startup costs such as feasibility studies, market plans, business plans, prototype development, search for funding, etc. It will also provide financial support for the search of partners, access to the telecommunication and computer equipment of the Alliance Numérique Consortium, and management assistance for project planning and business plan development.
- Development of markets.
- Exports.
- Entrepreneurship and development of the business climate.

***Regional Strategic Initiatives* (RSI):** this programme develops strategies and action plans to foster the emergence of a socio-economic environment that will help strengthen the assets and competitive advantages of Quebec's regions. These strategies are the subject of consultations between community organisations and the private sector. The plans are drawn up jointly with other federal departments and organisations whose activities have a major impact on regional economic development.

One such action plan provides strategic support for economic expansion of the Estrie region, recognised in the province as an export market leader and endowed with major research facilities. Support will be provided for innovative start-ups and efforts to diversify export markets. In Abitibi-Temiscamingue, the initiative is intended to develop technological entrepreneurship, enhance tourism potential, improve the marketing of mining expertise, and promote the development of aboriginal and non-aboriginal communities. In Mauricie, CED is involved in the Innovating for Growth programme designed to strengthen technological centres of excellence and stimulate tourism related to the area's national park. Other CED efforts focus on Bas St-Laurent/Gaspésie/Iles de la Madeleine (marine technopole and tourism projects), Saguenay/Lac St-Jean (forest development and regeneration, aluminium technologies, and SMEs) and Quebec/ Chaudière/Appalache (cutting-edge technological niches in areas such as optics, geomatics or the biotech industry). RSI have been extended to other regions including Outaouais, Laurentides, Centre du Québec, Côte Nord and Northern Quebec.

***Community Futures Programme* (CFP):** this national programme helps communities take responsibilities in the economic development of their jurisdiction. In Quebec, the programme provides financial support to 54 CFDCs, thus enabling them

Box 11. **CED's main assistance programmes** (*cont.*)

to supply a business information service and technical advice to SMEs and to stimulate local development. CFP also supports 17 Community Economic Development Corporations (CEDCs), which carry out similar activities in the distressed neighbourhoods of Quebec's metropolitan areas. Finally, the programme subsidises nine centres to provide assistance to enterprises in those areas not served by either a CFDC or a CEDC.

Coastal Quebec Fund: this fund provides support for measures furthering the economic development of communities affected by restructuring in the groundfish industry on the northern shore, in the Gaspésie/Iles-de-la Madeleine region and adjacent fishing communities.

Over the three years period starting in 2002-2003, CED expects to spend about CAD 618 million on fostering enterprise development and business creation, and helping to improve the support environment for regional development. This sum will be allocated as follows: CAD 262 million for IDEA-SME, CAD 269 million for RSI, CAD 72 million for the CFP programme, CAD 2 million for the Coastal Quebec Fund, and CAD 12 million for a special support programme for the Gaspésie region.

economic observatory that will become a tool for the dissemination of advanced knowledge in policy experiments and economics. It has commissioned several studies to identify best practices for SMEs in a global context and to provide guidance for policy-making and programme adjustment. For example, a study by international experts on the role of the state in economic development emphasises the need for governments to continue to play a major role in areas such as education, research, and the provision of information. The conclusion of this study reinforces the need for a new and different role for government. It also stresses the need for strategic approaches and partnerships with lower tiers of government considered to be key actors in federal policy-making. Another CED-sponsored review analyses the links between innovation and creative environments. It shows that knowledge sources for private enterprise lie mainly in the quality of their interface with their customers and suppliers and especially local networks.

Important policy implications can be derived from these studies. In the case of the study recently launched on community practices with regard to information technology dissemination, it appears that awareness and training programmes are critical for a fast transfer of the technologies to rural areas. Mobilisation of local communities is crucial, and can be achieved through partnerships with public institutions. IT networks based on access centres, libraries, and communities can go a long way to helping people in rural regions master these technologies. Such initiatives are a major concern for CED because of the new economic development opportunities that IT can offer at the local level, particularly in lagging regions. However, the full potential of IT for remote communities will only be realised if adequate IT infrastructure, such as high-speed wave bands or satellite communication, are in place.

Provincial policies and initiatives

The provincial government has a long tradition of providing active support to the economy. Despite reducing financial assistance to firms from 0.55 to 0.4% of GDP between 1985/86 and 1989/90, in 1996/97 it recognised the importance of technological development and innovation and provided a considerable boost to funding (0.6% of GDP). The government continues to consider social development, namely the struggle against exclusion and poverty, a top priority. As reflected in the 2001 draft budget, budget policy, while complying with the zero deficit objective and the need to combat indebtedness, maintains a proactive stance. Thanks to a budget surplus, the social aid scale and welfare-to-work initiatives will be increased. Quebec's income tax system has the strongest redistributive effect of all provinces, and its minimum wage is high compared to the rest of North America. About 40% of provincial financial support for economic development is allocated to the labour market and employment.[13] As in many other provinces, this policy is accompanied by efforts to alleviate the tax burden (through a new tax table in this case). However, the tax gap with other provinces remains high.

Long-term competitiveness and the financing of innovation

While tax reductions – both Federal and provincial – have also been implemented to kick-start the provincial economy, Quebec's long-term approach to development is mainly a combination of investment policy and efforts to reduce intra-provincial disparities and promote balanced growth. Emphasis is placed on wide-scale investment projects, notably through public/private partnerships involving large government-controlled firms mainly in the resource sector.[14] Around 20% of government subsidies and fiscal incentives to firms is directed toward investment stimulation.

Science and technology is an area of major priority for the province. Quebec already invests 2.1% of its GDP in research and development, a rate close to the G-7 country average and ahead of Ontario and Canada as a whole. In addition, the high-tech sector now contributes to 12.3% of Quebec's manufacturing output.[15] The

Quebec industrial base nevertheless encompasses an above-average proportion of SMEs (compared to the rest of Canada and the United States), but few of these SMEs are involved in innovative business and advanced technology activities. Even if the share held by SMEs in R&D spending is slowly rising (to 13.4%), the uptake of new technology is not satisfactory[16] and the province still lags behind the rest of the country in labour productivity. In light of this, the provincial government has set up a comprehensive technological policy package to strengthen the province's competitive position and to secure growth in skilled employment. It includes R&D tax measures, direct assistance programmes, and support for liaison and technology transfer centres. It also provides for agencies to be set up and contributes to intramural R&D spending costs. The package amounts to about 31% of provincial government support to economic development. Consistent with this approach is Quebec's special policy effort to reinforce investment in youth education and training (Box 12).

Risk capital development is the biggest success story of Quebec policies (Figures 24 and 25). Since the early 1990s, the province has fostered the emergence of a venture capital sector through a number of incentives. In particular, the government has offered significant tax benefit for each dollar invested, subject to the requirement that 60% of the capital be invested in the province's small and medium enterprises. By the end of the 1990s, 52% of Canadian venture capital was concentrated in Quebec, and the risk capital invested in the province had reached 44% of the total risk capital invested by the banking sector. Throughout the 1990s, the amount of risk capital in Quebec has grown more rapidly than in Ontario or even Canada as a whole. Were it a US state, Quebec would rank fifth in terms of overall risk capital and fourth in per capita terms.

Within the province, risk capital comes from 4 main sources: union funds, private and corporate funds, the government, and mixed funds. The shares of each are 52%, 32%, 10% and 6% respectively. Thus, 62% comes from union and public sources. Union funds are provided by the Fonds de Solidarité des Travailleurs du Quebec and the National Confederation of Trade Unions. By the end of the 1990s, these bodies had invested in 1 600 enterprises, and the rate of return on the funds was over 7%. Sources of private funds include enterprises, co-operatives, and the Caisse de Dépôt et Placement du Québec, which manages pension funds of the Quebec state pension system and of public sector employees. Government funds, accounting for 10% of total risk capital, are spent mainly on capital investments or on loans, loan guarantees, and joint ventures. These activities are carried out by various public corporations: the Société Générale de Financement du Québec (SGF), Innovation Quebec and Innovatech corporations. Finally, hybrid funds comprise a combination of government and private capital, as well as other types of funds, including joint ventures.

Like the regional development agencies, the Quebec government has used a cluster approach to identify possible investment sectors. In Quebec, these sectors

Box 12. Quebec education and youth training policies

The Quebec government's policies in this area focus on reducing the school/college dropout rate and improving services for young people and families, particularly in the areas of vocational training, entrepreneurship, information technology, and the new economy.

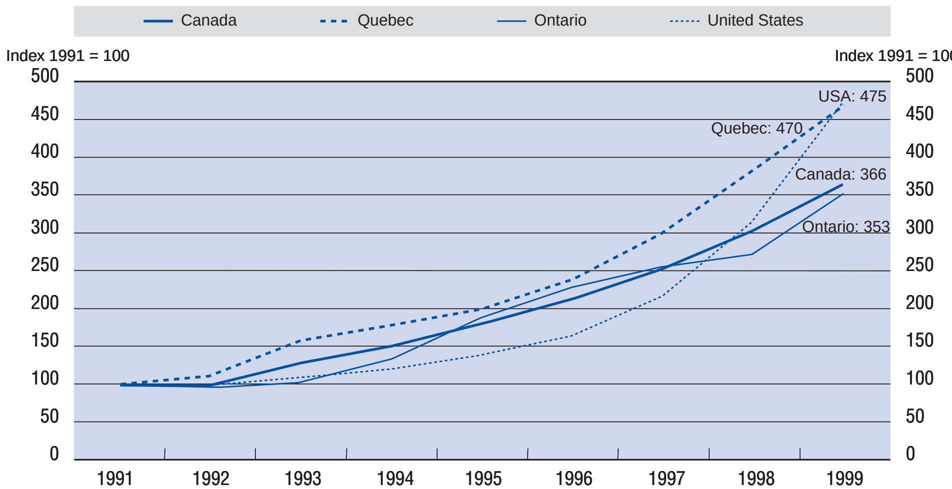
In 1997, a comprehensive education reform was launched by the Ministry of Education. Proposals included teaching the essential subjects from Grade 1 to the end of secondary school; giving more autonomy to schools; intensifying the reform of vocational and technical education; and providing adults with better access to continuing education. As part of the 2001-2002 budget, an investment of some CAD 730 million in education and youth training was announced. CAD 72 million of this total budget will be allocated to a policy called "Agir tôt pour réussir" (Act early to succeed), which tackles the school dropout rate.

A further share of the 2001-2002 budget will go towards the government's policy of actively encouraging more young people to carry out internships in companies and government bodies. To this end, tax credits have been extended for a further four years and will apply to longer-term internships, allowing a total of 6 000 students to take advantage of these placements. Furthermore the ministry for Trade and Industry will maintain its internship placement service for students called Placement Étudiant du Québec (PEQ), which provides young people with opportunities in both the private and public sectors, including government ministries. The PEQ has proved highly successful and in 1999 recorded its best results in 20 years.

In partnership with other bodies, the Ministry of Education organises a variety of annual events aimed at encouraging entrepreneurship, including the Quebec Entrepreneurship Contest. Held annually, it is designed to promote the development of entrepreneurship in the province by rewarding entrepreneurial initiatives as well as business creation. The contest seeks the involvement of representatives from education, business, government, and community organisations. For many of these contests, CED is also involved.

According to the most recent data available, Quebec ranks high for share of national wealth allocated to education. Overall the school attendance rate in Quebec compares favourably to those of other industrialised countries. 78% of the population aged 5 to 29 attends an education establishment. Furthermore, the share of the population of 15 and over with a school attendance level higher than 9 years rose from 48% in 1961 to 82% in 1996. Quebec has a nearly 10% higher school attendance rate than the United States, France, and the rest of Canada. However, the disparity levels in education between regions remain, and this will represent a key issue in years to come as the need for a highly qualified workforce increases with the growth of the knowledge economy. The employment level rose by 50% over the entire province between 1990 and 1998. On the other hand, the number of jobs for workers only educated to primary school level decreased by a third in just eight years and, in 1998, nearly two-thirds of positions were occupied by those who had completed secondary school studies. Meanwhile, Quebec's 17% share of the working population (25-64 years) with a university degree is lower than that of Canada (20%), Ontario (21%) and the United States (28%). However, the province shows better figures than France and Germany, where a mere 11% and 15% respectively of the working population have a university degree.

Figure 24. **Capital risk under control, change 1991-1999**
Index 1991 = 100



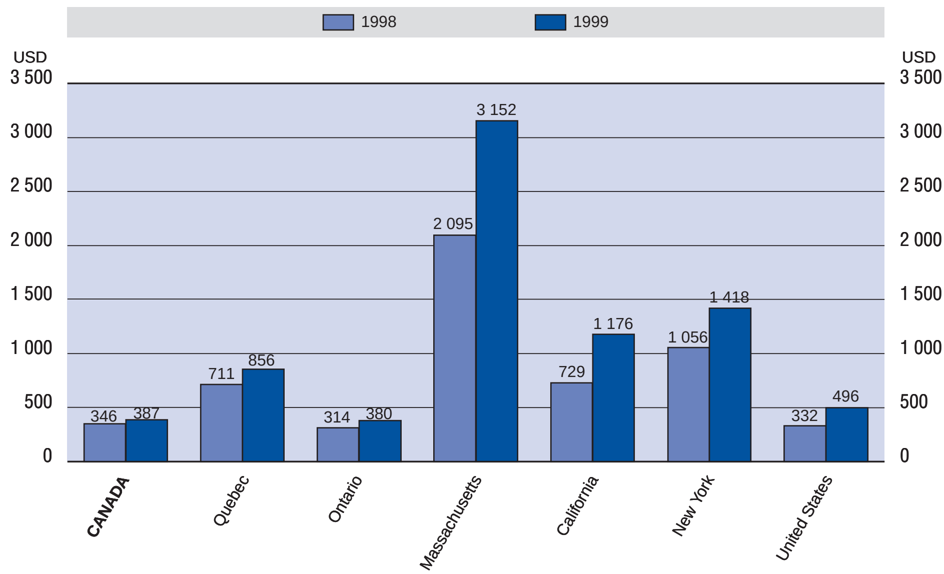
Source: Bellemare, Mundial Congress on Local Productive Systems, 2001.

are multimedia, electronic commerce, information technology, and the new economy. Tax provisions allow reimbursable credits of up to 40% in the case of small companies, 20% in the case of large ones and up to 40% of salaries in the identified investment sectors. Accelerated depreciation is permitted, as is a tax holiday of 10 years for major investments.

Assistance to lagging regions

Another feature of Quebec's policy is its focus on lagging regions. There is an ongoing debate within the province about providing assistance to lagging regions, which mirrors the broader debate within Canada. Several issues have been raised, including where in the province the aid should go, to what entities it should be directed, through what entities it should be delivered, how it should be delivered, and what kind of return should be expected. A key aspect of the debate is whether to give aid to growth regions or to peripheral regions, and the role of local and regional government in the policy formation and aid distribution process. An additional point of debate is whether aid should be directed to specific sectors of the productive economy or should be used to improve the social and cultural infrastructure.

Figure 25. **Capital risk under control per capita, 1998-1999**



Source: Bellemare, Mundial Congress on Local Productive Systems, 2001.

The province's Société Générale de Financement has, in the past, channelled aid to resource-dependent regions through three intermediaries: Rexfor (forestry), Soquem (mining) and Soquia (food industry). In three consecutive budgets starting in 2000, the Quebec government announced a special fund totalling close to CAD 1.3 billion to support 7 of the province's 17 regions, *i.e.* those that are resource dependent: Bas Saint-Laurent; Saguenay-Lac Saint-Jean; Mauricie; Abitibi-Témiscamingue; Côte Nord, Nord du Québec; and Gaspésie-Iles de la Madeleine. These regions, concentrating about 15% of the province's population, have an unemployment rate ranging from 10.3% to 20% (compared to a provincial average of 8.4%). These funds are a mixture of fiscal incentives and specific programme measures on a ⅔ to ⅓ ratio.

The federal government will provide through CED an amount of CAD 300 million to support some activities in the entire province over the next three years. The Quebec government funding will be distributed through CARs (Conférence administrative régionale), chaired by the Assistant Deputy Minister for regions. CARs regroup civil servants of regional ministries and representatives of provincial institutions. Their mandate is to harmonise the province's development strategies at the regional level and, in particular, to co-ordinate and manage the framework agreement between the province and the region. Each administrative region has its own CAR.

However, many have argued that funding alone is not enough. There is widespread support for more powers to be devolved to local government within the province, especially where control over income sources is concerned. Many also believe that social infrastructure needs more attention to enhance the attractiveness of peripheral regions. Still, some forms of resource decentralisation could prove detrimental to the less prosperous areas. The Institute of Statistics of Quebec (Institut de la statistique du Québec) estimates, for example, that the Gaspé region, which now has scarcely 105 000 residents, will lose one quarter of its population by the year 2026. Four other regions are also expected to experience population contraction. In such circumstances, they would be particularly disadvantaged, but less so if a strong equalisation system were initiated. This, however, leaves the absorption capacity issue unanswered.

Summary and assessment

Demography remains a great concern for the Quebec government and points to a problematic situation in the long run. International migration accounts for half of the population increase but concentrates mainly in Montreal, thus exacerbating disparities within the province. The ratio between people aged 15-64 to the cohorts 0-14 and 65 and over supported by them will decline from 2.3/1 in 1996 to 1.6/1 in 2026. Quebec's ageing population will represent an increasing challenge in the years to come, especially in remote and rural areas.

Even though the growth performance of the Quebec economy has been satisfactory in recent years and export figures have stayed in line with those of Canada, Quebec is still generating wealth at a slightly lower rate than the whole of Canada and disparities between regions in disposable income per capita remain significant. Two areas deserve increasing attention in this regard:

a) *Capital spending*. Despite a sustained increase since 1995, the gap with Ontario and Canada has been bridged only slightly in recent years. There is a need to strengthen the strategy to attract foreign direct investment (FDI). So far, Quebec has captured a share of FDI coming to Canada that is lower than the province's relative contribution to national GDP.

b) SMEs. The small firms sector has been slow to recover from the recession of the beginning of the last decade. In the manufacturing sector, SME employment levels are still lower than those of large corporations. For the Quebec economy to move to a higher growth trajectory, the productivity of small businesses must be improved, management performance upgraded, and efficient technologies acquired. CED and the provincial government have developed a wide range of initiatives for SME economic and technological development (through programmes such as IDEA-SME, Regional Strategic Initiatives, CFDC loans or PEMD).[17] However, the emergence of regional systems of innovation also requires the participation of local and regional authorities and demand-based approaches. The technological plans set up by CRD[18] (Conseils régionaux de développement) and CLD[19] (Centre local de développement) could well represent a step in that direction. Co-operation between the different development corporations and authorities at regional level is also critical.

More generally, the CRDs would probably benefit from being granted greater decision-making capacities. Experience shows that partnerships work more efficiently when the subordination of one party to the other is limited. The strong dependency of regional authorities on the provincial government is hindering the emergence of bottom-up initiatives and innovative policy experiments. Finally, although certain elements of the public administration have already been decentralised, this should not stop the province from seeking a more balanced vertical distribution of power.

Ontario

Although Ontario is, in many ways, the richest province in Canada, substantial regional disparities persist. Since the 1960s, the southern part of the province has become the nation's powerhouse. Toronto is the nation's largest city, and 44.25% of the total provincial population was concentrated in the Greater Toronto area by mid-2000. The region also captures a substantial proportion of new immigrants to Canada, with 55% of all new immigrants settling in the Greater Toronto area in 1997. Financial services are increasingly centred in Toronto, and the city accounts for half of all jobs nationally in this sector. The Auto Pact with the US in the 1960s, followed by CUSTA and later NAFTA, have further enhanced the attractiveness of southern Ontario to industry. Vibrant second-tier urban centres exist in Kitchener-Waterloo, Hamilton, Oshawa, London and Windsor. The southern part of Ontario also contains much of Canada's most fertile farmland, as well as significant rural areas dependent on marginal resource development. Toronto and, more recently, Ottawa-Carleton have had strong employment growth resulting from new economic activity, although, in the case of Ottawa, this growth has not trickled down to surrounding areas. As southern Ontario becomes increasingly integrated in the global market as result of national trade policy decisions, the ability to achieve and sustain international competitiveness within city regions and industries, as elsewhere in other key centres across Canada, must be a recognised economic goal, along with more traditional regional development objectives. Within Canada, the greatest amount of inter-provincial trade is along the St. Lawrence-Great Lakes

Corridor, between Ontario and Quebec, although vulnerability to increasing imports under freer trade has diminished the relative importance of this activity.

By contrast, northern Ontario has seen its population decrease from 908 000 in 1996 to 887 000 in mid-2000, a figure now representing only 7% of the province's total population. Residential vacancy rates are high in the north of the province (double digit figures in some areas), suggesting further net out-migration. Northern Ontario contains two of Canada's 25 Census Metropolitan Areas, Thunder Bay and Sudbury, but both are losing population. Thus, northern Ontario North faces the same challenges as other rural areas: a lack of large urban centres, problems raised by relative isolation, and a declining population in both rural regions and major cities. Since many cities are dependent on declining resource-based mono-industries, out-migration, especially youth out-migration, has increased, thus resulting in a more rapidly ageing population in the north than in the south. Lower education levels are also found in northern Ontario, predominantly in rural areas. The current restructuring of the primary sector renders the need for designing strategies for attracting firms and creating alternative job sources more pressing.

The role of FedNor

The Federal Economic Development Initiative in Northern Ontario (FedNor) was founded in 1987 to reduce the imbalances outlined above, promote economic growth and job creation, and foster self-reliance throughout the province's northern region. It initially had a five-year mandate, but this was extended in 1992. In March 1996, the Minister for Industry announced that FedNor would undergo major restructuring, and granted it three years of funding totalling CAD 60 million. At the time, it was expected that FedNor would be phased out at the end of that period, ending on March 31, 1999. The sunset provision did not, however, occur. The programme moved away from direct financial assistance to SMEs and instituted a new approach based on engaging in partnerships with intermediaries such as financial institutions, community-based economic development organisations, municipalities, First Nations and other economically-focussed NGOs. In 1999, the sunset was removed and FedNor was given an ongoing base budget of CAD 20 million per year, which was supplemented by a further CAD 60 million for the next three years. In June 2000, the programme's annual CAD 20 million budget was supplemented by CAD 30 million more over three years to tackle the problems raised by the decline in the mining sector. In June 2001, a further CAD 38 million was added to support innovation and adaptation to the knowledge-based economy (KBE).

FedNor has adopted primarily a bottom-up, community-based approach to development that is focussed in five key areas with intended outcomes: community partnerships; investment; connectedness; innovation and trade.[20] The programmes work towards building community capacity, developing human capital (with skills training or youth internships), providing access to capital for SMEs, assisting a broad range of initiatives including aboriginal communities development, and supporting strategic economic infrastructure, especially telecommunications.

In assuming responsibility in 1995 for the Community Futures Programme, which also covers rural southern Ontario, FedNor took on an increasingly pan-provincial role in rural areas. Of the 56 rural areas served, 33 are in the south, 23 are in the north and up to five new CFDCs will be created to achieve universal rural coverage across the province. In Ontario, the Community Futures Programme supports CFDCs for activity in three main areas: development and implementation of strategic plans for local development in partnership with other community stakeholders, provision of information, counselling and other services to local businesses, and operation of a locally-controlled investment fund to provide repayable financing to local small business, when it is not available from traditional sources. Ontario CFDCs are assuming an important role in building the capacity of rural communities to influence their economic future through local solutions and bottom-up initiatives.[21] Since 1996, FedNor has contributed over CAD 75 million in funding through the Community Futures Programme in Ontario. Ontario's Community Futures Development Corporations have leveraged over CAD 310 million in loans and have led to the creation of more than 32 000 jobs.

Unlike ACOA and WED (Western Economic Diversification) which have multi-province remits, and CED which has a remit for the entire province of Quebec, the role of FedNor (as its name indicates) is limited to northern Ontario. This limitation makes southern Ontario, which includes Toronto (the economic capital) and Ottawa (the national capital), the only area in Canada without a formal national strategy for economic growth. Nevertheless, Industry Canada, through its Regional Office located in Toronto, operates programmes within Ontario as a whole, similarly to those administered by regional development agencies (RDAs) elsewhere in Canada. One such programme is the Canada-Ontario Business Service Centres initiative. These centres provide business information services at 64 regional sites throughout the province, including 37 in southern Ontario. An agreement has also been signed for the implementation of the Canada Ontario Infrastructure Programme. The federal contribution to the programme is CAD 680 million and with contributions from provincial and municipal partners, the investment in Ontario will be more than CAD 2 billion.

In a strategy similar to other agencies, FedNor supports sectors that are important to its regional economy. The agency decided to assist in the development of a knowledge-based mining cluster in northern Ontario. Mining is heavily technology-dependent, and the share of employees holding doctorates (as a percentage of the total workforce) in the mineral industry is 50% higher than that in manufacturing as a whole. In 1996, FedNor, in co-operation with Laurentian University, helped to prepare a base study and preliminary business plan for a high technology mining centre in Sudbury, known as MIRARCO – Mining Innovation, Rehabilitation, and Applied Research Corporation (Box 13).

Provincial initiatives

The provincial government is promoting growth among all regions and industries. For example, the Ministry of Economic Development and Trade (MEDT) has focused its energy and resources on three key objectives: endogenous development, strengthening business sectors and clusters, increasing foreign and domestic investment in Ontario by marketing the province as a preferred business location in North America, and linking SMEs with export businesses. It has no specific territorial focus. Some ministries are nevertheless developing specific initiatives focussed on northern Ontario. The Ministry of Northern Development and Mines (MNDM) is the primary agency for promoting economic development in the north. It delivers programmes and services, often in partnership with other ministries. Its regional economic development branch in the north provides consulting services and co-ordinates consultations with clients. It also supports the NOHFC (Northern Ontario Heritage Fund Corporation) which helps develop the North's infrastructure by encouraging improvements in telecommunications and proposing transport initiatives and regional tourism projects. In co-operation with the Superbuild Corporation, MNDM co-ordinates provincial investment in public infrastructure to build and improve highways, winter roads, and access roads.

Innovation and new technology are top priority, and the provincial government operates a wide range of programmes designed to strengthen Ontario's competitiveness in the knowledge-based economy. A Ministry of Energy, Science and Technology (MEST) was recently established, and has launched a number of initiatives to expand opportunities for retaining skilled talent and fostering innovation. These are the Premier's Research Excellence Awards and the New Educational Technology Tax Incentive.[22] In addition, the Ontario Innovation trust has been tripled, centres of excellence reviewed, and a new investment made in a Biotechnology Centre Fund and the Interactive Digital Media Small Business Growth Funds. To improve telecommunications infrastructure and encourage shared networking for rural business the Ontario government introduced the Connect Ontario Joint Initiative which is complementary to the Smart Communities federal programme. MEDT's Strategic Skills Investment Programme launched in 1998/1999 addresses skills shortages by establishing training programmes in new technologies with high employment opportunities. MEST in parallel committed CAD 5 million to increase young people's awareness of science, technology, and innovation (the YS'n'T programme). However, even these initiatives combined with significant R&D tax measures have failed to stabilise the growth of knowledge-intensive

Box 13. MIRARCO: a cluster model

The Mining Innovation, Rehabilitation and Applied Research Corporation (MIRARCO) was founded in 1998. It is a non-profit applied research and technical services company, located in Sudbury, and formed through collaboration between Laurentian University and the private and public sectors.

The plans for MIRARCO as a high technology science park were first outlined in 1996 by Sudbury regional municipality and Laurentian University. The park was intended to accelerate the marketing of research findings on mining, the city's most important industrial sector, and encourage the development of the mining cluster in the region. A proposed business plan highlighted the need to bring together the innovation and research capabilities of industry, educational institutions and governments to create a multi-disciplinary research entity to tackle the problems of the hard rock mining industry in Canada.

There is a common misconception that mining is not a knowledge-based sector, whereas it is, in fact, a significant user of high technology and information systems. For example, more than one in four professionals working in R&D in the mineral industry has a doctoral degree. Environmental concerns, lower quality deposits, and higher input costs have forced mining companies to develop and apply new technologies to increase productivity. As a result, collaboration among research disciplines, the mining sector, and government has become increasingly important to the sector's competitiveness. MIRARCO aims to be a truly knowledge-based centre driving the Sudbury region one step along the way towards its goal of becoming a "smart community".

MIRARCO has several of the common elements usually associated with "industrial clusters":

Territorial context: although the starting point for the research complex is within the geographic region of Sudbury, the real context for MIRARCO has no regional or national boundaries. With today's telecommunication technologies, the source of the research challenge or customer can originate from a local company or from mining enterprises halfway around the world. As a knowledge-based cluster, MIRARCO has the opportunity of becoming a "virtual" research park.

Fundamentals in place: four key elements working in favour of the project already exist. First, the region is viewed internationally as a world-class mining community, and offers major market opportunities. Second, Sudbury has a well-developed technical infrastructure, with Laurentian University's School of Mining highly reputed for providing quality graduates. However, to be successful, MIRARCO will need to attract a higher number and cross-section of researchers and scientists to Sudbury. Third, important private sector champions in senior levels at Sudbury's leading mining companies have been attracted to MIRARCO. Finally, the science park has its own technical resources, but must be more product driven as its success depends on this.

Box 13. **MIRARCO: a cluster model** (*cont.*)

Private vs public sector roles: where MIRARCO is concerned, although the public sector (Laurentian University and FedNor) plays a key role in stimulating the cluster development, it will be the private sector that will determine the success of the corporation in the long run. To help MIRARCO achieve its main aim, it is the private sector that must drive the process of development of the mining cluster in the Sudbury region through specific research projects and anticipated results. The private sector is best suited to identifying research needs at all points in the value-added chain, from primary through secondary and service-related. Sudbury is in the fortunate position of having companies participating at all levels. The challenge will be to develop co-operative linkages in spite of the competitive nature of the local business environment.

industries. The growth of this particular sector represents only a third of the growth of other industries in northern Ontario. Most new job creation is likely to take place in the largest urban centres. The five major northern communities have nevertheless installed high-speed telecommunications systems using broadband services such as ATM and ADSL. The result has been a rapid growth of the telecom industries and especially employment-intensive call centres.

Summary and assessment

It is difficult for the North of the province as a whole to maintain market share and a competitive economy in sparsely populated areas. The Northeast is experiencing particular instability because of the importance of mines, while the Northwest is more stable because of its link with the forestry products industry. In the near future, the likely drivers of economic growth will be the five cities – North Bay, Sudbury, Timmins, Sault Ste Marie and Thunder Bay – while the more remote areas further north will undoubtedly continue to struggle.

While the far northern regions of the province need to open up their economy to mining and resources,[23] a diversified economy is also essential to thwart the trend towards depopulation and break the vicious circle of diminishing activity and output. The 1980s and 1990s have seen very few new recruits in the industrial resources sector. A reinforcement of the service sector, which represents more than 90% of northern Ontario's job creation, is therefore critical. There have been some success stories of conversion from industrial resource sector activities to service activities, such as Elliot Lake, but they often remain anecdotal. Northern Ontario is nevertheless well-positioned to capture a significant share of the eco-tourism and adventure travels business, but the capital cost of developing attractions is prohibitive. Information technology is another area of opportunity, but the service sector remains less knowledge-intensive in the North than in the rest of Ontario. Reduction in gaps in information and communications technology (ICT) could help overcome geographical disadvantages. FedNor and the CFDCs have so far obtained positive results through their community economic development programmes. FedNor and the CFDCs have so far obtained positive results through their community economic development programmes. It is recognised, however, that employees in resource-based regions are often fixed in their conceptions of the workplace as, conventional hierarchical structures, and are used to the traditional organisation of branch plants and economies of scale. This makes it difficult to encourage entrepreneurship and small firm creation, as the Nord Rhein Westphalen area in Germany or the Lorraine region in France have discovered. Launching a strategy for entrepreneurship along the lines followed by Atlantic Canada could be an efficient way to remove some of these obstacles to employment creation and growth (Box 8).

In the South, problems are different. Given the weakness of links between large cities (GTA, Ottawa/Carlton, London) and their hinterland, the capacity of Ontario's intermediate and rural regions to be innovative and develop autonomously needs a boost to achieve better growth performance. Important steps have already been taken by the provincial government with the CAD 600 million Ontario Small Town and Rural Development Initiative (OSTAR), launched in 2000. This programme focuses on rural economic development by exploring new markets, promoting export, developing information, tools and resources to enhance the rural economy, and creating and retaining long-term jobs. Applicants must form partnerships among individuals, businesses and communities. To maximise the effect on the southern rural communities some co-ordination has been established through the Canadian Rural Partnership operating in Ontario between the Industry Canada regional bureau, the FedNor sponsored CFDCs in the South and other rural initiatives. This co-ordination could probably be strengthened.

For the federal government, Ontario as a whole is a major player in the field of knowledge-based activities. The Province accounts for nearly half of all Canadian jobs in the new economy. Output for knowledge-based activities rose 22.7% in 1999, the third consecutive year of double-digit growth. Given the outlook for next year, the slowdown in the United States, and the turmoil on high-tech markets, this growth is probably not sustainable in the near future. Innovation is crucial to the province's ability to compete globally and to participate in new economy opportunities. There is a need to create sturdier foundations for these activities, especially if the federal government's objective in terms of total R&D spending in the economy is to be reached. So far, in spite of numerous federal and provincial tax incentives and programmes, the share of R&D in Ontario GDP is far below the figures for the G7 nations, and the increase in the number of patents has been moderate since the beginning of the decade. Focusing on the innovative capacities of the economy and productivity, with its attendant effect on improving citizen's standards of living, might also be useful, since new products and processes are not necessarily based on more R&D. For example, the productivity of foreign-controlled firms outperforms that of Canadian-controlled firms, despite the fact that they produce significantly less in R&D per unit of output. This will require more emphasis on building networks, stimulating interactions and co-operation between firms and universities, and fostering links between community colleges and SMEs. Some initiatives have been launched, notably at the provincial level, but in a relatively scattered way. The recent provision of specific funding for innovation and knowledge-based activities through CFDCs in rural areas of southern Ontario is just beginning to be implemented. Innovative performances of the non-high tech sector should be the target of a core programme, that could draw on foreign experience (Box 14).

Western Canada

Until the start of the 1970s, the Western provinces had a relatively integrated resource-based economy. The three prairie provinces, Alberta, Saskatchewan, and Manitoba, had a grain-based economy, and that of British Columbia was forestry based. However, since that time, the economies of the different provinces have diverged. Alberta's provincial economy is heavily reliant on oil, gas, and related industries, and British Columbia has developed a knowledge industry economy centred in Vancouver. Changing commodity prices have reduced the dependency on traditional grain crops throughout the prairie region, and changing transport policies and subsidies have altered the relative prosperity of different regions.

The farm-based economy of Western Canada was transport and energy intensive, and often left the region's representatives at odds with policy makers in Ottawa and central Canada. The federal government had several economic levers of control, such as transport policy, trade policy, and interest rate policy. More recently, the North American Free Trade Agreement (NAFTA) and the changing nature of international trade has altered government perceptions. Many economic instruments are no longer used by the federal government due to recent international trade agreements, and many policies which were viewed as being harmful to the West have been abandoned. Moreover, whereas Western trade used to have an east-west orientation, today the orientation is increasingly north/south,

Box 14. Strengthening organisational learning and systems of innovation in Ontario

Knowledge is increasingly recognised as a crucial input to competitive economic activities. However knowledge in itself does not contribute to growth. It has to be incorporated into the production of goods and services. For this purpose people need not only to be trained to become educated and skilled (through individual learning) but their competencies also need to be utilised and their work organised so as to ensure productivity improvement and growth within the firm or the organisation that employs them (organisational learning).

Ontario provincial government has so far emphasised investment in human capital and skills for jobs but it has devoted less attention to organisational learning. Particular efforts have been directed in the recent period to the modernisation of post-secondary facilities and to improving student access to education and training. More funding has been allocated to secondary education environment, science-based curriculum and apprenticeship. New initiatives have also been taken by the MEST notably through R&D tax rebates and significant additional transfers to a number of research funds including the R&D challenge fund or the Ontario research performance fund. Few incentives have however been granted to innovative activities in low or medium R&D intensive sectors.

A similar bias towards R&D supply can be identified in the federal government programmes. Federal initiatives in innovation for 1999-2001 are concentrated on Technology Partnerships Canada (*i.e.* joint public/private projects in priority areas), university sponsored research, and research infrastructure programmes through the Canada foundation for innovation, the Network of Centres of excellence (NCE), CIHR (Canada Institute for Health Research) and NSERC (National Science and Engineering research Council). In per capita terms Ontario benefits more from these funds than other provinces given its above average share of R&D activities and science infrastructure.

Promotion of the innovative potential and networking capacities of non-high-tech firms should not be overlooked. Innovations often originate in firm to firm interaction rather than from R&D sources. Most of them are incremental rather than breakthrough and result from the diffusion of tacit knowledge. A programme could be designed to help low and medium tech business and notably SMEs to better tap this potential notably through clustering. Among good practices that can assist in setting up this programme, one can mention:

a) The creation of intermediate institutions to facilitate the transfer of technology towards SMEs. In Germany the Steinbeis foundation provides research or technology contracts to 20 000 small firms each year. The foundation has no laboratories but rent them from universities or technical centres. 3 500 university researchers and professors work on a part-time basis for the foundation on the basis of firm demand. Every year, the foundation closes several of its research antenna when they no longer match with specific firms demand. Steinbeis is quasi self-financed and receives government subsidies for only 1% of its budget.

Box 14. **Strengthening organisational learning and systems of innovation in Ontario** (*cont.*)

b) Designing and operating a network programme. At the end of the 1990s, the Danish Ministry of industry launched the Danish network programme offering challenge grants to new networks and to train network brokers. This experience to encourage co-operation between firms within sectors with latent clusters has been replicated often on the basis of public/private partnerships in several countries at the national or regional level (including Portugal, the United States and United Kingdom).

c) Promoting firm to firm training and exchange of knowledge. In Ireland, the government is developing the Plato programme, a framework within which professionals from large firms train engineers and managers from small firms. Since large firm specialists are often willing to share their experience with others, and since SME demand is high, the programme is mainly concerned with matching supply and demand and is achieved at very low cost. Initially launched in the Flemish region, it is now also operating in other regions or countries such as France and Belgium.

and some argue that inter-provincial barriers to trade exceed international barriers. The result is that many Canadian cities are seen to be spokes of US hub centres, and some older cities, such as Winnipeg and Regina, may be increasingly disadvantaged. In addition, many persistent regional problems remain unresolved. Rural centres in Saskatchewan and Manitoba are declining in population and importance, and Winnipeg has many of the problems of an older urban centre surrounded by growing suburbs.

At the same time, federal investment in the region (as opposed to support through regional policy initiatives and equalisation payments) remains an issue. Whereas in the United States, pork-barrelling (locating of federal government institutions or projects in particular regions in order to satisfy a constituency) is an explicit element of the legislative process, in Canada such trade-offs and agreements are made behind closed doors, and the bargaining process is shielded by law from public disclosure. On several occasions, it was suggested that the federal government discriminated against the West in situating federal facilities, and that the West was not getting its fair share.

Within the area, there is widespread opinion that the lack of fundamental data about the important issues facing the western Canadian economy, combined with insufficiently co-ordinated approaches by governments and stakeholders, has led to the perception that the federal government is either unaware or insensitive to western Canadian economic issues. Interestingly, the creation of the Western Economic Diversification (WED) programme, the devolution of control over an increasing number of assistance programmes, and a shift in the role of WED from job creation to managing regional economic development and development programmes was intended to remove some of this malaise.

Western Economic Diversification: functions and strategies

In this context, Western Economic Diversification was established to make the narrow economic base of western Canada more diversified through the use of interest-free loans to innovative firms and the advocacy of western interests in national decision-making. In 1995, the federal budget moved the agency away from direct loans to business. It now supports small business with limited micro-lending, help in accessing private funding, and business information and counselling services.

Over recent years, Western Economic Diversification has had to struggle against sharp cutbacks in funding. Between 1993 and 2001, the agency's budget dropped by 73%. An outgrowth of this has been an increase in collaborative programmes with provinces. Thus, the agency has increasingly become involved in developing a growth strategy for its region. In connection with 3 of the 4 provinces in its region, the agency has worked with the Canada West Foundation to create a blueprint for western prosperity. So far, two reports have been published: building the New West, which is a general survey of the region, and a related study, which profiles the 6 largest western cities. The Foundation has tried to involve as many voices as possible, both within and outside of government. In conducting its research, it surveyed 32 000 people.

In Western Canada, Western Economic Diversification has used a cluster approach to try to identify potential growth sectors, although it has done this differently from ACOA. The agency argues that in the past, it focussed on individual industries and localised clusters lobbying for government assistance, and aimed simply at job creation and attracting businesses. However, the focus had shifted more recently to identifying potential regional trumps or drivers, which could be used to strengthen the economic competitiveness of the region. There has been a shift towards public-private partnership, and towards an approach that consists of going with the flow – trying to understand market forces and to anticipate them. Finally, there has been a move towards continuous assessment and reformulation of policy.

In pinpointing the region's clusters, Western Economic Diversification commissioned a study to identify the development potential of three of the region's driving clusters: agriculture and food; forestry products; and energy and mining. They also examined the potential of three emerging clusters: biotechnology, information technology, and advanced materials/manufacturing. These were selected for study by a federal-provincial steering committee. A series of workshops were held to identify their main challenges and problems.

It was argued that government could help support clusters by encouraging the adoption of enabling technologies, targeting human resource needs, increasing access to technology, improving access to financing, maintaining an appropriate regulatory regime, and supporting cross-jurisdictional infrastructure. It was also suggested that government should support the growth of links among firms and between firms and institutions, and foster the growth of clusters through strategic public purchasing and foreign export promotion.

Interestingly, in Saskatchewan, the farm/agricultural sector was explicitly recognised as a cluster, whereas it has not been recognised as such in other provinces. Equally surprising is that the tourism industry in Saskatchewan was not mentioned as a cluster, although both the farm/agricultural and tourist industries are knowledge-based. Farms in particular have research partnerships with universities and with extension services. They generate local jobs and local economic growth. Although it is true that the farm sector is catered to by a variety of programmes mentioned elsewhere in this report, farms can and should be viewed as entrepreneurial reserves. Modern farmers are highly skilled businessmen, with a variety of technical and economic expertise.

