

# What Can a Region Do? The Debate on Economic Development Options in Atlantic Canada

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Volume 28, Number 2, Spring 1999

URI: [https://id.erudit.org/iderudit/acad28\\_2re05](https://id.erudit.org/iderudit/acad28_2re05)

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## Publisher(s)

The Department of History at the University of New Brunswick

## ISSN

0044-5851 (print)

1712-7432 (digital)

[Explore this journal](#)

## Cite this document

Strain, F. & Grant, H. (1999). What Can a Region Do? The Debate on Economic Development Options in Atlantic Canada. *Acadiensis*, 28(2), 167–188.

## What Can a Region Do? The Debate on Economic Development Options in Atlantic Canada

THE APPROACHING MILLENNIUM promises great challenges for Atlantic Canada. Developments outside the region and largely beyond its control — globalization, privatization, decentralization, deregulation and the decline of the welfare state — threaten an already fragile economy. During the first month of 1999 the federal government announced the privatization of the Cape Breton Development Corporation (Devco) and the loss of 1,200 jobs in industrial Cape Breton; the crisis in the fishery and recent changes in the Employment Insurance system pushed residents on the Acadian peninsula into despair; the Caribou, Heath and Bathurst mines in northern New Brunswick faced closure due to low metal prices and resource exhaustion; and small towns such as Sackville braced for more job losses as traditional industries announced movement of their operations to Halifax and Moncton. At this point it seems easy to conclude that Atlantic Canada will continue as the poorest region of the country into the next century.

What can the region do, if anything, to survive and prosper economically in the 21st century? Historical experience suggests that the region will “muddle through” and Atlantic Canadians have proven themselves to be remarkably resilient in the face of economic adversity. Nonetheless, it would be preferable to do more than “muddle through”. Do intellectuals provide new ideas that might help? Knowledge can improve standards of living when applied to develop new products and production processes, and new knowledge can improve the performance of social organizations and public policy. Consequently, it seems reasonable to ask if recent research on economic development might provide guidance as the region attempts to adapt to changing circumstances.

The potential to exploit new knowledge to facilitate adaptation has never been greater. In recent years individual academics and a number of research institutes in the region — including the Atlantic Institute for Market Studies, the Gorsebrook Research Institute at Saint Mary’s University, the Institute of Island Studies at the University of Prince Edward Island, the Canadian Institute for Research on Regional Development at the Université de Moncton, the Rural and Small Towns Studies Programme at Mount Allison University, the Tompkins Institute and the Community Development Institute at the University College of Cape Breton, the Coady Institute at St. Francis Xavier University, and the Institute of Social and Economic Research at Memorial University of Newfoundland — have attempted to provide home-grown responses to our economic problems. The published output is large and diverse. Almost all social science disciplines are represented. A significant proportion of the work has a local focus and tries to take into account the unique characteristics of individual communities.

Our task is to critically review a highly selective sample of recent intellectual work on economic development produced in the region. In particular, we focus on ideas that are generally applicable across the region and we restrict our attention to the work of just three research centres: the Atlantic Institute for Market Studies (AIMS),

Frank Strain and Hugh Grant, “What Can a Region Do? The Debate on Economic Development Options in Atlantic Canada”, *Acadiensis*, XXVIII, 2 (Spring 1999), pp. 167-188.

Moncton's Canadian Institute for Research on Regional Development (CIRRD) and the University College of Cape Breton's Community Development Institute (CDI). One reason for our selection is that each of these centres has a strong policy orientation and each offers a unique solution to development problems. The work selected also allows us to highlight three fundamentally different methodological approaches — and three very different political philosophies — in the study of regional policy.

The solution proposed by the Atlantic Institute for Market Studies is simple: increase reliance on individual initiative in a market setting. According to AIMS, government policies in the region have been counter-productive: subsidies, income transfers and regional development programmes designed to help the region have actually ended up hurting it. Eliminating these programmes and minimizing government activity will allow the market to provide the incentives, information and coordination needed to ensure prosperity in the 21st century.

That AIMS advocates a market-based solution should come as no surprise. Unlike other research institutes with a focus on regional development, AIMS is not associated with a university; instead, it is privately funded, largely by private sector firms, with its mandate incorporating a commitment to study market-based alternatives. The AIMS solution, however, should not be dismissed as pure ideology. AIMS is committed to high-quality research and its publications, whether by staff researchers or high-profile outside experts, are important contributions to policy debate. Its advisory board, which referees publications, includes some of the region's most productive academics.

Brian Crowley's *Taking Ownership: Property Rights and Fishery Management on the Atlantic Coast* (Halifax, AIMS, 1996) exemplifies the laissez-faire orientation. The fishery is a classic case of a common property resource, where open access results in excessive exploitation by market-based organizations (the so-called "tragedy of the commons"). AIMS acknowledges that markets fail to work well under such circumstances; however, it identifies serious problems with the traditional response of replacing the market with state management as the mechanism for allocating resources. AIMS points to an alternative approach: overcome the common property resource problem by creating private property rights through a transferable quota system. Under such a system, individual fishers pursuing only their own self-interest (maximizing profits) in a market environment will lead to an appropriate rate of exploitation.

The more general AIMS position on regional development is put forth in a monograph by Fred McMahon, *Looking the Gift Horse in the Mouth: The Impact of Federal Transfers on Atlantic Canada* (Halifax, AIMS, 1996). The strength of McMahon's work is its attempt to combine theory and empirical evidence in support of the policy prescription. Rather than merely assert that government policy is counter-productive, McMahon seeks to demonstrate this. Using publicly-available data produced by Statistics Canada, he argues that periods of rising net federal expenditures (expenditures minus taxes) in the region were accompanied by declining economic performance relative to the rest of Canada (as measured by relative GDP) and that periods of declining net federal expenditure were accompanied by improvements in Atlantic Canadian economic performance. A simple linear regression model is then used to estimate the relationship between net federal expenditure and economic performance, generating a finding that, on average, a one-

dollar increase in net expenditure is accompanied by a one-dollar decline in relative GDP. This is a startling finding since it suggests that cuts in federal expenditures in the region will actually increase incomes by an amount equal to the cut.

How could this be possible? McMahon offers a number of arguments. First, federal transfers result in higher costs for local firms and some firms which would have engaged in economic activity in the absence of the federal transfers do not operate because they cannot compete with lower-cost firms located elsewhere. Secondly, federal support to firms that do operate allows them to be inefficient relative to what they would have been if subject to the full discipline of the marketplace. Third, Atlantic Canadians invest time, energy and resources to secure government grants which would otherwise have been invested in productive activity. Fourth, personal transfer programmes such as Employment Insurance inflate wages and discourage individual initiative and creativity. Fifth, transfer programmes inhibit market adjustment mechanisms, such as migration, capital inflows and the terms of trade (on the grounds that if the Atlantic Canadian economy is performing relatively poorly, prices in Atlantic Canada should fall — which encourages import substitution and exports).

