Atlantic Institute for Market Studies (AIMS)

Nova Scotians Without Borders

Why economic and industrial development strategies should refocus on people rather than regions

Don McIver

November 2011

Atlantic Institute for Market Studies

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b) investigating and analyzing the full range of options for public and private sector responses to the issues identified and acting as a catalyst for informed debate on those options, with a particular focus on strategies for overcoming Atlantic Canada's economic challenges in terms of regional disparities;
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NOVA SCOTIANS WITHOUT BORDERS

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About the Author

Don McIver is a Halifax-based economist. A former Chief Economist with Sun Life Financial, he provided economic and financial projections in support of the company's global investment operations. Don has filled senior research positions with the Conference Board of Canada and the Canadian Bankers Association.

Don has worked closely with Canadian business organizations. He served two terms on the Board of Directors of the Metropolitan Toronto Board of Trade as well as chairing and serving on numerous policy committees of the Board. He sat on the Economic Policy Committee of the Canadian Chamber of Commerce and provided regular federal budget briefings for the Chamber. He is the former President of both the Toronto and Ottawa chapters of the Canadian Association of Business Economists.

In addition to his Canadian experience, Don has provided development advice to business organizations overseas—serving lengthy stints with Chambers of Commerce in Guyana, South America and in Sri Lanka.

He has published numerous newsletters and articles—including a number published by AIMS, where he served as AIMS' Research Director between 2003 and 2004. Don is the author of END OF THE LINE—a book describing the personalities and circumstances associated with a major train disaster in 1857 in Hamilton, currently in publication.

Executive Summary

Regional development strategies in Canada have a history as long as Confederation. They typically exhibit ill-formed objectives, are poorly conceived and implemented, and have demonstrably failed to improve the economic structure of their target regions.

One of the major benefits of nationhood is the absence of barriers to the mobility of both capital and labour. Unfortunately, industrial policies have been designed in an attempt to attract businesses to relocate to areas of surplus labour—rather than to assist people to obtain employment where their skills are in demand.

In Nova Scotia, various levels of government have provided expensive financial incentives to companies to establish operations in regions with high unemployment. Frequently these initiatives have failed—often after successive infusions of additional assistance. The history of paper operations at the NewPage mill in Port Hawkesbury represents a current case in point.

While the loss of an employer in a “one-company” town has undoubted social consequences along with important spill-over effects in terms of declining property values and shrinking municipal tax bases, the latter implications are more manifest on the administrative jurisdiction than on the residents. Trying to resolve local political dilemmas by continually shoring-up unviable operations has been costly and ultimately ineffective.

Those regions of the province that have been the subject of the most intense development initiatives for the longest period remain those with the highest unemployment levels and with the greatest population out-migration.

The paper contends that industrial strategies are not a legitimate role of government and that, when they persist in attempting them, governments waste resources that could be better employed in the service of citizens. There is no reason to believe that government planners are better equipped to identify prospective winning commercial endeavours than the marketplace—and their track record confirms that all too often such operations have required further subsidization before eventually failing.

Policy makers have paid inadequate attention to the implications of population aging in Atlantic Canada and to the expected decline in the number of working-age Nova Scotians. Tomorrow’s challenge will be finding the workers to fill available positions. Unfortunately it is highly likely that despite labour shortages, Nova Scotia will still have pockets of unemployment—simply because appropriate talents may be lacking. The most constructive people-oriented strategy of government should be to help create an inclusive labour force with appropriate skills and the flexibility to locate to where their personal economic and social wellbeing is maximized. If that proves to be outside the province, it may be a loss to Nova Scotia—but to those individual Nova Scotians it would be a personal gain.

The paper recommends:

1. Review all government assistance in light of its intended purpose. Make sure that all financial support is clearly directed towards a specific objective and that achievement of that objective is transparently monitored.

2. Rationalize all levels of government assistance with an aim to eliminating or reducing the number of shared-cost programs and, wherever possible, ensuring that the level of government responsible for a program spends money which it has had to raise.

3. Explicitly recognize that the most effective contribution that government can make towards the goal of fulfilling the career/employment objectives of individual Nova Scotians is to ensure that the education and training system most effectively meets the needs of present and prospective employers and that all sectors of society are included.

4. Eliminate the regional development agencies and replace their function with input from local Chambers of Commerce and voluntary community groups providing local advice to federal and provincial funding agencies. In so doing, make those agencies directly responsible for the funding decisions they undertake.

5. Provide assistance to individuals willing to migrate out of slow-growth regions through job counselling, tax relief and relocation assistance.

6. Put people before boundaries.

What's more important, people or geography?

The purpose of "Industrial Strategy" in Canada is at best poorly articulated. Although efforts to effect economic outcomes by political intervention extend at least as far back as John A. Macdonald's protective "National Policy" the underlying objectives such efforts hoped to achieve have not often been openly explained.

Over the succeeding decades Canadians have been led to believe that our governments have an essential role to play in planning where economic development should take place. In his book "How Ottawa decides: planning and industrial policy-making 1968-1980", Richard French describes one of the more explicit attempts to deliberately create an industrial strategy— during the Trudeau years, when the industry and trade mandates were merged in the Department of Industry Trade and Commerce.

According to French the new department faced an immediate identity crisis arising from, in part, substantially different perspectives of those, like the Prime Minister, who believed in a role for designer economics and the more business-oriented views held in the Finance Department. A series of consultations between the government and business leaders indicated that the objectives were growth, employment, distributional equity, sovereignty and the environment—but there appeared to be no agreement on priorities.

Simon Reisman, then Deputy Minister of Finance and later Canada's chief spokesperson in the Canada-US Free Trade discussions, voiced the non-interventionist view. Reisman held that Canada's industrial strategy was essentially dictated by the reality of the marketplace—determined by the proximity of central Canada to the United States and that any notion of "regional development" should be as a kind of social policy, a redistributive method of spreading the benefits of growth.[1]

Little has changed. We still don't have a coherent set of objectives. If the goal is to "create" industrial activity where it did not exist or where it was judged to be deficient, then the evidence suggests policy has failed. If the objective is to compensate individuals living in less developed regions for their reduced economic prospects, then maybe the policies have been effective—but at the cost of economic efficiency and the prospect of a perpetual cycle of reliance.

Efforts to expand the manufacturing base in Nova Scotia provide an unambiguous case study of failure. In 1946 the ratio of value added in manufacturing in Nova Scotia stood at 2.1 percent of the national figure; by 1957 it had slipped to 1.8 percent.[2] A conceptually slightly different measure—the ratio of non-government GDP in Nova Scotia to the level in Canada—was 2.1 percent in 1998 and was 1.9

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1 Richard D. French How Ottawa decides: planning and industrial http://books.google.ca/books?id=LgbKGxtGdAsC&pg=PA114&lpg=PA114&dq=industrial+strategy+philosophy&source=bl&ots=2v_k5oy3f0&sig=Wardywn3OXzd1yQNV2Ixitrg998&hl=en&ei=05SITurVFKfu0gGa0NDiDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CCIQ6AEwAQ#v=onepage&q=industrial%20strategy%20philosophy&f=false

2 Roy E. George; The Life and Times of Industrial Estates Limited; Institute of Public Affairs, Dalhousie University; 1974

percent in 2007. 3 (While the measures are somewhat different, each describes the value created in the private economy and since they are expressed as proportions of the total for the country they are comparable). Since Nova Scotia represented 2.8 percent of the national population in 2007 it is evident that the aggressively interventionist strategies of the past 60 years have done absolutely nothing to advance the private sector economy of Nova Scotia.