Relationship with the provinces: the case of Alberta

On the whole, growth is viewed as a Western ethic and is taken for granted. However, a key problem in the region is avoiding cycles of boom and bust in the resource industries, which damage the foundations of local economic growth. Such cycles can be most clearly seen in the petroleum industry, which experienced a sharp downturn in the mid-1980s.

The nature of these factors and the responses to them can be clearly seen in Alberta. The province's population has grown rapidly since the 1970s, as has that of the two largest cities, Edmonton and Calgary. Within the province, development is concentrated along a north-south spine anchored by Calgary to the south and Edmonton to the north. Further north is the oil-sands region centred on Fort McMurray. However, peripheral parts of the province have not undergone the same kind of economic expansion as these areas. The province's key challenges are to manage and accommodate growth whilst at the same time maintaining the local quality of life. Economic growth has increasingly harmed the sustainability of the province's resources. For example, in the past, only about 30% of the permissible forest cut was used within the province, but up to 95% has been used in recent years. Moreover, although the province has relied on migrants for growth, migration has been uneven. To a considerable extent, it is felt that migration to the province depends on the economic situation in central Canada. When the economy of Ontario is flat, migrants leave for Alberta. Conversely, when the economy of Alberta suffers a downturn, the unemployed migrate to other provinces. Thus, the general view is that the province exports unemployment. More importantly, this means that when the economy suffers a downturn, traditional distress indicators, such as unemployment, do not register a rise.

Parallel to Western Economic Diversification, policymakers in the province would like to see the provincial economy become more diversified, moving away from oil, gas, and resource-based activities. Within Alberta, there is a general consensus that the province benefits from relatively low costs, a skilled workforce, a relatively good climate, an attractive natural environment and location, and the North American Free Trade Agreement (NAFTA). Moreover, one can argue that growth over the past several decades has allowed the provincial population to attain a critical mass, allowing the creation of more non-resource-based activities. At the same time, the region remains dependent on US markets and needs to diversify its trading partners. In rural areas, the province has concentrated on improving and maintaining the road network and upgrading telecommunications infrastructure, including expanding the fibre-optic network within the province. In addition, in partnership with WED and other federal agencies, the province intends to improve the quality of training and bring together higher education and business.

A key regional policy in the province is the development of the Canamex Corridor. This is a north-south route linking northern Alberta (with an extension through British Columbia to Alaska) with the United States and Mexico. Within the United States, it is based on the Interstate 15 corridor. This is one of several north-south corridors that the United States has designated as key north-south routes under the National Highway Designation Act of 1995. The others are the Interstate 25 corridor, the Interstate 5 corridor, and the Interstate 29-35 corridor. Canada does not have a similar national policy. Instead, the completion of an express road system, or any other trans-border links, has been left to the provinces. The goal of provincial and US policymakers is to create a seamless and efficient inter-modal transportation system.[24] Current plans call for the creation of a divided limited-access highway from the British Columbian border to the Mexican border, with possible links to San Diego. Alberta has committed CAD 800 million through the year 2007 to upgrade its part of the road network to 4 lane standards, and hopes to complete the segment from the US-Alberta border to Edmonton by the end of 2003. The Alberta part of the road will run for 727 miles, or 1 170 kilometres. Several justifications have been given for the proposed road, including reduction in transport costs and creation of jobs along the routes. A parallel initiative calls for the harmonisation of road legislation along the entire north-south route, ensuring that the same kinds of vehicles will be able to pass through the different states and provinces. Currently, each state and province has different size and weight regulations for large trucks, and it has been proposed that the lowest standard requirements should be raised to permit larger trucks, longer trucks, and multiple-trailer trucks (long combination vehicles – LCVs) to pass through. This would cut costs, and even reduce fuel consumption and emissions. It is also argued that, by standardising permitted truck configurations along the route, cross-border trucking activity would be made possible, allowing, for example, Montana's trucks access to petrochemical and fertiliser processing plants in Lethbridge and Red Deer, Alberta.

At the local level, policymakers work closely with federal and provincial agencies. This can be seen in the case of Calgary. In the year that oil was discovered (1947), Calgary had some 75 000 residents, but its population had grown to approximately 260 000 by 1969. In the year 2000, the population was about 1 000 000. Growth has been rapid since the 1960s. As is the case in Alberta, a major problem for cities like Calgary has been growth management. Growth has persistently outstripped plans, and although constant, has been prone to unpredictable fluctuations often due to global rather than local factors. An example of this was the drop in the price of oil in the 1980s, which led to an economic downturn in the region.

Calgary has also been home to a variety of economic development initiatives in the past, such as promoting tourism, or coping with problems facing the oil sector in the 1980s. Although these problems have generally had limited focus, the oil sector's problems in the 1980s led to the creation of the Calgary Economic Development Authority. This body aimed to assist the region's economy to shift its attention away from oil and gas. In addition, special purpose agencies were set up, such as the Calgary Transportation Authority. However, in 1999, a new public-private agency was created: Calgary Inc. (Box 15). Funded by the city of Calgary, the agency board consists of both the mayor and members of the business community.

The rapid growth of Calgary has meant that those communities that used to be viewed as being far away, are now effectively bedroom communities. While in the past the city plan could tackle most regional problems, the city's growth rate and the expansion of surrounding communities have created a need for regional planning. This has resulted in the creation of the Calgary Regional Partnership Group, consisting of 14 local governments. The partnership group has four subgroups, two dealing with infrastructure, one with medical services, and one with economic development.

Box 15. Managing growth: the example of Calgary Inc.

Calgary Inc. was set up to facilitate co-operation between city government and the private sector. One of the main roles of the agency is to carry out research to inform policy makers and to encourage businesses to locate in the area. The city can supply infrastructure to meet local business needs, but the creation of business growth strategy is to be led by the private sector. Enlightened self-interest is thought to be a key factor in attracting firms to co-operate with the agency: it will give them a chance to indicate what they need, what they are missing, and what they require to expand. In concert with city, provincial and federal authorities, the agency can then try to meet those needs. This kind of public/private partnership is anchored in a long tradition of volunteerism and community service. For example, the Calgary stampede started in 1912 through a private initiative and is now a major economic force.

Calgary Inc. has several further aims. One is to bring together the different special purpose authorities and agencies in the area, helping them to develop common policies and work together. A second aim is to link up local government and the business community. These first two objectives are intended to form a lightening rod to promote new ideas, foster consensus, and manage change. A third aim is to identify regional strengths and potential as well as problems facing local businesses. The organisation has taken a cluster approach, identifying three different kinds of local clusters: those that are emerging, those that are growing, and those that are mature and need to resolve long-term strategic problems. A final aim is to identify strengths and weaknesses in the local social and economic bases where emerging and expanding clusters are concerned.

The agency is currently developing a five-year strategy for the region, focusing on the development of tourism, the logistics and transport sector, the food industry, and the information and communications technology (ICT) sector. Interestingly, the oil and gas cluster has not been included. At the same time, the agency is trying to engage the general public in the policy-making process, looking at local quality-of-life issues, and asking how growth should be managed and whether it should be so rapid. In this regard, some 1 000 people have been interviewed. The agency has also tried to set up discussion groups to bring people together on a recurring basis to generate support and consensus. Thus, the agency views itself as a facilitator, providing technical and analytical support, continuous information, and human resources.

Calgary Inc. already supports advertising both within Canada and abroad to attract investment to the area, but also has several longer-term goals, which are meant to enhance the city's reputation. One problem is that Calgary is competing with a number of North American centres for the attention of investors. Additional goals therefore include the creation of serious sustainable quality indicators, which will be benchmarked against other large metropolitan areas in North America. The indicators will allow the agency to sell the city to prospective investors more effectively.

Box 15. **Managing growth: the example of Calgary Inc.** (*cont.*)

Calgary Inc. is not a planning agency, although its work can influence the planning process. The current plan of the city was launched in 1990 for a 20-year period. Like many strategic plans it is now substantially out-dated, and the city has no standing mechanism to assess the needs of residents and businesses and no system ensuring a continuous update of the plan. The plan is managed by a planning board led by the Mayor. A strategic planning group also exists to examine threshold issues, such as the impact of new growth on roads or sewers, and obstacles to growth and quality of life problems.

However, the Calgary central business district (downtown) remains the hub of the area. The central business district has successfully been able to accommodate growth, but there are severe land constraints: the river to one side, the railway to the other. Parking is also a problem, and costs are rising. Growth pressures are evident, but the company Pan Canadian Petroleum, employing 7 000 people moved to a university-type campus away from the city centre, leaving about 750 000 square feet (75 000 square metres) of space free. However, although people prefer working downtown, and although the oil industry is concentrated there, the city has other spatial clusters, such as the technology sector in the north-western part of the city, near the university, and the airport, viewed as a new local pole, attracting merchandising, distribution and transport-related functions.

Within Canada, and to some extent within North America, the city considers that it already has several important assets distinguishing it from competitors: for example, personal and corporate income tax rates are low (as they are throughout Alberta), and there is no sales or payroll tax. The Calgary area has five post-secondary education institutions, three of which have expanded substantially. The University of Phoenix (Arizona) has also set up a campus in Calgary. However, links between businesses and universities need to be improved, and universities should be used more to enhance the local quality of life. Although universities have been discussing collaborations of various sorts, such as shared units among universities, there is currently little or no co-operation. This is one of the key problems facing the region. In contrast to the United States, which has an extensive network of research-based agricultural universities, Canada does not have the same applied research tradition, and as a rule, Canadian institutions of higher education rely more on provincial support than on consultancies and public-private partnerships. This is not the case in the Atlantic provinces where community colleges have stepped in to fill part of the gap.

Other provincial initiatives

Provincial policies usually pursue objectives similar to those of Western Economic Diversification. All provinces target diversification and try to identify new sectors and growth engines, without overlooking the revitalisation of traditional sectors. They prioritise the support of transport and communication infrastructure, given the importance of the share of international exports in their GDP (accounting for 21 to 31%, but less in British Columbia), and intra-provincial trade. Their focus on skills is consistent with the determination of all western provinces to increase the share of knowledge in their service and manufacturing activities, including the so-called low-tech ones. Bridging the information and management gap of small firms is another common aim of provincial policies. Furthermore, provincial governments are actively attempting to remove obstacles to aboriginal entrepreneurship and enhance their participation rate in the workforce.

Western provincial territorial policies put nevertheless different emphasis on issues that depend very much on the regional situation and the modus operandi of these policies. Saskatchewan, for example, has introduced a strategy for the 2001-2004 period called Partnership For Prosperity: Success in the New Economy. This sets measurable targets including a minimum number of jobs to be created by 2005, targets for youth employment and aboriginal employment, a GDP increase, growth in tourism revenue, value-added export, agri-value processed product increase, and a target number of people to be connected to the Internet. This means that the strategy's efficiency can be easily evaluated. Other innovative measures are the establishment of forums in key sectors to plan strategies for growth, or expanding the capacity of Regional Economic Development Authorities (REDA) in the south and of Community-based Regional Economic Development Organisation (CREDO) in the north.

Given its stronger manufacturing base, Manitoba will reinforce its R&D tax climate, which, some years ago, was said to be one of the best in Canada. The provincial government targets an annual 5% increase over the 5 years to come. It will also work with other provinces to ensure that the general income tax cut, announced in the federal budget, takes place. It recognises the importance of dialogue between young people and the necessity to develop industry-led, workplace-based training as well as apprenticeship training and basic literacy skills. The government also wants to raise awareness of the co-operative model of ownership and business services and of co-operative legislation to take advantage of emerging opportunities in value-added and other processing industries. It will set up a CAD 1 million Aboriginal Economic and Resource Development fund to address the economic, cultural, and social needs of Aboriginal communities.

British Columbia's government is concerned with the need to develop emerging sectors, such as fuel cells, call centres, human genomics, and new media and entertainment (including the film business), in which the province has comparative advantages. It is also clear that there are more job opportunities for the specialists in the low-tech sector than in the high-tech one, and strengthening the traditional industry is thus a priority. The province also wants to initiate a new Western Economic Partnership Agreement (WEPA) with the federal government to consolidate the diversification programme, whether it is external or internal to the resource industry sector. This diversification is particularly crucial for regional communities. The provincial government promotes the regionalisation of Canada/BC businesses service centres, and recognises the need to forge alliances with other levels of governments to improve delivery programmes. Also critical is the need to reduce the number of jobs at risk and to support the development of regional infrastructure. Finally, the province is proactive in attracting major investment to strategic sectors and setting up a new immigration investor plan.

Summary and assessment

Western Canada as a whole is heavily dependent on natural resources, and is therefore vulnerable to swings in world demand. Leading products include timber, fisheries, grain, oil and natural gas, and potash. Activity in the oil, gas, forestry, and minerals sectors accounts for 15% of direct output in the west, as opposed to just 3% in the rest of Canada. This makes the region extremely vulnerable to boom and bust cycles. Impacts of NAFTA and other aspects of US-Canadian affairs have also revealed the vulnerability of the region to foreign economic intervention: current US-Canada timber disputes and conflicts over Pacific salmon fisheries are examples of this. Economic diversification is viewed as a way of insulating the region from global shifts.

Macroeconomic policies have been successful in all four provinces, as reflected in growth performance and budget policies, which have generated surpluses (except in British Columbia). Results are more mitigated with regard to territorial policies, and disparities have often widened in all four provinces between rural areas and cities, the North and the South, and resource industry-dependent territories and more diversified areas.

Given the strategy adopted, improvements could be achieved in three areas:

a) In the transition to knowledge-based activities, there are positive signs. Emerging industries have grown 38% in British Columbia from 1988 to 1998 (reaching 13% of GDP), while traditional industries have declined 13% (now accounting for 15% of GDP). Alberta is now in second place among Canadian provinces for the number of patents per inhabitant and the percentage of the active population involved in research and science activities. It remains, however, that high-tech industries in the West account for less than 5% of GDP. R&D in the West is still very low by G7 standards (1% of GDP at best). Strengthening the trend toward economic diversification will require giving high priority to programmes that help to shape an innovative and entrepreneurial culture in the provinces. While steps have already been taken to expand the research infrastructure, this policy should be continued and extended to advanced technology domains where capacities have been demonstrated and a competitive position has been attained. Examples of these domains are fuel cells and film in British Columbia, tourism and energy in Alberta, agri-food in Saskatchewan, and biology in Manitoba. Finally the western component of the National Center of Excellence (NCE) should be benchmarked with regard to similar networks in other countries such as Finland (Box 16).

b) The stimulation of endogenous development in rural areas: there are two factors linked to governance and strategic policy choices that must be taken into account when discussing development in rural areas. First, although CFDC has developed (most notably in Alberta), a framework for local development is lacking and bottom-up initiatives are unlikely to emerge given the particularly weak decision-making power of communities. For example, this context hinders the efficient management of land claims by provincial or federal authorities. It can also worsen the decline of British Columbia's share of inbound Foreign Direct Investment. In provinces such as Manitoba, regions do not exist. Nearly everything is governed on a sector-by-sector basis from Winnipeg. Second, in B.C and the Prairie provinces, more attention should be given to niche and value-added policies. A shift away from rent-seeking, commodity-based, and engineering-driven approaches is also taking place within the primary sector, but a sound incentive-based policy infrastructure to accelerate the process at the local level seems to be missing (Goldberg, 2000). Federal and provincial should do more to valorise amenities. So far, the focus is limited to lumber or wine brand and tourism potential is insufficiently tapped with poor market segmentation. Cultural and First Nations tourism is also overlooked.

c) Coping with urban development challenges: As in the rest of Canada, cities and major metropolitan areas are places of residence for 78% of the population in the West. This is a result of urban growth outpacing rural growth (in Alberta and British Columbia) or of urban growth and rural depopulation (in Manitoba and Saskatchewan). While Western Economic Diversification has developed formal urban development agreements in some cities, most of these agreements (excluding the one for Winnipeg) exist more as joint planning and co-ordination mechanisms, with no direct

Box 16. The comprehensive policy of centres of expertise in Finland

The Centre of Expertise (CoE) action programme began in 1994 and was initially programmed to last five years until 1999. It was so successful that the Finnish Government decided to embark on a new eight-year programme spanning the period 1999 to 2006. The first programme sought to complement national policy for innovation by pooling regional and national resources to develop specific industry sectors (mainly traditional high-tech) into selected, internationally competitive fields of expertise. More specifically, it aimed to forge innovation and creativity among small and medium-sized companies by encouraging them to co-operate with training institutes, universities, and research centres in and around a region. The long-term objective was to enhance regional competitiveness and to increase the number of high-tech products, companies, and jobs.

The guiding principle of the programme is that it is open to competition, which is why only the very best units receive a national CoE status. To participate in the programme, the units must demonstrate an internationally high-level concentration of expertise, effectiveness, innovation, and efficient organisation. CoEs also compete annually for government funding. This basic funding is matched by a contribution from the region's local partners. So far, relatively small amounts of state subsidies have helped generate significant economic growth within the selected fields of expertise. For the first programme, however, the most important source of funding was the private sector (27%). Next came the National Technology Agency (TEKES), accounting for 25%, and cities, municipalities and regional councils, all together accounting for 24% of funding. Meanwhile, the EU contributed to 17% of total project costs.

The first CoE programme exceeded all expectations and had a hugely positive impact on job creation and entrepreneurial activity.[1] To give an idea of the scale of its success, the number of regional CoEs has risen from 8 to 14 since the programme started. The CoE projects have not only generated a new economic activity, but have also (by utilising research and the special expertise specific to the regions) furthered business development and new contacts and promoted new industries. By 1998, there were over 100 regional projects underway at the centres, and the programme had contributed to the creation of well over 8 000 new jobs and has safeguarded 7 000 existing ones. About 290 new enterprises in the fields concerned were established during the first four years of the programme. With better co-ordination of the CoE operations nation-wide, there has been increasing collaboration between centres, leading to more advanced innovations, often of international significance. The Pro Electronica international development project in Oulu is an example of this.[2]

The second programme, inspired by the outstanding results of the first, has been reoriented and expanded. Its four main goals are to identify regional strengths and create economic growth; increase the number of competitive products, services, enterprises, and jobs based on the highest standard of expertise; attract international investment and leading experts; and continually reinforce and

Box 16. **The comprehensive policy of centres of expertise in Finland** (*cont.*)

regenerate regional expertise. In particular, the concept of the field of expertise has been broadened from the traditional high-tech sectors to include new fields, such as new media, the cultural business, the recreational experience industry, design, quality and environmental expertise. This reorientation ensures that the Centres of Expertise of the future will represent increasingly attractive targets for international private and corporate investment.

1. Urban Exchange Initiative III: Urban development through expertise, research and information (Informal Meeting of the Ministers responsible for Spatial Planning and Urban/Regional Policy of the European Union at Tampere, October 1999). Participants included the Ministry of the Interior, Finland, in co-operation with several experts in Finland and other EU member states.
2. See the following website: *www.intermin.fi/suom/oske/en/osket/oulu.html*

designated funding commitment. The federal government has often been criticised for severe under-funding in cities. In view of the increasing pressure to provide an effective transportation, housing, and leisure infrastructure, the role of WED and federal regional councils should be upgraded. The emergence of city-regions in the West poses specific challenges to the federal government, even if city-regions have not attained the same size or importance as in the eastern part of the country.

National programmes with territorial impacts: the case of infrastructure and information technologies

The geography of Canada means that transport infrastructure has been critical for the development of the different regions and notably for the most remote ones. Although regional agencies are involved in implementing programmes, main orientations and strategic aspects are managed by the Department of Transportation. Policies such as the privatisation of airports have important territorial implications. Provincial and federal initiatives with regard to IT infrastructures also have a significant impact on regional business competitiveness. Such initiatives, which complement measures to reinforce assistance to Canadian exporters (*e.g.* team Canada) need to be reviewed and their consistency with territorial policies appraised.

Transportation and community infrastructure

In the 1999 Speech from the Throne, a new programme was announced targeting physical infrastructure to enhance quality of life and to improve key transportation corridors impacting on inter-provincial as well as international trade. The 2000 national budget subsequently provided for CAD 2.65 billion between 2000 and 2006 of which CAD 2.05 billion was committed for municipal infrastructure and CAD 600 million for highway development. The Infrastructure Canada Programme is designed so that dedicated funding is provided over several fiscal years.

The Infrastructure Canada Programme was the successor to the Canada Infrastructure Works Programme (CIWP), which ran from 1994-1999. The CIWP was created in 1994 as an economic stimulus. Job creation through the construction industry was therefore the primary focus of the endeavour. Since that time the economy in Canada has greatly improved, and job creation is no longer the main priority. Infrastructure Canada's principle focus is on "green" municipal infrastructure, such as municipal water, wastewater, solid waste management including, recycling, and improving energy efficiency in buildings. Secondary priorities include local transportation, cultural and recreational facilities, infrastructure that supports tourism, affordable housing, rural and remote telecommunications, and the provision of high-speed Internet access for public institutions.

The programme is governed through federal-provincial/territorial agreements that provide for administration by management committees composed of two provincial and federal representatives. Each committee is headed by a federal co-chair and a provincial co-chair. The management committees in two provinces also include municipal representatives. In several other provinces municipal representatives are consulted in project assessment and selection. The federal share of funding under the programme (approximately one-third of eligible costs) was allocated to provinces and territories on the basis of the share of Canada's population and the share of Canada's unemployment. Each of these components is equally weighted. The remaining share of funds can come from provincial and local governments as well as non-governmental sources including, for example, public-private partnerships. Generally, provincial governments contribute another third of costs, and local governments the remainder. Funding priorities were determined through negotiated agreements between the federal and provincial/territorial governments. Generally, any local government is eligible to submit a project for funding, although federal and provincial governments have agreed to set aside some funding for strategic projects that span municipal boundaries or that might not otherwise be proposed by local governments. While the allocation of funding within the provinces and territories is determined by provincial/territorial governments, there are fixed targets that are included in the Agreements and must be respected: the percentage of funding allocated to "green" projects and the percentage of funding allocated to rural communities. In Alberta, funds are allocated to local governments on a per capita basis ("entitlement") and according to local government classification: rural municipality, urban municipality, town, village, and summer village. The involvement of the federal government in funding municipal infrastructure is welcome at a time when metropolitan and rural areas are confronted with significant new challenges.

In addition, a number of federal policies have a regional economic impact even though they contain no regional policy elements. One example is the airport policy, which led to the devolution to local authorities of many airports that had been owned and operated by the federal government. Shifting the cost of running Canada's airports from tax payers to those who actually use the facilities impose market discipline on the development and operation of airports and make all airports more responsible to the needs of their customers and communities. Canada has an extensive airport system: almost 2 000 airports and airfields, many of which are the sole link between communities and the wider world. About 25% of the population or 7 million people are in communities located more than 50 km from a major airport. This number falls by a factor of three to about 8% of the population or 2.4 million people at 100 km. Airport accessibility is much better for the Northwest Territories as airports exist in most remote northern communities. In 1994, Transport Canada issued a new airport policy, that led to the devolution of many airports that had been owned and operated by the federal government. The rationale for the policy was not to reduce spending but to "shift the cost of running Canada's airports from tax payers to those who actually use the facilities, impose market discipline on the development and operation of airports and make all airports more responsible to the needs of their customers and communities". The policy established a hierarchy of 5 categories of airports. The most important were designated national airports system (NAS) airports, considered essential elements of the air-transport system, and handling about 94% of all air passengers. Most of them were leased to Canadian Airport Authorities' Corporations, which are run by a board of directors composed of federal, provincial, and municipal government representatives, as well as representatives from non-governmental organisations such as chambers of commerce, boards of trade, and local labour and consumer groups. The local boards are responsible for operations and management at the airports and can undertake expansion and investment programmes. However, Transport Canada retains ownership. Twenty-four of twenty-six airports in this category had been transferred of which 23 were leased by the end of 2000.

The second level in the hierarchy is that of regional and local airports, which number 71, and have an annual passenger transit of less than 200 000. Responsibility for them was generally off-loaded to local and provincial governments, as well as to private businesses and other entities. The federal government has created a five-year, CAD 190 million assistance programme – the Airport Capital

Assistance Programme – to help these airports reach federally-required safety standards and to ease them through the privatisation process. Local authorities have also received money from the federal regional development agencies. By the end of 2000, sixty of these airports had been sold or transferred.

The next level in the hierarchy is composed of 31 small airports with no scheduled passenger service. Twenty-six of these have been sold to local interests. The two remaining categories are remote airports and arctic airports. The remote airports, of which there are 13, serve isolated communities, and remain under federal control and operation. The arctic airports, numbering 11 and located in Nunavut (3), the Yukon (2), and the Northwest Territories (6), have been transferred to territorial authorities.

In the case of larger cities, such as Toronto and Calgary, the airports policy appears to have been relatively successful, allowing airport operators to raise money from a variety of sources to undertake expansion and modernisation programmes. In the case of smaller airports, the airport policy has not yet imposed additional fiscal burdens on provincial and local governments. There are some concerns that should some airports require government support in the future the burden would fall on provincial or municipal authorities.

Changing policies on rail transport have also had regional impacts. The West is heavily dependent on rail transport. At the end of the 1990s, the three westernmost provinces accounted for 52.2% of Canada's rail freight traffic, and only 29.9% of Canada's road traffic. This reflects the commodity-based nature of the region – grain, fertiliser, potash, timber, and other bulky raw materials. Changing policies on rail transport have also had regional impacts. The Canadian Transportation Act (CTA) of 1996 addressed the problems of an overbuilt network by streamlining the rail rationalisation process to make it more conducive to the sale or lease of assets to new operators. From 1996 to 2000, Canadian National and Canadian Pacific sold or abandoned 13 thousand kilometres of tracks, 75% of which were transferred to short line operators. In the first part of the 1990s, 6 000 kilometres of track were sold or abandoned, but less than 20% transferred to other road services in Western Canada. In spite of the rationalisation of rail services, the availability of competitive rail services remains significant. Deregulation policies have also been quite beneficial to Canada in general and in particular to regions, which rely more on rail, such as Western Canada. As an illustration, between 1986 and 1999, freight rates paid by shippers dropped in real terms by more than CAD 2 billion or 37%. This was achieved while the Canadian railways restored their financial health.

Finally, Canada's port system has undergone reorganisation aimed at instilling commercial discipline in port operations. The federal government has moved out of the direct operation of ports, giving local users more say in the port services they pay for and receive. Since the introduction of the National Marine Policy in

December 1995, 19 major Canadian ports handling significant national and international traffic have been set up as Canada Port Authorities with increased managerial and financial freedom to operate as commercial enterprises and in the best interest of port users. Also, as of October 2001, a total of 412 of the 549 Public Port sites across Canada had been either transferred to other federal departments, levels of Government or divested to local interests, demolished or had their public harbour status terminated. Three ports belonging to the former Canada Ports Corporation have also been transferred to other interests.

Information technologies

There are many reasons for the Canadian government to choose the information technology infrastructure as a priority target for public support, including geography and the need to connect remote areas, the transition from the resource-based to a knowledge-based economy, international trade requirements, and consumer demand. Although Canada ranks well at the national level with regard to Internet accessibility indicators, such as availability, price, reach and usage intensity, major disparities in terms of access for firms (*e.g.*, those operating in electronic commerce) remain, as does a gap with the US.[25] The share of information capital in the entire capital stock is now in Canada about what it was 20 years ago in the US.

As part of its strategy to increase the availability of information, the federal government relies heavily on the Internet as a means of serving potential customers. To broaden Internet access to all parts of the business community, the government supports a Community Access Programme, which establishes public Internet access sites in urban, rural and remote communities nation-wide. These sites are also instrumental in bringing opportunities for skills development and jobs to young Canadians within the framework of the Canada Youth Employment Strategy. Approximately 8 800 access centres have been approved or created in Canada since the start of the programme in 1995. Another aspect of the strategy is the foundation of smart communities, that is communities enjoying an information-led socio-cultural development. Industry Canada is providing up to CAD 5 million in matching funds for projects selected under the Smart Communities Demonstration Programme. Twelve projects are being implemented (one per province, one for the North and one for the Aboriginal community). They will become centres of expertise for integrating information technologies into communities and organisations.[26]

The government has also worked to build up public-private partnerships. An example of this is Contact, the Canadian Management Network, which is meant to bring together public- and private-sector small business support organisations via the Internet. The Internet is also used to disseminate information on doing business with the federal government and launching start-up companies. The use of the Internet to promote economic development is not restricted to business support. Information about other programmes sponsored by the federal government, including, for example, links to local Community Futures Development Corporations, to local development agencies, and to the Rural Action Plan, are available online. Information about funding applications for many programmes can also be accessed via the Internet, and applicants are encouraged to apply online.

To sum up

Canadian territorial policy has undergone a paradigm shift. While mainly emphasising redistribution mechanisms, struggling against inequalities and assistance to lagging regions until the end of the 80s, the policy approach has now moved to identifying local opportunities for economic growth to reducing barriers and to maximising regional comparative advantages. Throughout the last decade, four agencies located in regions have been the main vehicles to implement this strategy. Over time they have taken on new roles and responsibilities and, with exception of southern Ontario and the Northern territories, now serve all areas rural and urban, growing and declining. The agencies serve as monitoring agencies, which oversee, and co-ordinate certain federal programmes at the provincial level. In addition they serve as communication channel between local and provincial governments on the one hand and the federal government on the other hand.

The decentralised nature of this governance system is a major advantage. Canada is not one economy but several. Agencies have been able to diversify their policies and to bring them closer to the needs of the provinces. In the Atlantic provinces, ACOA has used a vast array of programmes to foster local development and endogenous growth. While its cluster approach and entrepreneurship strategy have not had all the success expected, it has built an efficient division of labour with the provinces and has been active in training local economic development organisations. In Quebec, CED has also tried to specialise in areas where the federal government has a comparative advantage, putting stress on programme delivery, diffusing economic intelligence, setting up regional strategic initiatives and supporting the Community Futures Programme (CFP). The structural problems of several lagging regions seem nevertheless difficult to tackle. In Ontario, assistance to communities has been significantly developed by FedNor through an array of community-based programmes in the north and through the Community Futures Programme (CFP). Although this approach is building local capacity for development and stimulating bottom-up strategies, the northern Ontario economy remains fragile with high transaction cost and lower performing firms in terms of export, innovation and productivity. In the south many federal and provincial programmes are dealing with the problems of rural and intermediate areas, but co-ordination is weak. Finally in the west, Western Economic Diversification has significantly contributed to the upgrading of the business environment through the provision of services and advice. It has nevertheless been less successful in its attempt to improve the innovation culture of small business and interactions between public research and private firms.

Agencies are now facing several major challenges: First, provincial economies are increasingly globalised and external trade with the United States growing notably relative to interprovincial trade. To benefit fully from these new trade patterns, regions especially those in the East need to improve their performance in attracting inward investment. As a consequence agencies (primarily ACOA and CED) should strengthen their assistance to business in activities linked with foreign markets as well as their collaboration with team Canada. Second, within this framework of increasing competition between territories to attract people and capital, local management and capacities to initiate viable bottom up development projects are becoming more important, notably in the context of growing urbanisation and city development. Federal programmes need to put more stress on entrepreneurship (*e.g.* in northern Ontario or in the West). Provinces could also transfer more decision-making power to lower levels of government including metropolitan areas. Third, all provincial economies are now affected, though to different extents, by the shift towards knowledge-based activities. There is a need for specific programmes that in certain cases would aim at the reinforcement of investment in public R&D, thus calling for complementary agency initiatives (*e.g.* WED), or in other cases would target more innovation elements (*e.g.* in Ontario). The government is now taking steps in this direction. In February 2002, it launched an innovation strategy with the release of two complementary papers titled *Achieving Excellence: Investing in People, Knowledge* and *Opportunity and Knowledge Matters: Skills and Learning for Canadians*. The Innovation Strategy aims to ensure the labour market is well-equipped over the medium- to long-term for innovation and growth, and encourages Canadians to acquire the skills demanded by the economy of the future.

Notes

1. See chapter on "Fiscal Federalism and Metropolitan Reforms".
2. For example regional development agencies manage the network of Community Futures Development Corporations and Canada Business Service Centre in the provinces. Industry Canada manages CBSCs in Ontario and the Territories.
3. Partnership agreements are described in the following website: *www.wd.gc.ca/eng/ced/wepa/default.htm*
4. The current system of co-operation/partnership agreements is the remnant of a much larger programme. In the 1970s, for example, funding amounted to CAD 840 million over a five-year period. However, in the late 1980s, funding dropped sharply, initially to CAD 240 million for a five-year period. Since then, funding has fallen still further, and for the current five year period amounts to just CAD 80 million for the four western provinces.
5. Four or five more are being developed to complete universal coverage of rural Ontario. See the following websites: *www.cbdc.ca*; *www.wd.gc.ca* and *www.Ontcfdc.com*
6. Elements used for these measurements included: The United Nation's Human Development Index, the World Economic Forum's World Competitiveness Report Methodology, and the American-based Corporation for Enterprise Development's Development Report Card for the States' standards.
7. A particular aim of the exercise was to include smaller clusters, which might exist on a very localised basis, as well as clusters of broader regional significance. It should be noted that the six clusters were deliberately selected because of their differing regional significance and development stages. The exercise included face-to-face interviews and consultations, and attempts to identify the most value-added producers and integrated producer networks, suppliers of intermediate goods and services, suppliers of primary inputs, local R&D bases, business support infrastructure, and public support.
8. Geomatic Engineering uses 21st century technologies for measurement management, presentation and analysis of Earth-based (spatial) data. These data come from many sources, including earth orbiting satellites, air and sea-bourne sensors and ground based instruments. It is processed and manipulated with state-of-the-art information technology, computer software and hardware.
9. Education falls under the responsibilities of the provinces.
10. ACOA also provides a wide range of business support services directly through a number of partner agencies. In addition to the CBDCs, these included the Business Development Bank of Canada, with an office in each province; four networks of community economic development associations (one in each province); five Canada Business Service Centre offices in the Atlantic region; four provincial offices of economic devel-

opment; five university-based small business counselling centres; three regional membership associations representing entrepreneurs and small business owners; local chambers of commerce; and a women's enterprise bureau with 6 field offices. In order to develop synergies among these different actors, co-location of offices has been encouraged, as have referrals from one service provider to another. In addition to offering advice and linking up partners through its offices, ACOA also sponsors conferences and other activities aimed at creating social networks. These measures aim to increase the number of opportunities for established and emerging entrepreneurs to interact with each other, and to increase dialogue between programme deliverers and policy-makers. ACOA does this in three ways. One is to sponsor conferences and conventions aimed at linking program deliverers and businessmen. The second is to bring together small business support organisations, economic development organisations, business and trade associations, and educators. They annually support an Economic Development Partner's Workshop to bring together some 100 participants who can share experiences. A final is to bring together policy makers, educators, and government officials, to enhance co-ordination of initiatives.

11. Funded by Strategic Community Investment (SCIF).
12. See chapter on "Territorial Trends and Disparities".
13. Figure for 1997.
14. *E.g.* Hydro-Quebec (electricity), Société générale de financement (manufacturing industries), Société de développement industriels (loans to firms), Soquem (Minining), Soquip (oil and gas), Rexfor (forestry), Soquia (agri-food).
15. This share of high tech industries is higher than the one in Germany and France and close to the US (13.5%).
16. Among 26 advanced technologies listed by Statistics Canada, Quebec stands behind for 14 of them.
17. Programme for export market development.
18. Each administrative region of Quebec has its CRD. Their role is essentially one of consensus seeking and planning. Their tasks are many and include organising key regional actors, outlining a strategy, signing framework agreements with the provincial government, finalising specific agreements with ministries and co-ordinating with the government to manage a regional development fund. The formation and composition of the councils is the responsibility of each region. Every council must be representative of the entire territory, bringing together municipal representatives, socio-economic representatives, service providers and National Assembly delegates elected on regional territory. CRD funding is provided by provincial government transfers of approximately CAD 2 million per region. There are 17 CRD all over Quebec.
19. CLDs provide economic development assistance to companies, and are now the only such bodies receiving support and funding from the provincial government. Their mandate is to set up a multi-agency, to assemble and co-ordinate those bodies and services working for entrepreneurship and to draw up a local action plan focussing on the economy and employment. The CLD board of directors consists of local economic and employment partners, such as business, union, municipal, co-operative, community and institutional representatives. The proposed average budget is an annual CAD 1 million. There are about 120 CLD.
20. Since 1996, FedNor has granted over CAD 140 million in contributions from both FedNor and Community Futures programs. Of this amount, FedNor approved CAD 65 million in

contributions to almost 1 000 projects. Moreover, it has committed almost CAD 4 million to loan loss reserve agreements with financial institutions resulting in commercial lending of CAD 19.75 million for SMEs and has recently established a new loan reserve for local credit unions in order to encourage them to do more high-risky commercial lending.

21. In June 2001, CFDCs in Southern Ontario were given access to an additional CAD 7.8 million over four years to support local initiatives to increase innovation and help communities and SMEs adapt to and participate more effectively in the knowledge-based economy. The same objective will be pursued by FedNor in Northern Ontario through a variety of its existing program components.
22. For donations of equipment and technology to colleges and universities.
23. The provincial government's 21st century action plan: according to this action plan, the government will create more opportunities for residents and help Aboriginal communities to become more self reliant.
24. See the following website: *www.trans.gov.ab.ca/content/doctype59/production/po1002*
25. Conference Board of Canada 2000 quoted in OECD 2001b.
26. See chapter on "Policies for Predominantly Rural and Northern Regions".

Chapter 3

The Challenges of Urban Policymaking

Canadian metropolitan regions have gone through remarkable expansion. They are not only vital to the economic health of their provinces but also to that of the whole country. Yet, they are confronted with several challenges, including the need to be competitive in a context of globalisation, to limit urban sprawl, provide adequate public transportation, and avoid the deterioration of their inner neighbourhoods and the accompanying problems of social segregation and poverty. In this context, they are concerned with taking steps towards economic development, as well as with remaining attractive by ensuring safe urban spaces and responding to social needs. Cutbacks in federal social and infrastructure investments were accompanied by the decentralisation by the provinces of such responsibilities to the municipalities without always granting them the corresponding finances and capacities for revenue management and generation. The whole approach to urban areas and their role in economic growth needs rethinking. Following Ottawa's long withdrawal from urban affairs, it seems appropriate to ask whether there is a rationale for renewed federal involvement. This chapter will give an overview of the policy responses put forward for each principal issue faced by the cities, paying special attention to the role played by the three levels of governments. The policy initiatives discussed in the first two sections of the chapter – aimed at building a friendly spatial environment and at addressing social issues – have the best chance of succeeding in a vibrant urban economic context. The efforts of Canadian cities to create just such a climate will therefore be discussed in a third section, before moving on to the final recommendations.

Main policies for urban areas

Responding to the challenges of the built environment

Growing smarter

During the 1990s, provincial governments (Quebec and Ontario) each appointed commissions to issue recommendations for maintaining the quality of life and achieving competitiveness by attracting highly skilled workers in the Montreal and Toronto regions. The Task Force on Greater Montreal (the Pichette Commission, which issued its report in December 1993) and the Greater Toronto Area Task Force (the Golden Commission, which issued its report in January 1996) both admitted that their city regions were suffering from similar problems to differing degrees. Over the last twenty years, almost all population growth had been in suburban areas beyond the boundaries of the metropolitan government.[1] Moreover, Toronto and Montreal experienced employment losses inside the core metropolitan government area partly because of lower business taxes in the suburbs. Finally, both areas expressed concern about deteriorating infrastructure in their inner cities and low-density development in their suburbs, as both these problems placed a strain on the viability of public transit and other public services. In their conclusions, the two reports underlined the need for a healthy and dynamic inner city along with more compact urban development to improve the environment, make mass transit more viable, and economise on infrastructure costs.

These two recommendations echo the smart growth concept. This concept promotes a combination of transport alternatives, updated infrastructure, a wider choice of housing options, better environmental protection, and above all, greater reinvestment in city centres. Smart growth is a set of interlocking actions: reinvesting in existing cities goes hand in hand with the objective of containing urban sprawl. A dispersed development pattern where suburbs expand outwards and consume land at a faster rate than the rate at which the population is growing may entail major economic and environmental costs. Indeed, the construction of brand-new subdivisions demands extension of highways, watermains and sewers, whereas infrastructure in older urbanised areas suffers from a lack of repair and upgrading. The endless outward expansion of suburbs means greater dependency on cars, longer commutes, traffic congestion, environmental degradation, and a lowered quality of life. This kind of boundless suburban development might not be sustainable. Land values in many low-density suburban communities are likely to decrease because of increased traffic and a deteriorating housing stock.

Containing urban sprawl implies, among other things, reconsidering housing forms and lot sizes in new suburbs and accommodating a greater proportion of growth in previously developed areas, *i.e.* revitalising existing cities. Compact development would also help to create suburbs on a more human scale and improve their quality of life. Smart growth also requires renewing support for public transit. Smart growth has gained some popularity in the United States since the late 1990s, especially with the Clinton-Gore administration initiative of "Liveable Communities". The Initiative is based on three main principles: *i*) communities know best – the federal government should respect the value of local decisions and not insert itself into inherently local matters; *ii*) collaboration – there should be partnerships across local geography, and among communities, regions, the state and federal governments; *iii*) reinventing the federal government – integrating policies to support locally driven efforts (Institute of Urban Studies, 2000). This "Liveable Communities" initiative includes federal support for mass transit, redevelopment of brownfields sites, and matching grants for regional and local initiatives in the area of smart growth.[2] Initiatives have also been implemented through coalitions involving business, environmental and citizens' groups. In Canada, the federal and provincial governments are starting to consider funding and legislation that will take the concept into account. Support for reinvestment in Canadian cities is not widespread, however. Indeed, many decision-makers and voters disagree with the idea (Canadian Urban Institute, 2001). Nonetheless, there is a need to slow down sprawl and whereas Canadian cities have long boasted a better quality of life than American cities, it seems that the United States is currently more involved in solving its urban problems than is Canada.

