Chapter 1

Overview: Atlantic Canada's 35 Years of Growth

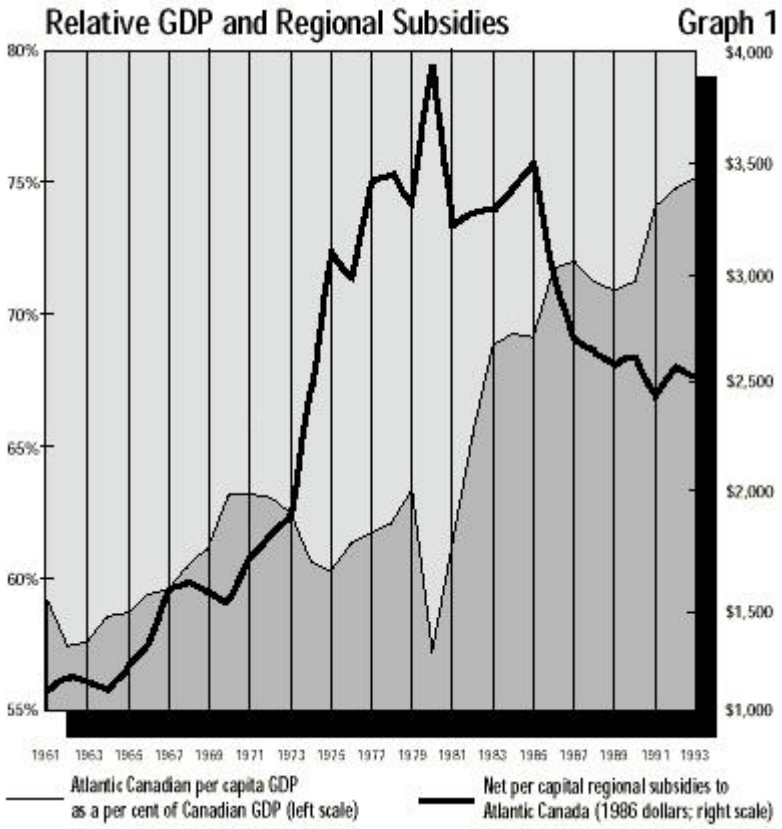
Two half-truths about Atlantic Canada's economic history bedevil the debate about the region's economic prospects. These half-truths are:

1. The persistence of regional disparities and the inability of Atlantic Canada to catch up economically with the rest of the country show that economic development and other regional subsidy programs have failed.
2. The huge growth of these subsidy programs, particularly in the 1970s, have at least helped close the gap between personal income in Atlantic Canada and the rest of the country.

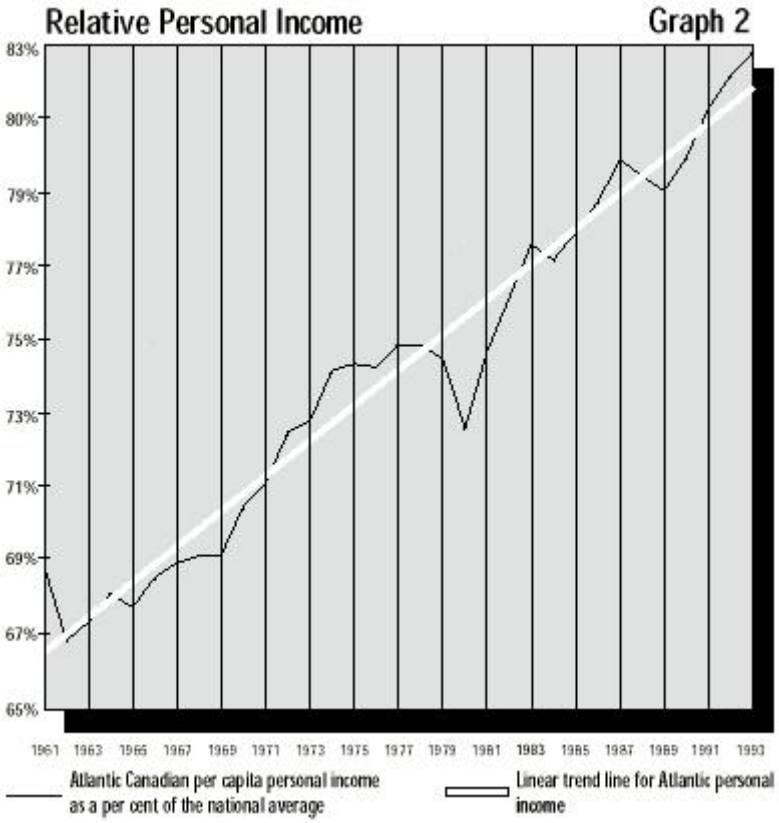
The reality is rather different.