When it comes to compensating individual Nova Scotians for diminished local opportunities the results are quite different. In 1946, per capita personal income in Nova Scotia stood at 86 percent of the national level. By 1957 that ratio had dropped to 73 percent.4 As redistributive measures came into effect, by 1992 that figure had climbed to 90.2 percent and in 2009 was 92.5 percent.5

As will become evident later in this paper, whatever the stated purpose of industrial policies the effect has been to recompense individuals for staying where the jobs have disappeared—rather than helping them to relocate to where the new economic opportunities are emerging. That is precisely the opposite of the strategy that takes best advantage of nationhood. Being a sovereign country means that both labour and capital are able to move freely to where they can be best utilized. There are no border controls and no exchange rate considerations.

Current strategies subsidize inefficiencies; create labour shortages and bid-up wage rates in growth regions; and inflate public sector employment. Often the chief beneficiaries are the multiplicity of local and regional development bureaucracies. The fundamental question to be addressed is whether individual Nova Scotians believe that they are better served by accepting 90 percent of the national income to remain in stagnating industries or whether they would prefer relocation assistance to move to growth centers and experience substantial income enhancement.

To put it somewhat differently—current strategies run a risk of putting geographic regions ahead of individual fulfillment.

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3 National Economic Accounts - CANSIM table Table 381-00151,2,3,4 - Provincial gross domestic product (GDP) at basic prices in current dollars, System of National Accounts (SNA) benchmark values, by sector and North American Industry Classification System (NAICS), annual (data in millions)
4 Roy E. George op cit
5 Statistics Canada http://www40.statcan.gc.ca/l01/cst01/famil105d-eng.htm

Can industrial strategies trump market forces?

In the wake of the severe financial crisis that created shock-waves throughout most developed economies calls for some sort of "government action" have intensified. Indeed the sluggish "jobless recovery" that has persisted since that crisis has served to further encourage demands that "something" be done: to restore confidence in world markets; to expand credit; and, foremost, to create jobs.

Many of the more evident attempts to satisfy those demands have focused on easing monetary policy in both the United States and Europe—both regions experiencing similar symptoms arising from somewhat different causes. In the United States, the ongoing revaluation of mortgage assets, along with consequent bank portfolio adjustments have prompted the Federal Reserve to employ various extraordinary techniques to support liquidity. In the face of a "sovereign debt" crisis, the European Central Bank has adopted similarly "easy" conditions to sustain the banking system. Circumstances there, however, have also been complicated by the additional need for direct fiscal support to some of the badly overextended members of the Euro.

Canada, it is widely recognized experienced less severe conditions. The banking system—less vulnerable to the type of extreme housing price cycle, and home equity lending practices experienced in the United States—was substantially more resilient. The fiscal stimulus engaged in with philosophical reluctance by the government of the time has largely run its course and the present government remains committed to restore balance. Most importantly for many, Canada's employment losses were quickly reversed.

In both the United States and Europe vocal and politically influential interests still perceive an urgent need for job creation and job preservation initiatives. There are, however, clear and compelling offsetting demands that longstanding spending programs be reigned in. The outcome has been widespread frustration—governments appear hampered in their efforts to provide economic stability.

Indeed, Canadian circumstances are somewhat different. The better employment picture here, combined with a more stable banking system and a stronger fiscal position, might tempt some interventionist strategists to believe that governments enjoy even greater freedom to plan new industrial strategies and generate future high-value employment growth.

This paper recommends against perpetuating the tired and fruitless old approach of governments putting "job creation" strategies ahead of encouraging labour mobility —on the following grounds:

1. It is simply not the role of government (the word "government" in this context is meant to be generic and collective).

2. Governments no longer have the financial freedom to engage in debt-financed regional industrial tactics—the federal government is focused on budgetary restraint and, with the exception of Quebec, Nova Scotia has the worst debt position of all the provinces.

3. The looming crisis—especially in Atlantic Canada—is one of labour shortage not unemployment. Governments will have no need to create new jobs. There will be a need, however, to make sure that the right people with the right skills are in the right place—where the jobs are.

4. Government does not have the capacity to identify the need for an industrial strategy.

5. Government has proven consistently ineffectual in identifying winners and losers.

The bulk of this paper will be devoted to illustrating the later two points—which essentially argue that whatever laudable motive government may have for attempting to influence the economic profile of its jurisdiction, the evidence suggests that market forces are far more effective in responding to shifting conditions. By way of corollary, artificial efforts to generate outcomes that are not supported by market circumstances have routinely failed.

Nevertheless the first two points are still important—they speak to the issue of how government should function in a free-market economy and to the limitations successive governments have imposed upon themselves by the policies they have attempted to implement.

But isn't government supposed to create jobs? No!

Of course any discussion of the role of government is necessarily philosophical—and most readers will disagree on some particular aspect or function if any attempt is made to comprehensively define responsibilities. Let's assume the first Aristotelian distinction that modern governments *intend* to serve the greater good of the public-at-large. What then is the role of government in serving the *economic* interests of that public?

That question opens up a huge range of possible responses—ranging from extreme state determinism to complete laissez-faire. This is not the place to engage in such a discussion, but what is appropriate to this subject is an appreciation of what is the *appropriate* role of government in *managing* the economy.

Some readers may quickly assert the primacy of that role—i.e. if government should be serving the greater good of the general public then the collective economic resources should be managed so as to maximize the utility of all.

Along with many others, the author takes a different view. Of course the resources of any jurisdiction need be allocated in the interests of all—but the issue comes down to how they can most efficiently be allocated. Few, today, would advocate the model of state planning that so poorly served the needs of countries, such as China, that have eventually unshackled their economies from the mould.

That does not necessarily stand as an endorsement for the opposite extreme of economic thinking—complete unfettered free-market capitalism. This is not a philosophical essay, so we need spend little time analyzing that option. That leads to the obviously unsatisfying conclusion that the role of economic management for government should lie somewhere between. It is unsatisfying precisely because it is ambiguous. There is an obvious need for various forms of regulation—to prevent socially unacceptable outcomes, to ensure collective safety and to constrain fraudulent practices (among others).

For the purposes of this discussion, the key question is whether the supervisory powers of government should include "managing the economy"—and just what is meant by that expression. Unfortunately, the term is employed far too loosely and far too presumptively. During periods of economic expansion government spokespersons typically expound on the clear evidence of "sound economic management" and even more explicitly, suggest that their administration has created X thousand new jobs! During recessions, circumstances are more likely explained as the consequence of unregulated excesses—often leading to demands for new forms of regulation.

The mantle of government is unquestionably complex. The argument forwarded in this analysis is that it should not include attempts to deliberately pre-empt market forces in an effort to manipulate economic outcomes. If indeed it were a legitimate function of government—then the record demonstrates an abysmally poor record of accomplishment.

BOX: A Zero Sum Game

One of the more beguiling arguments for government financial intervention in business is the notion that a "modest investment" in creating or retaining jobs can have a substantial return in increased taxes—"down the road"

The Annual Report of the Nova Scotia Industrial Expansion Fund proposes just such a dynamic:

> *Financial Return*
> *According to the 2008 Collins Management Report, over a five-year period the IEF generates a return of almost three dollars for every dollar invested. This represents a significantly higher rate of return than traditional lending institutions achieve.*
> *Those returns come from two primary sources:*
>
> - *Investment income: through interest-bearing loans, fees for guarantees, earnings from shares and royalties;*
>
> *and*
>
> - *Taxes: income tax and taxes on purchases by Nova Scotians working for these companies.*

The argument is beguiling because it contains a grain of truth. If indeed a company was on the verge of failure and the extra dollar of government revenue was the final impetus that turned it around into a viable long-term entity, then the outcome could be a possibility. But that "if" is an extreme. All too often good money is pumped in after bad and the operation's death throes are simply extended—NewPage might be a relevant example. Recall too, that almost by definition applications to government as a lender-of-last-resort are made by firms that are unable to function as viable units in the prevailing business environment.