Infrastructure and environmental policy

Canadian cities have limited financial capacities to embark on infrastructure spending. They have benefited from timely infrastructure investments in the past, but these investments were not renewed when appropriate during the 1990s. According to the Canadian Urban Transit Association (CUTA), overall government funding for transit in Canada has declined 18% over the last five years since 1996. CUTA estimates that Canadian transit infrastructure needs at least CAD 9.2 billion of investments over the next five years, mostly in the form of buses, rail cars, stations and other facilities. This contrasts with the US situation where cities have benefited from substantial federal infrastructure spending, in particular through the federal programme, Transportation Equity Act of the 21st Century, which is designed to channel capital into infrastructure in large cities. According to a study of selected major urban centres in North America under the US federal programme a city-region the size of GTA would qualify for about CAD 243.5 million in infrastructure funds annually (Policy Research Secretariat, 2001). Canadian cities are therefore at a comparative disadvantage, since infrastructure is critical to enhancing the competitiveness of cities and their export potential. Greater integration with the world economy requires both a strategy and a specific scale for public and private financial investment.

In response, the Federation of Canadian Municipalities (FCM)[3] issued a series of recommendations during caucuses held in 2000 and 2001. A proposal was put forward for the co-ordination of an Urban Transit Programme with sustainable transportation as one of its main objectives. The FCM called on the federal government to make a financial commitment and to consider long-term funding mechanisms for transit that would provide at least CAD 1 billion a year. It urged the government to allocate funding from existing transportation user charges, such as fuel taxes, to finance an integrated package of more sustainable transportation options.[4] Furthermore, the FCM called on the federal government to either allocate a portion of the current fuel tax revenues to municipal governments – these revenues now go to the federal and provincial governments – or to increase fuel taxes and allocate the increased revenue to municipalities. As the federal and provincial governments already collect substantial transportation user fees, the success of such a programme would depend directly on the extent to which these two levels of government are prepared to allocate at least a portion of existing fuel tax revenues.[5]

Partly in response to calls by FCM, in 2000, the federal government created a new national programme for municipal infrastructure called the *Infrastructure Canada Programme*. Total funding for this tripartite agreement is CAD 6 billion. Of this, the federal government will commit CAD 2.65 billion over six years with the remainder coming from the provincial, territorial and municipal governments and the private sector. CAD 2.05 billion of the federal funding will be invested in municipal infrastructure and CAD 600 million in provincial highways. The programme was designed to build on the success of the national Canada Infrastructure Works Programme (CIWP), which was launched in 1993 and which proved to be a good model for leveraging funds from other partners, including other levels of government, the private sector and not-for-profit groups. Although refurbishing urban infrastructure will undoubtedly absorb a large share of its efforts, the programme's purpose is to improve *all* municipal infrastructure across Canada, in both urban and rural areas. Its first priority is Green Municipal Infrastructure, including water and wastewater systems, water management, solid waste management, and recycling. Local transport features as a second priority. A staggering deficit in Canada's infrastructure remains however as highlighted by the FCM budget submission, *Building a Better Quality of Life*.[6] According to the submission, an annual federal investment of CAD 4 billion for environmental and municipal core infrastructure is desperately needed.

In addition to the *Infrastructure Canada Programme*, in 2000 the Government of Canada provided for a CAD 125 million endowment to the FCM to help municipalities take action to improve the eco-efficiency of their operations. These two funds will leverage matching contributions and investments from municipal, provincial and territorial governments as well as increasing public-private partnerships. The Green Municipal Enabling Fund (GMEF) is a 5-year, CAD 25 million fund to support feasibility studies for municipal infrastructure projects. It provides grants of up to 50% of the cost of a feasibility study to provincial or municipal governments. The Green Municipal Investment Fund (GMIF) is a CAD 100 million, permanent revolving fund that supports implementation of infrastructure projects, which improve the energy efficiency or environmental effectiveness of existing municipal infrastructure. It provides loans of up to 15% (exceptionally 25%) to provincial or municipal governments with paybacks of 4-10 years. The objective of the funds is to make changes to existing infrastructure to improve air quality, waste management, water quality, and energy efficiency in municipalities.[7]

The Funds represent an initial recognition of the critical role played by municipal government in sustainable community development.[8] However, it has been reported that the use of the FCM as the distributor of federal funding under the Green Funds has exacerbated relations with some of its members. Moreover, the FCM feels that, while a welcome and important first step, the funds cannot meet municipal demand for financial support. FCM is required to produce an annual report on the Funds, including an audit, and the Government of Canada has the option to conduct an audit at 5-year intervals. This means that several rounds of submissions, project reviews and approvals will occur over the life of the funds.

The new tripartite infrastructure programme could also be seen as only a first step towards resolving the staggering deficit in Canada's municipal infrastructure. The FCM here again considers that a larger federal commitment is needed for the future. It calls for Canada's leaders to establish a permanent national infrastructure programme for municipalities to ensure ongoing investment. According to the FCM, establishing such a shared funding initiative as a permanent national programme with additional financial resources would offer significant benefits to Canadians. These would include continuity of the planning processes, facilitation of long-term planning, an orderly and strategic development of projects, the implementation of appropriate rates and pricing for services, and structured decision-making. It would create a national framework for continuous maintenance and rehabilitation, and an environment in which technological progress could be applied to improve efficiencies, thus meeting new standards.

Spatial planning

Spatial planning is an important policy-making tool in the multi-poles smart growth approach. In this perspective, Toronto's strategy to grow smarter is based on three main pillars: reinvestment areas, the new rental housing sector and campaigns for beautiful places. An official plan directions report has been drawn up describing the vision of the city over the next 30 years and charting a course for post-amalgamation. This vision was first presented in *Toronto at the Crossroads: Shaping our Future*, published in 2000. The document became the object of discussion between city officials and inhabitants during public open houses and workshops, and over the Internet via email. It is projected that, by 2031, Toronto's urban region will acquire an extra 2.6 million inhabitants. The vision would therefore encourage more people to live in the city's already urbanised, built-up areas, and would stimulate job creation in these same areas. It is hoped that this would result in higher-density forms of growth, while preserving the city's present neighbourhoods and natural areas (Box 17).

The most innovative section of the land-use plan concerns the regeneration areas. Work on one of the designated regeneration areas, the Toronto waterfront, is already in progress through initial projects worth approximately CAD 300 million. Infrastructure and renewal projects will be funded by the CAD 1.5 billion waterfront funds announced by the mayor, the Prime Minister, and the Premier. Besides the regeneration areas, the city of Toronto has designated reinvestment areas such as the downtown (including the financial district), the central Waterfront (which could house 100 000 new residents and employ 25 000 people, North York, Scarborough and Etobicoke Centres (which could accommodate many more people and jobs) and 800 hectares in large vacant parcels of land just outside the

Box 17. The land use plan

According to the document, the city of Toronto has been divided into **eight designations,** which are to become the object of specific programmes. The new plan will preserve both existing 1) **neighbourhood areas** that are low-scale and residential, while making sure that in-fill projects are well designed, and 2) **apartment areas,** which include mid-rise and high-rise buildings. The goal for these two areas is to provide a high quality of residential amenities and promote environmental sustainability. The designation of 3) **mixed use areas** represents an important initiative: many avenues and plazas restricted to commercial uses will now allow for the construction of residential development, an option that previously would have required major changes in the zoning system. A wide range of development activities are to be permitted including retail, office, residential, institutional and recreational/open spaces, but not industrial development. 4) **Parks and open space areas** are to remain public and permanently accessible. The plan will continue to preserve the 5) **utility corridor areas,** which comprise hydro and railroad rights of way, in order to allow for other uses such as bicycles, pedestrian trails and public transportation. The current 6) **employment areas,** which account for more than one third of jobs, are to become key locations for welcoming more companies and employment. Toronto includes a large number of colleges, universities and public cultural facilities in 7) **institutional areas**, which can also accommodate a wide variety of new healthcare, cultural, religious, government, commercial, retail and residential facilities. The land-use plan also concerns the 8) **regeneration areas** such as the King Spadina and King Parliament districts, and parts of the port that were once thriving employment areas before being gradually deserted. In these areas, all urban uses are to be permitted, including commercial office and retail, residential, institutional and recreational activities, and excluding industries.

waterfront area. To attract investment in these areas, new policies such as tax increment financing, quick processing of development applications, and the use of civic and public governmental funds are needed.

Additional challenges are posed by the use of development areas for residential rather and commercial development. While more residential units are urgently needed in many of the largest cities, by themselves these units cannot build a sustainable economy. For instance, there has been considerable discussion on how to accommodate 1 million more people in the City of Toronto as per the Official Plan Directions Report, but there has been little debate on how to achieve the target of 500 000 new jobs for the region. Current market forces have established a relatively high profit potential for residential development in the Toronto area (70 000 to 90 000 new immigrants arrive annually) and a lower and more risky profit potential for employment-related development. As a result, the City is under significant pressure from developers to rezone privately held lands from employment uses to residential uses. There is a risk of creating an imbalance between population growth and job growth, however, which would lead to a number of negative impacts. For instance, because the suburban regions are much less well served by public transit, population growth in the city coupled with job growth in the suburban municipalities makes many jobs inaccessible to the large low income population resident within the city who do not have access to an automobile. As many of these jobs essentially require a car, this pattern of growth also increases auto dependency and the negative impacts associated with increased auto emissions. In financial terms, it generally costs municipalities considerably more to service residential developments (garbage collection, ambulance, fire, etc.) relative to the cost of servicing commercial developments. Residential developments are also generally subject to a considerably lower property tax rate compared to commercial developments. Thus, from a fiscal perspective, residential development can increase municipal costs and lower revenues. Residential growth without employment growth is clearly not sustainable in the long term. Efforts are being made through the Official Plan development process to clearly articulate the strategic importance of ensuring adequate land and buildings for employment growth and otherwise stimulating such growth within existing urban areas that are well served by public transit and other infrastructure.

Montreal has also established a special planning programme for its International District or "Quartier International". The idea is to create a prestigious district in the heart of the downtown in order to contribute to the economic development of Greater Montreal by: *i*) consolidating the district's activities, *i.e.* making it more attractive to large international organisations/companies, especially in sectors where Montreal shows particular strength, including aviation, environment, finance, and international law, *ii*) boosting the existing spin-off from international business activities (net value added of some CAD 180 million a year) and tourism (over CAD 900 million a year), and *iii*) carrying out major real-estate development projects that would otherwise not be feasible. This area of the city has several advantages. First, it is well suited for the expansion of the Central Business District, given its location in the midst of major international institutions, at the centre of Montreal's major tourism, recreation and cultural poles, and at the crossroads of transport networks. The area is also blessed with enormous potential for attracting urban and real-estate development: in the Central Business District, it encompasses the main large spaces yet to be developed. In addition, it is located between the two major sections of Montreal's underground pedestrian streets. The goal of sustainable development is reflected in each component of the project, especially with regard to accessibility, traffic, and parking.

The project is based on a partnership between the City of Montreal and the Caisse des Dépôt et placement du Québec, through the Société du Quartier International de Montréal (QIM). QIM is a non-profit umbrella organisation bringing together the Caisse des Dépôt et placement du Québec, the City of Montreal, the Association des riverains du Quartier International de Montréal, and the provincial and federal governments. It receives combined public- and private-sector financial support. This totals some CAD 60 million for the first development phase, provided by various levels of government and adjacent property owners (through local improvement tax) and by large companies (through sponsorship). The project is expected to generate public- and private-sector property investment of over CAD 1 billion. The partnership is not limited to a mere financial participation as the different parties have been involved in planning and setting up the project as well (City of Montreal, 2000).

Limiting inner city decline: policies for distressed urban areas

In most OECD countries, urban deprivation is generally highly concentrated and takes spatial form in inner cities and/or suburbs. The development of distressed areas within metropolitan areas is detrimental to the entire urban economy. Their presence, whether in the centre or on the periphery of a city, alters the pattern of metropolitan employment and investment, therefore reducing the city's capacity to pursue area-wide goals, such as competitiveness and sustainability. The repercussions are difficult to quantify, but a certain number of direct and indirect costs can be easily identified: reduced human capital due to lower educational skills among residents of distressed areas; reduced social capital due to vandalism and a negative collective process; reduced financial capital due to higher public expenses for rehabilitation and infrastructure maintenance. Thus, for metropolitan areas, distressed urban areas represent an untapped development opportunity, *i.e.* a barrier to a greater competitiveness. Traditional policies have not succeeded in halting the downward spiral that affects these areas as they have failed to address the complex, area-based nature of the problem at the local level.

Successful policies are generally those with a multi-sector approach and those involving different levels of government, civil society, and the private sector. The overall aim is to provide residents of distressed areas with the same access to services available elsewhere in employment, healthcare, political representation, etc., and to reduce barriers to investment and mobility, particularly in the housing and labour markets (OECD, 1998).

Policies have been implemented in Canadian cities that have helped to prevent extensive slum areas. In 1981, the federal and provincial governments launched the Winnipeg Core Area Initiative. This tri-level agreement initiative was renewed in 1986 for a further six years to deliver programmes to revitalise Winnipeg's inner city[9] and improve economic opportunities for Core Area residents. The total funding of the initiative was CAD 100 million for the period 1986-1991 and was split evenly between the federal and provincial governments. Among other things, the initiative provided industrial development support, housing incentives, funding for training and employment, and strategic capital projects such as the Forks and community development. The Winnipeg Development Agreement (WDA), which includes a specific programme for neighbourhood revitalisation and for which CAD 4 million has been allocated is another tri-partite commitment between the three levels of government. This latter programme aims to improve the overall quality of life for residents within declining neighbourhoods by addressing basic human needs including income, employment, education and training, health, safety, and personal and group development. Most notably, under the programme two Neighbourhood Resource Centres will be set up operating as multi-function facilities and housing a variety of social-service and programme-delivery staff. Local resident advisory groups are being formed to assist in the process.[10]

Similar policies have been applied in Vancouver. The Vancouver Agreement is a commitment by the federal government, the province of British Columbia, and the city of Vancouver to work together to support sustainable economic, social and community development in Vancouver for a period of 5 years.[11] In March 2001, the Vancouver Agreement partners announced funding of CAD 530 000 for a range of programmes to improve the employability of local residents and the appearance of the area. Although the agreement affects the entire city, the initial focus of work is in the Downtown Eastside (DTES).[12] The DTES is home for at least 16 000 long-term residents – men, women, and children of diverse backgrounds and origins. Today, the city is facing a serious affordable-housing shortage and housing in the DTES area is very badly maintained. Many people are forced to live in small, single rooms with no kitchen or bathroom facilities in their unit. The purpose of the revitalisation programme is to find the right balance between safe and affordable housing, and market development. The main objective is to improve the sanitary conditions of single room occupancies (SROs) as a way to avoid homelessness.

This will be done by increasing federal government rehabilitation programmes and replacing the old SROs with new ones.

With the area facing serious challenges from drug use, crime, and the HIV epidemic, the Vancouver Agreement includes a comprehensive strategy to solve drug problems by combining prevention, treatment, enforcement, and harm reduction.[13] The objective is to make the streets safer for those who live and work in the area and surrounding communities. Indoor facilities will help separate drug users from drug dealers which in turn will make it easier for police to target commercial drug dealers. Meanwhile drug users will be encouraged to seek treatment.[14] This initiative will provide an opportunity for other city-regions to adapt the Vancouver plan to their needs.

The Vancouver Agreement does not dissociate social development from economic development. It encompasses measures to create a healthy and viable community, by offering training programmes to inhabitants, increasing support for employment and new businesses and promoting programmes to ease the transition from welfare to work. In March 2001, three projects were announced under the Vancouver Agreement: the First Nations Creation Artists Co-operative, providing workshop and gallery space in the Gastown area; the Interurban Gallery at 1-15 East Hastings, locating exhibition space, artist studios, commercial offices, and shops in an important building; and the Beacon Project (Building Education and Culture in Our Neighbourhood), an advanced learning resource centre for DTES residents. The Victoria Square-based project will retain a consultant to work with property owners, businesses, and residents to develop strategies to improve the area's image and promote its business activities.

Participants in the discussion leading to the Vancouver Agreement also suggested a process of empowerment for people in the community. Besides the three levels of government, they stressed that the community should be the fourth partner, and were keen to ensure that people with limited resources could participate in the discussion. The draft Vancouver Agreement was made available on the city web site as well as in the eight locations, and was translated into French, Chinese, Vietnamese and Spanish. The participants in the review process of the Vancouver Agreement admit that there were competing interests in the City and that principles of social justice should be applied in the decision-making process. They were told that housing development and indicators of community health, safety, and liveability will be monitored once a year through the DTES Monitoring Report, and that progress on the housing mix will be reported to the Council every two years. After three years, a review of all aspects of community well-being, including housing, will be completed, and will include public input and results submitted as a report to the Council.

In Toronto, the success of policies targeting particular neighbourhoods has also been strongly influenced by levels of community participation and interest. Thanks to a rich, diverse history and a tradition of community activism, Toronto is seen as a "city of neighbourhoods" (OECD, 1998). Toronto has had, for many years, a land use/housing policy that has favoured the maintenance of mixed-income neighbourhoods. As a result, there are fewer areas that solely comprise social housing or are low income. This means that disparities are often more difficult to identify statistically than in other cities, with only a small number of areas clearly recognisable. Toronto, by virtue of these housing and fiscal policies has managed to maintain relatively high degrees of social mixing within the city. Segregation is less of a problem in Toronto than in other cities, and processes of gentrification affect only a few inner city areas. However, there is now growing concern in Toronto about decline in the outer suburbs of the City (*i.e.* the former municipalities of Etobicoke, North York, Scarborough). These are now part of the new amalgamated City of Toronto and do not possess the special attributes of the downtown core or the benefits of transportation and other infrastructure improvements in the newer (905) suburbs. Employment sprawl has relocated lower-value, regularised production manufacturing jobs away from this older suburban ring. The outer suburbs have also been the focus of new immigrant settlement within the City.

The social dimension of urban policymaking

Homelessness

Economic growth in cities has been accompanied by an increase in poverty and social exclusion. A particular concern has been the rise in the number of homeless, especially in large urban centres.[15] The complexity of the homelessness issue is too great for municipalities to manage alone. Many municipal governments have encountered considerable financial problems, particularly as they have not received enough support from provincial authorities.

The situation in Toronto, Canada's largest urban centre, had become particularly critical by the late 1990s (Table 6). Faced with the largest number of homeless individuals in the country – estimated at 26 000 over a one-year period – Toronto's municipal government created the Mayor's Homelessness Action Task Force in 1998 to conduct extensive research into the issue. The Task Force stressed that all levels of government must be involved if the homelessness crisis is to be solved. Meanwhile, the Federation of Canadian Municipalities (FCM) released a *National Housing Policy Options Paper* declaring homelessness a national disaster, and called on the federal government to take immediate action. Canada's homelessness situation also drew international attention. In 1998, the UNICEF and the United Nations, voiced concern over the growth of the problem in the country. The United Nations expressed concern that various factors, including cuts in provincial

Table 6. **Homelessness in certain Canadian metropolitan cities**
Municipal estimates

	Number of people using a shelter in a year
Toronto	26 000
Montreal	8 253
Ottawa	5 291
Quebec	2 118

Source: HRDC 2000a.

and territorial assistance and the increasing shortage of appropriate, affordable housing were placing people at greater risk of poverty and homelessness, and urged Canada to implement a national strategy for addressing these two social problems.

Responding to this growing social problem in Canada's major urban centres, the Government of Canada launched the *National Homelessness Initiative* (NHI) in December 1999. The CAD 753 million initiative is designed to foster effective partnerships and investments that contribute to the alleviation of homelessness. (Table 7). The cornerstone of the NHI is the three-year, CAD 305 million *Supporting Communities Partnership Initiative* (SCPI). Recognising that the best solutions are to be found at the community level, SCPI assists communities in planning and implementing comprehensive local strategies to help reduce the numbers of homeless persons and prevent those who are at-risk from becoming homeless. The focus is on supporting the development of communities' capacity for planning, setting priorities and administering initiatives to address local homelessness issues. 80% of

Table 7. **Allocation of SCPI Funds in the 10 most affected cities**
In millions of CAD

	2000/01	2001/02	2002/03	Total
Toronto	17.7	17.7	17.6	53.0
Montreal	12.8	12.8	12.7	38.3
Vancouver	8.4	8.4	8.3	25.1
Calgary	5.9	5.9	5.8	17.6
Ottawa	5.8	5.8	5.7	17.3
Edmonton	5.7	5.7	5.6	17.0
Hamilton	4.3	4.3	4.3	12.9
Winnipeg	3.6	3.6	3.6	10.8
Quebec	2.9	2.9	2.9	8.7
Halifax	1.9	1.9	1.9	5.7

Source: HRDC, 2000a.

the SCPI's budget is intended for the ten cities that are most affected by the problem (Toronto, Vancouver, Calgary, Edmonton, Winnipeg, Hamilton, Ottawa, Montreal, Quebec City, and Halifax). The remaining 20% is distributed to a total of 51 smaller communities that have a significant rate of homelessness. These smaller communities were identified through a collaborative process with the provinces and territories. Other details on SCPI's implementation and design were finalised through this consultative process, in keeping with the Social Union Framework Agreement (SUFA).[16]

Communities can choose between two different programme delivery models: "community entity" or "shared decision making". In the "community entity model", a municipal government, or one or more community organisations, is/are the body responsible for developing and implementing the community homelessness plan and for making investment decisions in consultation with community representatives. The Government of Canada transfers funds directly to the entity, which then manages and administers the funds. Community entities are not agents of the federal government: once the contract between the entity and the government is signed, the government's role is to provide technical support and advice during various stages of the process. In many cases, municipal governments have taken on the role of the entity. Prior to 1999, several provincial governments transferred the responsibility for homelessness issues to the municipalities.

Communities are encouraged, as circumstances warrant, to adopt the community entity model, because it leads to greater investment of administrative capacity (*e.g.*, accountability, making investment decisions, designing and administering the request for proposal process) within a community. However, some communities do not have the capacity to adopt this approach and thus employ a "shared decision-making model". In such cases, the community chooses to work in partnership with the Government of Canada through a community-based advisory body to develop and implement the community homelessness plan. In both models, the federal government provides 50% of the funding and the communities find the other 50%. Based on these two models, different implementation approaches have emerged across the country to reflect local realities (Box 18).

It may be too early to assess the impact of SCPI. However, it appears that communities are, on the whole, responding positively to the opportunities presented through SCPI. Developing and implementing homelessness plans has served to articulate the community's assessment of needs and priorities and to address – through partnerships, existing government programmes and community assets – the needs of their homeless populations. This has, in turn, fostered an efficient consultative and inclusive process bringing together stakeholders to engage in planning and collective decision-making. However, in some cases, ongoing community involvement is not yet at an optimal level. Furthermore, building

Box 18. The different implementation approaches of SCPI communities

In Toronto, the municipal government has taken the lead role in administering SCPI. All three levels of government – federal, provincial and municipal – have come together to outline plans for getting the federal SCPI up and running in Toronto. A steering committee with representatives from all three levels of government is also helping to co-ordinate and implement SCPI. Furthermore, a community Reference Group was formed so that the community plan would take into account advice and ideas from the community. Participants were drawn from community-based groups and coalitions across Toronto. More than 50 groups and organisations participated. In 2001, the city held talks with both governments – federal and provincial – on potential sites for affordable housing development.

In Vancouver, a Greater Vancouver Regional Steering Committee on Homelessness was formed in March 2000. The committee aims to facilitate a community-driven process to develop a regional homelessness action plan. It also offers guidance on SCPI spending decisions. It acted as an interim governance body for the first year of the SCPI's existence (at the beginning of 2001, a community entity had yet to be identified). Regional Steering Committee members represent emergency shelter providers, municipalities, health authorities, First Nations, Housing Providers, community service organisations, service providers, advocacy groups, business/labour, and the provincial government.

Edmonton's Community Plan recommends the funds be allocated to capital projects for emergency, transitional and supportive housing. These projects would serve a wide range of people including individuals, families, large Aboriginal families, and those suffering from addiction problems. The plan will be administered by a two-pronged "community entity", involving the Edmonton Joint Planning Committee on Housing (EJPCOH) to establish priorities and foster collaboration, and the Edmonton Housing Trust Fund (EHTF) to fund and oversee housing projects. These two community-based organisations have broad representation, including members from the three levels of governments, the private sector and non-profit organisations.[1]

Halifax has a Steering Committee on Community Action on Homelessness, which includes representatives from community agencies with responsibilities in the areas of housing and homelessness.[2] The Steering Committee has federal, provincial, and municipal government representatives serving as resource persons, and has also employed a full-time co-ordinator since June 2000. Along with Human Resources Development Canada, the Committee is responsible for selecting projects for SCPI funding. The selected projects are then sent directly to the Co-ordinator of Community Action on homelessness. The Co-ordinator evaluates the proposals and presents completed proposals to the Steering Committee.

Homelessness has been a prominent issue in Calgary since the early 1990s and the community had been working to address the issue prior to the launch of SCPI. Under the shared model, the Community Action Committee of the Calgary Homeless Foundation reviews the wide range of capital, operating, and programming proposals identified by the community to tackle homelessness. The bulk of the SCPI funds for 2000/2001 will finance 20-25 projects to build and renovate emergency shelters, transitional housing, and addiction facilities for homeless women, Aboriginal people, youths and families.

Box 18. **The different implementation approaches of SCPI communities** (*cont.*)

Under the terms of a collaboration agreement with the government of Quebec on the implementation of SCPI in the province, the *Régies régionales de la santé et des services sociaux* (RRSSS) are responsible for co-ordinating the development of community plans and related projects within the province. Projects recommended by the different RRSSS are considered by a joint Canada-Quebec Management Committee for approval and to determine the level of funding.

1. Membership of EJPCOH's board of directors is constituted as follows: Federal government 1; Provincial government: 1; Municipal government: 1; Business: 2; Edmonton Coalition on Homelessness: 4; Community-at-large: 2; Aboriginal authorities: 2; Aboriginal community: 2; Capital Health Authority: 1; Alberta Mental Health Board: 1; Philanthropic community: 1. EHTF is governed by seven trustees appointed as follows: Government of Alberta: 1; City of Edmonton: 1; Greater Edmonton Home Builders Association: 1; Interfaith Committee for Education and Awareness Society: 1; Edmonton Coalition on Homelessness: 3.
2. E.*g*., Phoenix Youth Programmes, Metro Non-Profit Housing, Canadian Mental Health Association, Halifax branch, North End Community Clinic, Women's Addiction Committee.

sustainable community capacity within a three-year timeframe has, in some cases, been challenging.

An important aspect of SCPI is that it recognises that no one level of government or sector (*e.g.* not-for-profit) can address the issue of homelessness singlehandedly. The initiative's community-based approach allows a broad range of players – including the provinces, territories and municipalities – to come together to address local needs.

Housing

City and community partners are still advocating more aggressive federal and provincial action to meet the need for more affordable housing. Indeed, there has been a slight reduction in the supply of social housing over the last five years.[17] The federal government has reduced its support for housing, and provincial governments have generally left the task to the private sector and/or the municipalities. According to Canadian Housing Statistics (CHS), the social housing portfolio developed through various federal or federal-provincial programmes totalled 664 235 units in 1995 and 639 300 in 2000. In the 1993 federal budget, the government stated that it would not increase its support for social housing through Canada

Mortgage and Housing Corporation (CMHC) beyond the current level of about CAD 2 billion per year and would not commit to additional long-term funding for new social housing other than with respect to on-reserve Aboriginal housing. However, the government maintained fully its on-going commitment under existing social housing arrangements. Savings achieved within existing operations could be used for housing purposes to assist low-income households and individuals. In 1993-1994, these expenditures totalled CAD 1 944.9 million and CAD 1 927.9 billion in 1999-2000, for a drop of less than 1%. There is very little construction of new units and most social assistance clients do not have special access to social housing.[18] In addition, the federal government has provided significant support for the repair and renovation of existing homeownership and rental housing.[19] In Ontario, for example, only 10% of clients live in public housing units. However, 30% of social housing units in Ontario house social assistance recipients. The availability of affordable housing is a widespread concern.

Until 1993, the federal and provincial governments shared the cost of social housing allocations. Through this agreement, CMHC and its provincial counterparts could propose a wide array of social housing programmes. But in 1993, the federal government put a CAD 2 billion cap on the housing grant[20] and since then, it has been reducing its commitment to social housing funding (OECD, 1999d). In 1996, the federal government announced that the administration of the remainder (50%) of the federally-funded social housing would be transferred to the provincial and territorial governments.[21] The Government of Canada has continued to support affordable housing production.[22] Provincial authorities, particularly in Ontario, British Columbia and Quebec, have also developed separate initiatives, either before or after 1993, often relying on community-based projects and co-operation with non-profit organisations. More than 640 000 units of social housing are currently managed by provincial and municipal housing agencies, or by local non-profit organisations such as co-operatives and urban native groups.[23] On behalf of the federal government, CMHC continues to support social housing by subsidising these units on a cost-shared basis with provincial and territorial housing agencies. The federal government's financial commitment for assisted housing is currently about CAD 1.9 billion per year. At the same time, the provinces and territories have the flexibility to generate savings, re-invest in social housing, assist in the management and/or renovation of the older existing social housing portfolio, or create new social housing.

In fact, the devolution of this responsibility to provinces has shifted, in some cases, to the municipalities. For instance, at the beginning of 1998, the Government of Ontario, which accounts for one third of all social housing in Canada, devolved the responsibility for social housing administration to municipalities. This was the result of a new division of responsibilities for local services between the provincial government and Ontario's municipalities (Bourne, Frisken, Gad and

Murdie, and OECD, 1999b). The province proposed to remove the residential educational tax burden from the municipalities. In exchange, municipalities were to take over a large share of local services, including social housing, for which the province had been paying between 50 and 100% of total costs. The stated rationale for this transfer was to streamline administrative procedures and improve service efficiency. As of 2002, social housing in Ontario has been an entirely municipal responsibility. This shift of social service costs to municipalities entailed higher relative costs for the City of Toronto, which is the principal provider of social housing stock. With more than 95 000 units in the city (including Toronto Housing Company, Metro Toronto Housing Authority, now amalgamated into Toronto Community Housing Corporation, plus private non-profit and co-operative homes), the City of Toronto pays approximately CAD 230 million annually to subsidise costs for about three-quarters of all social housing communities.[24] City officials are concerned about the implications of social housing costs for Toronto's financial well being and social sustainability. According to the consolidated waiting list, Toronto Social Housing Connections, there are more than 54 000 households waiting for subsidised rental housing. For a small unit, the waiting period varies from less than 6 months (for seniors) to 4 years (for adults of any age). The wait for larger units can be more than 5 years on average.

The affordable housing issue not only affects big cities like Toronto, but also many mid-sized Canadian cities.[25] Between 1991 and 1996, "housing need" increased by 40% and affected more than 1.7 million Canadian households (one out of five). Moreover, one in five households spent more than 50% of its income on housing. The lack of proper funding from the federal/provincial governments combined with rent increases and the loss of rental housing stock (due to demolition and condominium conversion) has resulted in a growing shortage of affordable housing. In October 1999, vacancy rates in eleven of Canada's eighteen large urban centres were below 3%, the level considered necessary for a competitive rental market. Moreover, between 1989 and 1999, rents increased by at least 20% in most of Canada's major metropolitan areas whereas real household income only rose by 2.7% over the same period.[26] On the whole, the lack of leadership from the federal and provincial governments has left municipal authorities with exploding social and economic costs.

The federal government attempted to address the crisis situation in its 2000 federal budget. It announced that it would commit CAD 2 billion to a new six-year National Municipal Infrastructure Programme (NMIP). Housing has been included as an eligible item under this new infrastructure programme. In addition, the three levels of government are expected to participate equally in the programme. In addition, in 2000, the federal government announced a rebate on the Goods and Services Tax (GST) on rental housing construction. The rebate is 36% of GST, with a phase-out starting at a unit price of CAD 350 000 with the rebate reduced to zero at

CAD 450 000. This is exactly the same as the rebate provided on new ownership units. Also, residential rents are exempt from the GST, with an estimated tax expenditure of CAD 1.235 billion in 2001. Within the 2001 budget, the federal government provided CAD 680 million over five years, for the creation of more affordable rental housing. These funds are to be matched with provinces and territories (for a total of CAD 1 360 million), primarily towards the production of modest rental units.[27]

Since early 1992, homeowners are able to access homeownership with a down-payment of as little as 5%, through CMHC's mortgage insurance. Of all Canadians who purchased a home in the last nine years, 20% made use of CMHC's 95% financing programme. In addition, through the federal government's Home Buyers' Plan, holders of existing Registered Retirement Savings Plans (RRSPs) can use plan funds as equity for the acquisition of a principal residence. Since its inception in 1992 to the end of 2000, the Plan has assisted more than one million individuals to become homeowners, channelling CAD 10.4 billion from RRSPs into the housing market across the country. Together, these two federal initiatives have had a significant impact in providing access to affordable homeownership.

FCM reacted positively to the 2000 budget announcement of the NMIP, but underlined that it was only a first step. Under the current scheme, the federal government would provide capital grants, primarily for new rental housing, with a limit of CAD 25 000, so long as the province or territory matches the contribution. But according to FCM, this subsidy will only provide housing units for households who can already afford them. It will not help the one million families living in poverty because market rents are still too high for them. Instead of the subsidy scheme, FCM advocates a comprehensive approach involving all orders of government, builders, developers, lenders and non-profit housing organisations, in order to address immediate needs and set the basis for a sustainable, long-term solution. In October 2000, the FCM proposed a three-pronged "National Affordable Housing Strategy" to solve Canada's affordable housing crisis. It would initially aim to address immediate needs, through a temporary flexible capital grants programme of CAD 1 billion per year to build or restore 30 000 affordable units annually. For a long-term solution, FCM calls for provincial/territorial rental assistance initiatives to support an additional 40 000 low-income households per year for ten years. FCM also proposes tax/regulatory adjustments to help the private and non-profit sector to supply affordable housing. The overall goal of the FCM National Housing Strategy is to reduce homelessness and the affordable housing shortage by half over the next decade.

Immigration

Under section 95 of the *Constitution Act*, immigration is an area of shared federal-provincial jurisdiction. While Quebec is the only province with immigration legislation, all provinces are involved with immigration through the delivery of many of the programmes that support the integration of newcomers such as education, health, civil legal aid, social assistance and housing. The provinces also see immigration as an important tool for their demographic, economic and industrial development strategies, and continue to seek more influence over immigration to their jurisdictions. Agreements have been signed between the two highest levels of government to facilitate the co-ordination and implementation of immigration policies and programmes.[28] Although only four provinces have signed comprehensive immigration agreements with the Minister of Citizenship and Immigration Canada (CIC) – Quebec, British Columbia Manitoba and Saskatchewan – other agreements are near conclusion or are in place on specific issues, such as provincial nominee agreements with all other jurisdictions, except Ontario,[29] the Northwest Territories and Nunavut. Signed in 1991, the *Canada-Quebec Accord* is the most comprehensive agreement to date. It allows Quebec to select independent immigrants and refugees destined to the province, and to provide its own reception/integration services for permanent residents. Manitoba and British Columbia also have assumed responsibility for the design and delivery of settlement programmes according to national objectives, for which they are reimbursed by the federal government, which administers settlement programming in all other jurisdictions. Under Provincial Nominee agreements, provinces nominate a certain number of immigrants each year with specific labour market skills required by the province. In 2000/01, CIC had total operating expenditures of CAD 903.6 million, including grants and contributions totalling CAD 366.4 million. These grants and contributions represent, in large part, funding for settlement and integration programmes. At the same time, the department generated revenues of CAD 506 million.

As municipalities are responsible to the provinces, which means that any contact from the federal government must be channelled through appropriate provincial departments, there is no formal mechanisms for involvement of municipalities in immigration planning. However, the federal-provincial agreements only address part of the immigration issue. The higher levels of government might be in charge of allowing the immigrants into the country, but it is up to the municipalities to receive them and ensure their social and economic well-being. Immigration is largely an urban phenomenon: according to the Census, 85% of all immigrants lived in Canada's 25 Census Metropolitan areas (CMAs), with nearly three-quarters settled in Toronto, Vancouver and Montreal. Local programmes and services thus have a major role in the success of Canada's national immigration policy. The problem is that municipalities face increasing difficulties in managing these immigration programmes. Cuts in federal transfer payments and provincial devolution to municipalities are forcing local governments to assume greater responsibility (including financial responsibility) in social services, including immigration and refugee matters. In other words, the financial capacity of Canadian cities is under pressure to meet the increased demand for services. At the same time, any cutbacks in public services have a disproportionately adverse impact upon immigrants. In this regard, one of the major challenges for cities is a growing trend towards the development of segregated ghettos. These areas have a high concentration of newly-arrived immigrants with employment problems or significantly lower earnings than the Canadian-born population. Even if the very difficult situation in American cities seems a far-away prospect for Canadian metropolises, social and economic segregation may eventually affect the community life of the whole city. Public authorities (governments and municipalities) are also concerned about the *management of cultural diversity*, a concept coined to promote harmonious relations between groups of various national or ethnic origins (Germain, 2000).

Municipal authorities have requested an increased voice in immigration planning. In its May 2001 Annual Conference, the Federation of Canadian Municipalities (FCM) called for closer co-operation between the three levels of governments in setting and achieving common goals concerning immigration/refugee policies and programmes. The report bluntly states that "municipal governments should be at the table with the federal and provincial governments when decisions are made on immigration and refugee policies and programmes that will result in significant expenditures by municipal governments".[30] The municipalities' demands have not yet been taken fully into account. The latest guidelines from CIC on Immigration and Refugee Policy propose that consultations with provincial governments be regularised and widened, and that municipalities continue to be included only in stakeholder consultations and "where appropriate".[31] Immigration is critical to future economic growth. Like many other developed countries with birth rates at less than replacement levels, Canada will be facing a labour shortage as its population ages. Attracting qualified immigrant entrepreneurs and workers, facilitating their settlement and training to bring them rapidly into the economy and labour force is important to all orders of government.

Urban Aboriginal populations

Many of Canada's Aboriginal peoples do not live on reserves or in the north but in large urban centres or small cities, particularly across the west. According to the 1996 Census data, urban Aboriginal peoples constitute approximately 60% of the total Aboriginal population. Urban Aboriginal peoples are often alienated from their home community after they move to the cities. They experience difficulties accessing employment and face a lack of housing options. On-going problems with cultural alienation lead to crime, drug abuse, and poverty, often resulting in a sense of crisis. Although Aboriginal peoples in cities need cultural as well as economic support to face these problems, there are fewer specific assistance programmes for them. It is often left up to local social services and the Aboriginal Friendship centres to bridge the gap.[32] The centres help improve the quality of life for Aboriginal people, especially in the areas of housing, education, employment, recreation, human resource development, and cultural maintenance. On April 1, 1996, responsibility for the management and administration of the Aboriginal Friendship Centre Programme was transferred from Canadian Heritage to a national Aboriginal organisation called National Association of Friendship Centres.

These initiatives notwithstanding, there appears to be a "policy vacuum" for urban Aboriginal people. The focus on reserve-based or Northern communities has resulted in the exclusion of a large segment of the Aboriginal population from discussions on self-government. Examples of urban self-government are still rare. Saskatoon is one of the few cities that has reserves within its boundaries, and they present unique legal problems. However, programmes and services for urban Aboriginal residents are currently evolving. The federal policy on Aboriginal people has recently started to recognise the special needs and problems of these communities. An outline of Canada's policy for urban Aboriginal peoples is contained in the *Guide to Federal Initiatives for Urban Aboriginal People*.[33] It includes programmes related to economic development, education, training and employment, health, and housing. There are, however, few initiatives specifically designed for urban Aboriginal peoples. The most noteworthy is the Urban Aboriginal Employment Initiative. It aims to create long-term sustainable jobs for off-reserve Aboriginal individuals and groups in high unemployment areas. The Urban Native Non-Profit Housing Programme helps off-reserve Aboriginal households, with incomes below a specific level to find a low-cost, adequate, and suitable rental unit.

Most of these federal government initiatives for urban Aboriginal peoples are designed in collaboration with the provinces/territories and the Aboriginal authorities. They do not recognise municipal governments as partners in talks with Aboriginal people, especially where the provision of services to Aboriginal citizens is concerned. Municipal governments are asking to be consulted more regularly during the discussions between the federal government, provincial and territorial governments, and Aboriginal authorities on issues such as economic development, resource sharing, service delivery, housing, and self-government.[34] Municipal governments also want to take part in negotiations with other levels of governments and Aboriginal authorities on appropriate forms of urban Aboriginal self-government. In spite of these obstacles, municipal governments and Aboriginal authorities are developing their own pragmatic relations. This is exemplified by the centre for Municipal-Aboriginal Relations (CMAR). It enables municipal governments and Aboriginal communities to improve their relationship by sharing best practices and promoting positive interactions. Officially opened in 1998, CMAR serves as a communication forum and provides information and advice on municipal Aboriginal issues, including "best practices" in service delivery agreements. Both parties have recognised the need to enlarge CMAR's mandate "to a broader context of social and urban issues".

Enhancing the economic competitiveness of cities

Attracting investments

Policies to attract foreign investment in metropolitan regions should not be seen as independent from policies for local development. Foreign investment attraction depends not just on the marketing of existing location assets but also on the building of these assets. For example, foreign investors report that factors such as the quality of the local skills base, communications infrastructure and technological facilities are all important to their productivity in an area and influence their willingness to locate or reinvest there. Sub-national authorities have a key role to play in developing these assets, especially within key cluster specialisations. Furthermore, local development policies are needed in order to maximise the spin-off and multiplier effects from foreign investment in an area. Local policies can play a role in building local linkages and spin-offs, for example by encouraging the use of local suppliers and collaboration with local institutions such as colleges and technology institutions. Aftercare and retention should be major policy areas for local development agencies, as should linking exogenous development with endogenous development by integrating investors into local networks. In particular, it is important for local agencies to act at an early stage to prepare a strategy to respond to closures and mass layoffs.

