Regional development in Canada:
Is there a way to guarantee success?

Brief submitted to the House of Commons
Standing Committee on Finance in Ottawa

as part of the federal pre-budget consultations
Theme: "Maximizing the number and types of jobs for Canadians"

by: Jean Dubé, Ph.D.
Associate professor in regional development
Laval University

Québec, August 6, 2014

Summary

This brief offers a summary of several research papers which demonstrate that industrial specialization, especially in transformation of natural resources, cannot guarantee sustained economic development over the long term. It also shows how certain regions, referred to as champions of regional economic development, were harder hit by the economic crisis of 2008. Finally, the brief proposes one possible solution by way of an overture toward ensuring long-term regional economic development.

The gist of the message is that it is important to keep in mind that global demand is not going to be fixed and constant in the future. The challenge facing development is thus to adjust to changes which are usually exogenous to Canada. Therefore, it is absolutely necessary that the main lines of the budget or of regional economic development policies should take account of possible changes likely to occur in the near future, instead of focusing on current demand only.

Key words

regional development; industrial specialization; natural resources; education

Introduction

Regional development and regional economic growth have been drawing attention for a long time now. The challenges of regional economic growth are even more topical now that annual domestic growth is no longer reaching the peaks that it did in the last century. The recent economic crisis has affected most of the regions of Canada, but in widely different ways. Although the effects of the recession were felt less in Canada than elsewhere in the world, the fact remains that it has had numerous tangible consequences. This economic crisis in fact came in the wake of over 15 years of sustained economic growth, and revealed another side of regional dynamics and realities. The numbers clearly indicated a certain regional heterogeneity in the response to a global crisis.

This brief proposes to revisit a few conclusions of recent research of mine relating to regional development. Without repeating the entirety of my work, I am going to focus on growth factors at the regional level, the importance of natural resources for community economic development, and the resilience of Canadian regions in responding to the economic crisis of 2008. It is in fact difficult to devise with any certainty a single winning formula for promoting regional economic development. I therefore propose to address certain myths in the interest of informing public policy decisions in the field of economic development.

The brief is divided into four sections. The first presents the gist of a paper recently published in *Growth and Change*. This article aims to verify whether regional specialization in industrial sectors related to resource extraction and transformation influences the regional growth path in the short and long terms. The second section summarizes another article to be published in the *Canadian Journal of Regional Science*. The object of this article is to identify the economic regions of Canada that were relatively hard hit by the 2008 recession. The third section proposes a formula for successful regional development in Canada over the long term, namely, training. Finally, the last section of the brief presents a conclusion which summarizes the essence of my theme.

Specialization in the resource sector: a guarantee of growth?

In one recent paper (Dubé and Polèse, 2014), we tried to determine whether industrial specialization could have an impact on regional growth. Starting from a few indicators based on relative specialization in natural resource extraction and the transformation industry, our analyses show that the effects are mixed, but that specialization in these sectors is far from a magic wand for creating development and growth.

With regard to specialization in natural resource extraction, this variable had a positive effect on the growth of urban agglomerations[1] between 1971 and 1991. It had a positive effect on growth of employment, population and wages. On the other hand, no significant connection could be measured between 1991 and 2006. Similarly, over the long term, most of these effects are not significant, suggesting that the positive effect from 1971 to 1991 was offset by a nil effect on growth of population and wages in the second part (1991 to 2006). In the end, then, it is not possible to establish a significant statistical connection between regional growth and

[1] Defined as cities with a population over 10,000.

specialization in natural resource extraction. The only exception is for employment in the manufacturing sector.[2] This variable posted stronger growth in agglomerations that specialize in resource extraction.

With regard to specialization in transformation, the conclusions are clearer. Relative concentration in the transformation sector results in slower-than-average regional growth, especially in employment, population, and education of the population. The only positive effect that this specialization had on growth was recorded between 1981 and 1991, when the regions more strongly concentrated in transformation posted higher growth in wages. Over the long term, it is clear that specialization in transformation has resulted in weaker growth of population and education.

In short, the myth of the impact of specialization in natural resource extraction and transformation on regional economic growth is not justified, at least in recent years and over the long term.

Regional resilience in responding to the economic crisis: a question of wealth?