An even more fundamental criticism of the argument lies in revealing what it overlooks—namely that the dollars "invested" by the government had to come from somewhere. They represent either higher taxes or increased borrowing. Either source diminishes the strength of the provincial economy. At the margin, facing diminished returns, other companies will cease business—laying off their workforce. Since such effects are widely spread they are not easy to identify—but they are just as real.

Another manner in which governments frequently justify economic intervention is to claim "new job creation". But what if the newly created job is achieved by outbidding a neighbouring jurisdiction? There is clearly no gain to the province if subsidies in County A attract an industry that intended otherwise to locate in County B—or even more telling, what if the industry closed their plant in one location to move to the newly subsided new opportunity?

What happens if investment funds support a new golf course? Do more people engage in the game—or do their relocate their business away from an existing facility. If indeed they do play more golf—on what else might they have been spending their money if they weren't playing golf?

We can't estimate all the effects, but it is obvious that simply portraying one side of an incredibly complex calculation is totally simplistic. There will be a net gain to the economy only if additional economic demand is created by an innovative new product or service or an improvement in productivity. Otherwise it is a "zero-sum-gain". Chances are that innovative new product is unlikely to be produced by a firm looking for a government hand-out!

All said, however, it is clear that government can most certainly affect economic outcomes. Taxation—even when fully justified to cover the costs of socially essential services—necessarily crowds out other forms of expenditure. Regulation moderates business activity. Heavy-handed regulation can sometimes expunge business activity. It hardly requires multivariate econometric models to conclude that government actions can dampen private sector operations.

What this paper is concerned with, however, is not the day-to-day operations of government, however inefficient they may be, but with direct or indirect subsidization of one particular business or class of businesses—with any or many levels of government assessing the merits of the choice and providing support in the form of investment, loans, or foregone revenue.

Can we afford more jobs?

Notwithstanding the observations made in the preceding section, if one were to conclude that there is a justifiable case to be made for direct government intervention in the form of an economic strategy the next question to be considered is whether there are funds available to support such initiatives. Since it sometimes appears that government has an inexhaustible source of revenue, perhaps the question should be rephrased to ask where along the continuum of spending priorities industrial development belongs.

As recently as a couple of years ago—at the height of the financial crisis—governments in developed countries opted to place direct aid to industry as one of the highest concerns. The overarching worry was that a severe depression might decimate the economy and impair recovery for many years. Although it is seldom thought of as a natural recipient of government support, it was the financial industry that benefited from the largest subsidy scheme in modern history—notably in the United States and in continuing form in Europe.

In Canada, the banking system proved more resilient. The industrial economy—not so much. However, the introduction of a US bailout for the North American automobile industry raised the possibility that Canadian production would be relocated to the United States. Although philosophical averse to the action, the Canadian government engaged in major support for the industry.

All of these measures were not without significant criticism when introduced. While for many the massive business support exercised during the crisis is credited with having averted depression, the reality is that the worldwide recovery has been sluggish and unreliable. Concerns are especially evident in the United States where periodic predictions of a re-emergence of recession are voiced. Various state and local administrations are effectively bankrupt and in some cases services usually identified as essential have been eliminated. The universally-accepted need to cut government spending (the only debate being about how much to cut, what services to trim and when to implement the actions) brought the US government close to defaulting on its financial obligations.

The key assertions of this paper are that business subsidies are unnecessary and ineffective. Even if one still believed that there was a role for such intervention, the constraint imposed by diminished fiscal capacity should, itself, make a strong case against any continued programs.

As evidenced by the continuing developments in Europe, the developed world’s fiscal crises have by no means been resolved. Protracted periods of government overspending supported by mounting debt have left most facing the urgent need to sharply curtail spending.

To make matters worse—much worse—population aging is starting to exacerbate “essential” spending demands. Healthcare and public pensions are the most obvious pressure points, but it is also important to recognize that at the same time as the requirements are rising, tax resources will become increasingly limited as larger proportions of the population move into their retirement years.

If that, in itself, doesn’t convincingly argue against the scope for continuing expensive and ineffective industrial development strategies, there is an even more compelling case against them—the emerging state will be one of labour shortage.

For many decades, the policy dilemma has been how to find employment for surplus workers—frequently made redundant in traditional industries and concentrated in regional pockets remote from alternative work and training. Starting soonest in Atlantic Canada, over the next few years the working age population will significantly decline. While the prospect of more available jobs than applicants might sound like a utopian development, the reality will be much harsher. While there may be a job for every Atlantic Canadian, there will not be an Atlantic Canadian for every job. Skills mismatches will be extensive.

The real challenge will not be finding new high-skilled high-value-added jobs for residents, but finding suitable workers to fill existing positions. Some of those jobs will be highly skilled—some less so, such as those in seasonal service industries, retirement homes etc. Rather than focusing on attracting new industry the emphasis should be on providing education and training programs that ensure the maximum inclusion of all potential workers throughout the community including post-retirement workers and the aboriginal and black communities.

Essentially, the era of industrial economic development strategies has become anachronistic.

Economic Development in Canada What were we thinking?

In the immediate post-World War II period the economic boom that fuelled US expansion had its parallel in Canada. Indeed the two countries ranked first and second in global wealth rankings. Apart from the very significant natural resource base of the country a substantial component of the Canadian economy was represented by "branch plants" of major American firms.

Regional disparities were, however, recognizable—with a substantial proportion of the country's higher-value-added manufacturing located in Central Canada in contrast to less remunerative agricultural/fisheries/resource extraction operation in Atlantic Canada in particular.

Early discussions focused on two aspects of the issue: regional income disparities and the consequent spending constraints of governments in disadvantaged regions. The latter became entrenched in the equalization program. Although still misunderstood by many, equalization is not intended to directly benefit "have not" provinces. Rather it is aimed at "equalizing" the financial capacity of provincial governments to provide similar services despite their inability to raise similar tax revenues to their neighbours because of the reduced base. AIMS' authors have questioned whether this program has served to effectively meet its objectives.6 7

Initially regional income inequalities were seen as being met by redistributive personal remittances such as old age pensions and family allowance payments. These were augmented by efforts to stabilize fish and agricultural products and introduce resource efficiencies.8

In 1957 Nova Scotia's Industrial Estates Limited was created as a Crown corporation under the Conservative government of Robert Stanfield. The stated purpose was to stimulate the growth of secondary manufacturing in the province.9 The objective was popular at the time. Resource, agricultural and fishing activities were perceived as inherently low-value-added activities and the economic growth manifest by post-war United States and the explosive activity within Ontario's Golden Horseshoe seemed to bespeak the benefits of manufacturing—especially if advanced stages could be attracted.

In 1969 the Department of Regional Economic Expansion DREE was formed. Although chiefly funded by the federal government the arrangement included provincial participation. While, in principle non-manufacturing projects were considered the bias remained.

From the perspective of history it is perhaps fairly easy to explain the relative economic decline of Atlantic Canada. The region, Nova Scotia in particular, represented one of the more dynamic economies during much of the 19th century. The province was an important manufacturing center as well as a major

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6 Brian Lee Crowley and Bobby O'Keefe The Flypaper Effect Atlantic Institute for Market Studies 22 Jun 2006
7 Don McIver Sticky Fingers: How governments cling to transfer payments Atlantic Institute for Market Studies November 2011
8 Raymond B. Blake; Regional and Rural Development Strategies in Canada: The Search For Solutions; Government of Newfoundland and Labrador, Royal Commission on Renewing and Strengthening Our Place in Canada March 2003
http://www.gov.nf.ca/publicat/royalcomm/research/blake.pdf
9 Roy E. George; The Life and Times of Industrial Estates Limited; Institute of Public Affairs, Dalhousie University; 1974

agricultural and resource producer. Geographically it was strategically located on the shipping routes to Europe, the US eastern seaboard and the Caribbean. These advantages were reflected in a strong commercial and financial presence.