Although Canada itself has experienced explosive economic growth since 1961, Atlantic Canada's per capita economic growth has strongly and consistently outpaced the rest of the nation over the past three and a half decades. Canada's per capita GDP was twice as large in 1994 as it was in 1961, but Atlantic Canada's per capita GDP was over two and half times larger in 1994 than in 1961.

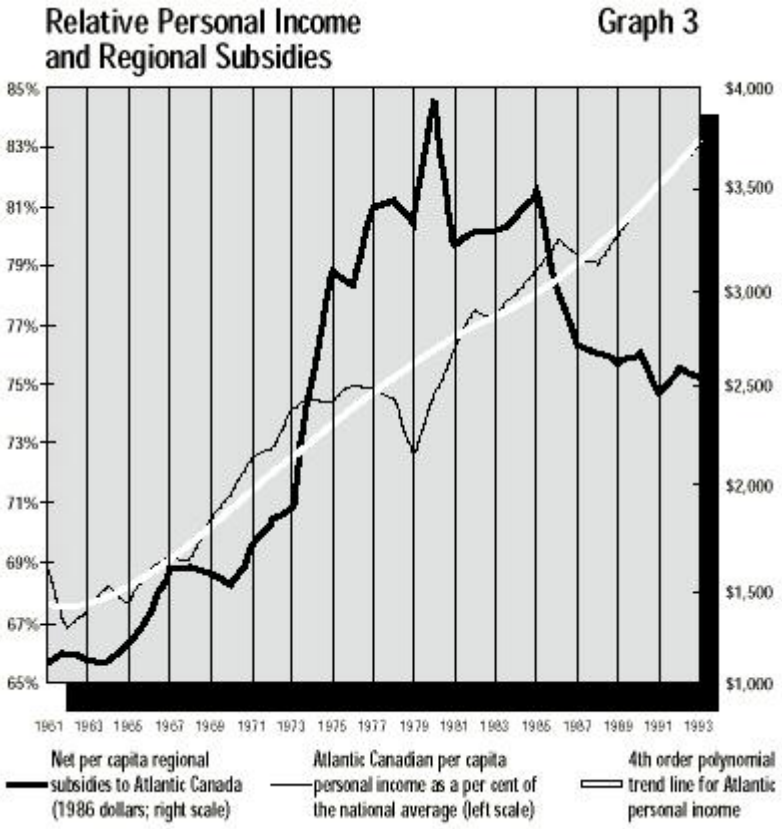
The only time when regional growth faltered in comparison to the rest of Canada was when Ottawa dramatically increased regional subsidies in the early-to-mid-1970s. (See Box 1 for a definition of regional subsidies.) Faster regional economic growth resumed when Ottawa's fiscal crunch forced a cutback in regional subsidies through the 1980s. (Relative GDP and Regional Subsidies Atlantic Canadian per capita GDP as a per cent of Canadian GDP (left scale) Net per capital regional subsidies to Atlantic Canada (1986 dollars; right scale)) [4] Thus, the first statement is half true: Regional subsidies do not appear to have helped remove economic disparities although the region's indigenous growth has.



The second statement also contains an element of truth. As with GDP, Canadian personal income has grown explosively since 1961, but Atlantic Canadian personal income has grown even faster. The region has closed the per capita personal income gap by about 15 percentage points since the early 1960s, but there is no evidence that the massive increase in regional subsidies in the 1970s sped up the growth of personal income or that cutbacks in the 1980s and 1990s slowed it. Personal income growth in Atlantic Canada over the past 35 years is about the closest thing to a straight line found in economic data. (See Graph 2.) In fact, 95 per cent of the movement in personal income can be explained by a simple linear trend line. The trend in personal income growth appears unaffected by very large changes in the amount of subsidies received by the region. When subsidies fell dramatically in the 1980s, relative income growth did not falter; when subsidies rose dramatically in the 1970s, relative income growth did raise, even though, at one point, those subsidies reached almost $4,000 per person annually. (That's in 1986 dollars: it would be approximately $5,000 per person in today's dollars.) In fact, our relative income growth slowed slightly during the decade when subsidies were at their peak. (This is shown for illustrative purposes only by the polynomial trendline in Graph 3.)