In a series of recent papers (Dubé and Polèse, 2013; 2012; Dubé et al., 2013), we tried to identify a list of regions that demonstrated significant responses to the recent recession. The analyses show that the regions most hard hit by the economic crisis were in fact the most industrialized regions. One need only look at southern Ontario for evidence that the regions that seemed favoured in terms of regional development in recent years are probably those that were most severely affected by the recession. Conversely, the regions that best resisted the economic crisis were those long thought to be at the end of the line for regional development: the Gaspé and the Lower St. Lawrence. In other words, success today in terms of regional development is no guarantee of success in the long term.

Another important characteristic in the employment market of eastern Canada is surely the rise of certain hubs which were long regarded as marginal: St. John's (Newfoundland), Halifax and Moncton. The ascent of these urban agglomerations is having wide-ranging influence on development of the Maritimes and of all of eastern Canada. It is true that these are not hubs like Toronto or Montréal, but the fact remains that they play an important role for the east. Regional economic development policies should therefore take account of this emerging reality and should not disadvantage (in relative terms) these growing new hubs.

In short, the regions that used to be perceived as champions of regional economic growth found themselves in a precarious situation following the exogenous shock of the recession. The lesson to be drawn, in part, is this: the winning development formula is often transitory, because the economy is very dynamic and always changing.

[2] Excluding transformation and natural resources.

Training: one of the keys to success

The reign of the Keynesian formulas is now past and gone: economic development is more than the result of a simple injection of public money. The rise of the service sector in the make-up of the economy is making the situation ever more complex: productivity is now a concept that is much more difficult to measure, and productivity gains are not so clearly echoed in calculating production (or GDP). In a context where growth of production will no longer be necessarily due to the labour factor, as a result of the aging of the population and automation that has gone the distance, it is clear that the quality of the workforce is becoming a major contributor to increased productivity.

Productivity is largely dependent on education and training, which play a central role in regional development. According to the neoclassical growth model (Solow), technology and in particular the quality of the labour force are among the sources of growth. Training does not necessarily mean sending all our young people off to university. We have to develop good programs that can provide us with a high-performing workforce: that is the challenge of the future. Creating attractive training programs will enable all learners to realize their potential and at the same time contribute to the future success of the country.

Conclusion

Regional economic development is not just a matter of taking advantage of what is best today: it also involves looking ahead to what might happen in the near future. Natural resources may have long been cited as vectors of community development, but they do not foster long-term growth, or at least they have not done so over the last two decades. Furthermore, natural resource extraction may be conducive to short-term population growth, but there is nothing to indicate that regions that specialize in it enjoy more substantial growth than other regions in the medium and longer terms.

In addition, global economic shocks do not have the same importance for every region of Canada. The regions that were hardest hit by the recent global crisis are in part those that were being praised as models of development a few years ago. Hence the winning development formulas tend to change, and are largely dependent on economic dynamics which are themselves highly changeable, but above all globalized. It is difficult to take a formula from one place and try to impose it somewhere else, because often its long-term impact on the regional economy and the growth of that economy is not known.

In short, an economy that is highly specialized in certain lucrative sectors today may find itself in a very precarious situation once the economic parameters change. One of the main factors that can influence the way that regions prepare themselves to rebound from a shock is training, but another is simply the way that individuals and institutions respond to economic shocks. In this sense, if Canada wants to maximize the number and types of jobs, its population should be prepared accordingly, including through training. Above all, we must take care not to put all these eggs in one basket. The danger of specialization is that it is not a winning formula for the long term. Furthermore, it is difficult to take a formula from one place and try to impose it elsewhere, because often its long-term impact on the regional economy and the growth of that economy is not known.

References

Dubé , J. and Polèse, M. (2014), "Does Dutch Disease Apply to Local Economies? Evidence for Canadian Urban Areas," *Growth and Change*, DOI: 10.1111/grow.12064.

Dubé, J. and Polèse, M. (2013). "Resilience revisited: Assessing the impact of the 2007-2009 recession on 83 Canadian regions with closing thoughts on an elusive concept," Unpublished 2013-02, INRS-UCS, 35 p.

Dubé, J. and Polèse, M. (2012). "Are Local Labour Markets Sufficiently Flexible? Application of a Regional Adjustment Model to Canadian Regions," Unpublished 2012-05, INRS-UCS, 33 p.

Dubé, J., Vololona, Z. and Polèse, M. (2013). "Marché du travail et résilience régionale au Canada: les effets de la crise de 2008." *Canadian Journal of Regional Science*, 36(1/3): 106-118.