The coming of the railways changed the entire face of the North American economy. Whereas previously the seaboard and its accessible waterways represented the practical limit to commerce, with the railways the vast continental interior offered new resources to be exploited, provided the means of a massive distribution of manufactured goods and opened up new land for the ensuing population explosion.

There could be no going back. The railway provided the rationale and the means of nation building. By the time rail reached its nadir the economic fortunes of Atlantic Canada had reached an ebb and policy makers turned to the newly created provincial and federal development agencies to reverse the trend.

The chief economic advantages of nationhood are that there are no barriers to labour mobility, nor to the geographic location of capital, and there are no exchange rates to take into account. Hence it is completely ironic that economic expansion policies in Canada have been directed almost entirely to attempting to create jobs where the people are—rather than encouraging workers to move to where the best economic opportunities exist. The latter would almost certainly be the most efficient and, in fact, inter-provincial migration patterns suggest that over the longer run people, especially younger persons, follow exactly that course.

To compound the irony, it may yet prove that as Atlantic Canada becomes the first region in the country to experience working age population declines, it may be returning migrants who help fill the vacancies the stay-at-homes are unable to fill.

Economic Development in Nova Scotia The track record

Although there are numerous examples of development projects large and small that have fallen short of their declared objectives in Nova Scotia there are several large-scale initiatives that deserve mention because they demonstrate the gambler's dilemma that having sunk so much into a scheme it seems that the only way to recover some of the wager is to venture a further punt. That can be equally true of financial and political capital.

The examples are well known, but putting each in its chronological context may help demonstrate just how difficult it is to wind down.

Case Study #1: Even as we speak!

Every year across the region residents who have built their cottages on flood plains appeal for emergency aid to recover damages to their waterlogged possessions. They seldom move—and if they do the new owners repeat the cycle. It is a rite of spring! Paper mill operations in Nova Scotia exhibit the same predictability—owners may come and go, but periodically the reality of market forces compel the operators to return to government demanding additional concessions, tax relief and lower electricity costs. If not assuaged they invoke plant closure and the threatened elimination of jobs.

In late summer 2011, Ohio-based Newpage Corporation received bankruptcy protection under US Chapter 11 provisions and announced the indefinite closure of its Port Hawkesbury NS plant. Subsequently the company declared the intention to put the facilities up for sale and obtained permission from Nova Scotia Supreme Court Justice David MacAdam to reorganize to provide protection from creditors to whom it reputedly owes millions. In exchange for $25 million from the troubled parent company the Port Hawkesbury operations ceded certain assets and agreed meet its payroll obligations, keep the plant in operational idle and establish a fund to compensate unpaid contractors. While granting the motion, Judge MacAdam expressed misgivings with the arrangement.10

On September 9th 2011, Premier Dexter announced a seven-point plan to provide relief to affected workers. *"The seven-point plan will expand the province's silviculture program, stockpile wood for future use in the Strait, to keep harvesters and truckers working, ensure Crown forest roads are maintained in the NewPage Port Hawkesbury harvest area, ensure the mill is able to retain a core team of about 20 woodlands to oversee the appropriate use of Crown land, amend the Credit Union Small Business Loan Program to better address financing concerns for contractors and other small businesses, invest up to 3.5 million dollars to develop specialized training programs and engage a world-market specialist to complete a market study to understand the global markets and identify opportunities."*11 The plan is predicted to cost $15 million.

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10 Pulp & Paper Canada; NewPage granted creditor protection, permission to sell Port Hawkesbury; 2011-09-13 http://www.pulpandpapercanada.com/news/newpage-granted-creditor-protection-permission-to-sell-port-hawkesbury/1000578818/

11 Press Release: Premier's Office; September 9th 2011 http://www.gov.ns.ca/news/details.asp?id=20110909004

The announced closure and the government response are the latest manifestations of a saga of government intervention that spans at least as far back as the almost-half-century of pulp and paper operations at Port Hawkesbury.

It is difficult to clearly identify the extent to which the operations have received public subsidies over the years. At the establishment of the mill in 1957 the province provided Nova Scotia Pulp Limited with reduced tax rates, as well as reduced electricity rates. The company was leased 520,000 hectares at below market stumpage fees. In 1993 the company received a $15 million loan.12 Following a lengthy lockout in 2005-6 the company resumed operations noting in an official release the resolution of three issues:

- The Nova Scotia Utility and Review Board established a new rate formula for large industrial customers based on the actual cost for Nova Scotia Power Inc. to produce electricity.
- Labour: The new labour contract allows modern work practices and includes wage concessions.
- Taxes: The local municipality has agreed to a 10-year realty tax agreement. The Province of Nova Scotia has agreed to phase out the capital tax.13

Additionally the company was provided with $65 million in provincial subsidies. A Wikileaks document purportedly being a cable authored by the US Trade Consul described the circumstances as follows:14

For Nova Scotia Premier Rodney MacDonald, who is widely predicted to call an election within days, there seemed to be little political choice but to help the ailing mill. The deal as announced on May 3 provides Stora with C$65 million in C$10 million increments payable after each 12 months of full production, with a C$5million "bonus" at the end. It also requires Stora to work out a new contract with the workforce to get the plant up and running. In return for the cash, Stora will release the province from all contractual obligations to provide access to provincially owned land, including a commitment to provide 200,000 acres of forest by 2013. Economic analysts had warned the government previously to be cautious in how it structured any assistance to Stora to ward off subsidy allegations, and it appears the government's reasoning is that the cash for land swap takes care of that. However, there could be more aid to come and more subsidy tests down the road. ***Analysts see Stora asking for even more from the government and they predict similar moves by Stora's competitors and other large industries which are already lining up for taxpayer assistance.*** [emphasis added: author]

Throughout the years various government agencies have provided numerous concessions to NewPage and its predecessor including assistance in training, water provision (pulp mills require massive quantities), road construction etc.

As noted, the 2006 dispute was resolved in part by an agreement on the part of Nova Scotia Power to provide electricity at a deeply discounted rate. Although NSPI is a privately incorporated entity it is essentially subject to price setting by the Nova Scotia Utility and Review Board. While it must satisfy the

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12 JOZSA MANAGEMENT & ECONOMICS (for the Ecology Action Centre) GOVERNMENT SUBSIDY AND PROGRAM SUPPORT FOR NOVA SCOTIA'S FOREST BASED INDUSTRIES APRIL 2008 http://www.novascotiaforests.ca/files/Forestry_Industry_Subsidy_Report.pdf

13 http://www.storaenso.com/media-centre/press-releases/archive/2006/09/Pages/stora-ensos-port-hawkesbury-mill-to-restart.aspx

14 06HALIFAX90, NOVA SCOTIA GOVERNMENT AIDS PULP AND PAPER COMPANY ON EVE OF ELECTION; http://www.wikileaks.ch/cable/2006/05/06HALIFAX90.html

Board with respect to an appropriate return on equity, once that rate has been agreed the Board adjudicates practically every element of the utility's business plan. The result is an electricity rate schedule that is comprehensively distorted by a range of government industrial strategies and energy policies. The complex hearings and findings of the Review Board associated with the 2006 agreement that resulted in the resumption of operations at Stora Enso provide evidence of just how convoluted regulatory processes become when they are removed from the straightforward dictates of market economics.15

There is little doubt that global markets for newsprint are shrinking and that even the economics of producing the higher quality supercalendered paper produced at NewPage's second mill is in doubt. Clearly extracting further relief on electricity costs, along with whatever other additional support the operators might be able to induce governments to provide, could lead to the resumption of operations. The fundamental question is just how much public investment is justified to satisfy these predictably periodic episodes.