Since relative personal income growth has remained more or less constant while GDP movements offset changes in regional subsidies, the implication arises 1) that each new subsidy dollar the region received in the 1970s suppressed economic activity by about a dollar, leaving Atlantic Canadians more dependent on government spending but with personal income growth largely unchanged despite the massive per capita rise in subsidies, and 2) that for every dollar reduction in subsidies in the 1980s and 1990s, our own economy generated an additional dollar of product. Some econometric tests described in Appendix B1 [not yet available on this site] lend some support to this conclusion. However, the one-to-one ratio should only be considered a rough estimate based on the relationship between personal income growth and GDP. Even if the proportion is smaller, the key question is whether transfers enhanced or depressed the region's capacity to generate income from economically viable activities, whether they left the region stronger or more dependent.



Interestingly, basic economic theory — accepted both by supply-side (neo-classical) economists and by demand-side (Keynesian) economists — would predict that the type of subsidies received by Atlantic Canada over the last 25 years would suppress economic growth. Other aspects of classical and Keynesian economics would also lead to the prediction of reduced economic activity, though for differing reasons.

Data questions

Before providing an overview of why regional subsidies would be expected to slow economic growth, several points about the data need to be addressed, particularly the direction of causality. One might suppose that changes in economic activity lead to the change in subsidy level, rather than the reverse. In other words, a fall in regional economic activity draws in additional government dollars. That is clearly true on a year by year basis, and it is a key reason why sharp peaks in transfers and sharp valleys in GDP tend to correspond, and vice versa.

However, the large increases in subsidy levels in the early-to-mid 1970s and the large decreases in the 1980s were clearly driven by policy moves and were not a response to changed economic conditions in the region — in the first instance, by a deliberate decision to increase regional programs and, in the second instance, by Ottawa's fiscal crunch. Thus, multi-year changes in the growth and level of subsidies were not caused by opposite

movements in regional GDP, and it is these multi-year movements, rather than short variations, that are of particular interest in examining the strength and growth of an economy. In fact, the perception in the early 1970s — one that corresponded to economic reality — was that Atlantic Canada's economy was strong and growing. It was argued that an increase in subsidies would push the region even more quickly to the Canadian average. In other words, strong growth partially motivated the increase in subsidies, rather than the reverse. (This is examined in Appendix A.)

Another possibility is that changes in regional subsidies did not affect the region's growth — that massive increases in the 1970s were unrelated to the region's slower relative economic growth during that decade, and that declining transfers in the 1980s and 1990s were unrelated to the region's spurt in relative growth. The view that no relationship exists is hard to reconcile with the region's recent economic history even at first blush.

This view implies that Atlantic Canada was facing some sort of economic failure from the early 1970s which caused relative regional growth to slow dramatically, and the fortuitous policy-driven increase in subsidies at the same time at least allowed the region to hold its own during the next 10 years or so. This interpretation faces some difficulties. Leaving aside the subsidies for a moment, there is no credible reason why Atlantic Canada's economic performance should have suddenly and significantly slowed in the 1970s relative to the rest of Canada. Save for the change in subsidies, no large economic factor, or set of factors, was at play in Atlantic Canada and not the rest of Canada. (Recall the measurement here is of relative economic activity: Atlantic per capita GDP relative to the rest of Canada.) The flip side of this argument may be applied to the sudden upward movement in regional economic growth in the early 1980s.

During both periods, the only large economic factor affecting Atlantic Canada differently from the rest of the nation was the change in subsidies. And, in raw terms, this was a large enough factor to have an equivalently large impact on economic growth.

The economy-wide impact of transfers

Regional subsidies have conceptual similarities with several well-know economic phenomena — the work-leisure trade-off, a currency appreciation effect, and a monetary impulse. A key goal of this research is to explore the similarities, examine the insights gained in the considerable research on these phenomena, and determine whether the data for Atlantic Canada over the last 35 years is consistent with these insights.