McMahon's conclusions have not gone unchallenged. In *Should Our Concern be the Gift Horse or the Ideological Bull? A Critical Economic Assessment* (Moncton, CIRRD, 1997) economists Wade Locke, Scott Lynch and Paul Hobson take issue with McMahon's work. Recent research in econometrics shows that simple linear regression models often generate erroneous conclusions when applied to time-series data of the type used by McMahon. Locke et al. are unable to detect any relationship between net federal expenditure and relative economic performance using statistical techniques widely considered as "best practice". A second statistical problem with McMahon's argument is that correlation is not causation. Deteriorating economic performance may be caused by increases in net federal expenditures, or increases in net federal expenditure may be caused by deteriorating relative economic performance. Indeed, increases in net federal expenditure and deteriorating relative performance may be caused by the same third factor.<sup>1</sup> As a consequence, the data provide no support for McMahon's thesis that decreases in net federal expenditures will cause an improvement in the relative economic performance of the region.<sup>2</sup>

In many ways this exchange represents policy debate at its best. Theory, advanced statistical techniques and hard data are marshalled by the protagonists. In the end the

1 Locke et al. note that the one period where net federal expenditure rose dramatically and relative economic performance worsened was during the oil crisis of the late 1970s. Higher oil prices harmed Atlantic Canada relative to oil-producing provinces and also triggered Ottawa's National Energy Programme which subsidized oil consumers east of the Ottawa Valley by forcing companies importing oil at world prices to charge consumers a much lower price. The loss incurred by oil importers was covered by an extremely large subsidy from the federal government, recorded by Statistics Canada as an increase in net federal expenditure (and as a large increase in federal subsidies to business firms!) in the region.

2 Locke et al. also disaggregate federal expenditure to point out that much federal expenditure is on social capital — especially education, health and infrastructure. Economic theory predicts that these expenditures will enhance economic performance. Direct federal subsidies to firms (excluding the National Energy Programme petroleum subsidy to the oil companies) which might, in theory, have a large negative impact on performance, are a relatively small proportion of the total.

Locke et al. critique seriously weakens the case for AIMS's preferred policy. AIMS might be right in its policy prescription, but embracing such a stance requires a huge leap of faith.

This said, there remain many willing to make such a jump. Reliance on market solutions has a long tradition in both economic and political theory. The classical economics of Adam Smith and David Ricardo and neo-classical economic theory — which dominates academic discourse in the economics discipline today — highlight the various market mechanisms that can automatically generate the incentives, information and coordination needed to ensure the highest possible standard of living for a nation. These theories suggest that market mechanisms will allow the people of a lagging region to successfully adapt to adverse changes in the economic environment. In standard classical and neo-classical models, the movement of labour and capital, and changes in the terms of trade, are critical adjustment mechanisms. For example, a region that experiences a decline in living standards due to an unexpected change in economic conditions will encounter out-migration as people move to more prosperous regions, thereby reducing labour supply and putting upward pressure on wages. Migration stops when wages rise enough to keep people in their original locations. In the simplest version of the model, wages are equalized between regions and national income is maximized. A similar conclusion emerges from neo-classical growth models but for slightly different reasons: where all regions have access to the same production technologies, a low-wage region will attract capital at the expense of high-wage regions. Over time, income levels and growth rates converge.

Neo-classical models are extremely simplistic, but this is intentional: they were developed to capture the essence of the operation of a market economy. Their fundamental contribution to knowledge is to highlight the ability of market institutions to facilitate adaptation. The model also generates a strong prediction: if these adaptive market mechanisms operate, we should observe — conditional on the savings rate, the rate of population growth and a variety of other factors being the same — convergence in standards of living across regions and countries. Recent empirical work conducted using data on the Canadian provinces, the American states and a broad cross-section of countries provides some support for the conditional convergence hypothesis and identifies some of the main determinants of economic growth rates. Results of recent work in growth economics — an area of study that has attracted much attention in recent years — are summarized by Robert Barro:

The data now available for a broad panel of countries over thirty years provide the information necessary to isolate determinants of economic growth. With respect to government policies, the evidence indicates that the growth rate of real per capita GDP is enhanced by better maintenance of the rule of law, smaller government consumption, and lower inflation. Increases in political rights initially increase growth but tend to retard growth once a moderate level of democracy has been attained. Growth is also stimulated by greater starting levels of life expectancy and of male secondary and higher schooling, lower fertility rates, and improvements in the terms of trade.<sup>3</sup>

3 Robert J. Barro, *Determinants of Economic Growth: A Cross-Country Empirical Study* (Cambridge, Mass., 1997), p. 119.

Despite the theoretical and empirical arguments in favour of markets and against a significant role for government, most economists are skeptical about the ability of unfettered markets to generate the optimal social outcome. Per capita GDP is not a good measure of welfare unless the case can be made that per capita GDP and human welfare are closely related. Barro's results are not sufficient to convince the skeptical. Moreover, it is relatively easy to construct simple economic models which highlight serious market failures. The happy conclusions about market efficiency disappear in models which introduce interdependencies, externalities, goods and services over which property rights are impossible to define, increasing returns to scale or incomplete information. The distribution of income in society is a matter of no small importance and many people do believe that a principle of market distribution is grossly unfair.

The market failures identified by economists can provide a basis for discussion of government intervention, but they are certainly not sufficient to clinch the case. Government action cannot guarantee better results than would be the case if *laissez-faire* reigned, even in the presence of market failure. The failures of government are undoubtedly an important part of the AIMS case for unfettered markets and it is certainly easy to compile a long list of instances where governments have failed badly. But generalizing to suggest that governments necessarily makes a mess of things rings of ideology.

Even the case for conditional income convergence has weaknesses. Barro is one of the most influential economists today, known for careful work (and more recently, his high salary).<sup>4</sup> But the same can be said of Paul Krugman, whose recent work on economic geography is of direct relevance to discussions of convergence. Krugman notes that, in a spatial model of economic development, regions can diverge because small historical accidents set in motion cumulative processes of self-reinforcing growth or decline.<sup>5</sup> Krugman's work is just one example of a broader body of research that deals with the "economy as an evolving complex system" where little things — such as a minor government policy — can have a major effect on economic growth (just as, according to chaos theory, a butterfly flapping its wings over Houston may contribute to a hurricane in Beijing, or the peculiar personality traits of an individual may help change the course of history).

The complex systems approach has considerable appeal — and devastating implications for the intellectual project under consideration here. If little things can have a large impact, little things can determine the fate of Atlantic Canada — for good or bad — in the 21st century. One cannot rely on remedial government policy since its effect might be swamped by some relatively minor historical accident. More optimistically, a government policy may also be the small catalyst to a significant effect. Alas, it is impossible to predict the impact *ex ante*.

4 Barro recently gained notoriety as the "biggest hitter" in the new academic star system. The \$300,000 (U.S.) salary that he was offered to lure him away from Harvard University to Columbia University puts him at the top of the heap among academic breadwinners: *New York Times*, 12 April 1998.

5 See, for example, Paul Krugman, "Increasing Returns and Economic Geography", *Journal of Political Economy*, 99 (1991), pp. 483-99; "Complex Landscapes in Economic Geography", *American Economic Review*, 84 (1994), pp. 412-16; and "How the Economy Organizes Itself in Space: A Survey of the New Economic Geography", in W. Brian Arthurs, Steven N. Durlaf and David A. Lane, eds., *The Economy As An Evolving Complex System* (Reading, Mass., 1997), pp. 239-62.