The prospects of electricity rate adjustments are especially problematic. As a regulated utility whose rate of return is explicitly determined by a government agency (and implicitly guaranteed by the government), Nova Scotia Power is theoretically neutral with respect to how electricity costs are shared across user classes. Although notionally independent, the Review Board can hardly be expected to ignore explicit government demands to moderate the rates of the power company's largest customers. While persistent efforts have been made to convince the public that lower rates for one class of user do not result in higher costs to other consumers, the reality is that, for any given authorized rate of return that is precisely the outcome.

When that truth becomes most obvious is when the discounted user ceases to operate—as is currently the case with NewPage. When Nova Scotia Power's biggest customer closed down operations, the utility indicated that the stoppage would mean the loss of revenue needed to cover fixed capital charges and indicated that it would raise its intended general rate hike. Subsequently an agreement with the regulator has led to deferment of the costs. However, if the mill does not reopen the costs must eventually be taken into company expenditure and ultimately into electricity rate charges. If NewPage does reopen it is highly probable that its usage costs will be even lower and the under-coverage of capital costs will be further perpetuated.

In light of the above analysis, industrial development strategies designed by policy-makers rather than generated by market forces can be seen as almost Machiavellian in their complexity. Not only have successive governments provided direct subsidies, they have provided indirect support through training programs, water rights, construction and development assistance, tax holidays, land grants and logging rights—but by virtue of their ability to regulate a monopoly utility service they have also been able to provide general taxpayer assistance through electricity rates. This particular transmission is the more insidious since is largely obscured, difficult to quantify and poorly recognized.

Indirect industrial subsidization is not the only government policy to be implemented through the electricity rate structure. Nova Scotia's Green Energy Strategy mandates that 25 percent of electricity in the province must be generated from renewable sources by 2015. The establishment of a flow-through-tariff structure allows Nova Scotia Power to pass along the additional generation costs through the

15 Nova Scotia Utility And Review Board In The Matter Of An Application By Nova Scotia Power Incorporated For Approval Of Certain Revisions To Its Rates, Charges And Regulations NSUARB-NSPI-P-882 2006 NSUARB 23 http://www.canlii.org/en/ns/nsuarb/doc/2006/2006nsuarb23/2006nsuarb23.html

administered electricity rate structure. When the NewPage mill closure was announced, the province was attempting to advance both agendas through a deal brokered between New Page and Nova Scotia Power.

Under the agreement Nova Scotia Power was undertaking the creation of a $208 million biomass fuelled electricity cogeneration facility with NewPage as the operator and provider of the fuel. According to local news reports both the province and Nova Scotia Power are prepared to proceed with the project even if the paper mill fails to reopen.16 It is unclear where the fuel would be sourced in that event—since it was intended to be waste stem wood incidentally produced during regular forestry operations providing feedstock for the mill. Reportedly, NSPI inserted terms in the agreement requiring the province to provide the company access to forestry resources from Crown Lands, in the event of the collapse of the mill.17

With the benefit of retrospection it seems fairly clear that the almost half-century of financial support for the paper mills in Port Hawkesbury can hardly be justified by the 600 jobs maintained—especially since the workforce has periodically been required to scale back on earnings and benefits. Yet local politicians, labour spokespeople and the provincial government are still desperate to find a way to "save" the operation.

This appears to be the most difficult lesson for bureaucratic and political strategists to learn. Market discipline is harsh. Economically unviable activities quickly correct or expire. But when artificial inducements create and then sustain uneconomic ventures they become increasingly difficult to abandon. There is, perhaps, an understandable reluctance to admit costly failures and a vain hope that perhaps this time intervention will place an enterprise on a sustainable path. There is also a very genuine concern over the highly traumatic consequences facing towns or even regions where there is little alternative employment. In the case of Port Hawkesbury, it is not only the 600 NewPage jobs that are lost it is also related forestry activities, local suppliers, retailers etc. who are impacted. There is a possibility that RailAmerica will have to close the line servicing the location—with additional spill-over effects.18 It is a further irony, however, that the rail line has itself been unable to function without substantial provincial government subsidy—even when the mill was operating.

Of course, for the Town of Hawkesbury—as an administrative unit—the loss of a major employer would be dramatic: property values would fall; population would decline while many of the services the town provides would continue to be required while the resources to pay for them would be reduced. The Mayor of Port Hawkesbury, Billy Joe MacLean has voiced understandable concern that the longer the fate of the unit remains in limbo the more likely that the most technically proficient workers will find employment elsewhere. He noted that already recruiters from Alberta's Syncrude and from Irving operations in New Brunswick have sought out displaced workers.

That reality underscores a fundamental problem with most development plans—a basic flaw with Canadian regional policies. The prevailing presumption is that aid should be directed towards helping the region—rather than in assisting its residents. Too often strategies have been aimed at moving employment opportunities to areas of underemployment—rather than helping workers to move to where their skills may be in short supply. Those residents of Port Hawkesbury who relocate to new Syncrude

16 Port Hawkesbury Reporter, September 24th 2011. http://www.porthawkesburyreporter.com/stories.asp?id=6070
17 N.S. Power given rights to Crown wood: critic Biomass plant will operate even if NewPage fails; CBC News; September 7th 2011. http://www.cbc.ca/news/canada/nova-scotia/story/2011/09/07/ns-biomass-nova-scotia-power.html?cmp=rss
18 NewPage mill closure threatens RailAmerica service in Nova Scotia; Halifax Chronicle Herald September 19th 2011

jobs in Alberta will most likely receive substantially higher remuneration and will acquire new skills that are in current demand. As Nova Scotians today, their individual prospects might be substantially advanced by moving—and they might be among the first to return to tomorrow's opportunities in a Nova Scotia where demographic shifts have altered labour market demand and supply conditions.

Case Study #2: Heavy sledding at Glace Bay

A hundred and fifty kilometres up the road from Port Hawkesbury is the town of Glace Bay, the erstwhile home of one of the more dramatic failures in government economic development—if only because of the seeming audacity that hoped to jump-start Nova Scotia's entry into the high-tech industry of the 1960s: nuclear energy.

An initial investor in the project was Nova Scotia's early entry into government economic intervention: Industrial Estates Limited (IEL). Since one of the stipulations was that the enterprise be majority Canadian-owned, IEL took a 51 percent interest and advanced $18 million of the projected $30 million construction cost.

As in the case of Stora Enso, subsidized energy costs played a critical role. Glace Bay was chosen in part because of the abundant supplies of coal from the nearby (failing) Sydney mines that could produce the massive energy requirements of the process. Seaboard Power (a subsidiary of Dosco) with the assistance of the government-run Nova Scotia Power Commission built the steam and power facilities fuelled by coal, which benefited from a federal subsidy to offset the more efficient results that would have resulted from burning imported oil. [Note the telltale characteristics of interlocking support—the weak supporting the feeble]

In 1966 Nova Scotia Power bought Seaboard for $5.2 million and two years later the province purchased Dosco. As is so often the case in such circumstances, the capital costs quickly began to exceed estimates and private sources showed little interest—so the province's IEL advanced the additional funds. As completion delays mounted, the primary customer Atomic Energy Canada signed a second supply contract with Canadian General Electric to build a another heavy water plant at—wait for it—Port Hawkesbury!

In 1966 Industrial Estates purchased the remaining shares in the Glace Bay facility and seemed to be well on the way to a $70 million investment that critics pointed out would at best employ 300 persons—most of whom would be brought in from outside Nova Scotia.