An elementary way to view the economic impact of regional subsidies, and a good starting point, is through the work-leisure tradeoff, a building block of economics accepted by both Keynesian and classical economists. A key idea here -- one that is simple, intuitive and well-supported by empirical studies -- is that leisure is a desirable "good". Other things being equal, if a person's income from non-work sources rises, that individual will choose to "consume" more leisure and devote less time to work. The magnitude of the tradeoff is uncertain; some who receive a non-work endowment won't change their work effort while others might reduce work by an amount even greater than the endowment. This can be seen

by imagining a working couple, one partner with an annual income of, say, $25,000 a year, the other with an income of $35,000. If they receive an inheritance or win a lottery worth, say, $20,000 annually, their work patterns are likely to change. Perhaps the partner with the lower income will leave the workforce, and the reduction in work effort will be greater than one-to-one with the endowment; perhaps the partner with the higher income will move to half-time work, and the reduction will be less than one-to-one; perhaps both partners will remain in the workforce, but strive somewhat less hard for the next promotion -- the work effort is reduced, but changes in work income won't appear until a future period. The increased endowment, other things being equal, also implies that individuals will demand increased compensation to bid them away from leisure and into the workforce. Individual choices and the options available will determine the individual response, but, in aggregate, such an endowment leads to a reduced work effort.

Atlantic Canada has received a huge endowment of federal subsidies over the last 35 years, ranging from an equivalent of well under 20 per cent of GDP to nearly 40 per cent of GDP, compared in the example above to an endowment of 30 per cent of family "GDP". As Winter (1990) points out, a regional endowment of this size will inevitably lead to a work-leisure tradeoff, depressing GDP growth. Chapter 2 will explore data which shows this prediction and its implications are well-borne out empirically in several data streams, with exactly the expected timing.

Of course, the way subsidies are directed to Atlantic Canada is vastly more complicated than the winning of a lottery. Some people will receive regional subsidies directly, through make-work projects, unemployment insurance (UI), various social programs, training programs, government employment, business subsidies or contracts, etc.; others will receive them through a filter, as a business or personal sub-contract on government work or as an employee of a subsidized company; and yet others will receive them indirectly, for example a retailer in a community heavily dependent on UI payments.

In some of these cases, the work-leisure tradeoff functions directly as described above, but the situation can be more complex. In some cases, the work-leisure tradeoff is actually a condition of the program---you can be assured of a UI income or training income only by not working, you lose entitlement by accepting work in the community or outside it or by starting your own enterprise. Sometimes, government expenditures require non-productive or low-productivity work, for example, in make-work programs. It is also questionable whether the increase in direct and indirect government employment through this period resulted in an equivalent increase in government output. In other cases, the mechanism is more indirect and more controversial. As government, government enterprises, government subsidized enterprises, and enterprises receiving government contracts increased employment, they necessarily had to offer higher pay to attract workers from other sources of employment and from leisure. This noticeably increased pay rates in Atlantic Canada as regional subsidies rose, pushing up the amount employers expected to pay and the amount employees expected to receive. At the same time, UI and other programs enabled workers to take longer stretches between work, accepting employment only when employers were willing to bid higher wages.

As a result, regional wages and unemployment rose sharply relative to the Canadian average as regional subsidies were dramatically increased. In terms of the work-leisure tradeoff, the increased regional endowment meant workers demanded higher wages to bid them into the workforce and, supported by UI, increased their search time for employment or, in some cases, deliberately chose leisure over work. (The question of "voluntary" unemployment implied here and equity issues involved in regional pay levels will be examined in later chapters, as will be the data on pay levels and unemployment rates.) This unemployment effect was magnified by the nature of our interconnected national economy: increased costs in one region will shift economic activity outside the region, pushing up regional unemployment. (The next chapter explores this in more detail and examines it through the prism of an appreciation effect sparked by a massive financial inflow unrelated to the economy's productive activity.)