Local metropolitan authorities have been taking an increasing number of initiatives to attract national and international investment. Federal and provincial governments have aggressively pursued international investment, but they do not generally target specific metropolitan areas when attracting economic development. Provinces, for instance, will facilitate business conditions in a specific area if an industry wishes to locate there,[35] but overall, they remain hesitant about allowing municipalities to compete against one another for economic activity. Consequently, some municipal and metropolitan areas have established joint international marketing, with financial support from their provinces and the federal government. Examples include Montreal International and the Greater Toronto Marketing Alliance (GTMA). Both agencies were created in an attempt to transcend the municipal boundaries that are deemed to hinder the economic development of the Toronto and Montreal regions as a whole.

Montreal International was established at the end of 1996, and has an annual budget of CAD 9.3 million for 2001 (with an additional CAD 1.9 million for special projects) and a staff of 47. It is funded and operated as a partnership between the city (36%), the federal government (23%), the provincial government (23%) and the private sector (16%). Its aims are twofold: to promote the image of the Montreal region abroad as a good place for international firms to set up business and to facilitate their location in the region. The agency is a collaboration effort by mainly chambers of commerce and local government. In 2000, four major partnership agreements were signed with public entities: *i*) with the Montreal Urban Community (MUC) to transfer all resources and mandates from its Economic Development Office to Montreal International; *ii*) with Investment Quebec to pool efforts and share responsibilities related to working with local subsidiaries of foreign companies, as well as for promoting the region and prospecting new foreign investments; *iii*) with Laval Technopole to transfer to Montreal International all resources and mandates to attract International prospects; and last, but not least *iv*) with Montreal Foreign Trade Zone at Mirabel to give Montreal International the responsibility for attracting international prospects to the Montreal Foreign Trade Zone. In 2000, Montreal International was involved in some 77 foreign investments projects, gave assistance for investors in more than 350 projects and has also contributed to the establishment of six new international organisations. Now, Montreal International intends to be an active participant in the process of the new system of regional governance in areas when expertise may be drawn upon.

In an effort to reduce cost and duplication, the 27 municipal economic development offices in the region of Toronto endorsed a single marketing agency for the entire region of 4.6 million people. *The Greater Toronto Marketing Alliance* began its activities in 1997 and became fully operational by 1999, with an initial funding of CAD 1 million shared by provincial and municipal governments (including City of Toronto) and the private sector. It is a public-private partnership between the 29 GTA[36] municipalities and regions, together with the provincial and federal government, other non-profit organisations, and a broad cross-section of private-sector partners. The objective is to provide a single point of contact for prospective international investors and business inquiries in the GTA. Among other activities it has undertaken trade missions abroad, mainly in the United States. It aims to have a less fragmented approach to international tourism and investment marketing. In 1999-2000, the GTMA assisted 18 companies that successfully completed deals in the GTA, initially resulting in more than 1 000 jobs.

Local economic development strategy: the example of Toronto

The effect of global economic restructuring on local economies and the growing awareness of competition in an increasingly integrated world has encouraged local leaders to search for their own strategies rather than simply waiting for national responses. The federal government assists economic development in urban areas in a variety of ways but there is a lack of co-ordination between federal, provincial and municipal activities. There is a growing understanding that limited resources can be used more effectively through an integration of strategies, policies and programmes. Provincial governments have a substantial presence in their major metropolitan areas, but mainly as the largest employer (it is not the case in Toronto, which has a more diversified economic base). Therefore, some cities, in partnership with a wide range of actors, are developing strategic plans and visions for their urban regions, with the goal of enhancing their potential for development and improving their image as a good place to live and work. For instance, when the amalgamated city was created on January 1, 1998, Toronto launched a multi-year strategic economic plan.[37] The policy development component of the programme has resulted in adoption of the *Toronto Economic Development Strategy*, which identifies five major focuses (People, Place, Prosperity, Positioning and Partnership), eight strategic directions, and twenty-five action areas (Box 19).

Following the adoption of the Economic Development Strategy, several actions have been taken. For instance, in partnership with the federal government, the City produced the *Toronto Business Directory* 2000 (TBD2000), a CD-ROM listing of contact information for 85 000 business establishments within the City.[38] Considered to be the most comprehensive business directory available anywhere in North America, the TBD2000 is used extensively by Economic Development field staff, as a business-to-business contact tool by community groups, charitable organisations, school boards and students seeking employment, and for policy analysis and outreach programmes by staff and elected officials at all levels of government. Meanwhile, the City has secured funding from the federal government to prepare a *Labour Force Readiness Plan* for the period 2001-2010 in partnership with the business community, labour representatives, educators, and all levels of government. The Plan will provide an overview of labour market issues in the city-region and detailed action plans for three industry clusters – construction, information technology/telecommunications, and tourism/hospitality. The first of its kind, this plan addresses one of the prerequisites for economic growth identified early in the City's Economic Development programme, and will include a survey of international best practices. Moreover, it pilots an innovative approach to the analysis of labour force supply and demand, which can be applied to other industry clusters and jurisdictions. More specifically, considering that business expansion/contraction decisions are made based on local/regional attributes, the level of analysis used for labour force forecasts is a more disaggregated level to the provincial one. Consistent with the industry cluster approach to economic growth, federal, provincial and city staff are working in co-operation with a consultant team, including the University of Toronto, to develop a methodology for preparing regional labour market forecasts based on a disaggregated statistical level of an analysis.

After the first three years of the five-year Toronto Economic Development strategy, it appears that the programme has benefited from the active involvement of business, labour, academic and community leaders.[39] All the programme's components were designed to be replicated, so as to allow for on-going performance monitoring. The same approach has now been used in a number of different jurisdictions. For instance, the City of Ottawa commissioned a similar cluster

Box 19. The Toronto Economic Development Strategy

The principal goal of the Economic Development Strategy is to improve the liveability and quality of life in the city through economic growth that creates high-quality jobs, generates wealth and investment, and helps to ensure the city's long-term fiscal health. Eight strategic directions have been identified:

- To rethink the notion of competitiveness and reconsider Toronto's new role in the global marketplace: *i.e.* to update old approaches to stimulating economic growth and to reinvest in the city in order to ensure sustained economic growth.
- To recognise people as the primary focus for economic growth: more precisely, to propose actions that span a continuum, from raising skills levels in industry clusters where gaps are evident, to ensuring that Toronto is an attractive place to live for mobile knowledge workers and their families.
- To add value to products and make production processes more efficient through the use of advanced design and new technologies, whether in manufacturing or services. The rich diversity of creative talent and cultural expression within Toronto's arts and culture community should also be emphasised.
- To continue improving the quality of Toronto's artificial and natural environment through investment in order to remain on an equal footing with other cities: namely, to invest in the city's substantial physical and social infrastructure, which is still under city control. This infrastructure is considered to be a strategic asset that can be leveraged to support economic growth and provide a competitive advantage over other jurisdictions.
- To ensure Toronto's fiscal sustainability by stimulating industrial and commercial expansion, calling for co-operation from senior levels of government to provide additional stable funding; authorise new tools and new sources of revenue; develop long-term funding programmes.
- To sustain a vital cycle of economic growth and prosperity through competitive export clusters and a strong local economy.
- To actively promote Toronto both locally and around the world as a vital, globally-connected centre of innovation, combining creativity, excellence, and investment opportunities with a concerted effort to increase leisure tourism.
- To mobilise collective resources through partnerships, in particular by forming a "Toronto 1st Council" led by the Mayor and comprised of Chief Executive Officers and Senior Executives from Toronto's business, labour, academic, cultural, and not-for-profit communities. The council would provide on-going orientation for the implementation of the economic development strategy; act as a unified voice to advocate and represent the City's interests before senior orders of government, potential investors, international organisations, and multinational agencies; and monitor and communicate the success achieved in advancing the City's economy based on established benchmarks.

Source: Economic Research and Business Information Unit, Economic Development Office, City of Toronto, Canada.

analysis and broad outreach/consultation using Toronto's terms of reference as a basis and engaged the same consulting firm to undertake this work. The City of Edmonton has also adopted a cluster approach to economic development and the Cities of Winnipeg, Manitoba and Victoria, British Columbia intend to do so. In addition, the Province of Ontario is now using a similar clusters analysis approach to review economic performance in a number of urban regions throughout the province.

Finally, this long-term outlook and broad consultative approach has had a major impact on the community, creating an "alignment of strategic intent' among all levels of government and formerly competing municipal jurisdictions, forging broad-based partnerships with business, labour, educators and government, and developing new products and approaches that have improved customer services and become models for other jurisdictions. By developing partnerships focussing on a common vision, City Economic Development staff have increased a municipal out-of-pocket investment from less than CAD 100 000 over three years to almost CAD 1 million, and significantly advanced Toronto's interests. The final two years of the initial programme will be dedicated to developing an integrated national urban agenda, refining benchmarking and analysis tools, and formalising pilot projects, such as the Labour Force Development Plan, as on-going initiatives. Toronto Economic Development staff will also present details of the Strategic Economic Development Programme for the Knowledge-Based Economy to other jurisdictions, both within Canada and abroad.

The example of Toronto is particularly interesting in that the city has managed to build a consensus around a common vision for the economic development of the city among business, labour, and community leaders. In addition, the Economic Development Strategy is not an independent programme but is firmly integrated in the city's entire strategic plan, including the Environmental, Cultural and Official Plans and the Social Development Strategy. They have all been developed under the umbrella of City Council's Corporate Strategic Plan. Moreover, Toronto's suburban municipalities, having frequently engaged in heated competition with the city and with each other over economic growth in the past, now recognise the importance of a strong inner city and are advocating a policy of close co-operation. This recognition came about after the Plan acknowledged that:

- the city and the 905 surrounding municipalities comprise a single economic region;
- Toronto has the critical mass of people and activity necessary for internationally competitive financial services, leading edge research and development, and top quality education and training programmes; and that
- the surrounding regions have the land necessary to accommodate large-scale production and distribution facilities.

Rethinking federal urban policy

The overview of policy measures presented above is by no means exhaustive. It illustrates how the physical, social, and economic development of cities is the result of initiatives pursued on municipal, sectoral federal and provincial levels. However, this disjointed approach generally leads to a failure to draw up an integrated urban policy, even if some municipalities, such as Toronto, have succeeded in adopting a multi-sectoral strategy. The strong influence of cities on Canada's national economy requires the participation of all levels of governments in the urban agenda. All of this suggests a renewed role for the federal government in the area of urban policy. This would best be achieved through developing stronger relationships between the federal government and municipal governments in major urban centres in order to jointly develop and implement policies and programmes.

The rational for federal involvement in urban issues

Urban policy has been clearly absent from the federal policy agenda since the late 1970s. Before this, the federal government was actively involved in Canadian urban issues, though mainly in housing, with the creation in the mid-1940s of the Central Mortgage and Housing Corporation (CMHC, now the Canada Mortgage and Housing Corporation). Eventually, through CMHC, the federal government financed urban renewal projects and provided financial assistance to municipalities for urban infrastructure. During the 1970s, CMHC expanded the range of its activities, becoming increasingly involved with social and assisted housing. In the early 1970s, a Ministry of State for Urban Affairs was created, but it had little influence except in the area of social housing. In addition to programmes targeting housing, infrastructure and urban issues, significant sector-specific federal initiatives in the field of social or basic transportation infrastructure had an important impact on the development of cities. Federal involvement was critical, as provincial and municipal governments of the time had neither the resources nor the political will to deal with many of the problems posed by urbanisation. In the late 1970s and early 1980s, federal interest in urban issues diminished during a period of recession and changing relationship with the provinces. The Ministry of State for Urban Affairs was dismantled in 1979, federal contributions for affordable housing and infrastructure were significantly curtailed and many other federal programmes were cancelled. The devolution process, which mainly benefited the provinces, also helped bring about the decline in federal involvement.

Today, a new context supports the rationale for greater federal involvement. Canadian metropolitan areas are being affected by dynamic economic, social, demographic and environmental forces that have impacts beyond the scope of any one level of government. These forces include the continued integration of North American markets fostered by the North American Free Trade Agreement (NAFTA), the shift to an information and knowledge-based economy, increased immigration, homelessness, poverty, decaying infrastructure, deteriorating city neighbourhoods and concerns about clean air and clean water. Their impacts are also felt well beyond urban boundaries. Another reason for the federal government to support urban areas is that they are the main drivers of economic growth and development in Canada. A region's economy is generally linked to the economic success or failure of one single urban area.

In Canada, new circumstances have led the federal government to pay more attention to urban affairs. The decentralisation process transferred social and infrastructure investment to provinces, which in turn transferred these responsibilities to municipalities. As the latter did not have the financial means to tackle all the problems they were facing, poverty increased substantially, especially in inner cities. Thus, through the FCM, municipalities began to call for more intervention from the federal government. The National Homeless Initiative has been one important response. Formal agreements between the three levels of government have also yielded synergies based on solid partnership, the most notable being the infrastructure programme and the Urban Development Agreements (UDAs) in the Western provinces for which Western Economic Diversification co-ordinates federal involvement (Box 20). The latter are innovative partnerships that improve the co-ordination of activities among the federal, provincial and municipal governments by addressing issues unique to each city. UDAs have proven to be successful mechanisms in bringing together stakeholders and to insuring that duplication of efforts is minimised. In particular, they focus on ensuring the full economic participation of all residents. However, among the three UDAs put in place, one ended in September 2001 (the Winnipeg Development Agreement) and two others are unfunded (the Vancouver Agreement and the Edmonton Economic Development Initiative). Moreover, there are no similar agreements involving other regional development agencies with regard to urban issues. Finally, as there is no federal redevelopment agency for southern Ontario, there is no possibility of having such agreements for large cities in this region, including Toronto.

In this context of weak federal involvement, there are some signs from policymakers of widespread support for rethinking the federal government's urban agenda. For instance, the Privy Council Office (the Prime Minister's department that provides advice to the government) has commissioned its Policy Research Secretariat to draw up a report identifying the main problems faced by urban areas and suggested federal responses. In May 2001, a Task Force on Urban Issues was created under the auspices of the Prime Minister's Liberal Party. The Caucus aims to provide prime ministers with advice on how to improve partnerships between the different levels of government, and the private and voluntary sectors. Special emphasis will be placed on issues related to economic competitiveness, environmental concerns, cultural assets, urban transit, integration of newcomers, risk populations (such as urban Aboriginal people), recent immigrants, persons

Box 20. The Urban Development Agreements in Western provinces

In the West, the federal government participates in regional economic development through the Western Economic Partnership Agreements (WEPAs) which often affect urban areas.* In addition to these broader programs, and consistent with its mandate to co-ordinate federal government activities in Western Canada, Western Economic Diversification (WED) participates in Urban Development Agreement programmes that are specifically directed to cities. These agreement focus on realising opportunities – and also on addressing challenges in the seven major cities in the West, while ensuring the full economic participation of all groups. Three Urban Development Agreement (UDA) are currently in place: one CAD 75 million in Winnipeg and two unfunded agreements in Edmonton and Vancouver.

The Winnipeg Development Agreement (WDA) is a five-year tripartite commitment with a budget of CAD 75 million. Its goal is to work with the community and business to support the long-term sustainable economic development of Winnipeg. The municipality has contributed one-third of the Agreement's total investment and is directly responsible for the implementation of seven programmes in the areas of community development and security, labour force development, and strategic and sectoral investments. The federal contribution amounts to CAD 25 million. Each level of government funds and delivers its designated programmes after they have been developed in co-operation with the other two levels of government and have been approved by the Policy Committee of Ministers and the mayors. The WDA expired in 2001 but the Province of Manitoba has indicated their willingness to discuss a successor Agreement.

The Edmonton Economic Development Initiative (EEDI) was signed in September 1995 and has no scheduled termination date. The EEDI is designed to support the long-term sustainable economic development in Edmonton; to streamline programme co-ordination and delivery; and seek out resources to support proposed projects. Over the last two years, WED has committed more than CAD 1.5 million to projects in support of the EEDI. The process of identifying priorities and initiatives is city-driven and all EEDI supported projects must be agreed by all partners. Support under the EEDI is not necessarily monetary and can take many forms such as creating partnerships, reducing regulatory barriers, or providing assistance in accessing programmes. For example, support for the Edmonton Capital Region Innovation Centre was facilitated through the EEDI with financial support coming from Economic Development Edmonton, Alberta Economic Development, Alberta Research Council, National Research Council and WED. The purpose of the Innovation Centre is to increase commercial spin-offs from science and technology in the region by capturing the opportunities that result from early stage research and prototype product development. In addition, WED has funded various projects and initiatives identified in co-operation with the City of Edmonton and the Alberta government. Examples include the Edmonton Waste

* See chapter on "Territorial Policies and Strategies".

Box 20. **The Urban Development Agreements in Western provinces** (*cont.*)

Management Centre, an innovation centre and the Edmonton Competitiveness Strategy. WED's Alberta regional office has three staff members dedicated to carrying out projects in the Edmonton area.

Vancouver Agreement is a five-year agreement that will expire in March 2005. Like the Edmonton partnership, the Vancouver Agreement is unfunded. However, the scope of the Vancouver agreement is broader and has three main components: health and safety (including primary health care, substance abuse, policing and justice), economic and social development (including housing), and community capacity building. Its overall goal is to create healthy, safe and sustainable communities through the co-ordination of planning, programming and information sharing. WED has committed approximately CAD 2 million toward urban initiatives in Vancouver. Similar investments have been made by the British Columbia and Vancouver governments. While the VA is unfunded, it makes use of existing mandates, authorities and programmes to fund initiatives. There is agreement by each party to use funding available from existing federal, provincial and municipal programmes to finance projects and programmes, and to strategically focus a portion of those expenditures on agreed activities.

In the future, Urban Development Agreements may be signed in a number of other Western Canadian cities. Discussions are taking place with other governments and stakeholders on additional joint initiatives in Calgary, Saskatoon and Regina. In Winnipeg, there is strong support among stakeholders for its renewal and in Edmonton and Vancouver, the parties are seeking dedicated funding to support the agreements.

Source: Western Economic Diversification Canada Website. See the website: *www.wd.gc.ca/eng/ced/urban/default.htm*

with disabilities, the homeless and security.[40] Moreover, besides the FCM, which defends the interests of all municipalities on policy and programme matters within federal jurisdiction, Canada's five largest cities have come together to forge a new relationship with the federal government in what is known as the C-5 initiative. A series of events in conjunction with the Canadian Urban Institute are also being held to broaden the urban constituency for an integrated approach.[41]

Which directives for a federal urban agenda?

If a clear rationale for more federal involvement in urban issues exists, then what should be the guiding principles for a federal urban policy? Municipal Affairs fall under provincial jurisdiction and any changes that would give more constitutional powers to the federal level of government require an amendment to the Constitution. This could not be done without the consent of the provinces. However, the Constitution does not prohibit the federal government from engaging in productive relations with the municipalities, while fully respecting provincial jurisdiction. In particular, the federal government should formally recognise the importance of large urban areas through the development of a national urban agenda. This would spell out the actions required to maintain the social, economic and environmental sustainability of Canadian cities, and could include the following initiatives.

Rethinking the role of cities and their relationship with the federal government. Highest levels of government need to take into account the likely impacts of their policy and programme decisions on urban economies. Cities should be able to participate in areas where federal policies and actions will impact urban centres. More generally, institutional mechanisms should be implemented to enable large urban centres to deal more directly with the federal government. This means initiating negotiations and entering into direct funding arrangements with the federal government on matters of mutual interest, such as urban infrastructure, housing, construction, immigrants and Aboriginal people.

Rethinking a new legislative framework for urban areas. As powerful as cities are economically, they remain politically weak since they are essentially subsets of their respective provinces. Responsibilities have been devolved to municipalities without granting them the corresponding finances and capacities for revenue management and generation, such as the ability to raise taxes at the local level and make expenditure decisions. This puts obvious pressure on municipal finance. Today, cities are largely concerned about their fiscal sustainability as their major source of revenue is from property tax, and to a lesser extent user fees and development charges. To meet all their challenges properly, they need alternative, sustainable sources of revenue and policy levers to advance public/private financing initiatives. The federal government should work closely with provincial governments towards legislative change that would allow cities to raise revenue beyond the property tax. More generally, there is a need to debate the problem of urban public finance. Finally, policymakers need to discuss the issue of how responsibility for urban services and investment should best be distributed between the various levels of government operating in the metropolitan area.

Supporting locally-based policies. Although cities share some common challenges, they also have unique concerns. The federal government's urban agenda should be flexible in order to meet the particular needs of each urban centre. For instance, the largest cities of Vancouver, Toronto and Montreal have specific problems and then require specific solutions that would certainly differ from those that concerned smaller CMAs. Consequently, the federal government should be responsive to local policies by supporting locally-based and locally-defined priorities. There is also a need to support capacity building at the neighbourhood and municipal level.

Supporting the economic competitiveness of cities. Direct federal assistance for economic development almost disappeared during the 1990s. Yet, the success of local initiatives requires support from all levels of government. The federal government could play a leadership role in promoting the development of urban competitive strategies that are in line with the specific economic context of the city in question. As each urban centre has unique characteristics and issues, a one-size-fits-all approach will not be successful. The federal government should set national objectives and provide a national framework for urban competitiveness, but it is essential that the strategy development and implementation be led locally. The federal government could play a significant role in "branding" its major urban centres internationally. It could also encourage the local business community to become involved in these competitive strategies. Moreover, it could adapt its own policies and programmes to foster competitiveness.

Improving co-ordination of mechanisms for multi-level government decision-making. Policy and programme development is currently shaped by the conventions that circumscribe tripartite discussion. There is therefore a need for effective co-ordination of multi-level government decision-making mechanisms. The Urban Development Agreements could serve as testing grounds for new federal partnership initiatives. Area–based partnerships seem the most appropriate response to public policy issues in urban areas. These partnerships usually encompass a variety of sectors, including the environment, social policies, economic development, and housing policies. More generally, there is a lack of formal mechanisms bringing together all three orders of government – federal, provincial, and municipal – to focus their attention on the needs of urban centres. In this regard, appropriate tools and incentives for negotiation between the different levels of government, should be coupled with horizontal collaboration. It is important that central departments and agencies be informed and involved in tripartite discussions. The creation of a federal co-ordinating body could be useful for this purpose.

Setting an integrated framework for the application of sector-specific policies at the urban level. This requires co-operation, co-ordination and strategic planning at the metropolitan level. Such frameworks are likely to be more "outcome-oriented" and, while focused on achieving specific social, economic, and environmental outcomes at the level of the urban region as a whole, will also take into account the potential and problems within metropolitan areas.

Developing territorial data and information on urban areas. All policy initiatives should be based on comprehensive assessments of the cities' economic situations. It should preferably be based on functional rather than administrative regions, to allow comparisons within and between urban regions and to establish benchmarks for measuring social, economic, and environmental progress. The Statistics Canada Cities Project is a good step in this direction. It will develop statistical data on the 12 largest Census Metropolitan Areas. To be truly useful, the database will require constant updating.

Notes

1. In Toronto for instance, Metro's share of the GTA population had continued to drop over time, from 71.6% in 1971 to 58.7% in 1986 and 51.5% in 1996.
2. The Initiative outlines a 30-point package of policy initiatives and partnerships in areas such as revitalising existing communities, expanding economic opportunity, providing more transportation choices, smart growth training and community partnerships. The Community Partnerships Initiative, for example, establishes pilot areas, some of which are mid-sized cities, to demonstrate how the federal government can best align its resources to support local efforts.
3. FCM represents the interests of all municipalities on programme and policy matters within federal jurisdiction.
4. More specifically it proposed that the Canadian government provide an annual revenue stream of at least three cents per litre to participating urban areas based on the excise tax on fuel that it collects in each urban area, provided that the relevant provincial and territorial governments dedicate an equal amount.
5. In October 2001, FCM has furthered its thinking on some of the big issues and tabled a new submission: "A Better Quality of Life Through Sustainable Community Development".
6. Building a Better Quality of Life: Federal Budget Submission – October 2000.
7. The 2001 federal budget announced the doubling of money for the Green Funds.
8. According to FCM's Annual Report on the Green Funds, a total of 69 projects were awarded funding in 2000-2001 under the Enabling Funds and 4 projects under the Green Municipal Infrastructure Fund. Furthermore, 35 additional GMEF studies were approved just after April 2001.
9. The programmes under the Core Area Initiative targeted a distinct area of 10 acres in the inner city.
10. See the website: *www.city.winnipeg.mb.ca/interhom/*
11. See the webiste *www.city.vancouver.bc.ca/commsvcs/planning/dtes/agreement.htm* The three levels of government agreed to form a Policy Committee made up of the Federal Minister, the Provincial Minister, and the Mayor of Vancouver or their designates to oversee the implementation of the agreement which is to be administered by a Management committee of nine senior public officials, three to be appointed by each government. A process will be established to engage members of the community in achieving the goals of the agreement.
12. See the website: *http://city.vancouver.bc.ca/*
13. The **first phase** is to reduce the open drug market on the corner of Main and Hastings by redesigning the physical space in front of the Carnegie Centre. It also means reduc-

ing the number of people on the sidewalk and improving visibility for the police and hence providing greater security to the area. The **second phase** is to expand drug treatment and health services inside and outside DTES to help drug users. The **third phase** is to increase police enforcement. The police will focus on problem-solving efforts for the area, and work with the health service agencies to help drug users. The **last phase** is to increase the number of treatment facilities in the area as well as in the region.

14. The strategy is to be implemented through a regional approach. The federal government must review existing laws with regard to illicit drugs, organised crime, protection of youth, and with regard to refugee claimants who are engaged in the illegal drug trade. It must also initiate the research and development of alternative pharmacotherapies for drug addiction and provide leadership in the development of national research into the feasibility of certain initiatives in drug treatment. The Province has agreed to allow for the distribution of benefit checks throughout the month in order to lower the use of drugs and alcohol and to ensure that municipalities support the development of drug and alcohol services.
15. According to the *Toronto Report Card on Homelessness* (City of Toronto 2001a, p. 2), homelessness is defined as a condition of people who: live outside (for example, on the street or in parks); stay in emergency shelters; spend most of their income on rent or; live in overcrowded, substandard conditions and are therefore at serious risk of becoming homeless.
16. The Prime Minister, along with the First Ministers of nine out of ten provinces and the territories, signed the Social Union Framework Agreement (SUFA) on February 4, 1999. The Agreement commits governments to work better together, and with Canadians, to strengthen Canada's social safety net, involve Canadians in the development of social programmes, and strengthen partnerships among governments.
17. Social housing is defined as housing for those with low incomes.
18. In general, social assistance takes into account housing costs and, in certain jurisdiction this is recognised by an explicit separate "shelter component" of welfare.
19. From 1994 to 2000 inclusive, well over 70 000 units received federal repair or renovation assistance. These activities are targeted to low-income households and individuals. In addition, over the same period, over 10 000 units and hostel beds were renovated or produced to assist victims of family violence, including women, children and youth.
20. Subsequently ending new off-reserve social housing construction on January 1, 1994.
21. However, Canada Mortgage and Housing Corporation continues to honour long-term federal funding commitments to existing social housing projects.
22. Through its Canadian Centre for Public-Private Partnerships in Housing, CMHC helped provide for slightly less than 20 000 units of affordable housing from 1992 to June 2001 inclusive.
23. See the Canada Mortgage and Housing Corporation website: *www.cmhc-schl.gc.ca*
24. See the City of Toronto's website: *www.city.toronto.on.ca*
25. FCM News Release, FCM *Big City Mayors' Caucus: Mayors of Canada's Largest Cities Call for National Housing Strategy, Stringent Standards to Improve Air Quality, National Strategy on Transportation*, London, April 28, 2000 [*www.fcm.ca*].

26. FCM News Release, *Meeting of Federal, Provincial and Territorial Housing Ministers: FCM Urges Housing Ministers to Act on Canada's Affordable Housing Crisis*, London, August 14, 2001.
27. In November 2001, the federal and provincial/territorial Ministers reached a framework agreement to increase the availability of affordable housing across Canada. The programme is intended to produce units for low to moderate income households. The federal contribution will be up to a maximum of $25 000 per unit over the five-year programme period. The federal government signed two bilateral agreements before the end of 2001, with others to follow early in 2002.
28. See the Citizenship and Immigration Canada website: *www.cic.gc.ca*
29. There is no agreement with Ontario, home to the largest immigrant receiving urban centre, in large part due to provincial concerns about equitable distribution and adequacy of settlement funding.
30. FCM Annual Conference, *Race Relations*, Adopted May 2001 [*www.fcm.ca*].
31. CIC, *Building on a strong foundation for the 21st century: New Directions for Immigration and Refugee Policy and Legislation* [*www.cic.gc.ca*].
32. The Aboriginal Friendship Centre Programme provides funding to the friendship centres, the National Association of Friendship Centres and its affiliate provincial/territorial associations.
33. See the website: *http://canada.gc.ca/depts/agencies/pco/aborguide/guide_e.html*
34. FCM Annual Conference, *Municipal-Aboriginal Relations, Adopted May* 2001 [*www.fcm.ca*].
35. For example, when Honda wished to locate in an area 50 kilometres north of Toronto, the province forced the amalgamation of four municipalities in the area "to establish a municipal structure that could deal with the anticipated rapid economic and residential growth (Diamant, P. and A. Pike, 1996. *Consolidation and the Small Municipality: A Commentary*. The Rural Development Institute, Brandon University. RDI Report Series in OECD 1999b).
36. See footnote 2 of Box 3.
37. In April 1999, following extensive consultation with a broad range of business, labour and community groups a consultation summary entitled "*Growing Toronto's Economy: Business Perspectives*" was released. The City then commissioned an international team of experts to evaluate the performance of key industry clusters and benchmark the Toronto economy against its global competitors. "*Toronto Competes: An Assessment of Toronto's Global Competitiveness*" was the product of this research and contributed significantly to the strategy. It provides a framework for action to support Toronto's future economic prosperity and long-term fiscal competitiveness.
38. It includes details on the number of employees, annual sales, SIC codes, and sector and cluster aggregations. The SIC codes refers to Standard Industry Classification codes which define the job type/industry of firms in the economy. They are utilised by Statistics Canada and the US Census Bureau allowing the ability to evaluate jobs, production outputs, etc. by standard definitions. These systems also allow economic comparisons of different places according to standard criteria across North America. SIC codes are being migrated to NAICS codes (North American Industry Classification System).
39. From project conception, the approach to the Economic Development Strategy was to develop a strategy of relevance to the broad range of organisations and individuals with an interest in the future of the Toronto region – as opposed to a strategy/work programme for the Government of the City of Toronto. The Strategy was directed by a

Steering Committee that included business (big and small), organised labour, community and political leaders. The process also included extensive outreach and consultation (one-on-one, small focus groups, large meetings) and an extensive peer review of draft documents before recommendations were established and reported.

40. An interim report is due to be published by April 2002 and a final report by December 2002.

41. One of the outcomes of such events is a document entitled "Guidelines for federal policy priorities in urban areas", Tom Carter, Director of the Institute of Urban Studies, January 30, 2001.

Chapter 4

Policies for Rural Regions and Northern Territories

Predominantly rural regions in Canada occupy over 95% of the nation's landmass, are home to 31.4% of total population and are generally characterised by lower incomes, higher unemployment, high out-migration, lower levels of education, and restricted access to health care than urban regions. However, due to the great diversity of rural regions in Canada, the trends affecting them and the challenges they face may differ significantly. Non-metro-adjacent rural regions are declining while the rural population is largely concentrated in regions near cities. At the same time, the sparsely populated Northern territories have started to exhibit high rates of natural increase. For decades, the Canadian government has intervened with economic development policies that have benefited rural regions, but many of these programmes have been sector-specific. More recently, rural policy has taken a different direction with a range of new initiatives specifically designed to support the economies of predominantly rural regions, and in which the federal government will play an active role. Canada has made significant progress in introducing cross-sectoral horizontal policies. However, these horizontal features have been integrated into an underlying structure organised by sectors, and the system of local governance remains weak. Separate policies exist for the Northern territories, which face many challenges common to other rural regions as well as additional challenges: the uncertainty created by the unresolved Aboriginal claims, the territorial governments' relationship with Ottawa (in flux as a result of devolution), environmental threats linked to the extraction of non-renewable resources, a high dependency on transfer payments, and a number of unique health-related and social problems. The Canadian example makes it clear that heterogeneous conditions require heterogeneous solutions. By considering rural Canada from three different but overlapping perspectives – as rural regions in a general sense, as the Northern Territories, and as the Aboriginal population – this chapter will show that a combination of the devolution of governance responsibilities to local entities and the creation of federal development agencies, whose authority transcends the boundaries of provinces and territories, would provide rural regions with both the autonomy and guidance from more experienced policy bodies necessary to find solutions to their particular problems.

Policies for predominantly rural regions

Current strategies, policies and programmes for predominantly rural regions

Since 1996, through successive speeches from the Throne and budget announcements, the federal government has expressed its renewed commitment to the development of rural Canada and to building a strategic and comprehensive approach to rural problems. Emphasis is now put on improving the governance of rural policy at the federal level and on supporting greater grass roots participation in community-based development. In order to better tailor programmes to rural needs, the federal government is undertaking an on-going dialogue process with rural citizens and is increasingly implementing programmes through partnerships with rural communities. Structural challenges of rural Canada, such as the need to strengthen and diversify the economic base of rural areas, nevertheless continue to require attention, in order to promote institutional building and to reduce isolation. Against this backdrop, the following sections review the evolution of policy toward rural areas, and the new policy approaches and programmes designed to address the various stresses facing rural areas-technological change, forces of localisation and globalisation, lagging productivity and economic growth, inadequate infrastructure and changing governance. Implications of these programmes for rural regions are discussed with reference to specific examples. Finally, local governance and vertical co-ordination, likely the weakest link in the process of Canadian rural governance, are analysed.

The history of federal policy for rural regions

The Canadian Government has, for decades, intervened with economic development policies that have benefited rural regions. Many of these programmes have been sector-specific, focused either on agriculture, forestry, fishing, energy or mining. Programmes such as the *Prairie Farm Rehabilitation Administration* have focused on the economic problems of rural regions primarily through a single sector. Since 1986, Canadian policy has become more territory and community oriented. For example, programmes such as the *Community Futures Development Corporations* and *Community Business Development Corporations*, aimed at fostering entrepreneurship in rural regions, have increased development finance in rural communities.[1] This process has accelerated in recent years as shown in the chronology that follows.

In 1996, the Canadian Government embarked on its most aggressive rural policy-making process ever. The result has been the development of a new federal rural policy framework and an array of initiatives specifically designed to support the economies of predominantly rural regions. These policies do not currently differentiate between the three types of rural regions – metro-adjacent, non-metro-adjacent, and northern regions – in spite of the fact that the consequences of the policies can vary greatly from one type of rural region to another. For example, the effectiveness of programmes designed to ease the adjustment of agricultural activities vary greatly depending on the amount (there is essentially none in the entire North), and the types of local agriculture. Another example is policies designed to make transportation more competitive. Many rural areas have alternative modes of transportation – road, air, and water – but in the North, residents face monopolistic suppliers of transportation services.

In 1997, a report entitled *Think Rural*, which provided recommendations for the development of a new rural policy for Canada, was released. In 1996, the Federal Government created the Rural Secretariat to lead the development of a federal rural policy. The Secretariat's objectives are to provide leadership and co-ordination for a new initiative called the *Canadian Rural Partnership* whose purpose is to set up and liase with partnerships focused on rural issues and priorities; and to promote dialogue between rural stakeholders and the federal government.[2] The *Canadian Rural Partnership* is mandated to continue the consultative process with rural residents and to help implement the federal rural policy framework. The Partnership currently has four years of funding (CAD 20 million), which ends in 2002.

In 1998, several components of the Canadian Rural Partnership were put in place. One of them, the *Rural Lens*, is a way of viewing issues through the eyes of Canadians living in rural and remote areas. In other words, it encourages federal departments and agencies to scrutinise their policies and programmes through a "Rural Lens" (see more details below). In addition, a nation-wide process of consultation called the Rural Dialogue allowed thousands of Canadians to offer their views on rural issues. In October of the same year, the Rural Secretariat sponsored the National Rural Workshop, during which participants identified key priorities for rural Canada. This led to the 1999 *Federal Framework for Action in Rural Canada* (Canadian Rural Partnership, 1999) (Box 21).

In April 2000, an important conference was held in Magog, Quebec. The National Rural Conference reviewed progress relative to the policy priorities in the *Federal Framework for Action* and learned from experience to date. From the Conference came a *Rural Action Plan* that establishes a set of activities for the current federal rural framework. A very important aspect of this new policy approach is that the Government of Canada is required to report every year on the achievements in each priority area. This report is presented by the Secretary of State for Rural Development to Parliament.[3]

Policies in response to changing technology

A typical policy reaction to changing technology is to limit its impact on employment and fixed investment. The rationale for such policies is often

Box 21. Federal framework for action in rural Canada

The Rural Action Plan emerged at the National Rural Conference of April 27-30, 2000 and lists examples of current government actions as well as the next steps the Government of Canada will take in response. The issues are organised around the following eleven priority areas of the *Federal Framework for Action in Rural Canada* that was developed from the Rural Dialogue and the National Rural Workshop of 1998.

- improve access to federal government programmes and services for rural Canadians;
- improve access to financial resources for rural business and community development;
- provide more targeted opportunities, programmes, and services for rural youth, including Aboriginal youth;
- strengthen rural community capacity building, leadership, and skills development;
- create opportunities for rural communities to maintain and develop infrastructure for community development;
- connect rural Canadians to the knowledge-based economy and society and help them acquire the skills to use the technology;
- strengthen economic diversification in rural Canada through more targeted assistance;
- work with provincial and territorial governments to examine and pilot test new ways to provide rural Canadians with access to health care at reasonable cost;
- work with provincial and territorial governments to examine and pilot test new ways to provide rural Canadians with access to education at reasonable cost;
- foster strategic partnerships, within communities, between communities and among governments to facilitate rural community development; and
- fromote rural Canada as a place to live, work, and raise a family recognising the value of rural Canada to the identity and well-being of the nation.

Source: Government of Canada, *www.rural.gc.ca/conference/rap-par_e.phtml*

expressed as a concern for public safety or short-term economic stability. However, more progressive policy attempts to use changing technology to improve competitiveness and to ease and encourage the kinds of adjustment needed to do this. This section provides evidence that Canadian policy is geared toward the latter strategy.

The federal government has a stated goal of becoming known around the world by 2004 as the government most connected with its citizens. A recent study by Accenture found that the Canadian government was already rated number one in e-government.[4] As a means to this end, the Canadian government has embarked on an ambitious programme of investment in information and communication technology infrastructure as well as the capacity of citizens to use the technology. Through the Government On-Line initiative, the Government of Canada committed to work towards providing all government services on-line by the year 2005. This initiative will provide citizens access to government information, services and transactions through a single portal.

The *Community Access Programme* (CAP) has resulted in the establishment of more than 4 500 public Internet access sites in roughly 3 000 rural and remote communities. CAP is a key component of the Government of Canada's *Connecting Canadians* initiative. CAP started in 1994 in rural communities. CAP is now being rolled out to population centres of over 50 000. To date, approximately 8 800 public Internet access sites have been established in rural, remote, and urban communities across Canada.

Another component of the *Connecting Canadians* programme is *Smart Communities*.[5] Smart communities, with the help of the federal government, build the necessary infrastructure and raise citizens' interest and awareness, so that the entire community has the capacity to go on-line. Smart communities use the Web to connect to local governments, schools, businesses, citizens, and health and social services. Now dozens of rural Canadian communities are becoming smart communities, following the example of the initial pilots.

The *National Broadband Taskforce* was appointed in January 2001 and tabled its report in early summer of the same year. Its goal was to develop a strategy for ensuring that all Canadian communities had access to high-speed Internet access by 2004. Since most urban communities currently have access to cable, ISDN and/or ADSL service, this goal is primarily one for rural Canada. The Taskforce pointed out that access to broadband is a dynamic concept, allowing for adaptation to changing technology. Real access to broadband includes affordability, existence of relevant content, and the capacity of citizens to understand and use the infrastructure.

The CAP and Smart Communities are good examples of programmes that respond positively to technological change by exploiting new technologies to improve competitiveness and reduce isolation. To date Canadian policy has focused primarily on the physical infrastructure side of the digital divide but there is indication that with these and other programmes, it is expanding to include the human capacity side as well.

The Canadian rural policy has focused on information and communication technology and on sectoral (especially agricultural) adjustments to changing technological conditions. But there is little evidence of policies focused on other aspects of rural technology or rural-oriented innovation (rural business incubators, rural focused research and development, and manufacturing extension for example).

Policies in response to the localisation and globalisation of the economy

To compete in the global economy, communities, especially rural ones, must have the capacity to make sound decisions, and the flexibility to apply policy in locally distinct ways. Policies of this type give communities latitude within the constraints of the national programmes that they need to respond quickly to changing market conditions, changing institutional and legal contexts in other countries, and to changing sources of competition. This section considers Canadian rural policy from this perspective–what tools does it provide to rural regions to allow them to succeed in global markets.

The *Rural Dialogue* is a series of consultations with citizens about rural issues at the national and regional levels. The objective is to allow rural residents to have as much input as possible in the development of rural policy. Rural dialogue is an on-going process, which includes surveys, workshops, regional and national conferences, an on-line discussion group and a quarterly newsletter.[6] The *Rural Dialogue* is an ambitious response to the goal of localised policymaking. To be effective, this process will have to convince the public that their on-going participation will continue to influence policy. One possible (and desirable) outcome is that this process will create a more active and effective rural constituency.

The Canadian Rural Partnership Pilot Projects Initiative directly addresses the eleven priorities in the *Federal Framework for Action in Rural Canada* by encouraging innovative approaches to rural development with local impacts that involve multiple partners and a framework for evaluation. This approach tends to encourage and support local solutions and initiative. It creates the capacity for local groups and not-for-profits to participate in the decision-making process. Partners in the pilot projects can be from any level of government, *i.e.* federal, provincial and local as well as the private and non-profit sectors.

Information Outreach is a collection of smaller initiatives designed to promote rural regions and industries, and to create a greater awareness of the issues in rural regions. Components of the initiative include: the *Rural Times Newsletter* which provides a forum for rural issues; a website[7] which contains a variety of links to information for rural Canadians and about rural Canada as well as an on-line discussion group to allow people to discuss rural issues; the *Rural Fairs and Exhibits* programme that provides information directly to people in rural and remote communities, travelling to approximately 100 communities every year; and the *Canadian*

Rural Information Service (CRIS), which directs people with information needs to appropriate databases, bibliographies or experts. CRIS also provides customised information packages and customised bibliographic searches in response to queries.