Donald Savoie, director of the CIRRD at the Université de Moncton, offers an alternative to the free market solution advocated at AIMS. Savoie, a political scientist with extensive experience at senior levels in the federal government, is one of the most prolific academics in the region with some 22 books and more than 100 articles to his credit. His ideas have been extremely influential at the highest level; indeed, he was instrumental in the establishment of the Atlantic Canada Opportunities Agency (ACOA).

Savoie's most important contribution to regional policy debate is *Regional Economic Development: Canada's Search for Solutions* (second edition, Toronto, University of Toronto Press, 1992). The contrast between Savoie's approach and that at AIMS is striking. AIMS draws almost exclusively on academic work in economics and emphasizes market successes and government failures. Its empirical work uses theory to identify factors that might influence the pattern of development, and employs statistical techniques in an attempt to isolate the independent impact of each of these factors. Savoie, in contrast, emphasizes government: the details of electoral and bureaucratic processes, federal-provincial relations and even personalities are considered critical in the effort to separate "good" from "bad" policy. Case studies are examined to interpret "close to thirty years of experience", and to "ask fundamental questions about the nature of the problem, appropriate objectives, and policy directions and initiatives that offer more promising prospects" (p. 10).

As a political scientist, it is not surprising that Savoie does not attempt to build formal economic models to examine the spatial pattern of economic development. Nor does he make extensive use of economic theory. In part, his neglect of economics is due to the general state of the discipline. As he notes:

A brief look at the various theories and approaches to the study of regional development leads one to conclude that regional development theories are in disarray. . . . Students and practitioners of regional development have had to work under very difficult circumstances, with very little theoretical framework within which to formulate plans and initiatives (pp. 9-10).

Classical and neo-classical approaches to development are also subject to specific criticism. A fundamental weakness of these models, in Savoie's view, is that they do not reflect the reality of our mixed economy, where a significant fraction of economic activity occurs in the public sector. He argues that pure market solutions will never emerge in our society because political pressure will inevitably mount when a region experiences economic difficulties and that politicians will respond to this pressure by implementing regional development policies.

Savoie also challenges the market success/government failure dichotomy stressed by AIMS. In his monograph *Rethinking Canada's Regional Development Policy: An Atlantic Perspective* (Moncton, CIRRD, 1997), he notes:

Thirty years ago, the public sector could do little wrong and everyone was clamoring for a larger role of government in society. The private sector, meanwhile, could do little right, continually confronting charges of greed, corporate welfare bums, and of being poor corporate citizens with little, if any, concern for the public good. Today, it is the direct opposite. The private sector, it seems, can do no harm and government is generally regarded as



harmful and wasteful (p. 30).

For Savoie, such generalizations are inappropriate and judgements should be made on a case-by-case basis. This emphasis on the peculiarities of specific cases leads him to offer a “clinical” approach to regional policy based on a medical model:

The medical doctor who diagnoses ill and prescribes treatment relies a great deal on case histories and often by necessity on numbers of case histories which could not possibly be considered statistically significant. The physician need not rely on statistical significance precisely because he does know something about other sciences, such as anatomy, physiology, and biochemistry. He might prescribe with considerable confidence on the basis of two case histories: this case seems to be different from the one I treated (or read about) in Esperanza, where Drug A was used effectively, and nearly identical with the case in Utonia, where Drug A failed, but Drug B worked very well. So I will prescribe Drug B (pp. 250-1).

In addition to differences in methodology, there are also important differences in political philosophy. By combining neo-classical models and the assumption that individual welfare is based solely on market income, researchers from AIMS are able to draw the strong conclusion that an unfettered market economy with free mobility of labour and capital maximizes social welfare since it maximizes national income. In contrast, Savoie argues for the importance of “place” and community against the exclusive emphasis given individual welfare and individual rights by AIMS and in traditional liberal thought.<sup>6</sup> If location, family, friends and community attachments are important determinants of individual welfare, migration in response to market signals does not necessarily maximize social welfare. Under a market adjustment process in a world where place matters for individual welfare, those forced to move for financial reasons may experience large personal losses. If an effective regional policy keeps them at home — and if the losses incurred by people outside the poor region as a result of any tax increase required to finance the regional policy are small — a higher level of social welfare might be generated.

*Regional Economic Development* details Canadian policy initiatives and assesses their effectiveness in an astute and enlightening manner. Unlike most policy reviews, it does not bog down in the minutiae of the policies themselves but instead focuses on fundamental principles and key players in their formation. Savoie then traces the evolution of these principles through the political process, an evolution which often involves serious mutations. But when he moves from description to assessment, he is less convincing. Assessment is extraordinarily difficult if one seeks to compare what actually happened with what would have happened if a particular policy had not been

6 Traditional liberal philosophy evaluates social organizations in terms of their impact on the individual, as in the case of deontological and consequentialist approaches to justice. A creative argument is needed to give place a fundamental role and while Savoie’s brief treatment fails to make the case, a number of philosophers have done so. See, for example, Amitai Etzioni, *The Spirit of Community: Rights, Responsibilities and the Communitarian Agenda* (New York, 1993). This said, it is possible to contrast Savoie and the neo-conservative positions without departing completely from the liberal tradition.



implemented. We cannot know the counterfactual. For example, observing convergence in per capita incomes is not evidence for the success of regional policies if convergence might have occurred, or been even more dramatic, without the policy.

The economist's approach — rejected by Savoie — at least attempts to provide an explicit counterfactual. A formal model of the economy, which combines theory, mathematics and statistical estimates of key behavioural parameters, can be used to simulate how alternative policies might lead to alternative histories. For example, economists make a convincing case for the federal equalization programme by showing, using a model, that both Atlantic Canadians and people in the richer regions are better off when there is an equalization programme than when there is not. Savoie's difficulties with assessment are evident in the organization of the section of the book devoted to evaluation. There is no concluding section that summarizes the findings. Were any of the policies successful? Were some more successful than others? All we learn is that there was some convergence over time. But over the same period there was also convergence, indeed stronger convergence, in the United States. Without at least some type of counterfactual, assessment is not convincing.<sup>7</sup>

Despite stark differences in methodology and political philosophy between Savoie and AIMS, they arrive at a very similar assessment of policy effectiveness and at similar policy prescriptions. *Regional Economic Development* is largely a study of government failure, at least from the perspective of Atlantic Canada. As this study documents, federal policy taken in its totality rarely promoted regional development. Any small measure of special support offered the region tended to be offset by support to other regions, often through programmes and policies that were less visible. For example, nation-wide policies such as research and development tax credits stimulate regions with a strong research and development infrastructure, thus exacerbating rather than reducing both inequalities in income and opportunity. Even policies explicitly designated as regional policy tended to be expanded over time to capture the whole country. Two examples suffice. The Department of Regional Economic Expansion (DREE), created to help the poorest areas in the country, was expanded within two years to include Montreal, and eventually locations eligible for assistance even included communities in Alberta at the peak of the oil boom. Following the creation of the Atlantic Canada Opportunities Agency (\$1.05 billion), the federal government created the Western Diversification Department (\$1.2 billion), the Office of Regional Development in Quebec (\$1 billion) and a federal office for Northern Ontario. At the same time the Department of Industry remained an active player in industrial development, with activities heavily focused on southern Ontario.