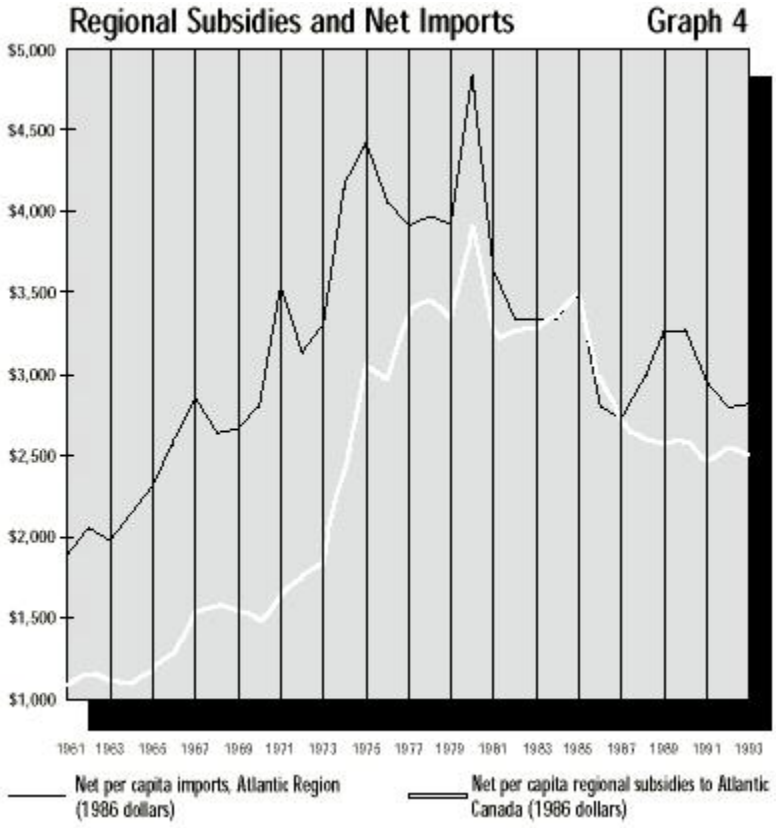
These last points highlight the question of regional trade. Rising costs in Atlantic Canada would weaken exports, suppressing our export sector, and increase imports, suppressing regional businesses that compete against imported goods. A breakdown of provincial import-export data has been directly calculated by Statistics Canada only since 1981, too recent for relevant comparisons over the full period discussed here. One series, net export statistics, is available back to 1961, but, prior to 1981, it was calculated as a "residual," meaning that anything not picked up by other numbers in the provincial accounts was lumped into this category. While such numbers are not fully reliable, they at least provide a "ballpark" estimate of the region's trade balance over the period.

As Graph 4 shows, the region's trade deficit (shown as net imports) tracks regional subsidies, although the tracking may be closer than the graph would indicate. This falls out of a simple accounting identity. The net inflow of money must be balanced by an equivalent net flow of goods and services. [5]

After all, these subsidies are of value to us only to the extent that they allow us to buy goods and services above and beyond what the region itself produces. Winter (1990) provides an intuitive and instructive approach to this question. He suggests visualizing regional subsidies as a flow of goods and services into the region. The fact that net subsidies from outside the region must be tracked by net imports from outside the region creates a puzzle: what economic mechanism would work to balance imports with subsidies? In an independent nation, a net inflow of foreign funds will cause the nation's currency to appreciate, lowering the cost of imports and increasing the external costs of exports. This will serve to balance the net financial and product flows. But, Atlantic Canadians did not have their own currency and were under no compulsion to increase their purchases of externally produced goods and lower their purchases of regionally produced goods to balance subsidies with net imports. This leads to the accounting component of the wage-cost mechanism discussed above. The wage-cost mechanism acts to create this balance, increasing local prices to the point where imports decline and exports increase enough to balance subsidies. This is the domestic equivalent of a currency appreciation.

More precisely, from a macro-economic perspective, the inflow of subsidy money acts as an increase in the regional money supply. Regional inflation results, absorbing a portion of the

subsidies to the point where regional price increases cause a large enough change in the regional trade balance to absorb the remaining portion of the subsidies. In short, regional inflation and net imports interact to the point where subsidies are absorbed. All this falls out of simple accounting and well-established macro-economic principles.



The situation in Atlantic Canada was slightly more complex. Although wages went up in the region when the level of subsidies jumped, inflation overall appears to have risen at about the Canadian average. (This is based on inflation numbers for cities; CANSIM does not provide provincial CPI numbers for the full period.) Rising wages certainly would put inflationary pressure on prices, but, because of the integration of the regional and national economies, regional producers would hit price resistance if they attempted to increase prices faster than the national average.

Only businesses able to remain price competitive, despite rising wages, continued to produce, and they would have been able to continue production and employ workers only to the point where productivity levels enabled the employers to justify the increased wages. Under these circumstances, rising wages would lead to the prediction of rising unemployment relative to the rest of Canada, a prediction borne out at the expected time, as will be seen in Chapter 2.