When the plant officially opened in 1967 (still without actually being capable of production) Premier Robert Stanfield declared: *"I like to think of this great heavy water plant as a foot in the door of the future, the foot that has kept the door from blowing shut and keeping the future open when the collieries were threatened with closure. We took a calculated risk, but the contract and the plant construction are symbols of our faith and the faith of the government of Canada in Cape Breton."*

The federal Minister of Health, Allan MacEachern claimed that the commitment on the part of AECL to purchase the plant's output represented a $200 million benefit to the residents of Cape Breton. <u>But still production had not commenced.</u>

Plans were announced to expand the facility and the total investment was now estimated at $100 million. <u>But still production had not commenced.</u>

In 1969 the province directly purchased the investment of Industrial Estates. An outside assessment suggested that an additional $30 million would be necessary and another two years of work would be required before production could begin. But still production had not commenced.

In 1970 Canadian Prime Minister Pierre Trudeau announced a $41.4 million rehabilitation plan. But still production had not commenced.

In 1971 AECL took over the plant expecting to invest a further $30 million but eventually spent another $158.5 million and eventually by 1975 the plant reached full production. Flagging sales of CANDU reactors led to stockpiling of heavy water and the plant closed permanently in 1985. Technical difficulties at the Port Hawkesbury plant, which the federal corporation AECL acquired in 1974, prevented it from ever producing above 60 percent of capacity and it too closed in 1985.[19] [20]

The heavy water fiasco demonstrates an important distinction between private and public investment. It is often said that government bureaucrats are ill-equipped for identifying winners and losers. There is a deal of truth in the contention, but the most telling difference between the two actually appears their different capacity for perseverance. Even when individual investors exhibit a stubborn belief in the viability of their enterprise, the control maintained by their shareholders and ultimately by capital markets imposes an absolute discipline that shuts down uneconomic activities. There is no such constraint on public investment—which is why all too often, good money follows bad.

Case Study #3: Oh what a tangled web—coal and steel.

Of course any history of economic development initiatives in Nova Scotia must include a discussion of efforts to sustain, retain, replace and eventually remediate the Cape Breton coal and steel industries. It is a surprisingly difficult story to relate, in part because as an economic recovery initiative it had no natural start. Moreover, drawn out over decades as it has been, it has been the subject of myriad agencies of every level of government with varying philosophical objectives—and the problem has outlasted them all.

Somewhat ironically the coal industry in Cape Breton was a prime example of the movement of workers to the availability of work—about the only strategy modern development initiatives have not attempted. Instead, regional development strategies continue to focus on attracting new industries to provide work for the existing unemployed labourers. Apart from indigenous workers, early coal operations attracted a flood of skilled miners from part of Britain and even drew in workers from the Caribbean.

Never an especially profitable industry, by the late 19th century Cape Breton's mines were finding it hard to compete economically with lower priced American and British coal. John A MacDonald's National Policy in 1879 provided protectionist relief to the industry. Later, steel fabrication was introduced as a means of adding value added to un-exportable coal. Despite consolidation and amalgamations Dominion Steel and Coal—DOSCO—as it was then known announced in 1965 that its mines had 15 years of workable reserves left and that it would immediately cease any further expansion.

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19 Much of the material in this section is taken from Philip Mathias; Forced Growth, Five Studies in Government Involvement in the Development of Canada; James Lewis and Samuel; Toronto 1971

20 see also: http://www.ccnr.org/sunset1.html#6.26

In 1967 the federal government created the Cape Breton Development Corporation, or DEVCO. The corporation was given responsibility for winding down operations—and, the first explicit mandate of developing alternative economic opportunities. The steel mill was expropriated by the provincial government and became the Sydney Steel Corporation SYSCO.

Both the coal and steel operations received massive subsidies delivered through numerous direct and indirect channels until coal operations ceased in 2001 and SYSCO was disbanded the same year. The community economic development activities of DEVCO were amalgamated into Enterprise Cape Breton Corporation (ECBC) in 2009.

It will never be possible to identify the full extent of the subsidization of coal and steel in Cape Breton. In addition to explicit subsidies there have been myriad support costs ranging from the decision to convert Nova Scotia power from oil to coal consumption, subsidization of rail exports to India under the guise of international development, numerous human resource development initiatives, extended employment insurance benefits etc. Even long after the demise of the industries, public funds—into the hundreds of millions—must be expended to remediate the environmental damage.

The region still carries a heavy burden of unemployment and social disadvantage. Skill sets are underdeveloped and education and training opportunities are limited. Again, the question must be asked—have individual Nova Scotians living in the region be appropriately served by policies that have attempted to bring work to their doorstep rather than assist them to identify new opportunities?

The Delivery Mechanisms

Nova Scotia's Ministry of Economic and Rural Development and Tourism

If the objective of development programs is to deliver new or extended employment opportunities to a presumably static labour force then mechanisms for achieving that objective have to be constructed. In Nova Scotia that apparatus is complex and obscure. There are essentially two key players: the federal government and the government of Nova Scotia. The Atlantic Canada Opportunities Agency is the primary conduit for federal funds, but many federal departments take into account regional considerations in their strategic planning—Human Resources Canada can provide site specific training grants; National Defence procurement decisions can impact local shipbuilders; satellite departmental offices can be relocated to identified locations; the creation of new national parks and historic sites can benefit communities etc. It is, of course, impossible to separate out all the components of spending that represent subsidies—i.e. direct inducements to "job creation".

The Government of Nova Scotia primarily directs industrial assistance through two funds: the Industrial Expansion Fund (IES) and Nova Scotia Business Incorporated (NSBI). Although there is considerable overlap, NSBI has a more clearly business-oriented mandate. It is managed by a largely private sector board it has been established to make equity partnerships, facilitate business finance and even provide venture capital to new start-ups.

The Industrial Expansion Fund has a long and varied history since its inception in 1952. In addition to providing financial assistance it can also authorize incentive bonuses—essentially direct subsidies tied to contractual performance. In 2010 for example Bay Ferries "earned" $7.75 million and Michelin Tires earned close to $7 million.21

In late 2009 the Nova Scotia Auditor General commenced and subsequently withdrew from an audit of both the IES and NSBI—both organizations having refused complete cooperation. In his 2011 report, having clarified his authorities under a revised act, the Auditor General examined both operations. In general he found NSBI in compliance with acceptable accounting standards but had harsh words for the administration of the Industrial Expansion Fund.

In part he concluded:

"A recently established Advisory Committee has no oversight role. Confidential Cabinet review and approval is the only significant control or oversight of this program.

Similarly, following approval of assistance, IEF has inadequate processes, controls or documentation supporting ongoing management of loans. Few procedures exist to monitor compliance with loan conditions, repayments, or arrears.

These inadequate policies, processes, controls and documentation for IEF activities represent an inappropriate way to manage public funds."

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21 Industrial Expansion Fund Annual Report 2009-2010 http://www.gov.ns.ca/econ/ief/IEFreport/

Shortly following this damning assessment the government announced that it would abolish the fund and replace it with a new scheme. According to a government press release that will proceed as follows:

- *May – September [2011]: Review key economic development legislation across provinces and design new fund*
- *September: Get feedback from interested parties on the new fund and framework for accountability and governance*
- *September - December: Pilot new processes, as recommended by the auditor general*
- *October - November: Propose legislative changes in the House of Assembly*
- *January - March 2012: Transition to new fund*
- *January: New Cabinet committee begins reviewing proposed investments*
- *April 1, 2012: New fund in effect*
- *2013: Evaluation of new fund for continuous improvement*22

That process has now been partially completed. In November, Percy Paris, Nova Scotia's minister of economic and rural development, released details of the proposed new Nova Scotia Jobs Fund which, he suggested "will work much the same way the Industrial Expansion Fund works"23. The Minister was reported as saying: "It's going to work much the same way that the old IEF worked. The IEF provided incentives. The IEF provided loans, the IEF did things that created good jobs in the province of Nova Scotia," The key difference, it was suggested, was that procedures would be in place…"to make sure that paper trail is there."