Savoie shows that firms in Atlantic Canada received much less assistance relative to firms in other areas of the country than commonly supposed. This implies that the market "playing field" may have been more level than assumed in the AIMS study and, by extension, that market forces, and not government policy, are largely

7 Savoie is more successful when assessing public administration. Using an informal but well-conceived model of behaviour in the public sector, he argues that a world with a government agency having a special regional focus and narrowly-defined objectives will offer better policies to poor regions than one where there is no geographically-focused agency and all government departments are simply asked to take the needs of poor regions into account.

responsible for the pattern of regional development. But what does Savoie recommend by way of support for economic development? If regional policy has been less successful than originally hoped (Savoie's reading), or if it has even been a failure, is it not a reasonable response to cut all industrial development programmes and use the savings to cut taxes? This is the AIMS solution arrived at by a different route.

Savoie, however, does not advocate the elimination of federal government support; instead, he urges

the federal government to dare to do things differently, to challenge the status quo not at the margins but head on and to rethink its economic development efforts in Atlantic Canada. . . . Rather than take the easy route by embracing the neo-conservative agenda and simply letting market forces loose in Atlantic Canada, we should tease out lessons learned from past efforts and reshape federal regional development policy and programs.<sup>8</sup>

His refusal to abandon regional policy is based on a combination of pragmatism (politicians will never abandon regional policy anyway), policy "fairness" (regional problems are at least partially due to federal government action and spending in the region is partial compensation), national objectives (more balanced regional development contributes to both equity and efficiency of the national economy) and a belief that some policies can, in fact, be effective. How should federal government policies and programmes be reshaped? Savoie offers some concrete suggestions, but his most important contribution is to define the following general principles to guide the process.

First, regional policy should be effective and cheap if it is to enhance Canadian social welfare. The federal government should not spend more money, but spend less money more effectively. Given the impossibility of determining if a policy will be effective *ex ante*, policies should be viewed as clinical experiments to be carefully evaluated *ex post* (as in the medical treatment model). Policies that fail to meet clearly-defined objectives within a reasonable period, say five years, should be eliminated or responsible personnel replaced.

Secondly, federal policy must recognize that "Atlantic Canadians themselves will have to provide the energy, the skills and the imagination to conceive and organize economic activity if the region is to prosper".<sup>9</sup> In part this requires increased reliance on market forces and in part a larger role for the provinces in the industrial development. The federal government should not subsidize private sector firms through direct grants, low-interest loans or loan guarantees since this encourages firms to look to government rather than to themselves. There are two possible exceptions to this general rule: direct support to research and development and export promotion activities, and direct support to firms in very depressed areas (not Halifax, Moncton, Saint John or Fredericton) that need to modernize to stay competitive and save jobs.

8 Savoie, *Rethinking*, pp. 55-7.

9 Savoie, *Rethinking*, p. 19.

Third, elimination of regional disparities in income and disparities in unemployment rates should not be used as the yardstick for measuring policy effectiveness given the large number of more powerful forces determining income and employment levels. Fourth, policy should focus on creating conditions for success in the new, knowledge-based, economy, in this investment in research and development by both public and private sectors, world-class universities engaged in leading-edge research, a well-trained labour force and amenities and life-style advantages attractive to knowledge workers are considered critical. Fifth, the federal government should have an agency with a strong regional focus, such as ACOA, or preferably an ACOA recast as a small Crown Corporation or Special Operating Agency operating at arm's length from the government decision-making process. As a corollary, Ottawa is urged to "eliminate the Western diversification department and substantially reduce the Department of Industry".<sup>10</sup> Finally, federal and provincial governments should coordinate development efforts to reduce the number of government offices and eliminate duplication.

At this prescriptive level, Savoie is not far from the AIMS solution: emphasize private initiative and the market, be low-cost, reduce bureaucracy, give up the goal of regional equality and embrace the new economy. In the end it is hard to be too critical of Savoie's position.<sup>11</sup> It certainly reads like a catalogue of conventional wisdom favoured by the anti-government sentiment he criticizes so strongly. But while admitting that neither he nor any one else knows what to do, he believes we need to try something. His proposals at least provide something concrete to work with and, perhaps more importantly, they seem to mesh nicely with the thinking of the current government. It is also important to recognize that Savoie's position is continuously evolving in response to new knowledge and he is certainly committed to producing new knowledge on regional issues. This is true not only of his own work but also of the work of the researchers under his direction at the CIRRD.

This pragmatic, case-by-case search for solutions largely informs CIRDD's research agenda. In recent years, it has produced a number of monographs that focus on the potential impact and opportunities posed by the new economy. Among the topics examined are the role of universities in regional development, biotechnology in the Atlantic Provinces, trade prospects in the global economy and the impact of globalization, information technology and the changing public sector on urban centres in the Maritimes.<sup>12</sup> Although none of this work has produced a panacea for economic

10 Savoie, *Rethinking*, p. 51.

11 One area of major concern is with Savoie's recommendations for a stronger provincial role in economic development. This invites competition among provinces in the form of excessive tax incentives and subsidies to private firms. Needless to say, the relatively poor fiscal capacity of the Atlantic Provinces would leave them ill-equipped to win such battles. Concern over the negative effects of precisely this form of state competition is one reason that the European Union has responsibility for regional policy.

12 Benjamin Higgins, *Impact of the Université de Moncton on the Regions of Moncton, Edmunston, and Shippagan* (Moncton, 1988); Rbarice Rigaux, *Industrial Biochemistry in the Atlantic Provinces* (Moncton, 1997); Rodolphe Lamarche, *Capitalizing on the Information Economy: A New Approach to Regional Development* (Moncton, 1990); Pierre-Marcel Desjardins, *Trade in Atlantic Canada: Trends and Opportunities Under Trade Liberalization* (Moncton, 1994); George deBenedetti and

problems, it provides valuable information and interesting perspectives. Such detailed studies — of which we need more — will be necessary if we are to go beyond vague generalizations — such as the assertion that policy should support participation in the new economy — and offer concrete policy suggestions that have some chance of success.

If AIMS occupies the far right of the political spectrum and Savoie's CIRRD the new middle ground (which is certainly not the middle ground of the 1960s!), are there any more radical ideas out there? One can find them in Cape Breton where a number of researchers are exploring the potential of community-based business organizations as the basis for community economic development (CED). Like work at the CIRRD, research on regional policy in Cape Breton is heavily influenced by one single individual. Greg MacLeod — Catholic priest, academic philosopher and community activist in the tradition of the Antigonish Movement — is considered by many to be Canada's leading authority on sustainable CED. His presence at the University College of Cape Breton was undoubtedly a catalyst in bringing together a team of researchers with similar interests and in the creation of an MBA program in CED.