Yet, despite rising unemployment sparked by the macro-economic impact of subsidies and

the resulting stagnation of relative GDP growth, regional per capita income continued to grow faster than the national average — in fact, at the same rate as it had been before GDP growth stagnated. This, again, suggests that a dollar increase in regional subsidies suppressed about a dollar of regional economic activity.

This returns us to the trade/financial flow accounting identity. The gap between personal income and weakened regional production was filled by the net inflow of goods and services purchased, in effect, by subsidy dollars. In other words, as production flagged, Atlantic Canadians shifted purchases to externally produced goods. This not only lowered relative growth (a prediction borne out in regional GDP numbers), but served as the economic mechanism which balanced subsidies with net imports. In effect, a subsidy-induced demand shift to imported goods and services occurs.

It should be noted that this type of wage pressure combined with price resistance due to competitive pressure from outside suppliers is a particularly deadly mix for emerging companies. The impact on regional economic growth goes beyond this accounting identity. Exports are crucial to economic growth; both are almost universally highly correlated -- as a stylized fact: if a nation is successful in export industries, its economy exhibits strong growth; if not, it doesn't. (See, for example, McCombie and Thirlwall, 1994.) [6]

Causality probably works in both directions between growth and exports. The reasons for the correlation are still debated, but the consensus point of view seems to be that exports, aside from raw material exports, tend to be high value; that export industries must learn to constantly improve their productivity, quality and technology to keep pace with the competition; that export industries thus tend to be high-skill and high-wage industries; and that all these factors have positive externalities by increasing technology, productivity, innovation and skill levels across the full economy. From a Keynesian viewpoint, exports are one of the few areas which can promise a significant demand impulse.

The positive economic impact of exports centres on non-raw material trade, i.e. value-added goods and services. This is the trade area most affected by the wage-price mechanism. For regional exports, both raw materials and value-added products will be similarly depressed by an increase in regional wages. However, imports of raw materials are also likely to fall because the cost of turning out processed goods in the region has increased. This means the increase in imports will be concentrated in processed products, and that suppresses import-competing industries -- another important source of economic growth.

The impact of net subsidies on wages not only affects net exports, it would also be expected to have a negative influence on private sector investment in Atlantic Canada, since it would raise the cost of production in the region and make it less attractive as a place to invest. This is in fact what occurred, something which will be more closely examined in Chapter 2.

One interesting political note to this discussion concerns the economic impact on Central Canada. The mechanisms described here imply a demand shift from the subsidized region to the donor region, provided the recipient region's trade is restricted in large measure to the donor region due to trade barriers. The benefit dissipates under a free trade regime. Atlantic

commentators have long suggested Central Canada sends us money so Atlantic Canadians can buy Central Canadian goods.

This may have something to do with the historically stronger support for regional subsidies in Ontario, which gained benefits, than in Alberta, and the weakening of that support in the era of free trade.

Micro-distortions

The massive size of the government sector and government spending in the region also produces a number of micro-distortions in the economy, which would also be expected to inhibit economic growth. Government expenditure now equals about two-thirds of regional GDP; it has been as high as three-quarters of GDP. Government is the single largest source of business and employment in the region, massively larger than any other sector.

In this situation, business quite naturally looks to government as its biggest customer and also as a source of subsidies, soft loans, and other forms of support. This can shield businesses from competition which would normally force them to sharpen production, constantly improve quality, and keep tight control on prices. A remarkable study of the competitiveness of Nova Scotian firms — though its results would apply throughout the region — shows that Nova Scotian products are too often inferior in price and quality to products produced in jurisdictions less heavily dependent on government. The study puts much of the blame on government's heavy hand in the regional economy, which, O'Farrell says, "exacerbates market failure...by cushioning profits via grants, subsidies and preferential purchasing thereby reducing the incentive to change.... The heavy reliance on Federal transfers has indirectly promoted a dependency culture.... The 'grantrepreneur' mentality I have observed in other areas such as Northern Ireland appears to be widespread." (O'Farrell, 1990, p. 24-25)

This study cannot be accused of an anti-government bias. It was financed by the Atlantic Canada Opportunities Agency (ACOA) and the Nova Scotia Department of Industry Trade and Technology.