The *Community Futures* programme also helps communities prepare for globalisation. This programme is important to rural communities because it builds community institutions and develops the capacity of communities to innovatively and proactively deal with the new volatility introduced by globalism. These programmes assist communities as they develop strategic plans, training programmes, and initiate local economic development projects. Other national and regional initiatives of interest to rural regions include the *Community Capacity Building Initiative* and the *Sustainable Communities Initiative* of Natural Resources Canada, and the *Community Capacity Building* and the *Community Learning Networks* (CLN) programmes of Human Resources Development Canada.

Overall, it seems that the Canadian policy toward globalisation is focused on exploiting it by helping individuals and businesses prepare for the increased volatility, increased uncertainty and growing competition in international markets. However, with the exception of the Community Futures Development Corporations and the Community Business Development Corporations, little emphasis is given to community or regional level institution building or with enhancing community capacity for decision-making. No programme (other than provincial programmes discussed below) seems to be focused on strengthening local governance.

Policies to increase rural productivity and economic growth

Most of the programmes above, if effective, will enhance rural economic growth. However, until now, national growth has been hampered by lagging productivity growth. Regional policies did not adequately meet the needs of rural communities. Canadian policymakers have developed in the recent period the means to address this issue.

A major role is played in that context by the Business Development Bank of Canada, created by a 1995 act of Parliament. It is a public development finance institution that focuses on the financial needs of small and medium enterprises (SME). As small business often represents an important share of rural activities, the bank can be considered as a rural policy intermediary. It complements the products of private sector financial institutions. It provides micro lending, term debt, subordinated financing, and venture capital. It also provides management consulting and technical assistance to start-ups. It focuses on emerging and technology-based industries, exporting firms, and New Economy sectors.

Several provinces have province-wide economic and community development programmes that are potentially important to rural regions. Many of these involve development finance institutions. As an example, the *Alberta Opportunity*

Company is a lender of last resort for Alberta businesses with assets to offer as collateral. One focus is on potential export sectors. No equity or venture capital is offered under this programme. Newfoundland's Department of Industry, Trade and Rural Development offers several development capital products aimed at growth sectors with export potential. This programme is available to businesses throughout the province, but the majority of the province is rural and remote and therefore stands to benefit most from the programme.

Productivity[8] driven economic growth requires a number of ingredients, including financing, entrepreneurship, research and development, and market development. Each of the policies described above address some aspect of financing, which is perhaps the easiest of the ingredients to produce. While research and development was listed as a priority in recent Speeches from the Throne, few steps have been taken to achieve this policy goal in rural areas. A comprehensive rural productivity policy would promote all of the above mentioned policy goals.

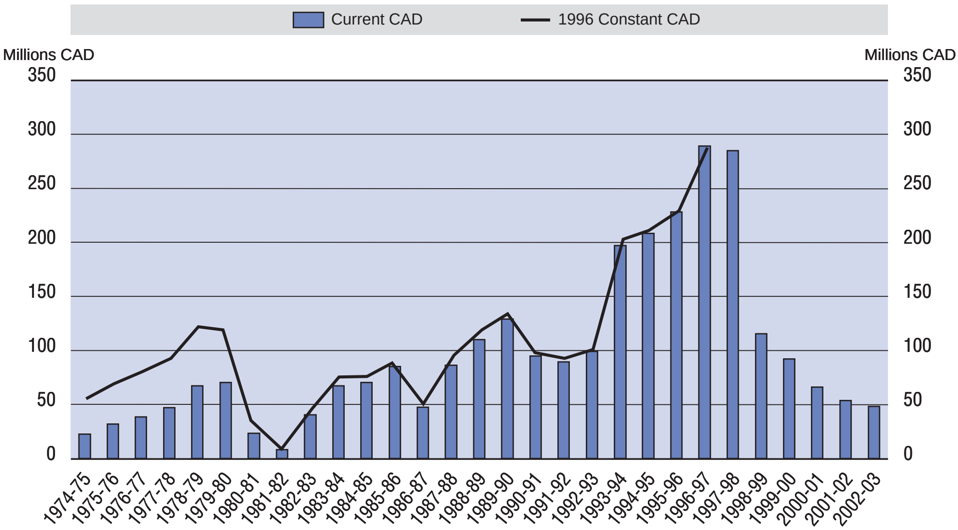
Rural infrastructure policy

As emphasised above, Canadian infrastructure policy has changed significantly in the last decade. The current policy stresses commercialisation, deregulation, devolution, divestiture and decentralisation. Devolution has meant that provincial governments are now more responsible for airports, seaports, roads and highways than ever before.

One federal programme that has affected rural regions is the *Strategic Highway/Transportation Improvement Programme* (SHIP/STIP). This programme, which provided CAD 845 million over five years (1993 to 1998) as part of the Strategic Capital Investment Initiative, was designed to strengthen Canada's national transportation and communication networks. This accounts for the bulge in the federal contributions to provincial highway systems. However, it is also clear from the trajectory in Figure 26 that following this five-year investment programme, the federal government planned to devolve this responsibility to the provinces.

In 2000, the federal government announced a new policy on infrastructure investment that emphasises partnerships with provinces, territories, municipalities and the private sector. The programme, called *Infrastructure Canada*, administered by the regional agencies (ACOA, CED, WED), involves formal agreements with the provinces to collaborate on the issue of infrastructure financing. Each agreement specifies a proportional amount of investment in rural communities. In the West, the *Infrastructure Canada Programme* is administered by Western Economic Diversification Canada. Examples of these bilateral partnerships are the *Canada Saskatchewan Infrastructure Programme* and *Manitoba Infrastructure Programme*. Each agreement is unique. The Saskatchewan programme involves local governments,

Figure 26. **Federal contributions to provincial highway systems, 1974-2003**



Source: Transport Canada, 1996.

which must contribute at least one-third of the programme's costs, with the federal and provincial partners contributing up to another third each. These programmes were negotiated in 2000 and 2001. It is not yet clear how they will function, especially from the perspective of rural regions and residents.

As we have seen above, information and communication infrastructure is just emerging with the report of the Broadband Taskforce. It is too early to tell how this policy will affect rural regions, but it is clear that the intention is to bridge the technological gaps between rural and urban regions as far as possible This is a very large undertaking and will require substantial time and effort.

Reorganisation of government

Canada has an explicit policy of creating a more horizontal government. Many federal policy statements refer to horizontal approaches and action. This is a worthy, yet ambitious goal. Canada, like most countries, has a long tradition of sectoral agencies and departments. Conversion to a more horizontal structure requires systemic change, patience, and change in bureaucratic cultures. The federal government has instituted horizontal initiatives at the national, regional, and provincial levels. As we will see, they are experimenting with several alternative methods at the same time. Some of these approaches will undoubtedly be more effective than others.

At the national level the *Interdepartmental Working Group on Rural* consists of 29 federal departments and agencies. The Working Group's objective is to co-ordinate the cross government approach in helping to address the federal commitment to rural Canadians. This response to the "silo problem" is as yet unproved and depends on the level of visibility and authority given to the Working Group. The Working Group is also promoting rural research and analysis largely through its member agencies. Statistics Canada has played a major role in research and analysis, conducting several projects and generating specialised data on rural issues.

From the rural perspective, the *Rural Lens* is the key mechanism for fostering horizontal co-operation. It is an ambitious and innovative approach to the cross-jurisdictional and interagency nature of rural issues. The *Rural Lens* attempts to view all relevant policies and programmes from the perspective of rural residents. The primary methodology of the *Rural Lens* is to apply the Checklist of Consideration.[9] The Checklist determines whether any policy or programme addresses any of the eleven priorities, what the impacts of the policy or programme will be on rural people and places, and helps the reader reflect on ways of making the policy or programme more rural friendly.

The federal government has extended the concept of horizontal co-ordination to the regional and provincial levels as well. The four regional economic development agencies and INAC are examples of regional co-ordination. The Rural Teams are the provincial and territory counterparts to the Interdepartmental Working Group on Rural. These teams are primarily comprised of federal officials in the provinces and territories, but they are expanding to include non-federal officials as well. The goal of these teams is to co-ordinate regional and local programmes.

Another horizontal co-ordinating mechanism is the Regional Councils of Senior Federal Officials. This council is supported by the Privy Council Office and the Treasury Board Secretariat. The Secretariat has as a motto, "Think virtually! Act horizontally". By this they mean that members of the regional councils should ignore the distances between each other and the differences in organisational structure. Instead they are asked to act as if all members of the council were on the same team. This motto could be equally applied to a number of other horizontal initiatives.

The concept of horizontal co-ordination is not a new one. It is the dominant organisational model in the private sector worldwide, and is the goal of most governments. However, rarely is it as institutionalised and raised to such a high priority as it is in Canada, especially as it applies to rural issues. The approach to date seems to be effective. Co-ordination of a group of agencies' activities by a separate co-ordinating agency is most efficient if the roles of the two levels of agencies are clearly defined. However, distinguishing these functions – service delivery versus co-ordination – tends to hamper innovation by limiting delivery mechanisms. Thus there is a trade-off between co-ordination and innovation. In the long run, the benefits of horizontal co-ordination (less duplication, less conflict among programmes and less frustration for residents) will outstrip the costs as long, as innovation and evolution can be encouraged.

Provincial and territorial policies and programmes

Little evidence could be found for aggressive provincial programmes for rural areas. The most ambitious provincial rural programmes are those of Quebec, Ontario and Saskatchewan where new provincial rural policies are being developed and implemented. *Quebec's Rurality Policy*, in existence since 1999, describes six challenges for the province: *i*) Maintaining populated and dynamic rural communities; *ii*) Creating lucrative and sustainable employment in rural regions; *iii*) Protecting the rural environment; *iv*) Protecting the cultural and social characteristics of rural communities; *v*) Providing high quality services to rural regions; and *vi*) Helping rural residents help themselves.

Quebec's policy stresses reorganisation of the local and regional levels. The policy adopts a multilevel (local, regional, provincial and federal) approach to address the issue of small ineffective local governments. Quebec has hundreds of municipal governments. The new policy maintains the municipal governments but creates an intermediary level of regional governments. These regional entities while large enough to be more effective than the municipal governments are still quite local. The potential cost of this approach is additional levels of bureaucracy and government. However, it represents an example of comprehensive federalism, which, if executed effectively, should strengthen democratic processes.

The Ontario Small Town and Rural Development (OSTAR) is a five-year CAD 600 million programme initiated in 2000 to improve infrastructure and promote economic development. More than two-thirds of the programme funds are used for infrastructure programmes.[10]

In Saskatchewan, the provincial government has appointed a two-year study group called the *Action Committee on the Rural Economy* (ACRE). The committee has tabled interim recommendations as follows: *i*) that the provincial government improve access to capital funding; *ii*) that the provincial government, in co-operation with the federal government, place a priority on establishing a skills development programme designed to help manufacturers to remain in rural Saskatchewan; *iii*) that the Government of Saskatchewan facilitate rural development by simplifying the regulatory environment; *iv*) that the federal and provincial governments take necessary actions, including increased funding, to provide universal affordable access to high-speed Internet and cell phone coverage to all residents throughout Saskatchewan; *v*) that the Government of Saskatchewan take steps to prepare for and increase immigration to the province; and *vi*) that the Government of Saskatchewan make a commitment to a major public education programme aimed at Saskatchewan that emphasises its rural strength and resilience. The committee is soliciting input from provincial residents and will table a final report in early 2002 that will serve as a starting point for the province's rural policy.

Impact of policies on rural regions

The above description and assessment of federal and provincial rural policies in Canada underscores the country's dedication to its rural regions. Overall, the policies are elaborate, comprehensive and co-ordinated. The review of policies, programmes and initiatives in the previous section allows to highlight several characteristics common to most Canadian rural approaches, and to assess their effectiveness.

The federal government is clearly in the lead in rural policy development. Not only is there a well-articulated Federal Framework for Action and Rural Action Plan that relates to all regions, but also the federal government is an active partner in provincial programmes. The federal policy approach includes a high-level co-ordinating institution, the Rural Secretariat, to ensure that there is an effective proponent for rural issues and has been given responsibility to work across the federal government to lead the Canadian Rural Partnership. This comprises mechanisms for bringing about interdepartmental co-ordination, the Interdepartmental Working Group on Rural and the Rural Lens, and it has an annual self-assessment process. In comparison, the majority of provincial-level policies are very uneven in philosophy and sophistication. Quebec is a notable exception to this rule.

Horizontal co-ordination and partnerships are hallmarks of many of the programmes and initiatives. The co-ordinating councils, working groups, tables, and teams serve to co-ordinate the many sector- or more vertically-oriented agencies. This is particularly important to rural regions where many, perhaps most, government agencies have an impact on rural life. Furthermore, the bilateral provincial-federal agreements approach (which Canada has embraced in many areas because of the inability to develop nation-wide agreements), often leads to the federal, provincial, and sometimes local governments co-ordinating their policies as well.

The Rural Lens has led to changes in several departments that have improved service to rural regions. For example, Canada Post has made changes in procedures to help ensure that rural Canadians enjoy the same level of postal services as urban Canadians. Other themes in rural policy are diversity, sustainability, and consultation with grass roots rural residents. Rural policy focuses on the establishment of a rural interest or stakeholder group. In fact, one of the priorities is to promote rural – convince urbanites that it is in their interest to have prosperous and sustainable rural communities.

There are, however, relatively few examples of programmes and initiatives that provide local decision-makers with real tools for improved decision-making. Exceptions are the community impact development models of the Canadian Forest Service, and the databases and bibliographic searches offered by Statistics Canada. The development finance programmes that have associated technical assistance services are other examples. For many of the programmes, the emphasis seems to be on providing community groups with funds and incentives to work together, but little in the way of information, decision tools, or decision support systems.

While the themes and consistency of the policies are commendable, the government's financial commitment to them has been minimal to date (*e.g.* CAD 20 million for the Canadian Rural Partnership). Furthermore, most of the federal government programmes have sunset provisions (that is, they are created for a fixed period of time after which time they will either be discontinued or reauthorized). Sunset provisions are a good way of ensuring that programmes do not outlive their usefulness, but can hamper planning if they are too short. Other potential deficiencies include inadequate support for local governance, insufficient demographic policy components, and narrow support for productivity growth and innovation.

There is also little evidence that the protection or creation of amenities was a policy priority of the federal or provincial governments. Canadian cities are widely recognised for their orderly growth and careful planning. But lessons can be learned from other countries, notably the United States, where lack of land-use policies and the protection and creation of amenities has had expensive consequences in terms of sprawl, traffic congestion, and loss of rural amenities. The lesson to be learned is that rural amenities are easily lost but difficult to regain. Similarly, despite numerous references in research reports as well as the media to the ageing of the population, out-migration of rural youth, high levels of international immigration, and the high dependency ratios, there are few examples of explicit policies directed at rural demographic issues in Canada. Actually, Canadian policy is much more aggressive concerning Aboriginal demographic issues.

Governance issues for rural regions

Canadian federalism has been a constant political issue for at least the last 50 years. The processes of repatriation of the Constitution and on-going negotiation over provincial rights have persistently kept federal-provincial relationships in the public eye. Agriculture and economic development are areas of responsibility where negotiation and federal-provincial agreements are required. This is an expensive and tedious way to divide responsibility, but it also increases intergovernmental co-ordination.

Local governance has only recently become an issue. Communities and their governments must become stronger in order to deal with the forces of globalisation. This is a national issue for Canada, and one that is of critical importance to rural regions, but to date it has been addressed only piecemeal.

Only Quebec has a clearly articulated policy for the reorganisation of their local and regional levels.[11] Furthermore, they have embraced the European concept of subsidiarity as a guiding principle in reorganising jurisdictional and inter-jurisdictional responsibilities. The subsidiarity principle calls for each governmental role to be the responsibility of the lowest level of government possible (*i.e.* the one closest to the people). Quebec interprets this to mean that the provincial government should be responsible for "defining overall national objectives and strategic government choices. It must also continue to ensure that basic services are accessible and maintained for all citizens and that resources and wealth are equitably distributed among the different regions of Quebec" (Quebec Ministry of Regions, 1998). However, the province includes almost 1 400 municipalities, most of which are far too small to be effective local governments. In 1980, the province created 96 Regional County municipalities, which created a much more realistic size of local government. Local government will provide "first-line services" such as community development and employment creation. Regional governments in Quebec (originally ten administrative regions province-side) are responsible for "second-line services" such as college-level instruction, specialised health care, services related to exports, technological development, and research and development. It is probably too early to know how well this devolution in Quebec is working but there seems to be recognition in the provincial government that successful devolution will require capacity-building at the local and regional level.

Ontario has been reorganising its local government system since 1996. Reform has reduced the number of local governments by nearly half. Local governments are moving more to regional and county governments from the many municipal governments of the past. But the change seems to be primarily in urban regions, leaving rural regions with the most fragmented local governments. The North, especially, has a very underdeveloped system of local and regional governance.

In other provinces, rural local governments are probably too small and under-resourced to play an effective role in rural development. The normal reluctance of governments to submit to change, especially consolidation, will make it difficult for Canada to develop stronger local governments. Efforts to consolidate rural municipalities in Saskatchewan, for example, have been met with strong opposition from local leaders (Saskatchewan Association of Rural Municipalities, 2000).

Another way to strengthen lower tiers of government is to foster horizontal partnerships.[12] The Canadian Rural Partnership and its Interdepartmental Working Group on Rural, and Rural Teams as well as the Regional Councils of Senior Federal Officials are examples of these partnerships. Mechanisms such as the Rural Lens allow these partnerships to operate effectively. Partnerships also exist between different levels of government. This includes the various federal-provincial agreements related to infrastructure investment and economic development.

To create stronger partnerships between government and voluntary organisations, the federal government and voluntary sector have created a series of Joint Tables.[13] The purpose of these tables is to develop a joint vision and plan of work for government and the voluntary sector. For example, an accord has been reached that will allow the voluntary sector to aid the federal government in the provision of child welfare and environmental programmes. Similarly, the Community Access Programme involves public-private partnerships to create affordable Internet access in rural communities. Finally, the Community Futures Programme supports a network of locally-governed, community-based development organisations and encourages them to participate in local partnerships with government, other community organisations and the private sector.

In terms of governance, the Canadian federal government is aggressively addressing the problems of rural regions through the creation of agencies and other institutional structures (*e.g.* the four regional agencies) that deal not with single sectors but with regions and communities. The federal and some provincial governments are devolving governance to local and regional authorities. Partnerships are also being created between the public, private and quasi-public sectors. Each of the approaches should improve rural governance. The move to more horizontal governance should be especially important to rural regions.

To sum up

In the last five years, rural policy in Canada has received a major thrust. Not only has the policy-making architecture changed at the federal level, but the number of rural-focused initiatives has increased. A recent report presented to Parliament outlines more than 500 federal programmemes, services and potential initiatives for the improvement of rural and remote areas. Setting up partnerships among provinces, communities, and the federal government, as well as maintaining a continuous dialogue with rural Canadians to better satisfy their needs, have been the main engines behind this change.

Rural communities depend increasingly on how well their economic base sectors fare (Johnson, 2001). Policies in response to changing technologies and globalisation, and which aim at increasing rural productivity and growth, can stimulate important returns and help diversify activities still biased towards resource industries. Computer ownership and Internet connectivity are lower in rural areas for citizens at all levels of educational attainment and in all age groups and provinces. Policies have often focused too much on the supply side and more attention needs to be given to providing training and capacity and to arousing the desire to use information technologies. Expanding opportunities in rural areas also require establishing more bottom-up, friendly-framework conditions. However, many rural regions in the provinces continue to have weak and often inefficient local governments. Since local governance is a traditional purview of provincial governments, the federal government has limited latitude to promote subsidiarity. It has nevertheless supported community-based organisations (*e.g.* CFDC and CBDC) which promote development and action partnerships at the regional level. Framework agreements between federal and provincial governments are another instrument for significantly influencing the competitiveness and sustainability of communities. Whether these agreements are sufficiently targeted on alleviating the problems of rural areas remains a question.

In many respects, Canadian rural policy has been significantly altered. Many of the initiatives are new and have not had time to be effective. Canada has made significant progress in instituting more horizontal policies and setting up a number of innovative and daring approaches. The federal government is well ahead of most provinces in its strategy for rural development. However, while it has been on the leading edge in creating new institutions and links between existing ones, it has not given sufficient priority to some areas for potential development, such as the promotion of rural amenities.

Policies for the Northern territories

The three Territories in the North of Canada – Yukon, Northwest Territories (NWT), and Nunavut – comprise approximately 40% of the Canadian landmass but account for less than 0.3% of the population. Much of the population lives in regions only accessible by air or water and only during certain times of the year. Thus, the territories are extremely remote and sparsely populated. The problems faced by the territories are all those faced by remote rural regions in the rest of the country. In addition, there are other unique difficulties that the North must deal with. These include the uncertainty created by unresolved Aboriginal claims, the territorial governments' changing relationship with Ottawa as a result of devolution, the relationship between Aboriginal and other governments, adjustments to the division of Nunavut from the Northwest Territories, and dependence on the highly volatile extractive economy. This section reviews the problems and challenges that the North faces in the economic, environmental, social, and political sphere, and then assesses the policies currently in place or in preparation to address these challenges. While much of the northern parts of Manitoba, Ontario, Quebec and Labrador (the Canadian Shield area) are in fact confronted with the same challenges and issues as the Northern Territories (access, traditional societies, high birth rates, resource/energy based, climatically challenged, vastness, etc.) and should be categorised with this group, the realities of political administration and data disaggregation force these sub-provincial areas to be grouped in with areas defined as rural. As these areas do not have direct government, such as the Territories, dealing with their unique issues and their development is a shared responsibility of regional agencies and Indian and Northern Affairs (INAC).

Current strategies, policies and programmes for the Northern territories

Policies and programmes in the territories are evolving rapidly as a result of Aboriginal self-government and devolution. Policy is changing at the same time that governance structures are changing. In the past, the territories were administered by the federal government, primarily through Indian and Northern Affairs Canada. To achieve more responsive administration, INAC has established offices in the territories. It has also regional offices in the Atlantic, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia but the regional offices functions/responsibilities in the provinces vary somewhat as compared to those in the territories. INAC administers most, but not all, aspects of federal responsibility in the territories.

In the last decade the federal policy for the North has stressed devolution of responsibility to the territorial governments. The most significant act of devolution occurred in 1999 when Nunavut was created from the Eastern section of the NWT. Nunavut is now focused on establishing its new government and achieving some early goals. One of its first objectives is to build a civil service that is more representative of its population, which is 85% Aboriginal. The new, smaller NWT is in the process of negotiating a new working arrangement with the federal government. Meanwhile, the Yukon is in the midst of its own devolution process. On June 15, 2001, Yukon Premier Duncan announced a new initiative entitled "Renewal of Government". The main purposes of this initiative are to promote democracy by restoring the Yukoners' confidence in government and to prepare for new economic development, natural resource management, and public service provision responsibilities related to the devolution of federal responsibilities to the territorial government. All three territories are in similar economic situations, but each has taken a somewhat different strategy. While all strategies involve sustainable development activities, better education, and respect for Aboriginal rights, they differ in their paths to sustainable development. Yukon and the Northwest Territories are preparing for devolution of responsibilities and control of resources. The NWT in particular is focused on non-renewable resource development, while Nunavut is more concerned with renewable activities. The Yukon is focused heavily on revising its governmental institution while Nunavut is in the process of building its institution.

Policies and programmes intended to offset remoteness

The most significant policies related to remoteness are those designed to reduce the cost of living in the North and to ensure that Northerners have reasonable access to basic needs. A number of policy initiatives have been launched to accomplish this aim. Two of them involve air transportation and the control of airports. The Northern Air Stage Programme, administered by INAC, is a service providing nutritious perishable food products and other essential items to isolated Northern communities at reduced postal rates. The programme also involves surveys of food costs and nutrition in remote Canadian communities serviced primarily by air transportation. Under the National Airport Policy, the Canadian government divested itself of 31 small and satellite airports. All 13 remote airports, remain under the control and responsibility of the governmental department, Transport Canada. However, control of 11 Arctic airports has been transferred to territorial governments. The rationale for this exception to the divestiture policy for other airports is that the Arctic airports are critical to the communities in question because of their almost total dependence on them for essential items.

Where information and communication technology (ICT) is concerned, one particular policy initiative, the Broadband Taskforce, has identified the need for the federal government to subsidise the construction and operation of information technology infrastructure in remote and Northern communities. A further project, the Community Access Programme, has also been initiated with a focus on rural and remote communities. Its goal is to increase the level of access to Internet so that these communities will effectively be less remote. Because of the extraordinary distances and low population densities in northern Canada, new generations of technology will always deploy later in these areas. For this reason, the above four policy initiatives may never "level the playing field" for Northern communities but they can make them much more accessible and thus raise the quality of life significantly.

Policies and programmes to encourage economic diversity and growth

Of the three Northern territories, the Government of the Northwest Territories (GNWT) has made the fastest progress in the formation of economic development policies. They are outlined in the previously-cited document titled *Towards a Better Tomorrow* and two related documents.[14] The GNWT policies for economic development propose concrete strategies to solve problems in four main areas: regional economies, globalisation and competitiveness, education and training, and governance. The estimated cost and benefits of each strategy are listed in the documents, with the total four-year estimate of costs amounting to approximately CAD 340 million.

In the area of regional economies, the policies recognise the need for stronger local and regional institutions, and the vital importance to the economy of a well-run government. The GNWT also indicates its intention to capture greater control of and benefits from non-renewable resources from the federal government. It aims to maximise the benefits to NWT residents through promoting employment of Northerners, supporting local small businesses, promoting value-added industries, encouraging equity participation by northerners, striving for balanced economic growth, and studying the feasibility of converting NWT communities to natural gas. To further the global presence of NWT enterprises and improve their competitiveness, the policy proposes to create a better environment for investment by completing devolution of authority, marketing NWT resources, developing the workforce, promoting mineral exploration, and improving transportation and communication infrastructure through a Mackenzie pipeline and reduced regulation. Also outlined are plans for small business development and increased business finance, as well as strategies for developing value-added manufacturing, cultural industries, and traditional industries (animal harvest). Most importantly, this policy includes a system for measuring results. The policy for education and training recognises that, given the emerging scale of economic opportunities, upcoming devolution, and the trend toward self-government, leadership and education will be demanded more than ever. It outlines plans to significantly enhance the capacity of the labour force and of leadership through workforce planning and welfare reform. The GNWT also proposes to manage development by implementing effective and responsive legislation, working to mitigate negative social effects, monitoring the environmental impacts, designating protected areas, and addressing community service and infrastructure needs.

A third document, "NWT Tourism – The 2006 Challenge", which is still in draft form, outlines government plans for the tourism industry. Tourism is the third largest component of the economic base of the Northwest Territories far behind mining and government. However, the document suggests that this sector that has been allowed to languish over the last few years while the public's attention has been on other issues. The government recommends a series of strategies to revitalise the sector, including assistance to entrepreneurs to develop their tourism products, targeted marketing programmes, training for service providers, market research, and increased use of the Internet to market products.

Nunavut has not had time to develop a well-articulated economic development policy. To date the only economic policies that they are pursuing are to increase the share of territorial government employment held by Inuit and to maintain the mixed economy. Traditional activities are considered an essential part of Inuit life and will be valued and encouraged. At the same time, commercial development is sought as long as it is sustainable and consistent with Inuit values.

The Yukon's economy and its economic development policies are more mature than those of the other territories. Like the other territories the Yukon's economy is based on public administration (27% of employment), extractive industries (12% of employment), tourism and transfer payments. While some effort is made to support investment in small business and to create an opportunity for residents to invest locally, the Yukon government focuses most of its development efforts on mining and forestry. There is little evidence of efforts to diversify the economic base.

Policies and programmes for social and sustainable development

The improvement of health, education and social conditions in the Northern territories of Canada is not an easy task. Most policy initiatives in this area are run by INAC and naturally target Aboriginal peoples. Meanwhile, territorial governments also address health and social programmes. The NWT's policy in this field, though not very specific, lists improved child protection, reduced family violence, healthier lifestyles, early childhood development, and improved accountability as planned responses to the health and social problems faced by residents of the territory.[15] Sustainability is fundamental to the value systems of the Aboriginal Canadians, yet it is much more difficult in a fragile environment like Northern Canada. Even more difficult is developing a truly sustainable development policy based on non-renewable resources.

INAC is leading the preparation of the *Federal Northern Sustainable Development Strategy*. The strategy is being developed with 20 other federal departments and in close consultation with Northerners in all three territories. It is hoped that by developing a decision-making approach that integrates environmental, economic, and social considerations, the strategy will enhance institutional capacity by creating stronger communities with sustainable economies in the North. Natural Resources Canada (NRCan) has launched an initiative called the Community Capacity Building. It is aimed at building or enhancing capacity in rural, remote and Aboriginal communities for decision-making on sustainable development and use of land and natural resources, as well as facilitating the transition to the knowledge-based economy. Besides INAC's project, the GNWT outlined a policy on non-renewable resources which is described in detail in *Towards a Better Tomorrow*: A *Non-Renewable Resource Development Strategy for the Northwest Territories* (Government of the Northwest Territories, 2000c). The policy is based on four principles: partnership, sustainable development, economic diversification, and fiscal sustainability. Sustainable development is the issue that has presented the most challenges, and these projects and others like them, despite showing promise, have not yet managed to deal with it adequately.

While each of the territorial governments has a stated policy of promoting sustainable development, the term may mean quite different things to different people and governments. Sustainable development is a difficult concept to define. In Nunavut, sustainable development seems to focus on renewable resources. Can an economy based predominantly on non-renewable resource extraction be sustainable? Not in the narrow definition of the term in which sustainability means a perpetual stream of value and natural resource services. Can an economy be sustainable even if its resource extraction sector cannot? Perhaps it can. Once governance issues are resolved, sustainability will have to rise in priority for the territories. There are scores of examples of regions around the world (the Appalachians region of the United States for example) where rich resource bases have left regions with nothing more than environmental problems and permanent geographical disfigurement. Given the ecological fragility of the North, it is not hard to imagine this fate for parts of the Canadian territories.

Policies and programmes to reorganise government

Most of the plans to reorganise government involve the territorial and Aboriginal governments. In the Yukon Territories, a policy initiative called *Renewal of Government* has been launched. It aims to improve the way government delivers programmes and services to Yukoners and describes a plan to implement devolution. Under devolution, the Yukon Government will take on responsibility for several substantial federal programmes as well as between 200 and 300 employees. Other goals of the Renewal of Government initiative include improvements in public services, increased accountability, and better working conditions for public employees. Renewal will also involve the reorganisation of territorial departments and their responsibilities. In 1999, the territorial civil service represented 26% of jobs in the Yukon. Federal and municipal employees made up another 9% of jobs. Devolution would increase the territorial government's share of jobs to about 28%.

In the Northwest Territories, a flurry of policy development activity occurred following the creation of Nunavut. *Towards a Better Tomorrow* describes the GNWT's strategy for reorganising itself. While the policy lacks specifics, it does describe a territorial government with a positive and clear relationship with the federal, local and Aboriginal governments that also actively seeks the participation of citizens.

Early in its existence, the Government of Nunavut developed a *Unified Human Resource Development Strategy* that set a target of at least 50% Inuit representation – including 50% Inuit employment in management occupations – in the Government of Nunavut by 1999. The Nunavut government was projected to require about 2 600 jobs at that time. As of March 2001, total territorial government employment including departments and boards was over 2 700 (Table 8). Of positions filled on that date, Inuit made up 43% of employees, 7 percentage points less than the goal.

Table 8. **Employment in the Nunavut Government Public Service**

	Total positions	Inuit employment			
	Total	Vacancies	% capacity	Inuit hired	% capacity
Executive	31	2	94	16	55
Senior management	123	19	85	21	20
Middle management	285	59	79	38	17
Professional	875	156	82	177	25
Paraprofessional	939	224	76	391	55
Administrative support	464	86	81	300	79
Total all departments and boards	2 717	546	80	943	43

Source: Government of Nunavut, 2000.

Table 8 underscores a serious problem with the structure of territorial governments: while Aboriginal people are represented in significant numbers in elected and executive positions and overall hold a reasonable number of jobs in the territorial government, they are seriously underrepresented in its senior management, middle management, and professional positions. This will eventually improve, but in the meantime it means that Aboriginal people are not proportionately involved in the day-to-day decisions and activities of government. It also reduces the size of the pool of Aboriginal people that can take sound management experience into executive and elected positions. This discontinuity in the civil service structure may slow the process of devolution and limit its effectiveness by reducing the growth in policy-making capacity at the regional and local levels.

Impact of policies on Northern territories and governance issues

It should be clear from the above analysis that the current focus of federal policy for the North is not only on Aboriginal issues (which are discussed in a later section), but also on governance issues that have been a cloud hanging over the North for some time. The impact on Northern territories of this preoccupation with governance has not been benign. It has resulted in a decade of uncertainty in the mining and energy sectors, years of neglect in tourism, and little if any progress in improving health, social, and educational conditions in the North. Still, it has led to the birth of a new territory and raised expectations about future opportunities for self-governance. The recent establishment of Nunavut, formerly the Eastern section of the Northwest Territories division, suddenly reduced the size of the GNWT and created a new territory, Nunavut, which has a unique type of government. During the 1990s, Inuit people negotiated a settlement of their land claims that gave them CAD 1.1 billion and ownership of about 18% of Nunavut. They also negotiated the right to self-government similar to that which several First Nations have subsequently negotiated in the Northwest Territories. However, they opted for a public government which includes all residents whether Inuit or non-Inuit. The government is similar, then, to that of the GNWT except that it is designed around Inuit values.

The decentralisation of federal administration functions in the North through INAC seems to have succeeded in achieving its goals. Northerners feel more comfortable with a federal agency that has its main offices within the region. But there is still resentment towards Southern intrusions. Devolution is redefining the division of responsibilities between federal and territorial government. Unlike the creation of provinces where responsibilities are, for the most part, mandated by the constitution, the negotiations between Ottawa and the territories are leading to three distinctly different approaches of federalism. It is not yet clear what these different devolutionary processes will lead to. It is important that the concept of subsidiarity be applied with as much precision as possible to the division of responsibilities. With this expansion of territorial responsibility must come governance, management, and administrative capacity.

As all of this suggests, the Northern territories are currently in transition. Canada is devolving land and resource programmes and responsibilities at a pace determined by each territory, but the federal government still has ultimate constitutional authority within the territories. Post-devolution, the federal presence in the North will essentially mirror its activities in the country's other regions. Devolution of provincial-type responsibilities to territorial governments has been a priority of successive federal governments since the 1980s. All three territories now have representative, responsible governments similar to other jurisdictions in Canada.

The situation of the three territories in Canada is similar in many ways, as far as governance issues and living conditions are concerned, to that of Greenland in Denmark (Box 22). Like Greenland, Canada's Northern territories are endowed with the potential for strong economic growth, but the government is still the largest employer at all levels. In 1998, the Yukon government employed 14.7% of the total population and the GNWT 12.7% of the total population. However, government employment at the federal level seems to be decreasing, whereas local government employment is growing. The problem is that without the creation of a tax base, such growth will be unsustainable.

Like Greenland, Canadian Northern territories are heavily dependent on transfers from the federal government, and to a greater extent than Greenland. In

Box 22. Comparison of governance issues in the Northern territories and Greenland

Greenland shares many of the characteristics and challenges of the Canadian Northern territories. All four regions are characterised by extreme remoteness, a low population density and a fragile Arctic climate where environmental concerns play an important role. Their expensive physical infrastructure is of crucial importance to the development of communities, but means that they suffer from a high price and cost level due for instance to transportation and inventory costs. Their populations are characterised by a relatively low average level of education, a high unemployment rate and low life expectancy at birth. On a more positive note, the regions boast a high gross disposable income per capita. However, their economies are characterised by significant public intervention (as they rely heavily on financial transfers) and have an underdeveloped private enterprise sector. Local and natural monopolies are present in various sectors and places – a consequence of the low population density and the existence of many small communities – represent a significant problem. Moreover, in both the public and private sectors, there is a high turnover rate among employees, as many people come to work in the region but stay only for a short period of time. Engaging new employees is costly due to hiring costs, training costs, and lack of continuity of the work.

A large fraction of both regions' population is made up of indigenous peoples, who face specific challenges. Their languages and traditional culture are coming under increasing pressure as the regions become more integrated with the rest of the world. Most importantly, they experience particularly pronounced social problems. These are exacerbated by a lack of equal opportunities in the workplace, which applies also to the public sector. Although Aboriginal people are taking up positions in government, they are left with the lower-end jobs, as the administrative and managerial posts are mainly filled by expatriate employees from the South.

In 1979, a Home Rule system was introduced in Greenland, giving it the status of a distinct community within the Kingdom of Denmark. The fundamental principle of home rule is that the administration of local matters is the responsibility of the Greenland Authorities, while matters of more general nature are decided by the central administration in Denmark. Since 1979, many of Greenland's administrative tasks have been transferred to home rule, leaving only a few – such as defence, international relations, judicial matters and monetary and exchange rate policies – under the responsibility of the Danish Government. Both local and more general matters are still financed by the Danish government, which also provides an annual block grant to the home rule government, the "Greenland Home Rule Authority". The Parliament is the supreme political authority for areas that have been transferred to home rule, and as such it lays down rules governing these areas and assumes economic responsibility for them.

Box 22. **Comparison of governance issues in the Northern territories and Greenland** (*cont.*)

As more and more areas have been transferred to home rule, the Danish government's financing of activities in Greenland has decreased. Instead, the block grant received by the home rule government corresponds to the value of activities at the time they were transferred to home rule. The total value of these transfers is approximately DKK 3 billion or almost USD 0.5 billion, and in recent years they have been constant in real terms. The block grant is not earmarked for specific purposes but granted as a lump sum. Thus, the Home Rule authority has virtual freedom to determine the order of priority for expenditure of the funds. This means that the funding is not necessarily invested in those areas of the economy that specifically need it or that encourage growth.

The block grant contributes to a large public sector, which is a striking feature of Greenland's economy. Public investment and ownership play a very dominant role in government expenditures accounting for 84% of GDP in 1996. Meanwhile, public employment as a percentage of total employment was 42% in 1996. When employment in public-owned enterprises is added to this percentage, total public employment accounts for almost 75% of total employment in Greenland. On top of this, many private enterprises are directly dependent on the public sector as a buyer of goods and services. In the construction sector, for example, 84% of total sales is directed to the public sector (OECD, 1999e).

Block grants and other transfers risk having some adverse effects on the economies in the form of a kind of "Dutch disease", similar to that in oil-producing countries: the transfers can force an increase in wage, cost, and price levels, so the amount spent on wages becomes much higher than productivity. This ensures a higher standard of living than would have otherwise been possible, but results in very poor competitiveness. The Dutch disease problem is also relevant to the Northern territories as they receive huge grants from Ottawa.

2001, the Canadian federal government transferred over CAD 1.4 billion to the three territorial governments, which is more than double the transfer from the Danish to the Greenlandish government.[17] As Canada's population is two times that of Denmark, the sums transferred per capita are very close. In Canada, federal grant payments as a share of total territorial revenues account for 64% in the Yukon, 75% in the NWT and as much as 90% in Nunavut, whereas in Greenland the block grant together with financing from the Danish state represents just under half of Greenland's total revenues. The lower dependency of Greenland on transfers from the central government can probably be explained by its more developed private sector. Massive investments have taken place in fisheries and the sector is playing a very important role in the economy, as it accounts for almost one quarter of total employment.[17]

To sum up

All the territories are concentrated on pursuing the devolution of land and resource management, and the decentralisation of federal administrations functions in the North through INAC seems to have proved a success. Initiatives to advance federal political and economic goals in the North are mutually reinforcing. Putting in place land claim and self-government agreements builds certainty for all stakeholders, an essential element for a positive investment climate. Expanding Northerners' control over their resource base enhances their ability to realise maximum benefits from economic development. Thus, where order of priorities is concerned, regions should first concentrate on resolving the majority of governance issues they face and then focus on formulating well-defined policies for sustainable development.

Of the policies outlined by the three territories, the NWT seems to have the most advanced economic development strategy, while the Yukon is leading the way in policies to re-organise government with a detailed strategy aimed at increasing efficiency, effectiveness and stability. The government of Nunavut is too new to have developed any medium- to long-term strategies and is focussed on improving Inuit representation in government. However, even the obstacles that the relatively prepared NWT will face are mostly unknown. Moreover, the experience of southern Canada is of little relevance to the rural Northern territories. It would be prudent for territories to seek as much international experience as possible as they refine and extend their strategies. In particular, it is crucial to strengthen human resources through training and education programmes, to improve the efficiency of local governments, help to reduce the underrepresentation of the Aboriginal population in government administration of the territories, and make the devolution a success. Greater investment in human resources would also contribute to increase the supply of skilled people required for the development of an efficient private sector.

Aboriginal people: challenges and policies

As we observed in the previous section, the issues of governance and economic development in the Northern territories are clearly linked to challenges and policies for the Aboriginal population. Indeed, although Aboriginal people live all across Canada, they represent over half of the total population of the Northern territories. But this represents only 5.7% of the total Aboriginal population, 65% living in the four western provinces, 17.7% in Ontario, 8.9% in Quebec, and 4.62% in the four Atlantic provinces. Rural and Aboriginal issues are also closely related, Aboriginal population being highly concentrated in the northern part of the provinces. Their presence is also increasing in cities. According to 1996 census data, about one-fifth of Aboriginal people live in seven of the country's 25 census metropolitan regions. Overall, the total Aboriginal population is estimated at over 1.4 million in 2001, *i.e.* 4.6% of the total Canadian population. The Canadian Constitution recognises three Aboriginal groups, which are three separate peoples with unique heritages, languages, cultural practices and spiritual beliefs: *i*) Indians, commonly known as *First Nations* and including two subcategories (Status Indians who are registered under the Indian Act, and Non-status Indians who are not registered under the Indian Act); *ii*) Métis, *i.e.* people who are of mixed First Nations and European ancestry; and *iii*) Inuit *i.e.* Aboriginal people in Arctic Canada who live mostly in Nunavut, the Northwest Territories and northern parts of Quebec and Labrador.