CED has become a buzz phrase in recent years: it is supported by Savoie as one of the promising new directions for regional policy and also by neo-conservatives since it involves individual initiative rather than government largesse. Clearly, the concept means different things to different people. In MacLeod's hands it assumes a radical spin: community-based and community-controlled enterprises directed towards "the good of their community as opposed to . . . private profit".<sup>13</sup> According to MacLeod, this is the most promising avenue for economic development in Atlantic Canada.

Some critics, especially neo-conservatives, may be skeptical. Is not the individual pursuit of self-interest the most powerful motivator of productive activity? Some would go so far as to suggest that the pursuit of self-interest is the only motivator. But as MacLeod argues, the extreme Hobbesian theory of human behaviour is false. To falsify the extreme Hobbesian theory (at least according to the theory of knowledge of Karl Popper) one need only find an example where the theory does not predict successfully. To refute the conjecture, MacLeod uses Mondragon, his favorite example of community economic development. *From Mondragon to America: Experiments in Community Economic Development* (Sydney, University College of Cape Breton Press, 1997) is his account of the Mondragon complex of cooperative enterprises in the Basque region of Spain. Encompassing more than 30,000 workers and more than \$6 billion in annual sales, Mondragon is indeed a remarkable economic achievement. But for MacLeod and others, it is also a "fascinating social experiment" in which "an over-riding altruistic sense of community responsibility dominates the total system. In an age of disillusionment with prevalent social economic systems, the achievements of Mondragon have had a tremendous attraction for reform-minded people in the Western world" (p. 13).

The Mondragon complex began in 1956 with a small firm producing stoves. Five engineers, inspired by the ideas and commitment of a Catholic priest, Don Jose Maria

Rodolphe Lamarche, *Shock Waves: The Maritime Urban System in the New Economy* (Moncton, 1994). A summary of the Institute's work up to 1993 can be found in Colette Allain and Donald J. Savoie, *Canadian Institute for Research on Regional Development: Our Story (1983-1993)* (Moncton, 1993).

13 Greg MacLeod, *The Concept in Operation* (Sydney, 1991), p. 61.

Arrizmendiarreta, attempted to create a business based on the principles of democratic decision-making, profit-sharing and community responsibility. Over time the enterprise grew into a vertically and horizontally integrated complex including a community bank and other financial institutions, a wide variety of productive enterprises producing everything from automobile parts to refrigerators as well as operating wholesale and retail outlets. It even included a technical university. This remarkable success was achieved without compromising the basic principles upon which the original firm was established.

The most interesting feature of Mondragon is its prosperity in a global capitalist economy. Rather than isolate itself from this world, it aimed to be a successful participant. As a consequence, the organization was subject to the same competitive pressures to be efficient as any other firm. MacLeod recounts many of the now familiar aspects of the Mondragon experiment: an emphasis on best-practice, typically high-technology production; reliance on modern corporate managerial structures; the importance of financial institutions to the self-sufficiency of the complex of firms; democratic decision-making and community values.<sup>14</sup> The radical nature of Mondragon is not that it rejects the global market or corporate techniques, but that it rejects the traditional goal of the firm. Capitalist firms focus exclusively on profits; CED focuses on the local community.

It should be noted that Mondragon is not without its critics. The most important is Sharryn Kasmir, who argues that it is no coincidence that interest in Mondragon has occurred in a “post-Fordist” world of “flexible accumulation”. Cooperatives represent one effort — along with quality circles, employee stock purchase plans and profit sharing — to transform the nature of work by replacing unions, collective agreements and rigid shop floor rules with “employee associations”, more casual labour contracts and workplace flexibility. She then challenges the “cottage industry” of academic studies that has sought to transfer the Mondragon idea to other areas and, in doing so, has “made the town of Mondragon into an imaginary place where social class has disappeared”.<sup>15</sup> But it is too facile to dismiss Mondragon as an effort to undermine traditional working-class organizations (nor is this what Kasmir does). The principal danger rests in profit-driven firms selectively borrowing some of the features of Mondragon — specifically, employee associations and profit-sharing — as a means of reorganizing the work force on a non-union basis.

What distinguishes MacLeod’s interpretation from the large literature on Mondragon is his focus on the importance of religion and clerical leadership in fostering communitarian values. He argues that “a community value system constitutes the defining characteristic explaining the success of these ventures” and, more specifically, that Judaeo-Christian values are the critical factor (p. 14). This hypothesis is difficult to assess;<sup>16</sup> nonetheless, MacLeod’s emphasis on values and

14 See Greg MacLeod, “The Community Based Business Corporation: La Empresa Social”, in Gertrude Ann MacIntyre, ed., *Perspectives on Communities: Community Economic Development Roundtable* (Sydney, 1998).

15 Sharon Kasmir, *The Myth of Mondragon: Cooperatives, Politics, and Working-Class Life in a Basque Town* (Albany, 1996), p. 16.

16 Before even approaching the hypothesis one would want to know if altruism — an ethical stance which places the well-being of others on at least the same level as our personal well-being — is a uniquely Judaeo-Christian value. As a hypothesis this claim, like the claim that people only act

religion is an important contribution to approaching economic questions.

Values — of the non-monetary variety — are not completely neglected by economists. An extensive literature dealing with the theory of the firm suggests that values can have a significant impact on cost. One such cost for capitalist firms is that of monitoring workers to ensure that they work hard. If workers behave as pure egoists and firms do not monitor performance, workers are likely to reduce their work effort since the link between effort and remuneration is weak; but if workers have a strong work ethic, supervision is unnecessary and firms will be able to produce at a lower cost.<sup>17</sup> For this reason, labour-managed firms may, in principle, be more efficient (produce at a lower cost) than firms organized on a purely capitalist basis.<sup>18</sup> Values are also of importance if individuals are willing to place their savings in the local enterprise despite greater risks, thereby lowering the cost of capital. In other words, economic theory provides some support for MacLeod's contention that values (and vision and commitment) can give CED a competitive advantage in a global capitalist economy.

Economic theory also offers some support for the view that clerical leadership may assist in the success of a cooperative enterprise. A community-based business does face problems, potentially costly ones, which a profit-maximizing firm does not. Corporate structures involving people are necessarily political. Profit-maximizing firms solve many political decisions (to invest in one way, not another, to hire or fire a particular person or to adopt a new technology) by referring to very clear "bottom line" criteria of profitability. One may not like these criteria, but the objective is unambiguous and cost-effective. In contrast, the goal of a community-based business — development of the local community — is not easy to define and there is great potential for disagreement, even if all those involved possess strong communitarian values. In the Mondragon complex, significant authority is vested with individuals in the firm's hierarchical corporate decision-making structure. As long as these leaders have enjoyed the trust of workers their decisions have been accepted. But trust is a fragile thing and, if broken, the consequences for the costs and competitiveness of the organization can be profound.

One of the most powerful features of clerical leadership is the level of trust and legitimacy bestowed upon non-clerical decision-makers. Without this trust and legitimacy the community-based business will have difficulty taking advantage of the cost efficiencies of a corporate form of organization. One cannot escape the problem

according to self-interest, is false. Surely Muslims, Hindus and people from almost all religious traditions — and agnostics and atheists too — are committed to the ethical framework MacLeod refers to as Judaeo-Christian.