Given the magnitude of government spending in Atlantic Canada, particularly in comparison to our GDP, and given the money that government sources have to give away as grants, soft loans, and other forms of business assistance, it is not surprising that building political and bureaucratic contacts and learning to work the system often became more important than producing goods and services for the private sector marketplace. Government officials and politicians obviously have no expertise in picking winners over losers in the emerging economy. Their incentives support caution, and, like the rest of us, they are likely to favour people and products they know. While officials and politicians may not be able to pick winners over losers, they unfortunately have an incentive to help weak or failing sectors and companies, which have an existing political constituency and political contacts.

They also have an incentive to favour high-employment companies -- even when the employment is bought at the cost of inefficiency -- and old production methods --though the market demands efficient low-cost production. In the fishing industry, just to cite one example, labour saving devices which could have led to quality improvements were and are often prohibited by government regulation. And government money can damage successful businesses when a competitor lands a grant or a “soft” loan and uses it to undercut the more efficient firm.

A politicized economy

The amount of government money in Atlantic Canada has tended to politicize the economy. When a government subsidizes or provides preferential purchasing to firms for their political connections, political value and other factors not related to their ability to compete, we end up getting more firms which can’t face the marketplace on their own. The politicized marketplace takes resources out of the productive economy while increasing the region’s dependency. Many of our most productive people come to find superior rewards in working the government, rent-seeking, rather than in creating competitive products.

It is probably true that the type of cronyism and politicized decision-making everyone in the region is familiar with has begun to decline with declining government fiscal clout and with changes in attitude, but this weakening of government spending and influence on the economy is not likely to herald the economic crisis many fear will occur as government withdraws from the economy. Instead, it should be seen as a positive development, as removing distortions which have inhibited economic growth rather than spurred it.

Many who have dedicated their careers to regional economic development now recognize that the approach has not merely failed, but has damaged our economic flexibility and left in its wake an outmoded economic structure. Mark Rosenberg, in his presidential address to the Canadian Regional Science Association (Charlottetown 1992), said: "Economic development policies have mainly brought propped-up manufacturing activities that are now disappearing, retarded reorganization and technological innovation in primary sector industries in 'have-not' regions, and worst of all, leave too many people in Canada ill-equipped to work or become entrepreneurs in those sectors where Canada’s future is likely to lie."

Other Considerations

As Peter Boone notes in his studies on the impact of foreign aid (Boone, 1994a and 1994b), subsidies might provide economic or social benefit 1) if they are directed to productive investments, 2) if they are used to reduce taxes, thus making the jurisdiction more economically dynamic, or 3) if they are used to provide essential public services, like health care and education, which are an important bedrock of economic growth.

Let’s look at these possibilities one by one. If regional subsidies were directed into productive investment, the negative effects discussed earlier would be mitigated or, at the

extreme, almost eliminated. The wealth effect would have been lessened because the money would have gone into, say, machinery, rather than people's pockets, reducing the upward pressure on wages related to the work/leisure tradeoff. Employment related to investment would have put upward pressure on wages, but, in the longer term, this would have been offset, at least to some extent, by increasing productivity related to the investment.

In Atlantic Canada, far from spurring private sector investment, subsidies almost certainly suppressed it, as we'll see in more detail in Chapter 2. While government investment did increase with the rise in subsidies, this increase was far smaller than the fall in private investment. As well, questions about what government counts as investment and about the productivity of government investments in general suggest some difficulty in viewing government investment as an adequate substitute for business investment in generating growth. (These issues are examined in the next chapter.) Nor were the subsidies used to reduce taxation in Atlantic Canada below national levels. As Perry (1995) shows, tax levels in Atlantic Canada are equivalent to those found elsewhere in Canada. In fact, because of the way federal transfers to the provincial governments are structured, a reduced provincial taxing effort would have led to reduced transfers. However, Ottawa's transfers to Atlantic Canada through the 1960s may have provided the region with economic benefits by enabling the Atlantic provinces to bring essential services up to a national level. Subsidies are positively correlated to economic activity through the 1960s, and negatively correlated after the early 1970s. By 1974, education spending in Atlantic Canada was 100 per cent of the national per capita average and health spending was about 97 per cent of the national average.