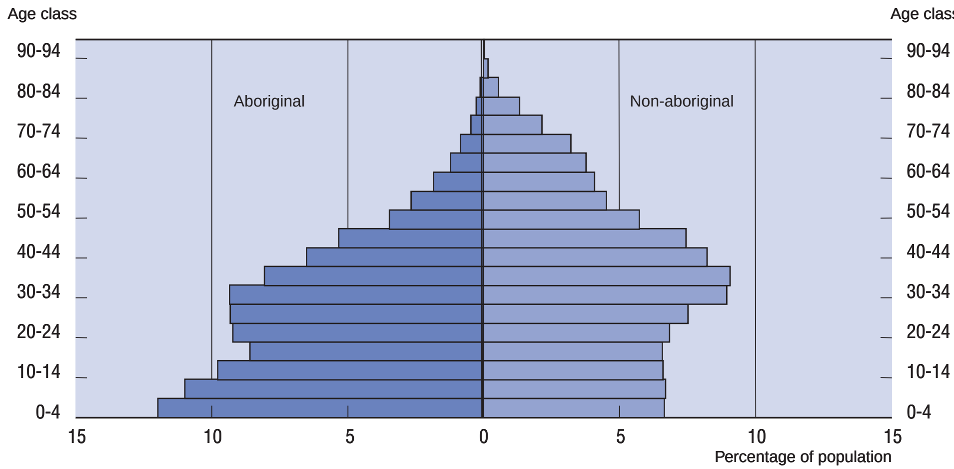
This section will consider the specific challenges confronting Canada's Aboriginal population today. It will then go on to review the policy strategies currently in progress to tackle these problems, focussing on programmes to address the effects of past policies, strategies for the improvement of economic and social conditions and policies to develop Aboriginal governance capacity. Finally it will assess the impact of these policies on Aboriginal people, arguing that even greater decentralisation is necessary if the Aboriginal population is to achieve economic self-sufficiency without erasing its heritage.

Problems and challenges faced by Aboriginal people

The cumulative effects of generations of injustice and racism have taken their toll on the Aboriginal people in that many of them have to live with economic and social conditions that are significantly inferior to those of the average Canadian. This difference can be largely attributed to the former policy of domination and assimilation, and generations of prejudicial treatment which have led to significantly lower levels of human capital investment, and many of the economic, social, educational, and health problems. The Aboriginal population is significantly younger than the non-Aboriginal population (Figure 27). Because of relatively high morbidity rates and very high birth rates, the ratio of children and youth to working age adults (the child dependency ratio) is extremely high. The ratio of population under 15 to population 25 to 54 is about 1.0 for Aboriginal people and about 2.0 for non-Aboriginal people. This suggests that Aboriginal children each have half the number of prime wage earners that non-Aboriginal children have. And because of the shorter life expectancy, Aboriginal children have even fewer elderly caregivers and mentors.

Aboriginal people have much higher poverty rates than other Canadians. The problem has several roots including lower labour force participation rates and

Figure 27. **Aboriginal population by age compared with non-Aboriginal in predominantly rural regions**



Source: 1996 Census of Population, Statistics Canada.

higher unemployment rates than non-Aboriginal peoples. Lower wage rates also play a part: in most provinces the incidence of low income is between two and three times greater among Aboriginal families. Additional contributing factors are the relative lack of economic development in the communities in which Aboriginal peoples live, the lower educational levels of Aboriginal population, the poorer health of Aboriginal people, the much higher child dependency ratio, and persistent biases in the labour market. A very high proportion of the next decade's entrants into the labour force will be Aboriginal youth. This suggests a need for proactive policies of basic education, job training, and workforce preparedness.

Many Aboriginal people suffer from a complex system of interrelated social and economic problems. The Aboriginal population throughout the country has lower graduation rates from high school and lower rates of higher education. It has lower life expectancy, high morbidity, and birth rates, and a higher incidence of family abuse, alcoholism, substandard housing, and unemployment. The rate of incarceration among Aboriginal peoples is 8.5 times higher than that of non-Aboriginal peoples. When compared with non-Aboriginal Canadians, Aboriginal peoples have three times the rate of diabetes and twice the incidence of disability. Overall, quality of life and opportunities are much lower for Aboriginal peoples. These problems are highly interrelated. Lack of economic opportunity leads to greater poverty, which in turn leads to poorer health and many of the other social problems that plague Aboriginal communities. Lack of economic opportunity also leads students to perform poorly in school or to drop out completely. These factors together with substandard housing discourage economic development by making Aboriginal communities less attractive for inward investment. Lack of work experience, lack of role models and economic isolation reduce the likelihood of entrepreneurial activities. Dependency on transfer payments lowers self-esteem and reduces the personal and social pressures to enter the productive workforce. Higher birth rates contribute to poverty rates, housing shortages, and to other social problems. They also imply that Aboriginal peoples will make up a growing proportion of Canada's labour force in the future. Thus, Canada's overall global competitiveness and prosperity will to a certain extent depend on how effectively these problems are addressed.

Economic development in the Aboriginal communities often seems incompatible with the protection of traditional Aboriginal culture, especially in First Nation and Inuit communities. Thus, Aboriginal leaders are torn. On the one hand, they want to create opportunities for economic development in their communities so that their families and constituents can improve their quality of life. On the other hand, they feel that it is their responsibility to protect and promote the traditional culture of their people. Large-scale non-renewable resource extraction projects are very difficult to superimpose on a traditional culture based on a sustainable dependence on renewable resources without immeasurable damage to the culture. Even tourism based on the traditional culture, if poorly managed, can damage the culture, customs and traditions by over-commercialising certain aspects of it and by discouraging the practice of traditional language, vocations, and traditions. Tourism and investment from the South must be adapted to fit into traditional cultures, or they will erase the very particularity that makes the North attractive to tourists and investors.

The Aboriginal population also face several challenges in the political sphere. The reorganisation of government and development of self-government are perhaps the most conspicuous policy issues they must deal with. Self-government is held out as the solution to many of the other policy issues facing Aboriginal peoples. This will only hold true if Aboriginal self-government is successful, that is if it is effective, innovative, inclusive and accountable to citizens of the Aboriginal government. Ironically, if successful in their goals of self-government, Aboriginal communities could become leaders among Canadian local governments. And there is reason to be optimistic. While many countries around the world are trying to develop the capacity of their localities to make better decisions for themselves and to take on greater governance responsibilities, the Canadian Aboriginal people, though long denied much political power, have a long tradition of local governance in their system of band governance. Furthermore, the recent process of claims settlement seems to have provided an excellent opportunity for Aboriginal leaders involved in that process to develop political and negotiating skills. They have also developed effective means of accessing the political process (lobbying). Ironically, the emergence of e-government and digital democracy, if embraced by Canadians, may reduce the value of some of these skills as other groups in society gain access to the political process through the Internet. There is anecdotal evidence that Aboriginal peoples will be resistant to e-government not because they do not have equal access to the new medium but because they may lose the advantages they had in the old medium. Ultimately, they will have to adjust to the new technology-driven political processes as they emerge.

Current strategies, policies and programmes for Aboriginal people

Beginning in the early 1970s, the Canadian government and people started coming to the realisation that the long-standing Aboriginal policy of assimilation was both a failure and unethical. In the mid-1970s, the federal government started to negotiate with Aboriginal communities to settle land claims for which treaties had never been signed. In 1995, the Canadian government recognised the inherent right of Aboriginal people to self-government as an existing right under the Canadian Constitution Act (1982). In 1991, it appointed the Royal Commission on Aboriginal Peoples and in 1996 the Commission tabled its report, *People to People, Nation to Nation* (INAC 2001). The report described a history of relationships between non-Aboriginal Canadians and Aboriginal people that evolved from separate worlds to a Nation-to-Nation relationship, to a relationship based on domination and forced assimilation. The Royal Commission called for a new, comprehensive policy toward Aboriginal peoples. This challenge was the starting point for the current Canadian policy on Aboriginal policies and various programmes and initiatives at the federal, provincial and territorial levels. The federal policy on Aboriginal people is outlined in the 1997 document entitled *Gathering Strength-Canada's Aboriginal Action Plan*[19] (INAC, 1997a). In this document, the Government of Canada acknowledges and apologises for the historic injustices done to Aboriginal people. This is considered a necessary first step in the healing process. Next, the policy sets out to reverse the damage done during the policy of domination and assimilation in which Aboriginal youth were sent to residential schools. To this end, the Government of Canada offers programmes to assist the victims of sexual and physical abuse at residential schools. Another key policy objective is to educate all Canadians about the issues and needs of Aboriginal people, and the importance of strengthening their self-governance and culture. Aboriginal languages and spiritual practices are recognised as fundamental parts of their identity and culture. The policy outlined in *Gathering Strength* has an explicit goal of preserving Aboriginal languages. It allows Aboriginal governments to adopt their traditional language as their official language and to organise their government along traditional lines. This is designed to foster pride in Canada's Aboriginal history among both Aboriginal and non-Aboriginal peoples. A key to the reversal of past injustices is improvement in the poor economic and social conditions of Aboriginal peoples – the most visible and direct consequences of those injustices. In order to tackle these problems effectively, the government links policies dealing with housing, health protection, education, community economic development, skills development, and job creation.

Gathering Strength identified high-quality housing, water treatment, and sewage treatment infrastructure as keys to well-being, and recognises that there is room for improvement where these aspects of community infrastructure are concerned. The government stepped up investment in its 1996 on-reserve housing policy so that it might be implemented more rapidly.[18] The policy, introduced in 1996, provides First Nations with greater control and increased accountability. It also grants them greater flexibility to accommodate the diverse housing needs within their communities by developing community-based housing programmes and multi-year plans. It encourages communities to build links between housing and community economic development, job creation and skills enhancement, as well as promoting partnership with the private sector and more private investment on reserves. The government also pledges to allocate additional resources to address water and sewage needs in First Nations communities. Remedial work has already been undertaken on more than three-quarters of problem water systems.

The Aboriginal health policy involves the transfer of control over health services and resources to Aboriginal communities, and the training of Aboriginal health professionals. The government promises to create an Aboriginal Health Institute that would "conduct health research focused on the needs of Aboriginal people, gather and disseminate information on culturally appropriate medicines and treatments, support basic and advanced training of Aboriginal health workers, and serve as a support system for health workers in Aboriginal communities".

As part of the strategy to improve First Nations education systems, the government pledges to provide greater access to technology for First Nations schools. An example of the successful use of technology in schools is the introduction of Industry Canada's SCHOOLNET and Computers for Schools Initiative into First Nations schools. Moreover, the government is committed to continuing its support for First Nation, Inuit and Métis youth to explore career options while in school and to acquire practical work experience. To achieve this aim, it launched the Youth Employment Strategy in 1996. Finally, the government has expanded its support of young entrepreneurs through activities such as the Aboriginal Business Youth Initiative, which provides loan funds, mentoring, and business support through Aboriginal financial organisations.

Gathering Strength also provides for the expansion of First Nations police services, the extension of off-reserve Aboriginal Head Start Programme so that it includes on-reserve communities, and the continuation of First Nations and Inuit

Child Care Programme. The special needs and problems of urban Aboriginal people are also clearly recognised in the report. To tackle the problems of young Aboriginal peoples in urban regions, a network of multi-purpose Aboriginal urban youth centres was implemented. The Urban Multipurpose Aboriginal Youth Centres (UMAYC) Initiative was launched in 1998 and received CAD 100 million in funding over five years (1998-2003). A greater elaboration of Canada's policy for urban Aboriginal peoples is contained in the Guide to *Federal Initiatives for Urban Aboriginal People*.[20]

Efforts will be made to increase economic opportunity through human resource development, economic development programmes, and improved access to business capital and equity financing. The Aboriginal Human Resources Development Strategy (1999-2004) is a five-year, CAD 1.6 billion investment which has seen the gradual transfer of programming authority from the federal government to Aboriginal people at the national, regional, and community levels. Under this strategy, Aboriginal organisations design and deliver employment programmes and services best suited to meet the unique needs of their communities. Support for Aboriginal enterprises is provided by the federal government's *Procurement Strategy for Aboriginal Business*, under which federal departments and agencies are required to take positive steps to award contracts to Aboriginal businesses. Additional federal programmes enhance access to capital and natural resources for First Nations and Inuit individuals, communities and businesses, provide skills training and workforce experience, and assist Aboriginal businesses to take advantage of economic development opportunities. Aboriginal Business Canada has identified support of innovation as one of its four strategic priorities for business development funding. The other three priorities are expansion of export and domestic markets, Aboriginal tourism and youth entrepreneurship. The Aboriginal Business Development Initiative is a horizontal initiative that involves collaboration between INAC, Industry Canada's Aboriginal Business Canada programme, the four regional development agencies, and Aboriginal financial institutions. It includes three elements: access to capital, an Aboriginal Business Services Network and expanded Aboriginal use of other existing federal programmes and services for business.

Gathering Strength represents an aggressive approach to the economic and social problems of Aboriginal peoples. Together with welfare reform, the policies initiated aim to break the cycle of poverty and dependence in which many Aboriginal peoples find themselves. But the key to the plan's success will be whether the policies and their outcomes are embraced by the Aboriginal people themselves. The traditional paternalism that has led to generations of top-down policy making must give way to bottom-up development of policies and programmes. The key to this will be Aboriginal self-governance.

Impact of policies on Aboriginal people

The federal government's policy on Aboriginal affairs has clearly shifted from assimilation to cultural preservation, capacity building and quality of life. Anecdotal evidence suggests that the policy for Aboriginal peoples is working. The July 2000 document, *Gathering Strength – Canada's Aboriginal Action Plan*: A *Progress Report* lists many achievements related to the Canadian Aboriginal policy (Box 23). The self-government negotiations are progressing rapidly. There are signs of growing maturity in the First Nation and Inuit governments as more and more skills are being developed.

The product of nearly 30 years of intensive negotiation and institutional evolution, the innovative approach to governance represented by *Gathering Strength* reverses many years of implicit and explicit assimilation policies. It is an extraordinary experiment in social, economic and especially political plurality. Political plurality of this type – in which different people in the same regions are members of different jurisdictions and subject to different laws – is very innovative and risky but has high payoffs if successful. It is risky because many of the new governments are experimenting with democratic processes which, if they fail, could be very expensive and take many years to correct. Still, much will be learned from the experiment that could solve vexing political problems in other parts of the world. Ideally, Canadian First Nations governments could learn from experiments in governance undertaken in other areas of the world. The federal policy on Aboriginal people has clear regional and rural ramifications. Most of the land claims, reserves, and Aboriginal communities are located in rural and remote locations. Most of the impacts of the policy will have regional dimensions. This process of institution building, if successful, will create rural communities and regions that are much more responsive to changing global forces, much more environmentally aware, and much more democratic.

Ironically, the current policy has one particular disadvantage: based on a positive discrimination policy, it will create a clear demarcation between Aboriginal peoples and non-Aboriginal peoples, and may lead to possible unexpected consequences. Other countries have followed different paths (Box 24). Self-governance, even when encompassing First Nations citizens beyond the borders of the First Nations land settlements, will still encourage Aboriginal peoples to segregate themselves into settlement lands. Upper-level government support delivered through the First Nation governments will create a monetary incentive to segregate. Encouragement of traditional languages will hamper communication between Aboriginal peoples and non-Aboriginal peoples. However, there is no indication that either Aboriginal peoples or non-Aboriginal peoples are unhappy with this policy impact, but that does not mean that this segregation will not be a problem in the future.

Box 23. Examples of successful achievements of the long-term Aboriginal Action Plan

Although there is still a long way to go before Aboriginal people enjoy the same standard of living as other Canadians, *Gathering Strength* has reported solid, positive, and tangible results in just two years. Following are examples of successful achievements in the main policy areas.

***Renewing partnerships*:** all schools in Canada have received public education information materials; federal, provincial and territorial ministers of Aboriginal Affairs and leaders of the five national Aboriginal organisation met for the first time in two years; national and regional partnership think tanks were organised.

***Strengthening Aboriginal governance*:** 16 specific claims were settled in 1999-2000; some 70 comprehensive land claims were negotiated across the country; more than 80 self-government negotiations, representing more than half of all the First Nations and Inuit communities, are currently underway; more than 100 professional development projects were initiated in 1999-2000, focusing on lands, resources, community administration and government structure functions.

***Developing new fiscal relationships*:** 93% of First Nations communities completed Community Accountability and Management Assessments; the national model for the *Canada/First Nations Funding Agreement* was completed.

***Supporting strong communities, people and economies*:** more than 80 First Nations participated in community-based housing initiatives; 27 communities got water and sewer systems; more than 300 communities have tripartite policing agreements reached under the First Nations Policing Policy; more than 760 fully-trained police officers serve in more than 300 Aboriginal communities across the country; more than 80% of the programmes funded by INAC are now being delivered by First Nation governments; First Nations SchoolNet gives 80% of eligible schools an affordable, high-speed connection to the Internet; 22 668 federal contracts worth CAD 99.5 million went to Aboriginal businesses.

***Northern initiatives*:** Canada's third territory, Nunavut, was created in April 1999; seven Yukon First Nations signed agreements for the transfer of programmes and services; Impact and Benefit Agreements between four First Nations and BHP Diamonds Inc. created 400 jobs.

Source: INAC 2000a.

The key issues in most of the policies reviewed here are education and training. Without these, none of the other issues can be addressed adequately. Aboriginal people are rapidly gaining a great deal of responsibility and authority. In order to succeed they must have the skills and tools necessary for the tasks at hand. They must be able to effectively articulate and argue their cases, organise themselves

Box 24. The Mexican approach to Indigenous policy

Compared to Canada, the Indigenous population in Mexico accounts for a higher share in the total population: it stands at a little bit more than 10 million people, *i.e.* between 10 and 11% of the total population while Aboriginal population represents only 4.6% of total Canadian population. However, Indigenous population in Mexico shares some characteristics with the Aboriginal population in Canada: *i*) It is highly concentrated in some towns and villages of predominantly rural areas, but a growing share is living in large cities; *ii*) It is not composed by one homogeneous group but include 62 ethnic groups that speak almost 80 different languages and dialects; *iii*) It is highly disadvantaged compared with non-Indigenous population regarding economic and social conditions.

As in Canada, the Mexican government has adopted an approach that seeks to reverse the damage caused by past policies: to push further with personal and community economic development within the indigenous communities, to reinforce self-governance and to encourage political plurality. Moreover, the authorities have increasingly come to enhance the multicultural and multi-ethnic character of Mexican society, stressing the need to provide equal opportunities for development to all groups of society. However, Canada has implemented since an earlier period farther-reaching measures towards its Aboriginal population. Attention to indigenous communities has been on the agenda since the end of the revolution – *e.g.* the National Indigenous Institute was created in 1948 –, but with the Zapatista uprising in 1994, Indian issues acquired increased relevance, giving way to significant transformations. Contrary to the Canadian policy towards its Aboriginal population, which is mainly based on the principle of positive discrimination, the Mexican approach has evolved under a framework of national unity that focuses in economical and social development.[1] In particular, the Mexican government has given special care to avoid the creation of separate settlements or reservations, which could lead to a potential "balkanisation" process. This is not a concern for Canada due to the low number of the Aboriginal population within total population.

One fundamental change of Mexican policy towards its Indigenous population is the recent approval, by Congress and two-thirds of the state legislatures, of an Indian Rights Law. The adoption of this initiative required several constitutional amendments. It incorporates several measures to grant greater self-determination and autonomy to indigenous communities. Thus, it continues to stress the indivisible character and unity of the Mexican Nation-State, it gives these communities increased access to political representation, legal defence mechanisms, education and the use of their natural resources. In particular, the law allows for greater autonomy and self-governance arrangements compatible with indigenous "uses and customs", especially in the areas of internal organisation regarding social, economic, political and cultural matters.[2] Likewise, it permits regulation and conflict resolution schemes based on each community's own normative arrangements – albeit always with respect to individual guarantees and human rights, while subjecting their decisions to the revision of other courts. It also gives them preference in the use

Box 24. **The Mexican approach to Indigenous policy** (*cont.*)

of the natural resources of their places of origin (but with respect to the modes of property established in the constitution *i.e.* still allowing private and common property –, while preserving the State's exclusivity in strategic economic areas).

Another important reform consists of a measure that permits taking into account whenever feasible the geographical situation of indigenous communities in the conformation of electoral districts. It should be mentioned that this new policy orientation gives indigenous communities the legal status of "public interest entities". However, it stops short of granting them a more autonomous condition by entitling them to be considered as separate legal entities with respect to the state or municipalities in which they reside.

To increase the participation of minorities in all aspects of social and productive life, a Representative Office for the Development of Indigenous Peoples has been created within the Executive Office of the Presidency. The objective of this office is to establish specific policies to foster the development of indigenous communities in co-ordination with the different federal ministries. It also promotes the incorporation of specialised organs for the attention of indigenous communities in different federal entities. Moreover, as a component of the Mexican regional development policy, the National Programme for the Attention of 250 micro-regions set in operation in 2001 will certainly have an impact on the Indigenous population, as it includes municipalities that comprise almost 3 million people of indigenous heritage. Finally, like Canada, the Mexican government is also trying to strengthen fiscal capacity at a local level, by focusing on the state and municipality as the preferred level of action.

1. There are some examples that depart from this generalisation, however. For instance, in the state of Oaxaca there has been a policy for some time that grants indigenous communities some attributions regarding self-government by using their own "uses and customs".
2. The authority (to stipulate the exact form these new measures will take) is in turn given to the state legislatures. In so doing they are obliged to take into account ethno-linguistic considerations and existing physical settlements.

and their new institutions, operate large bureaucracies, recognise economic opportunities, understand other cultures around the world, and be exceptionally open and accountable. With limited experience in these matters they must substitute education and training along with learning on the job.

Governance issues for Aboriginal people

The two key goals related to the issue of Aboriginal governance are the resolution of the many native claims disputes and the establishment of self-government and fiscal autonomy for First Nations through negotiation. This section will discuss the problems encountered during these processes, and then focus on the financial and fiscal arrangements involved.

The Government of Canada, through the Inherent Right Policy, recognises the inherent right of self-government as an existing Aboriginal right within Section 35 of the Constitution Act, 1982. The concept is an unusual mix of territorial governance (related to settlement of land claims) and citizenship. Self-government will also operate within the Canadian Constitution, and all Aboriginal people will benefit from the liberties guaranteed by the Charter of Rights and Freedoms. *Gathering Strength: Canada's Aboriginal Action Plan* contemplates a renewed relationship which would see the transfer of many federal responsibilities to the Aboriginal governments and develops principles to guide inter-governmental relations through the negotiations of Land Claim and Self-Government Agreements. Under such agreements, the new First Nation governments will have responsibilities over specified territory and over their citizens. The policy recognises that it may be necessary to restructure federal agencies and institutions as the relationship with Aboriginal governments evolves.

In developing its Plan, the Government of Canada hopes that Aboriginal and non-Aboriginal people can develop a common vision for the future, thus allowing Aboriginal peoples "to participate fully in the economic, political, cultural and social life of Canada in a manner which preserves and enhances the collective identities of their communities, and allows them to build for a better future". Building governance capacity among First Nations and Inuit in the areas of economic development, governance, legislation, land and environmental stewardship, land and resource management, and community development is thus considered very important. To this end, the federal government has pledged its support for the First Nation and Inuit governments' objective of increased financial independence through economic development and internal sources. In the field of land and resource management, INAC has developed several programmes under the *Gathering Strength Action Plan* which support increased access to both on and off-reserve resource opportunities. For instance, initiatives and programmes include: *i*) Resource Acquisition Initiative, which funds resource-sector and related business opportunities, including acquiring natural resource permits and licences; *ii*) Resource Access Negotiations Programme: supports negotiations with the private sector to access and manage both on- and off-reserve resource opportunities. The First Nation Forestry Programme has been enhanced by INAC and Natural Resources Canada to broaden the area of management capacity building in the forest resource sector. The programme has created 900 schemes providing more than 40 000 weeks of employment for First Nations members. Meanwhile, the Department of Canadian Heritage's Aboriginal Women's Programme has provided funding to support and enhance the participation of Aboriginal women in the consultations and decision-making related to self-government.

Until recently, outstanding land claims and self-governance issues with First Nations and Inuit groups were mainly settled through litigation. In this area, the Government of Canada, prompted by the courts, has drawn up a set of principles for resolving claims which appears reasonable overall. While recognising the fiscal constraints binding it, the government has been responsive to the positions of the First Nations: it has allowed, for example, oral history to count as evidence in hearings on claims. The federal government's approach is now placing greater emphasis on negotiation rather than litigation. Thus, the self-government issue is currently evolving as First Nations negotiate land claim settlements and self-government agreements with the federal government.

Despite representing a step in the right direction, greater reliance on negotiations has led to two main problems. Firstly, Indian and Northern Affairs Canada has played a dual role in the resolution of native claims, serving as advocate for First Nations and Inuit before the federal government and as the agency responsible for representing the government's fiscal and legal interests in relation to the First Nations and Inuit. This dual role has evidently created tension and, in recognition of this, an Independent Claims Body is to be created outside of INAC. Secondly, the government's individual negotiations with each group have proved very slow and expensive, a contributing factor being the First Nations especially consultative approach for reaching decisions. Achieving a settlement now typically takes between seven to ten years. Some regions are lagging significantly behind others. In contrast to other Inuit groups in Canada, no comprehensive land claims agreement has yet been finalised between the Inuits of Northern Labrador and the federal or territorial governments. However, they have successfully negotiated an Agreement-In-Principle with the federal and provincial governments, a significant move towards a final settlement and self-government agreement, resulting in a greater degree of stability for Labrador Aboriginal and non-Aboriginal people. Similarly, self-governance talks have focussed on reserve-based or Northern communities, and yet, as we have seen, many of Canada's Aboriginal peoples live outside these areas. Thus a large segment of the Aboriginal population, particularly that of the Western provinces, has been excluded from discussions on the topic. A regional economic development agency – Western Economic Diversification (WED) – is working with central agencies, INAC, and others to remedy this. Thus, although the negotiations process has encountered some teething problems, the rate of completion of agreements should accelerate as more experience is gained.

While the full details of negotiations for all three territories are not yet known, the U*mbrella* F*inal* A*greement* provides the basis for negotiation of the agreements reached for the Yukon territory (Box 25). From the perspective of division of responsibilities, the basic points in this Agreement are that First Nations will

Box 25. Umbrella Final Agreement and Yukon Self-Government Agreements

The Agreement in Principle for the Umbrella Final Agreement (UFA) was reached in 1988. The UFA was ratified and signed in 1993, along with four Yukon First Nation Final Agreements negotiated pursuant to it. Federal legislation giving effect to First Nation Final Agreements came into effect on February 14, 1995. While the agreement is not legally binding, it represents a political agreement made between the federal government, the Yukon government and the Council for Yukon Indians. The Umbrella Final Agreement contains topics from which all of the remaining negotiating topics flow. There are 28 chapters contained in the UFA. Chapter 24 of the UFA sets out the basis to negotiate Yukon First Nation Self-Government Agreements (YFNSGA). Chapter 24 contains guidelines within which each Yukon First Nation will be able to negotiate its own governing powers, rights and responsibilities and the process by which these powers will be established within Canadian law. These YFNSGAs are negotiated separate from the final agreement and are not constitutionally protected. The basic points respecting governance are as follows:

- First Nations will each have a constitution, which describes citizenship in the First Nation, and the rights and responsibilities related to citizenship.
- First Nation self-governments have characteristics of both local governments and territorial governments. Their responsibilities will include most or all those usually associated with local governments, but they will also include some responsibilities over education, justice, and culture.
- These self-governments include both territorial jurisdiction over settlement lands and jurisdiction over their citizenry no matter where they live in the territory in which their settlement land is located. Thus, these governments may enact certain laws that pertain to members of their First Nations group no matter where they live in the territory.
- Except in certain areas of taxation, laws enacted by the First Nations governments supersede conflicting laws of the territories. However, certain federal laws supersede those of the First Nations governments.
- First Nations citizens have all the rights, privileges, and responsibilities of other Canadian citizens.

Source: Council of Yukon First Nations, 1990b.

be similar to local governments with certain responsibilities devolved from the federal and territorial governments.

The financing of self-government is viewed as a shared responsibility among federal, provincial, and territorial governments, and Aboriginal governments. While the federal government maintains the position that it has primary but not exclusive responsibility for on-reserve First Nations and the Inuit, the provinces have primary but not exclusive responsibility for other Aboriginal peoples. The goals of the financing arrangements are that self-governing Aboriginal communities have enough resources to provide basic public services comparable to those available in nearby communities. Funding must be stable and predictable. Aboriginal communities' abilities to raise own-revenue are an important part of self-government. Moreover, it is envisioned that as Aboriginal governments come to exercise jurisdiction and control over matters that affect their communities and succeed in narrowing economic and living standard disparities with their neighbours, the federal government's funding obligations can be commensurately reduced.

Fiscal equity for Aboriginal communities will nevertheless require some transfers from the federal government for some time to come. The principles governing these transfers are in general the same as those for transfers to provinces; with some exceptions these transfers are based on specific programme criteria and allocation formulae (either needs or project based). The government must take into account both differences in expenditure needs, due to variations in the scale and scope of self-government, and differences in the capacity to generate own-revenues. Taking needs into account will encourage Aboriginal communities to move towards self-government, while taking fiscal capacity into account will ensure that proportionally more resources go to those communities in need. It is highly recommended to design a fiscal sharing arrangement with the Aboriginal communities as this would provide a symmetrical incentive to implement self-government. Expenditure need and fiscal capacity should be determined in the same way for self- and non-self-governing First Nations. A situation where the change from non-self-governing to self-governing automatically increases fiscal capacity, and therefore reduces government assistance, is to be avoided. The government should provide incentives for Aboriginal communities to become self-governing. A perverse incentive could arise if the legal change to self-governing status were to mean that an Aboriginal community would automatically be viewed as having control over a revenue source that it lacked under its prior status. Under the fiscal equalisation approach, this control would increase the Aboriginal community's fiscal capacity, hence lowering its equalisation payment. Fiscal capacity should be a concept that refers to potential revenue, and is therefore independent or invariant with respect to the Aboriginal government's legal status or its actual taxation practices.

Barham (undated) recommends first that an overall federal budgetary outlay be determined for all Aboriginal communities. Then, a research effort should be undertaken to analyse the own-source revenue capacity of all Aboriginal communities. This means assessing which revenue bases are potentially accessible to all communities, and then providing a fiscal transfer based on the amount of revenue that could be potentially raised from these tax bases. This base transfer would be conceptually equivalent to the Canadian Equalisation transfer to provinces. The sum remaining after this capacity-based transfer had been carried out would then be distributed so that expenditure needs could be met equally in all communities. For self-governing communities, a portion of the base budget should be viewed as the resources for self-government. This amount becomes the base grant for the community, and should be guaranteed for a certain amount of time. The general principles suggested by Barham are sensible. Both capacity and need should be taken into account, and grants to First Nations should be stable over several years. However, fiscal capacity depends on what taxes Aboriginal communities could potentially levy, and there is a problem in determining such revenues. As Barham points out, because the incomes of most Aboriginal peoples are very low, the amount of revenue that could be raised from most taxes – including income tax and sales tax – is also quite low. Moreover, with low income flows, taxation of wealth through a property or land tax, would appear to be fairly ineffective. Therefore, the measured fiscal capacity of almost all Aboriginal governments would initially be extremely low. Given that the expenditures of Aboriginal governments will be significantly higher than their fiscal capacity, it may initially be more important for transfer arrangements to accurately measure expenditure needs. Thus, even though in theory we might wish to include fiscal capacity in the calculations, in practice the base grant may be closer to a lump-sum grant reflecting the relative needs of Aboriginal communities.

A fiscal relationship between the federal government and the First Nations that provides regular, stable grant funding based on need and fiscal capacity will enhance equity both among Aboriginal peoples themselves and between Aboriginal peoples and other Canadian communities. At the same time, strong incentives must be provided for Aboriginal governments to develop their own fiscal capacity. This involves building administrative capacity to collect taxes, and encouraging economic development. The main own-revenue sources in the medium-term for Aboriginal governments are likely to be taxes and royalties on natural resources and revenues from lotteries and gaming. However, it is not clear how the latter could be integrated into the concept of an accessible tax. Not all Aboriginal communities can build casinos if they so choose, and evaluating the revenue potential from gaming would be difficult. Another issue concerns the rate at which grants decline as the fiscal capacity of an Aboriginal government increases. An equalisation grant based on representative tax capacity and expenditure need measures would ultimately be appropriate, but the rate at which growth of Aboriginal tax bases translates into increased capacity and a corresponding decline in its grant may initially need to be lower than for provinces (whose rate is normally 100%). This would provide an initial incentive to develop tax capacity and may also be appropriate pending the development of accurate measures of both revenue capacity and need for Aboriginal communities. However, any such transitional measures would ultimately need to be phased out as they are incompatible with the long-term goal of fiscal equity.

To sum up

The federal policy on Aboriginal people includes measures intended to reverse the damage caused by past policies, to further economic community and personal development of Aboriginal peoples, to reinforce Aboriginal self-governance, and encourage political plurality. According to anecdotal evidence, this policy is so far proving a success, with self-government negotiations and land claim settlement processes moving faster, and First Nation and Inuit governments showing signs of increasing maturity as they develop more skills. Although the political plurality promoted by the policy represents a clear risk, it would have high payoffs if successful. Other parts of the world could learn a great deal from such an experiment. However the policy could have one disadvantage in that it will encourage demarcation between Aboriginal and non-Aboriginal Canadians.

In the land claim settlement process, negotiations should go more smoothly once the Independent Claims Body is created. This should relieve the tension caused by INAC's conflicting roles. As for the efficiency of the process, the government must remain determined to continue negotiation efforts so as to resolve claims in a timely and fair way. Although the self-government issue is currently in transition, the general nature of the agreements between each First Nation organisation and the federal government has been finalised. First Nations will be similar to local governments with certain responsibilities, currently carried out by territorial governments and federal governments. As First Nation governments gain this responsibility and power, the federal government's funding obligations will be proportionally reduced. Where financing of self-government is concerned, Aboriginal governments should share responsibility with federal, provincial and territorial governments. Financing arrangements should aim to provide Aboriginal peoples with sufficient resources for basic public services that are comparable to those in neighbouring communities. Finally, although fiscal equity for Aboriginal peoples requires some transfers from the federal government, First Nations should be strongly encouraged to develop their own fiscal capacity.

Notes

1. See chapter on "Territorial Development Strategies and Policies".
2. The chronology of events is given at *www.rural.gc.ca/crpfacts_e.phtml*
3. See the most recent report, "Working Together in Rural Canada: Annual Report to Parliament", May 2000: *www.rural.gc.ca/annualreport/2000/agcane.pdf*. The Report reviews the rural policy priorities and then measures the success over the previous year. On the basis of this assessment it describes the new priorities for the upcoming year. The 2000 report identified community capacity, infrastructure, diversification, opportunities for youth and Aboriginals, and the environment as its highest priorities.
4. Accenture is a leading provider of management and technology consulting services and solutions. *www.accenture.com/xd/xd.asp?it=enWeb&xd=industries\government\gove_study.xml*
5. See chapter on "Territorial Policies and Strategies".
6. More regional dialogue took place in 2001, but this usually happens the years when no national conference is being held, which was the case last year.
7. See the website: *www.rural.gc.ca*
8. Here, productivity refers to the average production per worker. While new entrants to the labour force may be less productive than the average, production overall will rise because the entrants were previously unemployed. In a sense then, total productivity has risen.
9. See the following website: *www.rural.gc.ca/checklists_e.htm*
10. This program is explained in more detail in the chapter on "Territorial Policies and Strategies".
11. See the following website: *www.mreg.gouv.qc.ca/ang-pol.pdf*
12. See chapter on "Territorial Policies and Strategies".
13. See the following website: *www.pco-bco.gc.ca/volunteer/tables_e.htm*
14. *Common Ground*: NWT *Economic Strategy* (Government of the Northwest Territories 2000a) and *Towards a Better Tomorrow*: A *Non-Renewable Resource Development Strategy for the Northern Territories* (Government of the Northwest Territories 2000*c*).
15. The next section on Aboriginal policies will deal with this issue in more detail.
16. In 2000, Denmark transferred DKK 3.4 billion to Greenland, *i.e.* CAD 0.6 billion or USD 0.4 billion.
17. Furthermore, Greenland receives an annual payment from the European Union as EU vessels are giving access to certain quotas in Greenlandic waters.

18. In this section we will be dealing with federal strategies, policies and programmes. Provincial and territorial policies for Aboriginals of course exist, but we do not intend to describe them in great detail here.
19. *E.g.* since Gathering Strenght, the federal government has committed an additional CAD 160 million to support the on-reserve housing policy and introduced the Innovation Housing Fund to encourage innovation in First Nations housing.
20. See also chapter on "The Challenges of Urban Policymaking".

Chapter 5

Fiscal Federalism and Metropolitan Reforms

Canada is one of the most decentralised countries of the OECD. Provinces have extended taxing and spending power, and federal regulatory interventions at territorial level are few. With new responsibilities in health care and social assistance given to the provinces and with a fiscal reform that gave them more control over taxation the on-going power shift from the national to the subnational level that started in earnest in the post-war period has continued during the 1990s, albeit at a more modest pace than in previous decades. Emerging competition between provinces and American states, following the North American Free Trade Agreement, has contributed to the trend towards decentralisation and provincial empowerment. This competitive environment is balanced by fiscal equalisation that keeps interregional disparities at socially acceptable levels. Further integration of Canadian provinces into the American market may, however, put some strain on the federation. Provinces increasingly set their policies against those of neighbouring American states rather than against those of their own country. Furthermore, business cycles appear to be becoming more province and region-specific. Both trends may weaken the national cohesion necessary to keep fiscal equalisation and other equity measures alive. One of the major challenges of the Canadian federation is thus to combine competitiveness at the provincial and sub-provincial levels with territorial cohesion throughout the federation.

Governmental reforms were particularly substantial at the local level in urban areas. Traditionally, Canadian municipalities have little power and little fiscal resources compared to other federations, particularly compared to cities in the United States. The high-decentralisation philosophy has no sequel at the municipal level. Municipal reforms, instigated at the provincial level aim to improve service delivery to the citizenry. One of the major solutions for overcoming fragmentation and increasing efficiency of municipal service has been amalgamations of hitherto independent urban municipalities into metropolitan municipalities, some of which now have more inhabitants than entire provinces. Amalgamation not only has its impact on municipal services, it also affects the balance of power between the federation, provinces and municipalities. Furthermore, it affects the daily life and the democratic environment of the citizens (neighbourhood democracy). Amalgamation as it is practised today has met with mixed opinions and sometimes strong resistance from many municipalities. In some cases, the amalgamated municipalities were delegated new responsibilities but not provided with additional power or additional resources. One of the most challenging matters for provincial governments is therefore to carefully assess the success of amalgamations, to test other avenues of inter-urban municipal collaboration and service delivery and find further means to strengthen the municipal level in Canada.

Institutional background

Federal level

Canada is a constitutional monarchy, a federal state and parliamentary democracy. Given this multi-level structure, the country necessarily has a number of governing institutions. Canada's Constitution was initially a British statute, the British North America Act of 1867, and until 1982, major amendments required action by the British Parliament. Although Canada had been a self-governing "Dominion" in the British Empire since 1867, the Statute of Westminster established full independence for Canada only in 1931. The Queen of the United Kingdom is also Queen of Canada. The nominal head of the government is the Governor-General, whom the Queen appoints on the recommendation of her Prime Minister. On the advice of the majority of the House of Commons, the Governor-General appoints the Prime Minister of Canada, who is the effective head of government and appoints the Cabinet among the members of the Parliament of Canada. Taking its roots in the British Parliament, the Canadian Parliament is composed of the Queen, represented by the Governor-General, and two houses, the Senate and the House of Commons. The Senate, also called the Upper House, is patterned after the British House of Lords. Its 105 members are appointed by the Governor-General on the advice of the Prime Minister and are essentially divided among Canada's four main regions of Ontario, Quebec, the West and the Atlantic Provinces. The House of Commons is the major law-making body. It currently has 301 members, one from each of the 301 constituencies or electoral districts.

Provincial level

Canada is divided into 10 provinces and 3 territories with a wide range of surface and population. The government of each of Canada's ten provinces is ostensibly headed by a Lieutenant-Governor, which represents the sovereign of Canada and is appointed by the Governor-General on the advice of the federal Prime Minister. Like the Governor-General, the Lieutenant-Governor has little actual power and, in practice, the chief executive of each province is the Premier (Prime

Minister), who is responsible to a unicameral provincial legislature. The three territories (the Northwest Territories, Nunavut, and the Yukon) are each governed by a federally appointed Commissioner, an elected assembly and an executive council. The government is headed by a Premier in the Northwest Territories and Nunavut and by the Government Leader in the Yukon. The unicameral assembly is elected every five years or less. Parties have relatively strong influence in the decision-making process, the ratification of laws and the appointment of the provincial government. Every province is constitutionally autonomous, with parliamentary and governmental structures that generally follow the federal pattern. Only the Northern territories remain under federal constitutional authority. Several acts regulate and define their status, but they have fully elected assemblies and they are responsible for most matters of provincial jurisdiction.

Municipal level

Municipal governments are created by the provincial legislatures that determine how to organise the institutions and how to elect local executives. Municipal rights are not enshrined in the national constitution, nor has the federation any right to interfere with municipal matters without provincial consent. Provincial governments can alter existing local political units and administrations or create new ones and enlarge or diminish local competencies at any given time. They exercise control over how the local bodies implement their policies and assume the responsibilities transferred to them. Local government is mainly exercised by municipal councils that are democratically elected. Their size ranges from 8 to 12 members, while some councils have more than 20 members. Toronto, Canada's largest city, is unique in having a 45 member municipal council. Local administration, mostly in small communities, is generally headed by the Chief Administrative Officer (CAO) who monitors and oversees the administrative work. There are other institutions such as Executive Committees (composed of the Mayor and four councillors), Board of Commissioners (composed of the Mayor and two to four full-time professional administrators) and Boards of Control (composed of the Mayor and four directly elected controllers).