17 Some economists assume that all people are pure egoists. Others argue that this type of behaviour is a consequence of the capitalist mode of firm organization. Workers may think extra work effort simply results in higher profits for the owners. In a labour-managed firm, workers are likely to monitor one another since "shirking" by one will affect the income of others. In a capitalist firm, workers are unlikely to monitor one another.

18 See Samuel Bowles and Herbert Gintis, "The Democratic Firm: An Agency Theoretical Approach", in Samuel Bowles and Bo Gustafsson, eds., *Democracy and Markets: Participation, Accountability and Efficiency* (Cambridge, 1993), and Samuel Bowles and Herbert Gintis, "Credit Market Imperfections and the Incidence of Worker-Owned Firms", *Metroeconomica*, 45, 5 (1994), pp. 209-23.



by suggesting that a community-based business should rely on democratic models of decision-making: democracy is expensive and not every decision can be put to a vote. (Even if democracy was costless, the organization would face a problem of legitimacy since any decision-making rule short of unanimity would potentially leave some unhappy.) Authority must be granted to a hierarchy of leaders and there must be some mechanism which gives these leaders legitimacy. One need look no further than current cynicism (and the reasons for this cynicism) with the formal political system to grasp the difficulties involved.

Religion can play at least two important roles in a cooperative enterprise: to incubate communitarian values and to legitimate hierarchical decision-making. Christian churches, for instance, play a critical role in forming values (weekly services typically involve passages of scripture that emphasize communitarian values) and in guiding people to act accordingly (the congregation is a community basis for mutual support to individuals seeking to live a life consistent with the Judeo-Christian values). But religion has declined in importance in our increasingly secular society. What powers of legitimation do religious leaders exercise when compared to the myriad capitalist institutions that encourage consumerism, sanction capital accumulation and manufacture consent?

Does value-based CED, then, offer a solution to regional woes? If, as MacLeod asserts, the success of Mondragon is not unique to the relatively homogeneous culture, strong religious convictions and commitment to political autonomy of the Basque people, it might be replicated in Atlantic Canada and elsewhere. To support this hypothesis, he provides examples of successful imitation, including in the Valencia region of Spain, New Dawn in Sydney and in Chéticamp, Nova Scotia, the Evangeline Group on Prince Edward Island, activity on the Great Northern Peninsula of Newfoundland, and at St. Juste, Lejeune and Lots Renverges (JAL) in the Gaspé.<sup>19</sup> The lessons offered are straightforward. Success requires technical competence, careful business planning, good accounting information, cost control and effective management; growth should be gradual since firms that expand rapidly frequently find themselves in trouble; government should be a partner; and, the “primary requirement is the existence of a small group of people who are committed, who share a vision . . . and who are willing to take leadership”.<sup>20</sup>

This methodological stance explains why MacLeod concentrates on successful case studies in much of his research. But it has obvious weaknesses. He makes no attempt to explain why CED does not emerge spontaneously. If community-based and/or labour-managed firms are more efficient, one would expect that, over time, they would triumph over profit-seeking firms in the market competition. Since this is

19 Canadian attempts to replicate the Mondragon experience are reviewed in *From Mondragon to America*, ch. 7 and in the Community Business monograph series published in 1991 by the Tompkins Institute at the University College of Cape Breton. The Community Business Series includes the following monographs: Greg MacLeod, *The Concept in Operation* (Sydney, 1991); Greg MacLeod, Beryl Davis and Margaret Young, *The Great Northern Peninsula Development Corporation* (Sydney, 1991); Greg MacLeod, Beryl Davis and Margaret Young, *Cheticamp* (Sydney, 1991); Greg MacLeod, Beryl Davis and Margaret Young, *New Dawn* (Sydney, 1991); Greg MacLeod, Beryl Davis and Margaret Young, *Mondragon* (Sydney, 1991).

20 MacLeod, *The Concept*, pp. 60-1.



not what one observes in practice, what explains why these enterprises only emerge in a very small set of communities and why they fail to emerge in most others? Moreover, it seems reasonable to ask why some community-based initiatives are successful and others fail. Concentrating on the success stories leaves important questions unanswered.

Perhaps community businesses do not emerge in most communities because people are unaware of the possibilities. Kasmir suggests that an important aspect of the Mondragon myth is the “triumph of pragmatism over ideology”.<sup>21</sup> Accordingly, MacLeod writes that

[My] analysis is not based on any particular theory. Rather it is a conclusion from practical experience. Aristotle himself taught that real education does not consist in making speeches to people and asking them to believe in ideologies. He claimed that effective education was through example. He proposed that, if you want to teach people something, it is best to show them an example through what you do. In the spirit of Aristotle, we prefer to look at living examples as a guide to what should be done.<sup>22</sup>

In this respect, MacLeod is a propagandist *par excellence*, informing people of the possibilities and cajoling them to take action. Nor is it wholly implausible that Atlantic Canadians, who exhibit a greater proclivity to attend church, to give more to charity and to remain married, are more inclined than other Canadians to embrace CED.

MacLeod’s emphasis on community leadership is complemented by Gertrude Anne MacIntyre’s *Active Partners: Education and Local Development* (Sydney, University College of Cape Breton Press, 1995). This volume is not standard academic fare: it encompasses a personal reflection on the author’s experience as educator, on the relationship between schools and economic development in Cape Breton and on the potential for educational institutions as a vehicle for CED. She argues that schools may be candidates to replace or augment religious institutions as incubators of community values.

MacIntyre begins by observing that many Cape Bretoners believe that they are exploited by “others” and feel powerless in the face of decisions made by governments and corporations that have a dramatic impact on their lives. She then proposes that educational institutions mediate the relationships between individuals and large social entities or structures (such as governments and corporations) which exercise strong influence on our private lives. As mediating institutions educational institutions can empower individuals to deal more effectively with these larger social structures.

How might schools empower individuals? According to MacIntyre, we must stop treating the school as a place where the young are taught things and begin thinking of them as community resources where “young and old, insiders and outsiders, theoreticians and practitioners of development can meet to discuss ideas, share information, and develop mutually beneficial ventures”. In this manner “all concerned

21 Kasmir, *Myth of Mondragon*, p. 19.

21 MacLeod, *The Concept*, p. 2.

with the future of communities and the creation of the good society can come together in a spirit of mutual respect and understanding to tackle problems and explore old and new ways of enhancing the human condition” (p. 185). Schools should be information centres where libraries and computer labs collect and store materials to assist individuals in solving problems related to economic development. Teachers or new specialized staff should act as animators and facilitators who assist the community in its quest for a better life. Once the school begins to fill this role as a mediating institution it will be possible to link curriculum more closely with the needs and wishes of the community.