Although health and education spending in Atlantic Canada have since exceeded the national average, it is far from clear that the additional spending after the mid-1970s produced a superior health care or education system. Competitiveness studies (for example, DRI et al. 1994, ch. 4, p. 10-13) have complained about the education and training levels of Atlantic Canada's workforce, and no study of which I am aware has indicated that the region has above Canadian-average health care to go with the above-average spending. Increases in spending in these areas after 1974 are more likely attributable to the general bloating of government in the region — government spending at its peak was equal to about 75 per cent of regional GDP in 1981 — rather than to an investment in superior services. In any event, increased spending on such essential services after the early-to-mid 1970s accounts for only a very small part of increases in subsidies. There being little or no evidence of increased productive investment, decreased taxes or improved services relative to the rest of Canada, the rapid increase in transfers in the early 1970s could only have been absorbed by consumption and government bloat. (Increased spending on services without an equivalent improvement in output means the extra spending in effect translates to consumption; Boone finds that increased consumption by government absorbs three-quarters of aid payments.) In any event, the GDP numbers indicate that increases in regional subsidies did not go to productive activity. This point of view is supported by the fact that personal income continued to rise even as GDP growth remained stagnant or fell, implying that much of the money went to personal income, resulting in a roughly equivalent drop in GDP, as is argued elsewhere in this paper.

Interestingly, Boone finds roughly the same phenomenon in his study of foreign aid: his tests show that foreign aid, even when directly targeted at investment, is funnelled on a one-to-one basis into consumption, though often indirectly. It may replace funds which otherwise would have been spent on investment, but are redirected to consumption, or aid may go to nonproductive uses within government.

Levels of distortion

This research does not examine individual programs; it examines only the overall impact of regional subsidies. While future research should be directed to building a more detailed picture, it is appropriate to try to examine the overall impact of these subsidies. From a macro-economic point of view, all external subsidies have a similar impact on regional trade and wages/prices.

Nonetheless, some programs create more damaging micro distortions than others. UI and, ironically, economic development programs are among those which are likely to have had the worst economic impact. (This is touched on later, but many other studies have looked at these programs in more detail: see, for example, May-Gunderson, 1996, on UI while DRM Advisory Group, 1994, discusses from a micro point of view the impact of aspects of economic development efforts.) Other programs supported within reason by regional subsidies, despite their macro distortions, may have positive benefits, for example health care and education spending. This latter point suggests that for these reasons, for equity considerations, and because of Atlantic Canada's experience throughout most of the 1960s, the level of regional subsidies required to provide essential services should be maintained. [7]

But, the more these can be limited to a minimum, while still meeting equity requirements, the freer the regional economy will be of macro and micro distortions and the better positioned Atlantic Canada will be to meet changing economic conditions with strong indigenous growth.

Chapter conclusion

Canada has experimented with a highly unusual approach — perhaps unique in its magnitude — to regional development. It pumped a huge amount of wealth into Atlantic Canada. This chapter has attempted to give an overview of the likely impact of these wealth transfers using standard macro- and micro-economic tools — tools which are well supported theoretically and empirically.

This analysis, which is consistent with and supported by the facts of the region's economic history, suggests the regional subsidy approach, particularly in its extreme form, was inherently flawed. The result is something like the reverse of the old joke: the treatment succeeded, but the patient died. In this case, the treatment failed, but the patient survived. The regional economy has shown great vigour — less vigour, it is true, when subsidies were at their peak, but much greater vigour when subsidies subsided.

This provides guideposts for the future. Atlantic Canadians should not look to government for the solution of economic problems, but instead clear distortions from the path of the region's indigenous economic abilities. Even if government's fiscal position ultimately improves enough to allow further regional spending, Atlantic Canadians should avoid any moves that would allow the region to become so dependent on government. That risks our future.

In other words, Atlantic Canadians should welcome reductions in distortionary subsidies, not dread them. It should be noted that declines in federal transfers over the last 15 years have not been accompanied by a decline in the region's personal income growth. Moving away from subsidies and the dependence we have built up over decades with the expenditure of billions of dollars will not be a painless process, nor will be the process of removing the distortions in our economy which protect many inefficiencies while misallocating resources. Real people do get hurt — some sectors and geographic areas suffer more than others — and we should be sensitive to that. Nonetheless, moving away from subsidies provides the best opportunity for economic growth for the future. Other nations which have moved away from government dependence, like New Zealand, suffered short-term problems but then experienced considerably increased economic growth.