While there is doubtless an intent to provide enhanced oversight and procedures under the new plan, the mission is likely to remain unchanged. That is important because the same department that oversees both the Industrial Expansion Fund and Nova Scotia Business Inc.—that is the Ministry of Economic and Rural Development and Tourism—is the ministry responsible for Regional Development Agencies in Nova Scotia.

Regional Development Agencies

Hardly any government initiative in Canada is conducted without a public billboard displaying the logos of participating departments and agencies of various levels of government. Shared cost programs are a fixture of Canadian inter-governmental cooperation that serves to dilute responsibility and accountability.

Regional Development Agencies are a further extension of this convoluted structure. RDAs were established twenty-five years ago under The Regional Community Development Act.24

The purposes are straightforward:

The purpose of this Act is to encourage and facilitate community-based planning for economic, social and institutional change by:

22 Media Release: Office of the Premier; http://www.gov.ns.ca/news/details.asp?id=20110728001
23 Halifax Chronicle Herald; Jobs fund replacement no better, critics charge; October 31st 2011

24 Regional Community Development Act 1996 Chapter 29 http://nslegislature.ca/legc/statutes/regioncd.htm

a) enabling, upon the request of a municipality or of participating municipalities, the establishment of regional community development agencies to work with the community to plan and carry out regional development strategies and action plans that will further the development of the community;
b) facilitating the co-ordination of provincial and municipal public sector development programs affecting the roles of private and voluntary sector groups, labour groups, companies, non-profit organizations, co-operatives, universities and community colleges in the support of community development;
c) assisting regional communities in developing local planning capability, institutional capability, community entrepreneurship and the essential infrastructure that will promote the creation of business investment, jobs and opportunities for individuals through education, training and participation in locally driven ventures; and
d) improving the economic and social conditions of rural and urban areas of the Province.25

The objectives are certainly comprehensive; so broad, in fact, that the agencies can properly engage in virtually any activity that involves hiring, training, local infrastructure—or indeed just about anything that promotes a sense of community well being!

In fact they represent yet another layer of bureaucratic involvement in the failed model of attempted regional development and job creation. Nova Scotia, a province of less than one million persons is the subject of one major federal agency, ACOA, but also a multiplicity of federal program funding through agencies as noted earlier along with principle provincial funding through the Ministry of Economic and Rural Development and Tourism and the Ministry of Community Development and other provincial agencies. Incredibly the primary role of the Regional Development Agencies is to coordinate this confusing superabundance of proffered assistance and guide the uninitiated through the maze of applications.

To do this thirteen RDAs across the province offer their services with an average coverage of one for every 70,000 Nova Scotians. To meet their responsibilities they establish core budgets comprised of at least $125,000 from the province, typically more generous contributions from ACOA, substantial contributions from participating municipalities and other concessions and fees. Although most have budgets in the $1 to $3 million range only a handful choose to make financial statements readily available on their web sites—despite a legislated responsibility to make them public on demand.
Since their mandate is not to provide direct finance, their budgets are expended on staff facilitators and regional promotional activities. Among the activities described in the Annual Review of the Nova Scotia Association of Regional Development Agencies are: 26

The Hants RDA has been working with the cultural community since 2004, first to investigate the support for a community arts council, then to assist in setting up the Hants County Arts Council. Since 2006 the RDA has provided information and encouraged best practices for governance and operation, and in 2010-11, it focused its efforts to assist the group to build capacity to operate independently.

The Strait-Highlands RDA supported local entrepreneurs in an innovative strategy to promote buying local. HomeGrown Rewards is a loyalty company with the sole objective of networking small locally owned and operated retailers and providing them the sophistication necessary to offer value added

25 op cit
26 2011 Annual Review of the Nova Scotia Association of Regional Development Agencies http://www.nsarda.ca/images/AnnualReviews/NSARDAAnnualReview2011.pdf

promotions to their customers. This is achieved by allowing them to give points for customer purchases and redemption of points at their locations.

The Cape Breton County Economic Development Authority recognized Bell Aliant as a Corporate Contributor to the economic growth in our Cape Breton region through significant investment and expansion of their FibreOP™ network. The Champions of Development Award was created in 2006 and honours individuals, organizations or companies that make a positive contribution toward economic development in the region. CBCEDA selected Bell Aliant as the most recent winner for demonstrating an innovative tool for building linkages with business, and supporting the local and provincial economy through partnerships.

The Pictou RDA launched the Creative Economy Group, which focuses on creating, cultivating and fostering relationships and opportunities for networking, collaboration and education in hopes of retaining and attracting businesses and individuals to Pictou County. The RDA organized an open meeting inviting architects, engineers, industrial fabricators, technology experts, scientists, health professionals, designers, artisans, entrepreneurs and teachers to envision how the creative economy could work for them.

The Colchester Regional Development Association was selected to participate with the Federation of Canadian Municipalities on an economic development project in Cliza, Bolivia. Funded by the Canadian International Development Association the 10-day mission was intended to help the developing country take advantage of planning and economic development expertise available in Canada. CoRDA representatives and partners from the Town of Truro worked in small teams with Bolivian officials to provide advice on sustainable economic change mechanisms.

The structure of Regional Development Agencies makes them especially vulnerable to inadequate financial and organizational control—they serve a multiplicity of local and provincial agencies with a relatively high degree of autonomy and coordinate the expenditure of numerous additional agencies at all levels. To compound this weakness, the province has, on occasion, failed to ensure that the provisions of the enabling legislation have been properly enforced.

The case of the now-defunct South West Shore Development Authority (SWSDA) is a case in point. In 2005 the province decided to transfer the ownership of the Shelburne Youth Centre to SWSDA along with transitional property management support to the tune of $600,000. The intention was that the proceeds of an intended sale would be earmarked for economic development projects in Shelburne County. The proceeds of the sale and unused reserve were calculated as $1,237,030. Expenses were estimated at $617,949 resulting in a pay-out of $619,081. An Ernst & Young report commissioned by the province noted: "Discussions with Team Shelburne County members indicated that the $619,081 received in February 2010 is less than the $791,697 expected. Expenses charged to the SYC project since 31 July 2007 have not been reviewed or approved by Team Shelburne County." Noting that it had been unable to obtain any detail regarding the expenses the report recommended: "We recommend that Team Shelburne County be given immediate access to the support for all expenses charged to the SYC project since 31 July 2007 for their review."27

The Provincial Ombudsman noted that that according to the Act, RDAs are not permitted to own land—yet the province explicitly transferred ownership of the Shelburne facility to SWSDA.28

27 Ernst & Young Project # 637 –Governance, Compliance and Financial Review of the South West Shore Development Authority
28 Office of the Ombudsman Final Report on South West Shore Development Authority File #50242

The transaction was typical of the slipshod operational practices conducted by SWSDA. The agency shared office facilities, several board members and a common CEO with the Yarmouth Area Industrial Commission (YAIC). Over several years YAIC advanced significant funds to SWSDA without adequate justification to, or acceptance, of SWSDA board members. In his report, the Ombudsman found himself unable even to unravel how much the CEO received in salary and whether both organizations compensated him.29

Eventually, after numerous reports the agency was forced into bankruptcy and in September 2011 the province announced that it would be conducting a forensic audit into the defunct organization which various news reports suggest has left area municipalities with a shortfall of some $790,000. 30

So far no criminal charges have been laid. In any case the implications are broader than a simple instance of possible malfeasance. It is the entire lack of accountability built into the convoluted structure of regional development agencies that is at fault. There are just too many cooks! As the Ombudsman noted: "The municipal units showed a lack of due diligence in the stewardship of this money and administered funds contrary to law as contemplated in the Municipal Government Act,"31 In fact, SWSDA was patently at fault; the municipalities failed to exercise due diligence and the province exercised lax supervision.