This approach is informed by a philosophical outlook on education rooted in the ideas of Michel Foucault and other post-structural thinkers. Schools frequently “dehumanize by demanding that we adjust to the structures imposed on us while remaining silent about the exercise of power within those structures”. The essence of MacIntyre’s hopes for education, and what will happen when the community gathers at the school to try to improve quality of life in the community, is captured in a quotation from Cleo H. Cherryholmes:

These privileged structures . . . can be identified, read, interpreted, criticized, talked, and written about, accepted, rejected, modified. If we can be critically pragmatic in the construction, deconstruction, construction . . . of how we live and together build communities using our best visions of what is beautiful, good and true, then the unreflective reproduction of what we find around us, including some of its injustices, might be tamed and changed a bit.<sup>23</sup>

The recommendations are provocative; however, the hope for a critical dialogue at the local school seems far-fetched, at least if applied to most schools in Atlantic Canada. This critical dialogue requires a substantial commitment of resources from those outside the school system. How does one secure participation from the community? Will they simply come because the building is now available? If only some participate, for whatever reasons, is it appropriate to disenfranchise those who do not come? How is discussion controlled? This type of exercise is often dominated by particular individuals and this often alienates others. Do actors working within the privileged structures (governments, the big corporation, etc.) have time to participate in detailed construct-deconstruct-construct exercises? Are teachers able to perform the role of mediator? Do they have the necessary training or the time? Although MacIntyre shows that her suggestions can be implemented at a relatively small cost to the school system, success depends on wide participation. Research on the community participation side of the equation is needed before her proposal can be taken seriously. Perhaps someone at the University College of Cape Breton will undertake this research since the educational process described does hold some promise of incubating the values that MacLeod and MacIntyre feel underpin CED, and of developing an organizational structure and leadership selection process which has the

23 Cleo H. Cherryholmes, *Power and Criticism* (New York, 1988), p. 186, cited in MacIntyre, ed., *Active Partners*, p. 40.

legitimacy needed to ensure that a CED does not implode as a result of political conflict.

In this regard, Michael O'Grady's *From Grassroots to Grim Reapings: A History of the Prince Edward Island Rural Development Council* (Charlottetown, Institute of Island Studies, 1997) provides an important cautionary tale. The experience of the Prince Edward Island Rural Development Council parallels the current interest in CED circulating at the University College of Cape Breton. Much of the initial motivation came from clerics involved with the Antigonish Movement (so-called "sky pilots"); it entailed adult education programmes aimed at "self-development" that eventually led to the Prince Edward Island Community Schools movement; the focus was on community control over local economic and social initiatives; and it was dependent upon federal government financing.

O'Grady's account of the rise and decline of the Prince Edward Island Rural Development Council raises two central questions about CED. First, just what is "the community?" In Prince Edward Island it was defined as "a distinct unity of people who are united by their possession of some common bond (like locality), who share common values, common norms, a distinctive social structure, and who interact and relate to each other in a distinctive way" (p. 46). Does this translate into the concept of "stakeholders" who bring a variety of individual interests to the organization? For instance, are local, nascent entrepreneurs concerned with maximizing employment on the Island or with maximizing profits? Surely the goals of individual profit-maximization and community development lead to conflict. At an organizational level, how do you maintain community participation and control?

Secondly, how do you maintain autonomy of action when reliant upon government funding? The funder always exercises a measure of control, if only through the threat of withdrawing money. This appeared to be the case when the Rural Development Council became an advocate for local communities against provincial initiatives (higher telephone prices, school consolidation and the creation of a national park). Savoie argues that CED "calls for a devolution of decision-making power to unofficial and non-governmental local organizations" and government officials will be unwilling to cede complete control.<sup>24</sup>

The importance of educational institutions as a source of technical competence and as sites of community action helps explain the University College of Cape Breton MBA programme in Community Economic Development. The thrust of this initiative can be found in *Perspectives on Communities: A Community Development Roundtable* (Sydney, University College of Cape Breton Press, 1998), a collection edited by Gertrude MacIntyre that pulls together a number of papers presented at a round table on community development at the University College of Cape Breton. Included are papers by MacIntyre (arguing universities can and should act as mediating institutions), MacLeod (on corporate organization of community-based enterprises) and a number of other useful works.

Specifically, Harvey Johnstone's paper on the role of Banking Community Assets offers a compelling case for how community-organized financial institutions may contribute to local development. Community-controlled financial institutions do more

24 Savoie, *Regional Economic Development*, p. 162.

than merely lend to marginal firms that banks and other lending institutions choose to ignore; instead, their links to the community may make them better able to assess the risk and enforce repayment of loans to small, local enterprises. Charles MacDonald's review of the Mira Pasture Co-operative draws some informative lessons about how recreating the community "commons" has several apparent economic advantages, including more efficient crop management, better animal husbandry and reduction of fencing costs. Gary Corsano makes the interesting observation that the legal form of incorporation among not-for-profit organizations has important implications for such ventures' continuity and their capacity to work with third parties. Michael Gurstein poses critical questions concerning whether new information technologies will further centralize economic power or, offer previously remote local communities the opportunity to compete effectively in the global economy. And Scott MacAuley reminds us that visions of community must include the disabled, and that resources to develop new technologies must seek to remove barriers to accessibility.<sup>25</sup>

So is *Perspectives on Communities* a collection of naive personal reflections about the potentials of a local economy during a period of massive global restructuring, or an innovative effort to redefine economic relationships between people and between regions? Contributions by Constance DeRoche and Jim Lotz provide an important framework for examining CED in Cape Breton, which includes the consideration of constraints as well as the potential for creating a more democratic economy. Lotz places the recent attention to CED in the context of a marginal area largely abandoned by traditional public and private sector investment. Poor people are often forced to make decisions based on expediency that may be contrary to their long-term interests, and the same might be said of a poor region. This leads DeRoche to observe the frequent blurring between not-for-profit CED and efforts to foster for-profit enterprises, to lure outside entrepreneurs and even to promote cheap labour as an enticement for firms seeking to relocate. Without a clear definition of community values and goals, CED may be a dog's breakfast that would easily encompass the views of AIMS, the CIRRD and old-fashioned Chamber of Commerce boosterism.

The most peculiar contribution to this methodological pluralism is Michael Foster and Beryl Davis, eds., *Regions at the Crossroads: Strategic Development Case Studies for the New Economy* (Sydney, University College of Cape Breton Press, 1998). Its inspiration is drawn, presumably, from Michael Porter's *Canada at the Crossroads* (1991). Porter's diagnosis of Canada's competitive position has a familiar ring: our economy is too heavily based on the processing of raw materials and fails to establish itself in high value-added "upstream" activities. Government policy must, therefore, assist in shifting resources into high-productivity sectors and create an environment for innovation. Equipped with this insight, Foster and Davis promise "a road map for succeeding in the new economy". This is no timid claim and, if valid,

25 These are all useful contributions; however, this literature is so heavily based on personal reflection and introspection about the Cape Breton "experience" that it is frequently divorced from the larger body of academic scholarship. Reference to the academic literature at times seems peculiar. For instance, Rankin McSween draws inspiration from the work of Edward Banfield — dismissed by most scholars in the 1960s for his views on eugenics — and Keith Brown interprets Michael Porter as offering a framework for CED (see our discussion below).

there would be no need for other ideas; the material reviewed in this essay would be either irrelevant or redundant.