Local authorities may be grouped into different categories:

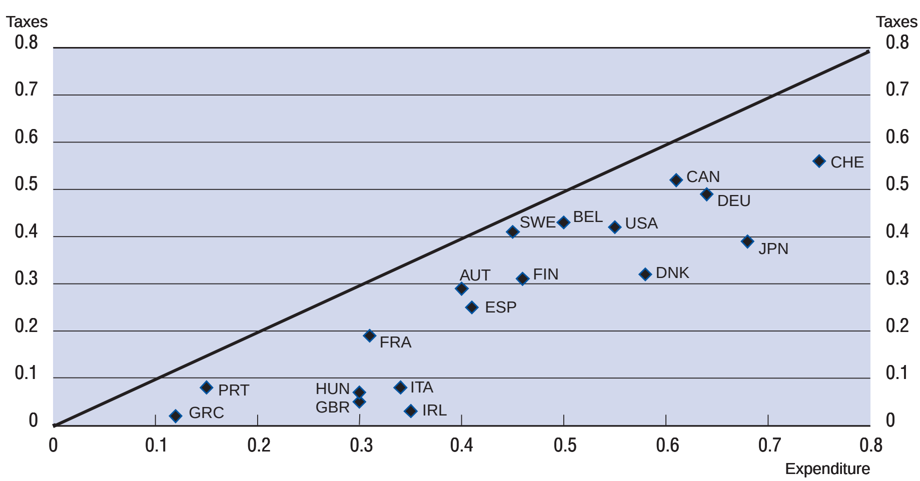
- *Local municipalities*, including cities, towns or boroughs and communities (mostly urban), townships, villages, parishes, communities or others (mostly rural).
- *Counties and regional municipalities.*
- *School boards.*
- *Special agencies, joint boards and commissions* that provide specific services to groups of municipalities. Various types of appointed or elected boards for

provision of services, operate outside the municipal structure for a single function as hospitals but cover mostly all municipalities in the county.

Fiscal federalism (revenue and expenditure decentralisation)

The main questions regarding fiscal federalism in Canada are related to the trend towards fiscal balance. Compared to other federal countries, Canada stands out as a very decentralised fiscal system. Its degree of decentralisation, as measured by the share of expenditures by subnational governments as well as the share of subnational own revenues, is one of the highest within the OECD (Figure 28). In 1996, 62% of all spending was performed at the subnational level in Canada, while 51% of tax revenue was raised subnationally. This puts Canada well ahead of the OECD average, surpassed only by Germany and Switzerland, two other federal countries. Furthermore, the fiscal gap, *i.e.* the gap between own expenditures and own revenues, is the lowest of all federal countries. As a share of

Figure 28. **Decentralisation ratios, 1997**



Note: Receipts include direct and indirect taxes received by regional and local governments and are expressed as a share of taxes received by the general government (excluding social security). Expenditures correspond to total expenditure by regional and local governments expressed as a share of general government expenditure (excluding social security and capital transfers). For Austria, Finland, Netherlands, Sweden, Switzerland and the United Kingdom: data for 1996. For Denmark, Greece, Italy and Portugal: data for 1995.

Source: OECD, *National Accounts* (subject to revision with the adoption of the new SNA for several countries); *OECD Revenue Statistics*, 1965-1999 and *Comptes Nationaux* 1997, Banque Nationale de Belgique, Bruxels.

overall provincial revenues, federal transfers are stable at 23% in 2001-2002. However, the significance of transfers varies considerably among provinces, ranging from about 41% of total revenue in Nova Scotia and Prince Edward Island to about 15% in Alberta and Ontario.[1]

Decentralisation is measured by financial indicators as well as by the nature of federal intervention in provincial programmes and the legal and regulatory power the federal government has over its provinces. The degree of regulatory power and conditionality associated with federal transfers to the provinces has been reduced considerably. Of the two main transfers, the Canada Health and Social Transfer (CHST) and fiscal equalisation, the latter is without conditions, while the CHST has relatively few conditions. Provincial spending on health must satisfy the terms of the Canada Health Act or else face penalties, and some provinces have been penalised. In the area of social assistance, the only remaining condition is that provincial social assistance programmes do not encompass residency requirements. By contrast, cost-sharing of social assistance under the former Canada Assistance Plan gave the federal government a much greater role in determining provincial spending policy. In sum, the assignment of responsibility to provinces for major programmes, particularly social assistance and health, today confirms the overall picture of a highly decentralised federalist state.

Revenue raising and fiscal competition

The fiscal role of the provinces has come about primarily through income taxation (Lazar, 1999). Joint federal and provincial occupancy of personal and corporate taxes is a fundamental feature of Canada's fiscal structure. It is based on principles of tax harmonisation with a common definition of taxable income (including residency-based rules governing the attribution of taxable income to the various provincial and territorial jurisdictions) and a centralised collection of taxes, with remission to the provinces. Starting in 2001, both the federal and provincial governments independently set their own personal income tax rates and tax structure, using a common definition of the tax base. Corporate taxes have long been structured this way. Prior to 2001, provincial income tax was expressed as a percentage of federal tax. With the exception of Quebec, all provinces are parties to personal income tax collection agreements, though even Quebec's system remains largely harmonised with that of other provinces. Under the prior arrangement, the magnitude of the provincial revenue streams was not fully under the control of the province, since provincial revenues automatically increase or decrease with federal rate changes. In addition, a tax-on-tax limits the ability of the province to determine the income class incidence of its tax structure. This lack of control became a more serious issue as provincial spending responsibilities increased.

The value of additional control over taxation, *i.e.* the extent to which reduced federal taxation can be translated into increased own-source revenues for provinces, depends on the fiscal constraints facing each province. These constraints depend in part on the degree of fiscal competition with other provinces and increasingly with US states. Given the significant trade between provinces and states, these economic linkages have surely intensified. If Canadian provinces perceive – correctly or incorrectly – that they must keep their personal and corporate tax rates close to those of their American competitors, then Canadian sub-national tax policy will be driven more and more by the political economy of taxation in the United States. Provinces will have to monitor the territorial aspects of taxation such as the mobility of capital and skilled labour and the elasticity of the tax base with respect to tax rates. They will also have to closely track the activities in this regard of their fiscal competitors, be they geographic neighbours or provinces/states with similar industrial structures. Movement to the "tax on income" may push the Canadian tax system in the direction of taxation in the United States, where there is considerable variation in the ratio of federal to state taxes from state to state, particularly on income.

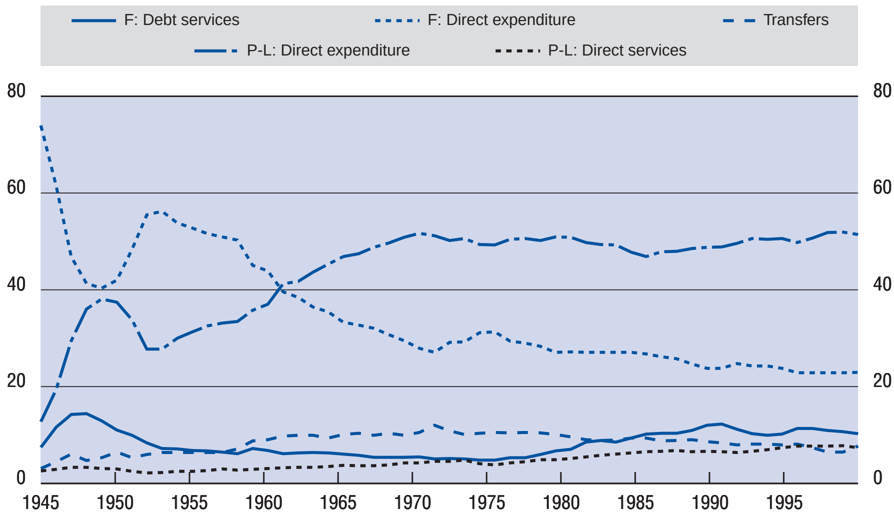
Greater provincial tax discretion opens up the possibility of greater use of the tax system to foster economic development through tax competition with other provinces, or with US states. In the last few years, Canadian provinces – notably Alberta and Ontario – have actively pursued a strategy of fiscal competition through the lowering of top marginal tax rates.[2] Despite the competitive pressure that these changes exert on neighbouring provinces, provincial tax systems have not tended to converge to a single fiscal strategy. The variation in tax policies reflects the importance of differences in preferences and fiscal culture among the provinces.[3] In general, fiscal equalisation has contributed to levelling the playing field with regard to fiscal capacity and has thus contributed to more efficiency as well as more fairness in inter-jurisdictional tax competition.

Spending and responsibility decentralisation

Federal and provincial spending patterns closely follow revenue patterns. With less than 40% of total government spending, less than any other federation except Switzerland, the Canadian federal government accounts for a relatively low share of total governmental spending (Figure 29). Decentralisation of government expenditures is not a recent phenomenon in Canada, since combined provincial and local government expenditures have always been significantly greater than those of the federal government since the 1960s.

The central questions for the federation is whether Canada's decentralisation has gone far enough or too far with respect to the revenue and expenditure

Figure 29. **Change in government spending, 1945-1999**



Source: Department of Finance, Canada.

power of subnational governments. Decentralisation ratios reveal that Canada is significantly more decentralised than thirty years ago. However, the 1990s were a period of ambiguous trends. The sharp rate of decline in the federal fiscal share came to a halt during the decade. The federal share of total spending (excluding transfers) declined, but by only a small amount, from 38% to about 36%. Provincial spending as a share of total spending also fell in the 1990s, from 42% to 40%. The decline in spending shares was offset by an increase in the share of spending by local governments, which went from 20% to 23% in the 1990s (Lazar, 1999). In the late 1990s, the federal government committed new funds to the health system and instituted several new programmes for social purposes.

Decentralisation brings about a closer correspondence between the taxes people pay and the public services they receive. This is supposed to enhance efficiency, because it makes politicians more directly accountable to their taxpayer-voters. Under this view, central government responsibility for certain services encourages overspending by weakening the link between those who pay for public services and those who receive the benefits. The disadvantage of decentralisation could be that it weakens the ability of the central government to promote

Box 26. Transfers from federal to provincial governments

Canada has three major transfer mechanisms for tackling the disparities between the provinces and the fiscal gap between the federal and the provincial governments.

1. Equalisation

The equalisation transfer is a vertical transfer from the federal government to provinces with lower fiscal capacity. The objectives of the Equalisation programme are stated in the *Constitution Act*, 1982. Parliament and the Government of Canada are committed to the principle of making equalisation payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. In order to assess such fiscal disparities, fiscal capacity (reflecting only revenue-raising capacity, since the Canadian equalisation programme does not take need into account) is calculated by comparing the per capita revenues that could be generated by each province if it applied the average of the tax rates applied by all ten provinces. In 2001-2002, equalisation will amount to CAD 10.5 billion. Equalisation transfers are entirely unconditional.

2. Canada Health and Social Transfer (CHST)

The Canada Health and Social Transfer (CHST) provides provinces with both cash payments and tax transfers in support of health care, post-secondary education and social assistance and social services, including childhood development. The tax transfer component consists of a shift of federal taxing power towards the provinces, which allows the latter to raise their own taxes. Total transfers amounted to an estimated CAD 43.6 billion in 2001-2002. CHST payments are partially conditional, since provinces and territories have the flexibility to allocate payments among social programmes according to their priorities, provided they respect the principles of the Canada Health Act and impose no condition of minimum residency period with respect to social assistance. In September 2000, Canada's Prime Minister and provincial and territorial leaders agreed on a shared action plan for renewing health care services and investing in early childhood development. The federal government committed some CAD 23.4 billion in support of the agreements over the next five years, CAD 21.1 billion of which will be provided through the CHST.

3. Territorial Formula Financing (TFF)

The Territorial Formula Financing (TFF) is an annual unconditional transfer from the federal government to the Northern territorial governments (Nunavut, the Northwest Territories and the Yukon). It enables the territories to provide a range of public services comparable to those offered by provincial governments. Entitlements are determined through a formula based on a "gap-filling" principle, Box 26. **Transfers from federal to provincial governments** (*cont.*)

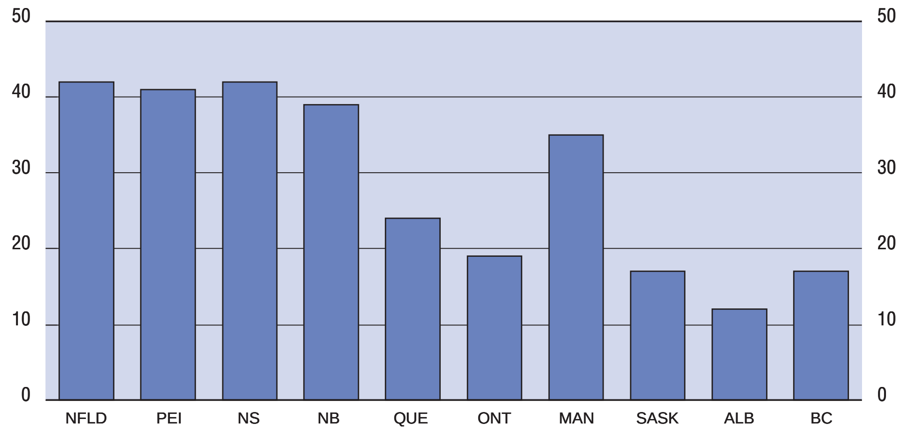
which takes into account the difference between the stylised expenditure needs and revenue capacity of territorial governments, and pays the difference in a lump-sum payment. Territorial expenditure needs are represented by the Gross Expenditure Base (GEB), which is based on historical spending levels of the territorial governments, indexed to move in line with growth in provincial spending so as to reflect the expenditure pressures facing governments in other parts of the country. TFF includes a financial incentive to promote economic activity and to encourage greater territorial self-sufficiency. TFF is governed by agreements between the federal and territorial Finance Ministers. In 2001-2002, the federal government will transfer over CAD 1.5 billion to the three territorial governments.

equal rights and economic opportunities for all citizens. Furthermore, unbalanced decentralisation that increases subnational responsibilities and expenditures but leaves revenues with the central government may leave local and provincial governments with unfunded mandates. New fiscal decentralisation in Canada of the last decades appears to have left the provinces, but not municipalities with adequate funding for their public services. This view is supported by the fact that provinces have been cutting tax rates in recent years, despite reductions in federal transfers, while many municipalities – particularly large urban centres – have been simultaneously raising property taxes and reducing service levels.

Federal transfers

The federal government provides significant support to provincial and territorial governments at an estimated CAD 47 billion in 2000-2001. The majority of such transfers is made through three transfer programmes: Equalisation, Canada Health and Social Transfer and Territorial Formula Financing (Box 26). Fiscal transfers play two main roles in Canada: Reducing inter-provincial fiscal disparities (horizontal balance) and balancing inter-governmental fiscal revenue or closing the fiscal gap between responsibilities and resources (vertical balance). In fact, despite their different names, all transfers contribute to both equalisation objectives. The major transfers taken together have an equalising effect on the per capita provincial revenues (Figure 30).

Figure 30. **Federal transfers to provinces, 2000-2001**
Percentage of provincial gross revenues



1. Major federal transfers are Equalisation and CHST, CHST includes cash and tax point transfers.
Source: Department of Finance, Canada.

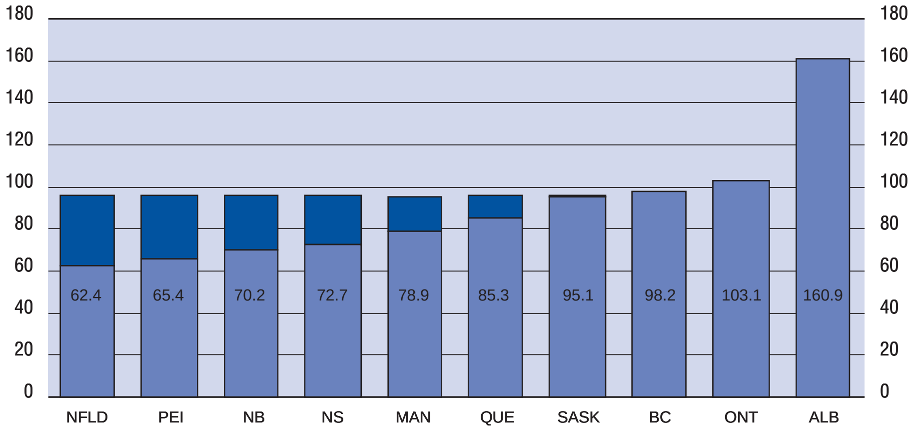
Horizontal equalisation mainly contributes to reducing disparities in the relative abilities of provincial governments to raise revenues. Federal programme spending is higher (and federal revenues are lower) in "have-not" provinces than in "have" provinces. In this way, the federal government directly contributes to reducing disparities in living standards. From this perspective, the federal government contributes to an equal competitive base for all provinces. Given that provincial and local governments account for the majority of all government spending and revenues, the equalising properties of federal transfers enable the disparity-narrowing activities of governments to operate at both federal and provincial-local levels.

Fiscal equalisation

Disparities in provincial fiscal capacity have been compensated through an elaborate equalisation system that started in the late 1950s (Figure 31). In 1957, the federal government first established the Equalisation programme to bring per capita revenues raised from provincial taxes on personal and corporate income, as well as from succession duties, up to the average revenues of the two wealthiest provinces, Ontario and British Columbia at that time. The scheme thus consisted for the federal government in making compensatory payments to the provinces with relatively low revenue-raising capacities. Several reforms were made to the

Figure 31. **Disparities in provincial revenue-raising capacity, 2000-2001**

National average = 100



Source: Department of Finance, Canada.

equalisation mechanism in the following years. Between 1962 and 1967, the standard level of revenues switched to the average of all ten provinces instead of the two wealthiest. In 1967, the formula was expanded to cover almost all sources of provincial revenues, including all revenues from natural resources. In 1973, the formula was applied for the first time to a portion of municipal revenues (property taxes for education). The last major reform of the Equalisation programme occurred in 1982, when the formula was extended to cover all municipal property taxes. The standard moved to a five-province average revenue (Quebec, Ontario, Manitoba, Saskatchewan and British Columbia), and a ceiling and floor provision were added. This evolution has led the Equalisation programme to take into account more and more revenues, raised by both provincial and local governments.

Provincial tax base and equalisation

Fiscal equalisation is closely linked to the provinces' control over taxation, because the value of a given amount of tax room depends on the fiscal capacity of the province. The fiscal capacity of each province is calculated on the basis of some 33 provincial tax bases. Differences in expenditure need are not taken into account, since these are thought to be less sizeable than differences in revenue-raising capacity. The equalisation transfer is the difference between the revenue a province could potentially raise if a national average tax rate were applied to its own tax base, and the potential revenue from applying the average tax rate to the five-province average tax base. Fiscal capacity above the standard is not recovered. That is, unlike some other federal countries (*e.g.* Germany or Switzerland after the "New Fiscal Equalisation" reforms of 2002 or 2003), there is no horizontal equalisation in Canada. After equalisation, the less wealthy provinces have a revenue-raising capacity close to that of British Columbia and Ontario, though Alberta continues to stand out with a fiscal capacity that varies (primarily with the price of oil and natural gas) between 140 and 160% of the pre-equalisation national average. Equalisation payments are unconditional. The Atlantic provinces receive the highest per capita equalisation transfers, while Quebec – on the basis of its large population – receives the largest amount overall (almost 50% of the total equalisation transfers). The Equalisation programme is therefore an important federal programme that contributes to the reduction of disparity and the strengthening of territorial cohesion. Based on current estimates, equalisation for 2001-2002 will ensure that provinces have revenues of at least CAD 5 964 per capita to fund public services.

As mentioned above, equalisation payments are subject to a "ceiling" and a "floor" since the 1982 reform. The ceiling limits federal obligations, while the floor promotes stability in each province's grant. The ceiling for 1999-2000 was set at CAD 10 billion, and in subsequent years it rises in accordance with the nominal GDP growth rate. In September 2000, the federal government agreed to suspend the ceiling for the 1999-2000 fiscal year. In general, equalisation entitlements have not tended to grow more rapidly than GDP, and the ceiling has therefore applied on only a few occasions in the past. The floor protects provinces from significant year-over-year declines in their entitlements and also applies only occasionally. Currently, the floor ensures that the equalisation entitlement of any province does not decline from one fiscal year to the next by more than 1.6% of the "five-province standard". Entitlements to a province that would otherwise see larger year-over-year reductions are adjusted accordingly. However, the floor adjustment remains subject to the potential application of the ceiling, which means that the total amount of entitlements, including the floor adjustment, is still scaled back by the ceiling provision. The Equalisation programme including floor and ceiling features is renewed every five years following consultations with the provinces.

Efficiency and equity features of equalisation

An economic analysis of intergovernmental transfers focuses on their effect on economic efficiency and territorial equity. Efficiency calls for a transfer system that is transparent and accountable, whereas equity calls for a system that is able to reduce differences in fiscal capacity to a level society is ready to accept. Transparency and accountability should be taken into account across the entire federal structure, such as the degree of decentralisation of revenues and expenditures or the degree of autonomy of subnational governments, including the extent to which governments are dependent on transfers and the number of conditions attached to such transfers. Equity and efficiency should be met in a common concern for regional competitiveness. The policy challenge for equalisation systems is thus to combine both equity among the different provinces – equalising wealthier and lagging provinces to ensure overall balance across the country – and efficiency – identifying individual needs in provinces and addressing them in the most rationalised way. In some cases, a trade-off between efficiency and equity objectives has to be made, just as in some cases political reforms may enhance both equity and efficiency.

Canadian equalisation has functioned well in terms of transparency and predictability of revenue flows. The equalisation transfer is simple (compared to those found in other federal countries) and the transfer system is easy to steer based on a legislated formula that is subject to renewal every five years. However, significant revenue-raising disparities still remain even after equalisation and are in part reflected in the levels of taxation and spending set by the provinces (though differences in provincial priorities are also a major contributing factor). Wealthier provinces generally have lower average tax rates – Alberta stands out with its particularly low level of taxation – while some fiscally weaker Atlantic Canadian provinces also have lower tax effort. Another reason for higher tax rates among the poorer provinces is the significant disparity in provincial and local indebtedness. Deficit financing in certain poorer provinces over the past few decades has resulted in high debt-to-GDP ratios. The respective provinces' higher debt service requires higher levels of taxation, putting these regions at a competitive disadvantage in offering both comparable services and comparable taxation relative to the better-off provinces.

The equalisation transfer poses a potentially high "tax" on efforts to develop the tax base in recipient provinces. When a province's base for a single tax grows, its equalising transfer goes down, typically at a rate of 100%, though, in special cases such as the development of natural resources off the coast of Newfoundland and Nova Scotia, the "tax-back" rate is lowered to 70%. The potentially high burden might be due to the specific formula for assessing fiscal capacity (Box 27). This formula takes provinces' own tax rates into account. Indeed, if the province's actual rate of taxation is lower than the national average rate (for example, if it is unable to tax at a higher rate because the extractable economic rents associated with the development of a particular natural resource is less than in other parts of the country), then the province actually loses revenue as it augments its tax base. Since equalising transfers are reduced by the amount of a province's capacity measured at the national average tax rates, a province that taxes a growing tax

Box 27. **Natural resources and equalisation**

The issue of natural resources poses the most vexing problems for the equalisation system and is at the heart of many federal-provincial disputes. Unlike many other federations, the provinces have "ownership"of natural resources and guard that jealously. Natural resource endowments account for a substantial source of inter-provincial inequality, and cause a lot of difficulty in equalisation. In the case of oil and gas, since Alberta is left out of the five-province standard, their vast oil and gas revenues go effectively unequalised. Furthermore, there is no tax back of increases in their oil and gas reserves, unlike with oil and gas discoveries in Nova Scotia and Newfoundland. Natural resources are very unevenly distributed across Canada, a feature that may trigger significant tax disparities across the country if those resources are taxed at the provincial level. Furthermore, taxes on natural resources create a number of territorial fiscal externalities between regions that have and those that do not have natural resources. The federal government together with the provinces should thus carefully assess the various fiscal effects of the current structure of natural resource taxation.

base at a low tax rate may actually experience a net decline in revenues as a result of economic growth. In sum, the federal government should carefully analyse the disincentive, although unavoidable to a certain extent, of the equalisation system on provinces' efforts to develop endogenous resources and to augment their tax base.

International comparison of fiscal equalisation

The OECD Secretariat has started to compare financial equalisation systems in different countries (Table 9). The comparison currently includes Canada, Germany, Switzerland and the United States. The comparison covers institutional factors such as the tools used for financial redistribution, the volume of redistribution, as well as the effect on disparity reduction among subnational entities.

By comparison, the Canadian equalisation scheme is quite effective. Post-equalisation fiscal capacity disparities are between Switzerland and Germany. Fiscal capacity of the weaker provinces remains comparatively close to the national threshold, unlike the case in Switzerland. Since a fiscal capacity above the national average remains entirely within the province – which is not the case in the current German and the future Swiss equalisation scheme –, the corresponding provinces benefit fully from developing endogenous resources and from augmenting their tax base. The scheme for fiscal equalisation in Canada is simple in

Table 9. **Comparison of fiscal equalisation systems**

	Switzerland current system	Germany	Canada	USA
Structure and tools	Shared federal income tax on inverse of financial capacity basis, vertical earmarked transfers depending on financial capacity	Shared VAT on per capita and inverse to financial capacity basis, horizontal equalisation between states, vertical transfer to guarantee minimal fiscal capacity of 99.5	Vertical transfer to guarantee minimal financial capacity (average of the five poorest provinces)	Vertical transfers
Total transfer amount	2 bn CHF (12 bn)	60 bn DM	11 bn CAD	
Minimum/maximum tax raising capacity before equalisation	58/187	69/126	62/161	
Minimum/maximum tax raising capacity after equalisation (national average = 100)	70/162	99.5/106	96/161	

Note: All data for 1999. For Switzerland the OECD Secretariat calculated a hypothetical post-equalisation tax raising capacity index. "Vertical" means from federation to the states, "horizontal" means between states.
Source: Department of Finance, Canada.

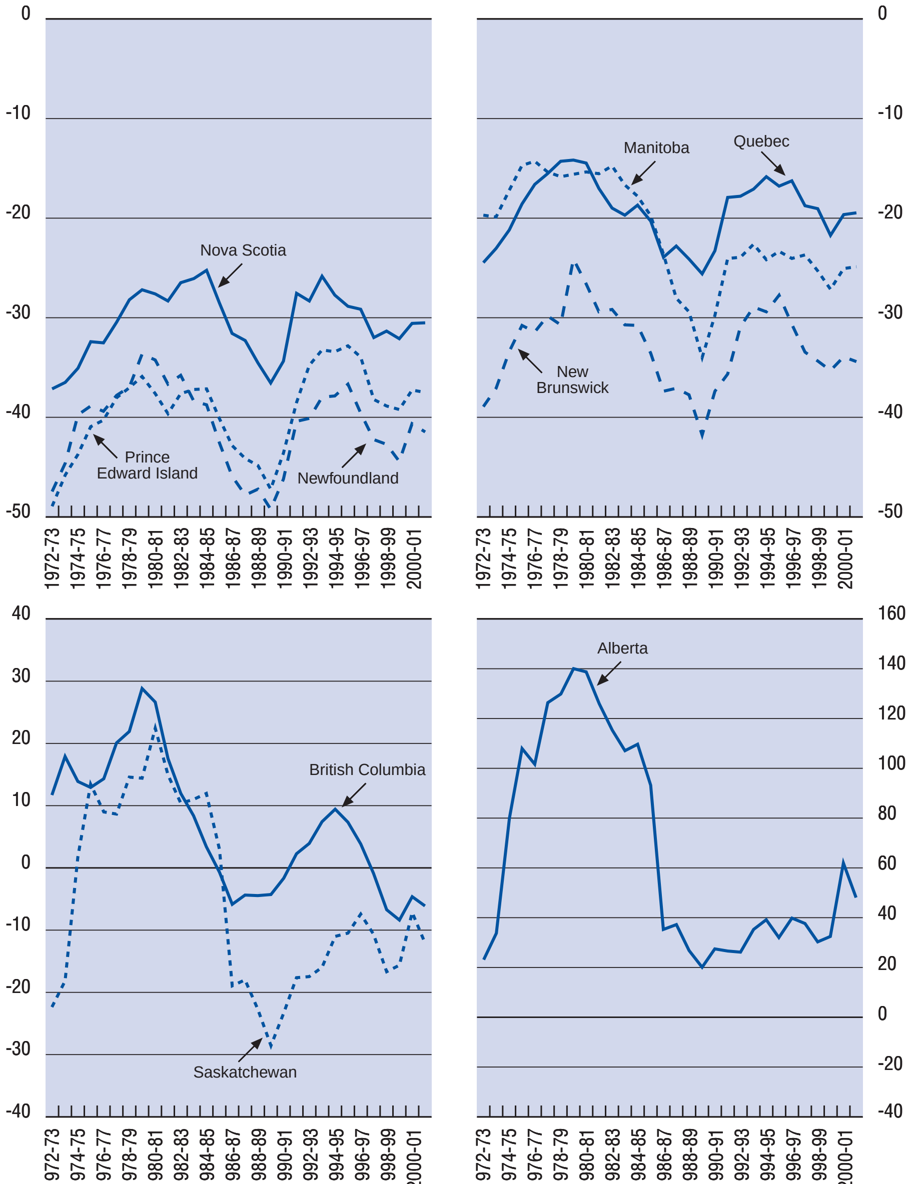
international comparison and compares favourably with the three-stage horizontal and vertical equalisation transfers of Germany, the somewhat cumbersome fiscal-capacity-related earmarked transfers of Switzerland or the earmarked transfers in the United States. Current Canadian equalisation is among the most efficient if equalisation effect per dollar transferred is taken into account.

Fiscal decentralisation and regional development

The structure of fiscal federalism and fiscal equalisation can potentially exert a significant influence on regional development. By providing poorer provinces with additional fiscal capacity, federal payments reduce the incentive for spatial mobility for purely fiscal reasons. Since the 1960s, there has been a general pattern of convergence of fiscal disparity as well as GDP per capita between poorer and the richer provinces, though progress on this front has been very slow in the 1990s (Figure 32). Between 1962 and 1998, the gap in GDP per capita between

Figure 32. **Convergence of revenue-raising disparities relative to Ontario, 1972-2002**

Index Canada = 100

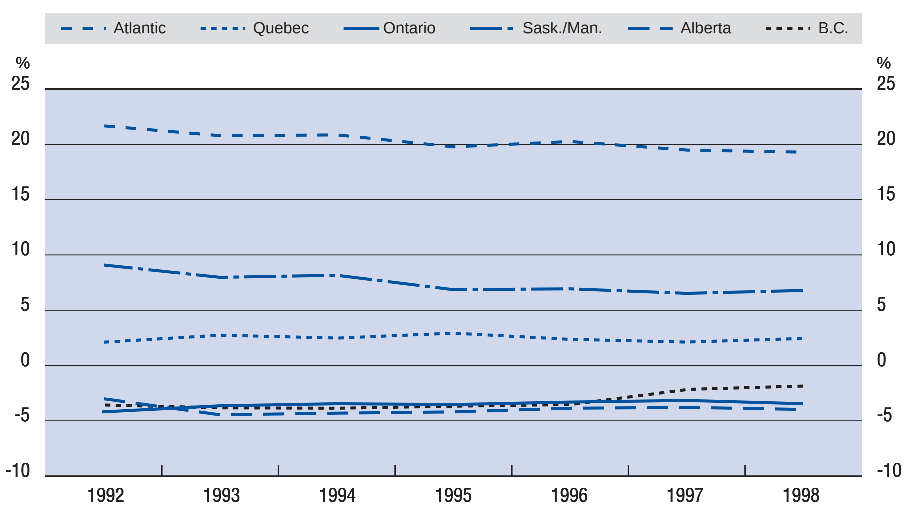


Source: Department of Finance, Canada.

Ontario and the Atlantic provinces (Nova Scotia, Newfoundland and Prince Edwards Island) and New Brunswick, narrowed from between 50 and 60% to between 30 and 35%. Manitoba and Quebec showed a similar though less dramatic convergence between 1962 and 1982. The resource-based economies of Saskatchewan and Alberta have tended to be more volatile than those of other provinces, driven by rapidly fluctuating commodity prices. In the 1990s, however, the convergence pattern has slowed down considerably. The GDP of Quebec, Manitoba, and New Brunswick was actually lower relative to Ontario in 1997 than in 1992 (Statistics Canada, 2000). In fact, there has been little regional convergence in the 1990s.

Long-term convergence seems to be the result of uniform economic development across provinces rather than the result of fiscal equalisation. The redistributive role of federal transfers and taxes has certainly been a contributing factor to regional convergence in Canada (Figure 33).[4] However, if fiscal policy were highly equalising across provinces, then a big difference between pre and post-fisc income differentials could be observed, which is, in fact, not the case. Most provinces, with the exception of Alberta, do not show much difference in the pattern of post-fiscal income convergence in the 1990s. For tax effort, the pattern in Canada

Figure 33. **Change in post-fiscal income disparities across provinces, 1992-1998**
In percentage of total tax revenue



Source: Department of Finance, Canada.

is one of convergence in levels in the 1970s and 1980s, and approximate constancy of relative tax effort across jurisdictions in the 1990s. Since differentials in fiscal capacity have not increased much in the 1990s, the convergence in tax levels probably means that the degree of fiscal imbalance between provinces and the adverse incentives for purely fiscal mobility have diminished. Part of the long-run convergence in Canada may rather be due to a convergence in human capital across provinces, as measured by the percentage of adults with at least nine years of schooling. Furthermore, the disparity in the percentage of adults with university education has actually been increasing slightly. Given the increasing importance of skilled labour, the widening education gap may be playing a role in the slowdown or reversal of regional convergence in the 1990s. Convergence has thus probably been led by the general forces of economic development, with fiscal equalisation serving more as a supplementing factor rather than as the primary cause.

The changing pattern of fiscal decentralisation, fiscal equalisation and economic development appears to be correlated with the increased importance of international trade for Canada. While trade ties between regions in Canada remain strong, international trade grew in relative share in all provinces between 1981 and 1999, and is now more important than inter-provincial trade in most provinces. Between 1981 and 1999, international trade as a percentage of GDP grew by 22%, while interprovincial trade fell by 5% (Statistics Canada, 2000). Most of this increase in international trade has been with the United States. Thus for the provinces, economic development is increasingly linked to export demand from the United States. The greater link through trade has heightened the sense that the provinces' economic competitors are US states and regions, and that to remain competitive, provinces must benchmark their tax and spending policies against US states. Higher economic interdependence with the United States may reduce the willingness of Canada's richer provinces to redistribute resources to the poorer provinces (Lazar, 1999). One can argue that political support for fiscal redistribution from have to have-not provinces is strengthened when all members of the federation believe that they accrue some benefits from redistribution such as political and social cohesion. If interprovincial economic interdependence were to weaken relative to international interdependence, such a consensus could vanish.

Social Assistance and Employment Insurance

Under the federalist design of social systems in Canada, employment insurance is provided at the federal government level while social assistance is provided at the provincial/territorial level. While access to unemployment insurance and the amount of benefit rate have changed in response to concerns about programme costs and possible disincentives to work, the overwhelming majority of persons with paid employment remain eligible for Employment Insurance (EI). Analysis conducted for the 2000 Monitoring and Assessment Report[5] indicated that 88% of paid employees would have been eligible to collect EI regular benefits if they had lost their jobs.

Canada's federal social assistance programmes developed as a set of cost-sharing programmes under the Canada Assistance Plan in 1966 (CAP). The primary objectives of CAP were: to support the provinces and territories in providing adequate assistance and institutional care for persons in need and to support them in providing welfare services to lessen, remove or prevent the causes and effects of poverty, child neglect or dependence on public assistance. CAP provided for open-ended matching of provincial expenditures at a 50% sharing rate for all provinces. This system of cost sharing was intended to leave policy decisions and programme design at the provincial level, while equalising fiscal capacity of provinces to meet the needs of the indigent. However, despite the equalisation in capacity to spend on welfare, the range of expenditures was the same in the 1980s as in the late 1940s. Given that a wealthier province spends more on a given service including social services (positive income elasticity), this effect came as no surprise. By designing transfer allocation proportional to spending, the CAP favoured rich over poor provinces. Since in Canada the matching rate was the same 50% in all provinces, social expenditures thus went up much more rapidly in the richest provinces and differentials between provinces widened.[6] The problem of uncontrollable expenditure increases, inherent to all open-ended matching grants, also raised concern (Chernick, 1996). Canada's response to rapid growth in budgetary outlays at the federal level was first to put a cap on spending growth in the three wealthiest provinces, effectively limiting expenditure increases (Baker, Payne and Smart, 1999). The replacement of this programme by the introduction of the CHST reduced the administrative burden associated with cost shared programme while providing full flexibility in programme design and in priority setting to the provinces.[7]

The CHST however raises another set of questions.[8] The first is the formula for the distribution of the block grant. Allocations under the CHST were based at least partially on the amount of spending under the CAP programme, which still meant that higher amounts went to provinces that spent more, even if their needs were not greater. Today the CHST is basically allocated on a per capita basis, which means that regional redistribution has become rather weak. The second is the flip-side of the problem of uncontrollable costs, namely the reduction in provincial expenditure. Block grants encourage provinces to keep spending on social assistance under strict control since they have to bear the full cost of any expenditure increase (*i.e.* the marginal "tax price" is 100%). This may lead to lower levels of social assistance. Evidence suggests that there has indeed been a hardening of the criteria for getting and staying on social assistance and a more reluctant attitude of provincial welfare providers *vis-à-vis* recipients (McIntosh, 2000). The block grants are not the only cause of these changes, but they do encourage provinces to reduce welfare generosity and to exert stricter control on welfare recipients.

The switch to block grants also tends to increase variation in the treatment of those in need across provinces. While some aspects of this variation are positive, in that it promotes increased experimentation, there may also be a potential for a race to the bottom between provinces.

A last aspect of the current CHST block grants concerns the transfer of fiscal risk for any particular region from the federal government to the provinces. Centralised finance, together with countercyclical transfers to the provinces, helps provide social insurance against regional business cycles. If the Canadian business cycle is becoming more region and province-specific, then block grants will be much less effective at targeting funds to the areas of greatest need. Since block grants are fixed in amount each year, they do not automatically increase in response to greater eligibility for social assistance, as would be the case for matching grants. Thus with the introduction of the CHST, one automatic mechanism for providing incremental fiscal resources to provinces during an economic downturn has been disrupted. Nevertheless, the judgement of financial markets appears to be that there was no significant decentralisation of cyclical macroeconomic risk. The differentials between provincial and federal borrowing costs have remained modest and have even declined in the latter half of the 1990s. Moreover, belief in counter-cyclical fiscal policy appears to have diminished in Canada as in many other countries. It has largely been replaced by the view that the main tools for economic growth and prosperity are balanced governmental budgets, lower marginal tax rates on potentially mobile factors of production, and lower deficits at all levels of government. This shift in policy views has provided the background for decentralising fiscal responsibility in Canada since the 1970s.

Reforms in active labour market policies

Federal and provincial assistance programmes

Responsibility for and delivery of unemployment insurance and social assistance are assigned to different levels of government. Whereas unemployment insurance is a federal programme, social assistance falls under provincial and territorial jurisdictions. Unemployment Insurance, renamed in 1996 to Employment Insurance (EI), provides benefits to unemployed workers, and those returning to the job market, subject to certain restrictions on the length of prior employment (McIntosh, 2000). The link between eligibility for unemployment insurance and eligibility for social assistance, which created some friction within Canadian federalism in the mid-1990s, has largely dissipated due to improved employment conditions during the mid- to late 1990s. While access to unemployment insurance and the benefit rate have changed in response to concerns about programme costs and the possible disincentives to work, the overwhelming majority of persons with paid employment remain eligible for EI. Moreover, most claimants use less than two-thirds of their entitlement. Even in areas of high unemployment, claimants rarely use more than 70% of their entitlement.

Unemployment insurance reform has two potential implications for federal-provincial relations. First, regional inequalities could be exacerbated if the mechanisms within the programme that were designed to deal with variations in the strength of local labour markets were weakened. Also, some stakeholder organisations have argued that some elements of the reform may act to reduce the mobility of the labour market. However, there is strong evidence to support the fact that regionally specific entrance requirements to unemployment insurance continue to reduce inequality of access across the regions and make the programme more responsive to changes in local labour market conditions. The eligibility rate across provinces and territories is comparable. Second, there have been concerns that the changes in the eligibility requirements for EI and the reduction in the maximum period of EI entitlement could result in higher take-up rates for social assistance. There always remains a danger of horizontal and vertical fiscal competition between the provinces and the federal government, which can lead to needy individuals falling between the cracks. However, analysis conducted in the 2000 Monitoring and Assessment Report indicates that for EI claimants who exhaust their benefits (*i.e.* one in five claimants), only 12.4% moved to social assistance. Therefore, there has been minimal shift and migration to social assistance programmes as a result of the reform. It is important to note that there has been strong economic growth in the period following the implementation of EI reform. The changes in eligibility requirements for EI and the reduction in the maximum period of EI entitlement have not been tested during periods of economic uncertainty. Both federal and provincial governments should continue to mutually strive to address provision issues of social security and to separate assistance programmes that are clearly different in order to avoid mutual cost shifting.

Federal Provincial partnerships in active employment policy

The active part of Canadian labour market policy consists of employment benefits and support measures and labour market information services. Labour market adjustment in Canada has been a difficult field in which to establish coherent long-term policies (T. Klassen, 2000). After request from provinces to give them more control over labour market programming, the federal government in 1996 offered to turn over responsibility for active labour market programmes to the provinces. The offer encompassed the transfer of CAD 1.5 billion in 1997-1998 and 3 620 full time equivalent staff from federal to provincial administrations. In the two years that followed, agreements were negotiated between the federal government and most of the provinces. As of June 2001, Labour Market Development Agreements (LMDAs) have been negotiated with all the provinces and territories except Ontario. The Agreements are of two types: the first provides for a "full transfer" of authority to the province/territory, the second type is designated Co-management where there is no transfer of staff or funds.