Perhaps one of the more curious manifestations of the confused structure of Regional Development Agencies is that, having been initially created to meet the challenges of divergent regional strength and interests in the province, they have re-engaged through coordination exercises. The objective of “business retention and expansion” might appear a legitimate concern of the primary federal and Nova Scotia government agencies. In significant measure that mandate was passed to the RDA’s—presuming their local sensitivities to be closer to the ground.

Ironically the various RDAs established a new collaboration among themselves that eventually grew to include all thirteen. That construction known as BRE proudly describes itself in this manner:

> *Our History*
>
> *Beginning in 2006, seven Regional Development Authorities (RDAs) representing eight counties across the province began implementing strategies to encourage businesses to invest and thrive locally. This year, six more RDAs signed on to the internationally-recognized BRE program.*
>
> *The BRE program is coordinated by the Nova Scotia Association of Regional Development Authorities (NSARDA), however all levels of government are contributing time, money and expertise to the project.*
>
> *The Nova Scotia Department of Economic and Rural Development, Nova Scotia Labour and Workforce Development, the Atlantic Canada Opportunities Agency, Enterprise Cape Breton and Nova Scotia Business Inc., have played key roles in the delivery and success of BRE.32*

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29 Op cit
30 CBC; Southwest N.S. taxpayers on hook for $790K
http://www.cbc.ca/news/canada/novascotia/story/2011/05/12/ns-municpalities-on-hook-for-money.html
31 CBC op cit
32 http://www.nsarda.ca/default.asp?mn=1.283.295

So the same agencies that initially devolved responsibilities to the individual RDAs are now active financial and managerial supporters of the collectivity of the individual RDAs!

Nova Scotia Population Shifts

	1997	2010	Change	%Change
Nova Scotia	932,402	942,506	10,104	1.1
Counties:				
Halifax	355,523	403,437	47,914	13.5
Colchester	50,488	52,185	1,697	3.4
Hants	40,844	41,642	798	2.0
Kings	60,950	61,042	92	0.2
Antigonish	19,955	19,005	(950)	-4.8
Annapolis	22,750	21,665	(1,085)	-4.8
Victoria	8,659	7,523	(1,136)	-13.1
Richmond	11,087	9,869	(1,218)	-11.0
Queens	12,564	11,202	(1,362)	-10.8
Lunenburg	48,569	46,801	(1,768)	-3.6
Yarmouth	27,848	25,871	(1,977)	-7.1
Shelburne	17,243	14,756	(2,487)	-14.4
Guysborough	10,994	8,460	(2,534)	-23.0
Cumberland	34,500	31,908	(2,592)	-7.5
Digby	20,781	18,110	(2,671)	-12.9
Pictou	49,526	46,798	(2,728)	-5.5
Inverness	21,180	18,065	(3,115)	-14.7
Cape Breton	118,941	104,167	(14,774)	-12.4

Source: Statistics Canada

If the purpose of “regional development” is to broaden the economic viability of all regions in the province then it has been a demonstrable failure. As the above figures show, the process of urbanization of Nova Scotia’s population has remained unabated. The very modest growth province-wide over the past 15 years has been concentrated in the Halifax region and virtually all other counties have experienced population declines.

From an economic perspective that is not necessarily bad—it means that the population is moving to the city for improved employment prospects or better access to health and other services available there.

It may be less desirable for social reasons—the perceived erosion of regional and rural community values for example. Such ideals are necessarily subjective, however, and the real question is whether the sustainability of administrative entity—municipality, county or region should be a deliberate policy objective. Even more to the point, where there are scarce financial resources available should they be directed towards sustaining the administrative status quo and its superstructure or towards assisting the individual Nova Scotians who may reside there today but may gravitate to other opportunities in the future. What matters more: borders or people?

What happens when the focus is the geographic community can be seen in Cumberland where the regional development agency CREDA, like most RDAs, has been engaged in a number of activities designed to promote local amenities but has also taken an active facilitation and management role in the creation of several high profile new tourist attractions: the Joggins Fossil Centre, Cape Chignecto Provincial Park and the Thinker's Lodge on the former Cyrus Eaton estate.

These are, of course, desirable and attractive amenities. Their multi-million dollar price tags have not been met by CREDA but, through their facilitation, from the federal Atlantic Canada Opportunities Agency, the Nova Scotia Industrial Expansion Fund and local municipalities. In the case of the Thinker's Lodge there is some evidence that CREDA, in fact, appropriated a project that already has substantial independent private sector support.

In addition to underlining the divided responsibility and diminished accountability that shared-cost projects often demonstrate, such initiatives typically fall short of the objectives of the sponsoring RDA. CREDA's mission is: *"To create an environment which facilitates sustainable economic growth in the Cumberland region in partnership with all municipal units."*[33]

The difficulty arises when it becomes evident that such initiatives are not capable of becoming self-sustaining—let alone contributing to the sustainability of economic growth in Cumberland.

These projects will not expire—in fact they will continue to serve as valued contributors to the quality of life in Nova Scotia. However, their maintenance will only be possible by further infusions of capital and operating contributions from outside Cumberland—and that is not what CREDA was established for. The alternative would be to increase further the financial liability of the shrinking population of the region—leaving them with legacy costs that could only accelerate out migration and further diminish economic sustainability.

Since passage of the Regional Development Act and the establishment of RDAs, Cumberland country has experienced a net population loss of more than two-and-a-half thousand—representing 7.5 percent of the populace.

How much more effectively could the massive expenditures made through the years by the various federal, provincial, municipal and regional agencies have been had it been directed towards helping those former Cumberland residents to adapt to their new work/life experience in other parts of the province or in Halifax or, indeed, in say Alberta?

33 http://www.creda.net/about_us/

How much more effective could the money spent on those subsidies and make-work initiatives have been had they been dedicated instead to improving the quality of education and workforce training…or to establishing a competitive tax rate in Nova Scotia…or towards achieving the comprehensive inclusion of all Nova Scotians…or to helping Nova Scotians to maximize their potential without regard to where they currently live? The province would be better served if we put people ahead of political boundaries.

Summary Recommendations

The practices of regional planners and industrial strategists described in this paper reveal a consistent failure to achieve their (frequently ill-defined) objectives or to achieve any enduring improvement in the wellbeing of individuals. Personal incomes have been sustained by an open-ended expansion of public sector employment in Atlantic Canada and by temporary job creation.

Far better outcomes would have been achieved if policy-makers took advantage of the opportunities for movement of individuals throughout the country/region to promote business development where its economic viability would be optimal and to encourage/assist labour to move to those locations.

Recommendations

1. Review all government assistance in light of its intended purpose. Make sure that all financial support is clearly directed towards a specific objective and that achievement of that objective is transparently monitored.

2. Rationalize all levels of government assistance with an aim to eliminating or reducing the number of shared-cost programs and, wherever possible, ensuring that the level of government responsible for a program spends money which it has had to raise.

3. Explicitly recognize that the most effective contribution that government can make towards the goal of fulfilling the career/employment objectives of individual Nova Scotians is to ensure that the education and training system most effectively meets the needs of present and prospective employers and that all sectors of society are included.

4. Eliminate the regional development agencies and replace their function with input from local Chambers of Commerce and voluntary community groups providing local advice to federal and provincial funding agencies. In so doing, make those agencies directly responsible for the funding decisions they undertake.

5. Provide assistance to individuals willing to migrate out of slow-growth regions through job counselling, tax relief and relocation assistance.

6. Put people before boundaries.

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