Under the "transfer" LMDAs, provinces and territories assume responsibility for delivery of active labour market assistance programmes similar to those described as Employment Benefits and Support Measures (EBSM) in the Employment Insurance Act. The Employment Benefits and Support Measures (EBSM) include four employment benefits and three support measures. The Employment Benefits include: Targeted Wage Subsidies (TWS) which provides a wage subsidy to encourage employers to hire workers they might not otherwise employ, *e.g.* those with a lack of related experience; Self Employment (SE) which provides temporary income support and guidance to people with sound business ideas; Skills Development (SD) which assists people with financial assistance to make their own arrangements for training that is supported by an approved return to work action plan; and Job Creation Partnerships (JCP), which supports projects that provide valuable work experience to participants. The Employment Measures include Labour Market Partnerships (LMP), which provides financial assistance to improve capacity for human resource planning and labour force adjustments; and Employment Assistance Services (EAS), which provides funding for short term interventions to assist unemployed individuals seeking employment; and Research and Innovation, which supports activities that identify better ways of helping people prepare for or keep employment.

The Co-management LMDAs involve an innovative partnership between federal and provincial agencies administering the EBSMs. The ability to assess results ascribable to decentralisation of active labour market interventions is still limited due to the recent introduction of the LMDAs. The LMDAs call for a formative evaluation to be undertaken during the first year of implementation and a summative evaluation in the third year of each agreement. Formative evaluations focus on delivery of EBSMs, design of programming and client satisfaction. Preliminary findings from eleven completed formative evaluations indicate that LMDAs contribute to partnership and harmonisation of programmes and services and to local flexibility. Factors that have contributed to partnerships include a strong willingness to work together and maintain client service during implementation. In some situations, co-operation has uncovered opportunities for efficiencies and economies. Evaluations in most jurisdictions indicated duplication had decreased or remained the same as prior to the LMDA. Moreover, over 75% of EBSMs participants rated service as good or excellent. These results confirm that LMDAs are being used to assist eligible clients for employment benefits. Issues for further investigation include: the need to assess longer-term results, how to further improve co-ordination, and potential gaps in programming for non-Employment Insurance eligible clients.

Municipal governance

Compared to other OECD federal countries, Canada has a distinctive metropolitan structure and organisation. Canadian municipalities have traditionally enjoyed little power and weak resources even though their responsibilities have tended to broaden along with the current process of decentralisation. In order to overcome municipal fragmentation and build stronger metropolitan areas where fiscal and democratic accountability would be ensured, an ambitious move towards metropolitan reform and especially municipal mergers – frequently referred to as amalgamations – has been made. This has exercised a tremendous impact on local service delivery and metropolitan economic development, as well as on the balance of power in intergovernmental relationships and local democracy. Amalgamations have elicited mixed reactions and have sometimes been criticised for failing to produce the expected benefits. The Canadian experience of municipal amalgamation, presented below, constitutes a highly controversial and challenging issue that needs to be carefully assessed as a significant learning experience for other countries.

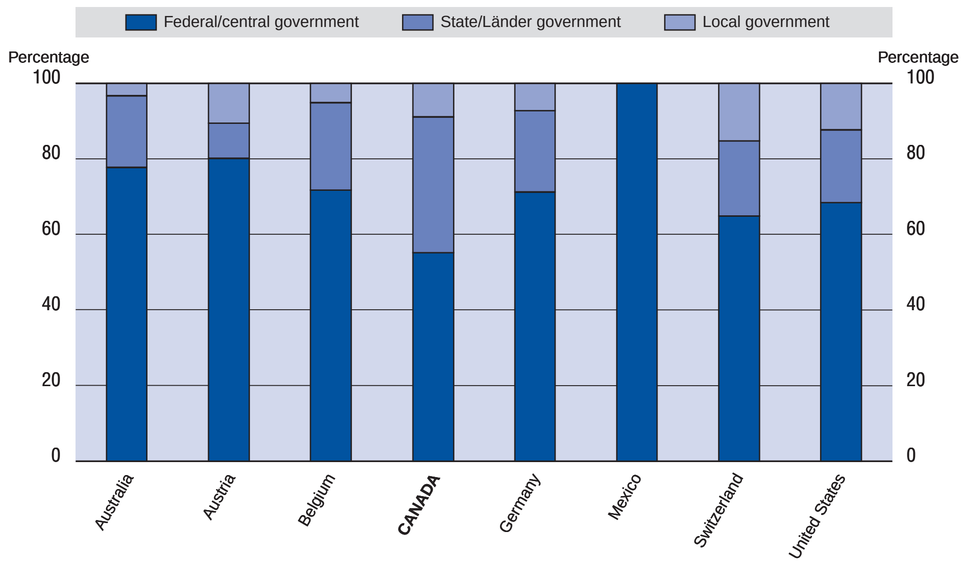
Legal framework of municipal governments

As in the United States, municipal governments in Canada have no constitutional status. Their existence derives from provincial legislatures that have exclusive control over municipal institutions. As a result, a municipality is the "creature" of a provincial government (OECD, 2001a) and the structure of its institutions as well as the scope of its responsibilities are determined by provincial legislation. Two different kinds of legislation can affect the legal status of a municipality. First, a Municipal Act or a statute can apply to all municipalities or to a certain type of municipality (urban or rural) within a province. Second, some special acts called Charters can apply to only one municipality and create unique powers, as it is the case for the cities of Vancouver, Saint John and Winnipeg whose Charters confer on them additional powers and duties not given to other municipal governments. For instance, one of the special provisions of the Charter for the City of Vancouver, which dates back more than 100 years, gives Vancouver Council control over development and ownership of public areas within its boundaries, while in other municipalities public areas belong to the province.

Fiscal authority of municipal governments

Canadian municipalities operate in a tightly controlled fiscal framework deriving from provincial legislation, which is consistent with their legal framework. Despite some variations between the provinces, municipal governments across Canada have limited ability to raise and spend money. In particular, a comparative analysis with other OECD federal countries shows that Canadian local governments get a relatively modest share of total tax revenues (Figure 34). It is higher

Figure 34. **Tax revenues distribution in OECD federal countries, 1997**



Source: OECD, 1999c.

than that of their counterparts in Germany, Belgium, and Australia, but quite lower than in Switzerland, the United States and Austria. Conversely, Canada is the country where the intermediate government receives the most significant share of tax revenues: Canadian provincial governments account for 36% of total tax revenues, a far greater share than in all other federal countries. The control of the provincial government over tax revenues seems all the more striking that compared to other OECD federal countries, Canada has the least centralised distribution of tax revenues. By international comparison, the intermediate level in Canada has more prerogatives and exerts more power over its municipalities than it does in any other federation.

Revenue sources

Municipal governments draw their revenues from their own sources (such as taxes, user fees, licence and permit fees, investments, etc.) or from intergovernmental transfers (federal and provincial transfers and grants). With few exceptions, municipal taxing powers are limited to property taxes, which account for the largest source of revenue with a share of nearly 55% of all municipal revenues in 1999, compared to 46.5% in 1995. At the same time, transfer payments and grants from provincial and federal governments have recorded major cuts and accounted for only 16 and 0.5% respectively of municipal revenues by 1999 (Table 10).

Table 10. **Municipal government revenue in Canada, 1995-1999**

In CAD

	1995	% of total	1999	% of total
Own source revenue	30 582 415 000	74.5	35 547 385 000	81.3
Property and related taxes	19 158 680 000	46.5	23 726 398 000	54.2
Consumption tax	51 119 000	0.1	55 022 000	0.1
Other taxes	368 840 000	1.0	463 435 000	1.0
Sales of goods and services[1]	7 887 476 000	19.2	8 876 002 000	20.3
Investment income	2 691 690 000	6.5	1 960 240 000	4.5
Other own source	424 610 000	1.0	466 288 000	1.1
Transfers	10 551 346 000	25.7	8 158 196 000	18.7
General purpose	1 358 395 000	3.3	969 577 000	2.2
Specific purpose	9 192 951 000	22.3	7 188 619 000	16.4
From federal government	560 015 000	1.4	211 543 000	0.5
From provincial government	8 632 936 000	20.1	6 977 076 000	16.0
Total revenue	41 133 761 000	100.0	43 705 581 000	100.0

1. Includes user fees, licence and permit fees.
Source: Statistics Canada.

As shown in Table 11, property tax represents an important component of total taxation in Canada. It accounts for 10% of total tax revenues (surpassed only by the United States with 10.7%, while in other OECD federal countries it ranges from 1.3% in Austria to 9.2% in Australia). Property tax accounts for a significant share of GDP in Canada where it accounts for 3.7%, more than in other federations. In general, provincial regulations designated property tax as the linchpin of municipal finance. In 1996, the property tax comprised half of all municipal revenue in Canada, but only 21% in the United States. Although tax rates are set by municipal governments, provinces also adopt regulations that restrain municipal authority in this field. For example, the government of Ontario imposed mandatory limits on property tax increases for certain classes of property. Examples of local taxation other than property tax include the hotel and motel occupancy tax in Vancouver, business taxes in Winnipeg, and fuel tax in Victoria, Montreal and Calgary.

Property tax is broadly acknowledged as an appropriate way to fund municipal services that benefit all residents. However, it constitutes a rather poor tool to

Table 11. **Property tax in OECD federal countries, 1997**

	% of total tax revenues	% of GDP
Australia	9.2	2.7
Austria	1.3	0.6
Belgium	2.9	1.3
Canada	10.0	3.7
Germany	2.7	1.0
Mexico	–	–
Switzerland	7.7	2.6
United States	10.7	3.2

Source: OECD, 1999c.

finance income redistribution programmes such as social housing. The rapid economic growth that occurred during the last half of the 1990s resulted in significantly increased revenues to the federal and provincial governments. Municipal property taxes increased only marginally. Moreover, the property tax rate is a very "visible" parameter and is thus difficult to increase when municipal governments need higher revenues. Whereas municipal income taxes, visitor or commuter taxes and sales taxes are quite frequent in the United States, and some form of local income tax exists in approximately half of OECD Member countries, municipal governments in Canada cannot levy such taxes (Table 12). The province of Manitoba does allocate a small percentage of provincial income tax revenues to municipal governments, but this provides only an additional revenue source and does not enhance the municipality's power to raise its own revenue. With the shifting or "downloading" of responsibilities to municipalities, reliance on the property tax

Table 12. **Municipal fiscal authority in Canada and the United States**

	Canada	United States
Property tax	✓	✓
Sales tax		✓
Hotel/motel tax	*	✓
Business tax		✓
Fuel tax	*	✓
License fees	✓	✓
Income tax (individual and corporate)		✓
Development charges	✓	✓
Tax-exempt municipal bonds		✓
Tax incentives		✓
Grants to corporations		✓
Borrow money	✓	✓

Note: * Indicates rare instances of this type of authority.
Source: Federation of Canadian Municipalities (2001).

has increased over the last decade. This high degree of reliance on the property tax lies at the origin of the increasing fiscal difficulties of the cities. Canadian cities should thus be given some limited access to other types of taxes.

User fees are imposed for a variety of municipal services, such as water, public transit, parking, parks, recreation programmes and waste disposal. Most public services are under-priced for social reasons and may not be used to add to general revenues. In practice, municipal governments may be confronted with provincial limitations on the types of services for which a user fee may be charged, as it is the case with the *Municipal Act* of Ontario. Other sources of municipal revenue in Canada include licensing and permit fees, fines and penalties, investment income, development charges and special capital levies, such as local improvements. Altogether, such revenue sources account only for a small share of total municipal revenues.

Transfer payments and grants to municipal governments have become a declining source of revenue. In all regions, provinces account for the bulk of grants and transfers, while the federal government provides significantly less money, mainly through payment-in-lieu of property taxes (PILT). Under the *Payments In Lieu Taxes Act*, 2000, the federal government – which is exempt from property taxation – makes voluntary payments as a contribution to the cost of local government in the communities where it owns property. PILT payments amount to an annual average of CAD 400 million distributed to about 2 200 taxing authorities (municipalities, school boards, First Nation reserves, etc.) through Public Works and Government Services Canada (PWGSC). Intergovernmental grants are most commonly conditional, which means that they are attached to specific projects and cannot be used by municipal governments according to their own priorities.

Spending and borrowing limits

In contrast to both federal and provincial governments that have unrestricted access to borrowing for operating and capital expenditures, municipal governments can only borrow for capital projects and are further constrained by requirements prohibiting municipal deficits. Since municipal governments must pay debt through their operating budgets and "break even" every year, they must be careful to ensure that capital borrowing does not interfere with their ability to deliver basic services and meet minimum debt repayments. Like other borrowers, municipal governments must take into account the effects of their debt on the city's bond rating.

Expenditures

As noted in Table 13, expenditures on transportation, environmental services and protection account for more than half of all municipal expenditures (1997),

Table 13. **Distribution of municipal government expenditures by province and territory, 1997**

In percentage

Municipal services	Nfld.	PEl	NS	NB	Qu	On	Ma	Sa	Al	BC	Yu	NT	CAN
General administration	15.1	12.1	6.0	9.5	11.9	8.7	12.4	13.6	10.9	8.6	19.2	16.7	10.0
Protection	8.8	24.5	14.8	24.5	16.8	15.6	15.9	16.3	14.4	18.1	8.0	4.4	16.1
Transportation	24.3	20.7	18.9	22.0	23.0	18.5	20.2	29.9	28.5	13.7	31.9	15.1	20.4
Health	0.0	0.0	0.1	0.2	0.1	2.7	2.4	1.0	1.5	3.8	0.3	4.5	1.9
Social services	0.1	0.0	8.4	0.0	0.8	22.8	7.7	0.8	1.8	0.2	0.0	4.7	10.5
Education	0.0	0.0	13.7	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Resource conservation	0.3	0.6	2.8	2.3	1.8	2.0	2.0	5.9	2.1	1.4	1.3	0.4	2.0
Environment	18.8	23.3	17.7	21.1	16.5	12.7	17.3	13.7	13.2	22.2	19.0	30.6	15.4
Recreation/culture	12.2	13.3	9.5	13.5	11.2	10.1	11.6	13.6	12.9	17.8	16.2	16.8	11.9
Housing	0.5	0.0	0.7	0.3	3.5	1.4	0.2	0.2	0.4	0.7	0.0	3.2	1.6
Regional planning	0.8	0.7	3.4	1.4	2.0	1.1	1.6	1.4	2.3	1.9	2.3	1.3	1.6
Debt charges	19.1	4.6	3.8	5.2	12.1	3.8	8.7	2.8	11.0	10.5	1.3	1.8	7.7
Other	0.0	0.2	0.2	0.0	0.1	0.6	0.2	0.9	0.9	1.2	0.3	0.7	0.6
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Federation of Canadian Municipalities (2001).

except in Ontario where social service funding is the largest single expense. In all provinces, municipal expenditures on recreation and culture accounted for between 10 and 18%. Debt charges (interest on money borrowed for capital projects) vary from a high of almost 20% of total spending in Newfoundland to less than 1% in the Yukon and Northwest Territories. It should also be noted that since 1997, Ontario municipal governments have assumed full responsibility for social housing costs, leading to further shifts in the distribution spending and placing an additional income-redistribution programme on the property tax base. In all provinces, expenditures on health are primarily borne by the province, with relatively small expenditures made by local governments on public health and prevention programmes.

In sum, the survey on the responsibility, revenue and expenditure side shows that compared to other countries and especially other OECD federal countries, Canadian municipal governments have relatively weak powers and low resources. In the last decade, the on-going process of decentralisation, which is leading the federal government to download programmes and expenditures onto the provinces, has worsened the situation for the cities. The provinces, in turn, delegated responsibilities to the municipalities, which resulted in the assignment of unfunded mandates. Municipalities ended up having increased responsibilities without their resources being proportionally extended. The increasing fiscal imbalance and the rising financial difficulties at the municipal level, particularly cities, were part of the reason for the policy shift towards amalgamation of independent urban municipalities into bigger metropolitan ones.

Amalgamation in metropolitan areas

The economic and social importance of metropolitan areas in Canada has emphasised the significance of their management and steered an important political debate over the principles of successful metropolitan governance. As it has been the case over time in other countries, it is argued that amalgamating municipalities into bigger metropolitan governments would improve competitiveness of metropolitan areas (Box 28). The push towards amalgamation comes from several sources .

First, population growth in Canada has primarily occurred in the urban areas. The increase stems from both natural increase and immigration, both internal and external. The growing population in the metropolitan areas has been locating primarily outside of the central cities. As a result, central cities in Canada, like

Box 28. A comparative historical view at amalgamation

Amalgamation has its roots back in the 19th century. The first municipalities in the United States were merged as early as 1854, when Philadelphia was created by the merger of an entire county and all its municipalities. The most significant municipal consolidation ever undertaken in North America took place in 1898, when 15 cities and towns and 11 villages in five separate counties were merged to form the new city of New York. Since then, there have been no more comprehensive legislated municipal amalgamations in the United States. On the other hand, forced municipal mergers constituted a popular policy in many European countries and Canadian provinces during the 1960s and 1970s. It led, for example, to the establishment of the upper-tier Greater London Council (GLC) in the United Kingdom in 1964, the creation of the city of Laval, Quebec (just north of Montreal) in 1965 and the Unicity of Winnipeg in 1972. Many countries in continental Europe also followed the amalgamation trend during that period. The number of municipalities recorded dramatic decreases in Sweden (from 2 500 in 1950 to 279 in 1980), Denmark (from 1 387 in 1961 to 275 in 1974) and West Germany (from 24 512 in 1959 to 8 514 in 1978). However, the consolidationist movement declined when economic research was marked by the emergence of "new regionalism" literature and "public choice" analysis. These emerging fields of political and economic science tried to show that the efficient delivery of municipal services does not necessarily require large municipalities and justified municipal fragmentation on principles of competition between jurisdictions.

cities in the United States and many other countries, have comprised a diminishing proportion of the metropolitan area. For example, by 1998, the second tier government of Toronto, Metropolitan Toronto, encompassed only one half of the population of the Greater Toronto Area. These demographic patterns mean that existing municipal governments, even those designed to deal with region-wide issues, have found it harder to provide co-ordinated service delivery for the entire metropolitan area.

Second, within metropolitan areas, higher-income families have tended to locate in suburban areas, while the poor are increasingly concentrated in the central cities. Even though the provinces are responsible for most social services programmes, the concentration of the poor in central cities still raises the cost of providing services in the central city relative to the suburbs, at the same time that it weakens the city's fiscal base. As an example, the city of Montreal pays a considerable amount for low-income housing, a cost which suburban jurisdictions are largely able to avoid. While locational patterns primarily reflect the costs of housing and transportation and the proximity to jobs, the resultant fiscal disparities strengthen the incentive for higher income residents to locate outside the central city. This creates a vicious circle, further undermining the ability of the central city to provide reasonable service levels at comparable tax rates. The spatial pattern of poorer, fiscally stressed central cities surrounded by more affluent suburban areas – a well-known phenomenon in other federal countries such as Switzerland and the United States – is a prominent feature of Canadian cities (OECD, 2002). However, a systematic data source for documenting and tracking the evolution of fiscal disparities does not yet exist.

Third, the powers of local government in Canada, even in the big cities, are relatively restricted. As was pointed out before, the Canadian Constitution does not formally recognise the municipal level of government or grant any powers to municipalities, as these matters are recognised as falling under the exclusive legislative jurisdiction of the provinces. Although there is variation across provinces, municipal governments in Canada are quite limited in the ways they can raise and spend money. At the same time, the responsibilities of local government have grown.

This constellation of pressures – increased metropolitan fiscal fragmentation, off-loading of responsibilities from the provinces, and limited fiscal and governmental powers at the municipal level – have led to an increasing imbalance between local responsibilities and resources at a time of intense competition with city-regions in the United States and throughout the globe. Amalgamation of cities with a number of their smaller suburbs has been largely a response to these pressures. It should be noted that the perceived pressures are not new. In 1976, the Canadian Federation of Mayors and Municipalities was already calling attention to the imbalances in local government, under the provocative title "Puppets on a Shoe-String".

In Canada, the issue of amalgamation grew particularly controversial for a number of reasons. Beyond the long-standing debate on the relationship between the size and structure of local governments and their performance, amalgamation in Canada has largely been intended to provide a policy response to the pressures on the cities. Thus, a new scheme of coherence was required. In Canada, numerous municipal consolidations took place in the mid- to late 1990s, among which the amalgamation experience of three major metropolitan regions: Halifax Regional Municipality in Nova Scotia (1996), the new City of Toronto in Ontario (1998) and the new island-wide City of Montreal (2002).

Halifax Regional Municipality

The Halifax Regional Municipality (HRM) was established in 1996 as an amalgamation of the cities of Halifax and Dartmouth, the town of Bedford, Halifax County and the Metropolitan Authority, an inter-municipal agency concerned with public transit. HRM now has a population of approximately 354 000 residents, which represents 37.5% of the Nova Scotia total and 42% of its employment base. Its territory (5 577 km^2) equals nearly all of Prince Edward Island (5 660 km^2). Disparities in the distribution of the population across the territory are striking: over 70% of the population is concentrated in the urban/suburban areas that account for less than 5% of the land surrounding Halifax Harbour, whereas the rural areas contain approximately 5% of the population but represent 73% of the land mass. The urban fringes account for the rest.

HRM adopted a streamlined structure of governance and taxation. The Halifax Regional Council is currently composed of one Mayor (elected at large) and 23 District Councillors, down from the former 60 councillors. Prior to the amalgamation, the former municipalities of HRM maintained a relatively complex tax system, with four residential base rates, four commercial base rates and over 250 area property tax rates in Halifax County. When the tax structure had to be re-designed after the amalgamation, it was recognised that services were provided at different levels and standards in urban and rural areas, and that such differences should be taken into account in the tax rates. A comprehensive system was thus established around three base rates: urban, suburban and rural. A significant effort was made both to ensure that a clear relationship was maintained between the beneficiaries of services and those responsible for the costs and to take into consideration the fiscal capacity of the former municipalities.

Along with area rates, the introduction of Community Councils is designed to promote local democracy by enabling residents to determine the characteristics of the service packages provided in their districts. In HRM, four Community Councils were formed to hear issues of land-use zoning, recreation and public safety. Their coverage areas do not correspond to the boundaries of the former municipalities – to the urban-suburban-rural boundaries for taxation purposes – nor to the boundaries of Planning Advisory Committees (established under the provincial planning legislation). Although most of their functions remain advisory to the Halifax Regional Council, the Community Councils do have the authority to amend land-use by-laws and enter into development agreements with respect to land within their communities, as long as such decisions are consistent with HRM planning strategy. Since some of the Community Councils have as few as three members and media attention remains limited, there are concerns about openness and transparency with respect to land-use planning (Sancton, 2000b).

A few years after the creation of HRM, there is still room for doubt whether the initial projections about cost-savings and benefits have effectively been translated into reality. Some success stories are presented such as the settlement of inter-municipal disputes about solid waste disposal, the smoothing of the harsh competition in land sales in municipal industrial parks and the improvement in the quality of some services in different areas. Nevertheless, it is difficult to assess the cost savings because the official financial records remain very complex. Two main problems exist. First, year-over-year total municipal expenditures are of little use, because simultaneously with the amalgamation, the Nova Scotia provincial government significantly altered some municipal responsibilities. Second, even when considering departments not affected by service exchange, financial records remain somewhat confused and inconsistent (Sancton, 2000a). Moreover, citizen surveys show that many residents still oppose amalgamation. They do not have a favourable assessment of the HRM performance in governance and did not see diversity of the HRM region as a strength. Moreover, for eight out of nine municipal services, more respondents thought that service delivery was worse after amalgamation than before.

New City of Toronto

The most ambitious municipal amalgamation ever carried out in Canada was the creation of the new City of Toronto on January 1, 1998. It was the result of provincial legislation that amalgamated the former Toronto metropolitan level of government (Metro) and its constituent lower-tier municipalities into a single-tier city. The new City of Toronto has now a population of 2.4 million people, which makes it the fifth largest city in North America (after Mexico City, New York, Los Angeles and Chicago), and encompasses a territory of 632 km^2. Its operating budget is approximately CAD 6 billion, which is the largest municipal budget in Canada and larger than six provincial budgets. It is often referred to as the Megacity with 900 000 dwellings 473 000 properties, and 85 000 businesses. The new Council was originally composed of 57 Councillors and the Mayor, but for the 2000 municipal election, the number of Councillors was reduced to 44 by provincial legislation.

Understanding the impact of amalgamation in Toronto is difficult, because other significant changes took place at the same time in Ontario: the realignment of local services and property tax reform were both implemented in 1998 (Slack, 2000). On the one hand, local services realignment or "downloading" in Ontario resulted in the transfer of responsibility for many "hard" services – such as water, sewers, roads and transit – and social housing, public health and ambulances from the Province to municipalities. In return, the Province took over the funding of elementary and secondary education and cut residential property taxes for education in half in 1998 and made further cuts in 1999. On the other hand, property tax reform meant that a uniform assessment system based on "current value" (interpreted as market value) was implemented province-wide. Because such a reform would have resulted in large shifts in tax burdens within and between classes of property, tax policy changes were introduced at the same time, so that a new property tax system was applied in Ontario with an impact on every taxpayer.

It is still too early to determine whether cost-savings have been achieved or whether service levels have been improved in Toronto, but evidence suggests that the service and user fee harmonisation may increase costs in the long term to the City of Toronto (City of Toronto, 1998-1999). Critics also point out that amalgamation is wiping out local democracy and will exacerbate central city and suburban disparities. Moreover, Toronto is currently facing some difficult challenges within which the Greater Toronto Area (GTA) as a whole is involved: poverty and homelessness are on the rise, basic infrastructure is deteriorating and financial sustainability is threatened. While these problems manifest themselves most visibly within the City of Toronto, their impacts extend well beyond the City' boundaries and need to be addressed through regional solutions on a GTA-wide basis.

Montreal

The city-region of Montreal has been carrying out a slow march towards metropolitan governance. The city of Montreal is one of the 28 municipalities that constitute the Montreal Urban Community (MUC), which was established in 1970 upon the French model of "*communautés urbaines*" (upper-tier, indirectly elected governments). The MUC is a regional body that, along with 16 Regional County Municipalities (*municipalités régionales de comté*, MRC), constitute the Montreal Census Metropolitan Area (CMA). The provincial government has recently pushed ahead with Bill 170, which amalgamates all 29 municipalities that currently constitute the Montreal Urban Community (MUC) to create a single giant city-region. The proposed new City of Montreal would be headed by a Mayor and 64 Councillors (one for every 28 000 citizens) and take over all the powers of the current MUC. It would have the monopoly over taxation powers and give out transfer payments to its boroughs. Each borough would have a separate council which would be responsible for certain aspects of public works, parking, recreation, parks and cultural services.

Over the past months that preceded the creation of the new City of Montreal, many concerns rose about the proposed restructuring. First, local democracy could be usurped because citizens' access to municipal institutions would be severely compromised in the newly created megacity of Montreal. The principle of democracy was included among the unwritten constitutional principles that were established by the 1988 Supreme Court judgement regarding the secession of Quebec. It should be preserved throughout the restructuring process. Moreover, the Anglophone minority in Quebec feels threatened because Bill 170 asserts that the megacity will operate exclusively in French. Although Bill 170 provides for a clause ensuring that currently bilingual municipalities will retain their bilingual status, it only means that the very few services provided by the borough will be bilingual and the vast majority of services falling under the jurisdiction of the new City of Montreal are not part of this clause. Furthermore, another clause in Bill 170 states that any and all powers of a borough may be removed by the City of Montreal by a two-thirds majority vote of the Council. The negative impact on the Anglophone community, culture and language seems disproportionate compared to the purported gains of municipal restructuring. Besides, taxes are basically expected to increase, because all the current financial problems of Montreal – especially its CAD 3.3 billion debt – would be transferred onto the new island-wide city and will essentially be paid down by using the tax dollars from citizens who are not responsible for them.

Numerous referenda – with high voter turnout – held in the municipalities affected by the reform showed the utter hostility of citizens. Fifteen Montreal municipalities attacked Bill 170 before the Quebec Supreme Court, but their application was thrown out in June 2001 and was equally rebuffed by the Quebec Court of Appeal. It is argued that beyond municipal boundaries and regional restructuring, the province of Quebec needs to take action in two major fields. First, it should institute a fiscal reform by implementing a tax-base sharing system throughout the GMR and give municipalities other sources of revenues apart from property taxes and user fees (*e.g.*, a share in the sales tax). Second, it should actively tackle the problem of suburban sprawl through the establishment of an integrated strategy to achieve a better-balanced spatial development of the region (Fischler and Wolfe, 2000).

Analysing pros and cons of municipal amalgamations

There are a number of rationales for amalgamation. These are, among others: first, to save money by exploiting economies of scale in service provision and reduce duplication; second, to restore fiscal equivalence and minimise zero-sum fiscal competition between adjacent jurisdictions; third, to permit a more equitable sharing of the burden of taxation across the metropolitan area; fourth, to redirect growth away from the periphery back to the interior of the metro area; fifth, to promote economic development by allowing the city to better sell itself as a location for profitable economic activity. The general questions, then, regard how tax and service burdens change within the new consolidated area, whether service levels will be brought down or up, and in which areas taxes are likely to increase or decrease. Because all amalgamations are very recent, it is too early to tell the extent to which they will promote any or all of their objectives. However, some points regarding cost savings, fiscal equivalence, desegregation and economic promotion may be raised in evaluating the amalgamation process.

Cost savings. Preliminary estimates suggest that there have been some cost savings from reducing duplication of services and some economies of scale in administration. However, it is too early to reach definitive conclusions, and the change in responsibilities that has gone along with consolidation further complicates the picture. Earlier research on economies of scale in local government suggests that for most local government services – including, police, fire, education, and garbage collection – minimum costs per capita are reached at a low level of population – around 20 000 – and remain constant till about 250 000 before beginning to increase (Bish and Warren, 1972). By contrast, there are substantial economies of scale in vertically integrated, capital intensive services for sewerage and water systems, fixed-rail transportation systems, and airports (Werner, 1970). The two-tier system of municipal government in Canada and in the United States is designed to reflect these differences in the production functions for different services. The higher tier municipalities provides the region-wide capital intensive services, and the lower tier provides the other services. Based on these arguments, the expectation would be that there would be relatively little in the way of cost-savings from amalgamation.

The reduction of the number of municipalities might even lead to cost increases. There will be pressure for compensation levels in government work to rise to the highest level of all the combining municipalities. If this occurs, it could create a substantial one-time increase in costs, and a permanently higher level of wage costs. Depending on how important this wage drift is, substantial reductions in the number of employees could be required to offset the increased costs. A specific argument against amalgamation is that by reducing competition between governments, the pressures for realising efficiencies and introducing cost-saving innovations will decrease. As a result, it is argued that long-run costs are actually higher in amalgamated than in fragmented metropolitan areas. In such an environment, it will be especially important to monitor costs and spending in the newly amalgamated areas (Box 29).

Fiscal equivalence. Fiscal equivalence is the spatial correspondence which exists when citizens who benefit from a service expenditure are those who make or influence the decision and pay its cost. Bish (2000) tries to show that there is no ideal government size that would determine a unique optimal coverage area for all

Box 29. Levelling out service levels and cost in merged low and high density areas

Where amalgamations have merged low and high density areas, the issue of service standards and cost-differentials is especially acute. For example, the Halifax amalgamated city is very large geographically, and includes both urban and quite rural areas. It is more expensive per capita to provide fire services to low density rural areas. If the city imposes uniform service standards throughout its jurisdiction, this seems likely to raise the costs of municipal services. Indeed, there is some suspicion on the part of Halifax officials that the point of the amalgamation was to raise service levels in rural areas without incurring increased provincial costs, since they are downloaded to the city of Halifax. There is also a question of whether the same standards – in environmental policy, for example – are appropriate for both the less dense parts of the amalgamated area and the dense urban core. The question of differing service levels is important. If the amalgamations wind up levelling services down, then this will increase the incentive for high-income people to relocate outside of the amalgamated area or to opt out of public schools. There is a trade-off between more equitable cost sharing within the metropolitan area and the objective of allowing service levels to reflect differences in preferences and willingness to pay. Each city must determine the nature of this trade-off for its particular situation and be prepared to make institutional adjustments if it is determined that citizen dissatisfaction is growing.

public services as a whole. The diversity of local government services makes it impossible for any single organisation to be an efficient producer of all of them. Studies tend to show that the highest level of efficiency in metropolitan areas is achieved when different services are provided by organisations operating on different scales, because functions and services respond very differently to scale. Assigning one big amalgamated government the role of monopoly provider of services within a geographic area is thus unlikely to achieve fiscal equivalence. In Canada, systems of small local governments such as British Columbia display much higher levels of fiscal equivalence than municipal structures in other provinces (Box 30).

Desegregation. The effect of amalgamation on locational patterns of households might not be very strong. Centre city poverty rates in both Montreal and Toronto are at least twice as high as those in suburban areas. A similar ratio exists in the big cities of the United States, and expenditure analysis for Switzerland shows a similar picture (OECD, 2002). This similarity is notable because the degree of municipal fragmentation is lower in Canada, and the adverse fiscal incentives facing its central cities are arguably less important than in the United States

Box 30. Municipal organisation and fiscal equivalence in British Columbia

British Columbia has a very distinctive approach to municipal organisation compared to other provinces such as Nova Scotia, Ontario or New Brunswick. In British Columbia, municipal acts give local citizens the initiative to incorporate, dissolve or amalgamate local governments and select appropriate ways to deliver local services according to their own interests and needs. The provincial government also created in 1965 a unique regional structure, Regional Districts, to provide services to non-municipal areas, to regionalise some activities and to facilitate inter-municipal co-operation. This system has the advantage of maintaining relatively small municipalities with high levels of representation for distinct communities, while facilitating regional co-operation and adjustments to provide local government services over appropriate geographic scales with production arrangements that accommodate the diversity of local government services. It is an adaptable model that may be especially appropriate for provinces such as Alberta and Saskatchewan that have single-tier systems of local governance. Size in itself is not the major determinant of per capita costs and governments of different sizes can deliver services efficiently. Some governments can take advantage of specialisation without attempting to produce all services themselves and establish external association with other governments to address their other needs without changing their own overall size.

and Switzerland. A hypothesis that follows from the Canadian-US similarity is that more cost-sharing, while it may marginally improve the finances of the amalgamated city, may not have much effect on the locational patterns of households by income level, which are determined by other factors, such as space and environmental quality.

Economic promotion. Cities stressed the idea that there are economies of scale in economic development, and that larger scale entities are better able to promote development. However, cities also argue that to be able to undertake large scale capital infrastructure projects, which will benefit the entire metropolitan area, cities need to encompass a substantial part of the metropolitan area. This argument hinges both on the importance of increasing returns to scale and agglomeration economies in cities and regions, and the role of government as a supporting entity in realising the economies of scale. The rationale for amalgamation is that a government that encompasses a substantial part of the region is necessary to nurture and encourage the agglomeration economies that will cause the region to grow. Such an argument, which is in rather stark contrast with the Tiebout ideal of multiple jurisdictions, requires further documentation in the form of studies of the relation between economic development and governmental structure.

Conclusions

Canada has continued its longstanding trend toward greater decentralisation in the 1990s (albeit at a slower rate than in previous decades) at the same time as it has had to confront the new challenges of internationalisation, particularly increased economic interdependence with the United States. Through a number of reforms of the fiscal structure as well as health care and social assistance system, the provinces received more taxing and spending power. Canadian provinces today have more prerogatives than the intermediate level in any other federal country. Economic convergence has reduced disparities among the provinces, and an efficient equalisation system compensates the remaining fiscal disparities to a significant degree. However, some clouds appear when one considers the economic effects of Canadian federalism. Some provinces' trade with the United States exceeds interprovincial trade, and business cycles have become more province-specific. Emerging competition with the Southern neighbour has made provinces more sensitive to institutional features south of the border. Increased interprovincial and international competition may have detrimental effects on national cohesion, particularly in the field of social assistance, where both provinces and the federation are striving to reduce expenditures. The main recommendations therefore go into the general direction of maintaining national cohesion through a sound fiscal system and an equitable social assistance system across the country.

Canadian fiscal equalisation proves to be efficient in general. It reduces fiscal disparities across provinces at comparatively little cost and in a transparent fashion. The only shortcoming is the high implicit tax burden ("tax back") that the equalisation formula puts on recipient provinces, which may constitute a disincentive to efforts to foster their own economic development. It is recommended that a careful assessment of the effects of fiscal equalisation on receiving provinces be conducted. Moreover, efforts should be made to better integrate provincial revenues resulting from natural resources exploitation into the equalisation formula. The introduction of the Canadian Health and Social Transfer released the framework conditions for provincial social welfare. This led to differences of social welfare levels across the country and of some mutual case shifting between the federation and the provinces. The federation should therefore exert some influence on minimum standards through the CHST and try to establish stronger collaboration with the provinces. Federation and provinces should regularly review the amount and interprovincial distribution of the CHST Emphasis should also be put on the new federal-provincial Labour Market Development Agreements that account for the strong interdependence between labour market and social policy making.

The process of decentralisation within the Canadian federation has put the municipal level and particularly the large cities under strain. Following the growing financial difficulties of large cities, large-scale amalgamations have recently been undertaken, especially in Nova Scotia and Ontario, and others are planned in Quebec. Resulting benefits are expected to stem from the achievement of economies of scale and cost savings that will contribute to enhancing economic competitiveness and fostering coherent, integrated and better-balanced development. However, due to the specificities of Canadian municipal organisation, the debate on municipal governance and restructuring is quite controversial in most Canadian provinces. Although some improvements may have been observed, there is not yet much reliable evidence that amalgamation has brought about the expected results.

From an economic point of view, it was believed that municipal amalgamations would lead to cost savings, fiscal equivalence and fiscal equity. At this stage of the Canadian experience, it appears that these expectations need to be qualified. Concerning cost savings, there has been no convincing demonstration that net cost savings have been achieved and some observers point out that the restructuring process might even have generated lasting extra costs. It is however difficult to assess cost savings due to the parallel reassignment of responsibilities to municipalities. Concerning fiscal equivalence and fiscal equity, it should be considered that there is no ideal government size that could, by extension, determine a unique optimal coverage area for all public services as a whole. The diversity of local government services makes it impossible for any single organisation to be an efficient producer of all of them. The highest level of efficiency in metropolitan areas appears to be achieved when different services are provided by organisations operating over different scales.

From a democratic point of view, research asserts that amalgamated governments tend to be less responsive to citizen needs. Without establishing an automatic relationship between size and democracy, there is strong academic support to the idea that in smaller governments, citizens and councillors tend to reach more easily a consensus on policy issues because there are better conditions for leadership. This is a result of stronger links with the citizens, who in turn have a bigger impact on collective decision-making. Considering that each level of government represents an arena for participation and representation, changing the boundaries affects the way citizens express their wishes. Democratic accountability cannot be ignored in the reorganisation of cities.

In this connection, the rationale for amalgamation needs to be carefully weighed. Amalgamating municipalities, *i.e.* reforming the local map, raises a long series of challenging issues that involve very diverse and interrelated factors such as regional economic development and planning, horizontal fiscal equivalence and fiscal equity, cost and quality of public services, local identity and democratic accountability (Council of Europe, 2001). Amalgamation is not necessarily the solution to improve the functioning of local governance. Instead of creating new larger local jurisdictions, an alternative solution is the establishment of mechanisms of intermunicipal co-operation. In the long-term, building networks of partnership based on the existing territorial framework of local authorities should offer a flexible policy tool that can lead to single- or multi-purpose co-operation between different areas growing into functional regions.

Amalgamation may indeed constitute a relevant strategy, but it should not be a considered as a panacea to the solution of metropolitan problems. Although current debates on amalgamation in Canada frequently cite the American experience as a reference, it should be remembered that American and Canadian municipalities not only have a different status, but the context for metropolitan governance at the 21st century is also markedly different from earlier periods, particularly with respect to the powerful effects of globalisation and decentralisation. Thus, amalgamation policies are not equally applicable to any Canadian province. There is no uniform solution to the size of jurisdictions. The focus should be on the functional role of governments with respect to public services rather than on their size and structure *per se*. This would call for prudence towards jurisdictional mergers. This "form follows function" approach of horizontal partnerships appears to be a promising alternative to amalgamation.

Notes

1. Data from the Department of Finance of Ottawa, 1999; Budget Highlights of Nova Scotia, October 14, 1999 as cited on p. 237 in Hale (1999), and "The Tax on Income and the Growing Decentralization of Canada's Personal Income Tax System," in Lazar (1999).
2. The behaviour of Alberta shows the link between equalisation and tax competition. Alberta's room for fiscal manoeuvring is undoubtedly enhanced by the fact that Canada's equalisation system only raises the fiscal capacity of less well-off provinces, but does not require provinces with fiscal capacity above the national average to contribute to the equalisation fund. The fact that there is no horizontal equalisation is an advantage to Alberta and, to a lesser extent, Ontario in competing with other jurisdictions.
3. Similar variation in fiscal systems exists in the United States. See Howard Chernick (1998).
4. Post-fisc means including transfers from governments to individuals and subtracting income taxes paid to governments.
5. The Monitoring and Assessment Report is produced annually by Human Resources Development Canada. It presents a detailed analysis of the impact of the 1996 Employment Insurance Reform on individuals, communities and the economy.
6. The experience of the United States and Switzerland shows that even with matching rates inversely correlated with a state's wealth, wide differentials between subnational entities persist.
7. The 1995 Federal Budget announced the creation of a new block-funded transfer, the Canada Health and Social Transfer (CHST). The CHST combines the separate transfers under the Established Programmes Financing (EPF) for health and post-secondary education and the Canada Assistance Plan (CAP) for social assistance costs. It came into effect April 1, 1996, giving provinces and territories enhanced flexibility to design and administer social programmes according to their specific priorities. In particular, provinces and territories are no longer subject to the complex and intrusive rules stipulating which expenditures are eligible for cost sharing that existed under CAP. In this way, the CHST removes obstacles to provinces/territories pursuing their own innovative approaches to social security reform. As with EPF, the CHST is a combination of the value of the tax points transferred in 1977 and cash transfers.
8. See Chernick (1998) for an extensive discussion of the fiscal federalist aspects of block grants for public assistance.

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