Despite the title, *Regions at the Crossroads* has little to do with either regions or case studies. The first paper is a reprint of Porter's 1990 *Harvard Business Review* article summarizing his *The Competitive Advantage of Nations*.<sup>26</sup> The focus is on the role of the state in fostering the "diamond of national advantage": factors of production, domestic demand, support for domestic industries and firm/industry organization. But if we take seriously Porter's empirical analysis — drawing upon work by a team of 30 researchers over a four-year period in ten countries — the conclusions reached have disheartening implications for potential investors in Atlantic Canada, whether in private or community-based businesses. If you do not face tough rivals nearby, if you do not face sophisticated (and wealthy) local consumers and if you do not face aggressive and innovative local suppliers, you are unlikely to prosper in the new knowledge-innovation based economy. Given the nature of the Atlantic Canadian economy, prospects, at least from Porter's viewpoint, are pretty dim.

Porter's advice to government is to create factors which "translate into competitive advantage that are advanced, specialized, and tied to specific industries or industry groups". They should also avoid intervening in factor or currency markets, strictly enforce product, safety and environmental standards, limit cooperation among industry rivals, reduce capital gains taxes on new corporate investment, deregulate, and enforce competition policy. There is not much help here for the region save the almost universal call for support for high-quality, specialized education and training and for applied research and development. These are dismal offerings, and it is difficult to understand how they contribute to thinking about regional development policy in Atlantic Canada.

There have been numerous criticisms of Porter's work. Two prominent ones are reprinted in this volume. Allan Rugman and Joseph R. D'Cruz provide a critique from the right. They argue that Porter's emphasis on the home country diamond as the source of competitive advantages for domestic firms is not applicable to small, open economies. Only in the United States, Japan and Europe have multinationals succeeded by first exploiting domestic opportunities and then moving abroad. Canada, in an era of North American free trade, requires a "double diamond" — the competitive advantages in Canada and the United States — in order to perceive and exploit its international opportunities. The conclusion is also a familiar one: Canada should eschew attempts to foster diversification and concentrate on "winner" industries in which it has a comparative advantage, i.e. the exploitation of natural resources.

More insightful is Charles H. Davis's critique of both Porter and Rugman and D'Cruz. Davis argues that the thrust of both is for greater trade liberalization and

26 Michael Porter, *The Competitive Advantage of Nations* (New York, 1990). Porter achieved acclaim for his work on the relationship between management strategy and success in the marketplace. This is not only read by almost all students of business policy but has had an important impact on day-to-day business management. This part of Porter's work should be read by anyone interested in running a private or community-based business in Atlantic Canada. But this is *not* the work reproduced in *Regions at the Crossroads*.

constraints on the state's role in fostering innovation. Support remains for "network" collective action at the local level "to achieve competitiveness through the production of certain kinds of public goods" (p. 77). But unlike efforts by the European Union to develop institutional arrangements to address economic and social issues, the new North American free trade agreements are designed to remove impediments to the market.

Davis's most telling criticism of Porter, however, concerns the emphasis upon strategic alliances among large consortia as the vehicle for innovation. Porter ignores the successful innovation of small-to-medium size firms (SMEs) in creating new products and engaging in employee training (where aided by government tax credits and export assistance). Porter has little to say about how SMEs succeed, nor does he address the relationship between industrial organization, governance and the dynamics to innovation. In short, Porter has little to say about how a marginal economic region, with few established multinational firms, is expected to compete in the global economy.

The one paper in the volume that specifically addresses regional economic development is written by one of the editors. Foster claims inspiration from Porter's work yet no attempt is made to apply Porter's methodology. When faced with the realities of the real world — development problems in Cape Breton — the "road map to success" becomes "a framework for innovative thinking". And what is the innovative thinking? It is to have "stakeholders" meet in focus groups, identify "clusters" of economic activity that might be able to survive in Cape Breton, identify possible sources of innovation in these "clusters" and choose the most promising "clusters". In the Cape Breton exercise, three promising "clusters" are identified: Tourism/Heritage/Life Style; Knowledge Based (Information and Environmental Technology); and Government Services. This is the approach of professional planners armed with the latest book of the most popular business guru. It is far from the value-based development economics espoused by MacLeod and others at the University College of Cape Breton.

A recent publication by the University of Prince Edward Island's Institute for Island Studies offers an interesting contrast to the "inward-looking" research at the University College of Cape Breton. In 1992 the Institute sponsored an international conference on "An Island Living" that brought together scholars from a number of North Atlantic island communities. The second of three volumes of conference proceedings is *Competing Strategies of Socio-Economic Development for Small Islands*, edited by Godfrey Baldacchino and Robert Greenwood (Charlottetown, Institute of Island Studies, 1998). This is a fascinating collection of 16 papers that draws upon the experience of the far-flung Atlantic economies of the Azores, Cape Breton, the Isle of Man, Jersey, Malta, Newfoundland, Prince Edward Island and the Shetlands.

The case studies are enlightening for two reasons. First, they cover a range of issues: how will Malta cope with the European Union? How has the extraction of oil in the Shetland Islands and in Hibernia affected the local economy? How can the Jersey Islands serve as an offshore financial centre? And do the societies in Prince Edward Island, Newfoundland, the Isle of Man and the Azores share similar problems and potentials? Secondly, and more importantly, the case studies illustrate the value of a comparative approach to understanding regional issues. In contrast to the self-



referential work emerging from the University College of Cape Breton, this volume makes a significant contribution to our understanding of the constraints faced by small, regional economies in their search to maintain autonomy while integrating into the global economy.

In short, it is hard not to “feel good” about Mondragon and hard not to endorse experiments in community schooling that empower individuals. But somewhere between the inspiration offered by MacLeod and MacIntyre and the creation of the CED Institute at the University College of Cape Breton, one fears that many of the more radical aspects of the agenda may be lost in an indiscriminate and rather introspective search for solutions to the region’s economic problems. This would be unfortunate given the growing international literature that seeks to contribute to the creation of a more democratic economy.<sup>27</sup> A generous interpretation of the volumes of work produced by the University College of Cape Breton Press is that they define a future research agenda that will contribute to, and draw upon, the academic scholarship dealing with economic democratization.

How can this literature be summarized and conclusions drawn that are relevant to Atlantic Canada? There are three points of apparent agreement, despite dramatic differences in analytical method and political philosophy. First, researchers from all three centres argue that Atlantic Canadians will have to compete in a global marketplace and that success will depend on entrepreneurship (initiative, creativity and plain old hard work) and highly technical skills in business and technology. Secondly, no one calls for a dramatic new policy initiative from government or increases in government spending. Third, all would agree with Savoie when he argues for streamlining policy to eliminate excessive duplication and unresponsive bureaucracies. AIMS would go further, of course, and suggest complete elimination, whereas MacLeod and Savoie see at least some scope for regional policy. Savoie favours activities which facilitate adaptation to the “new economy”, while MacLeod believes that short-term government support, especially in finance, is necessary to foster CED. But even MacLeod argues that support should only be short term and that CED must be self-sustaining in the long term. Finally, all would argue that innovation, whether based on formal research and development or simply day-to-day efforts to do things better, is a necessary condition for economic success in a competitive global economy.

The one area of significant difference is the vision. Both AIMS and the CIRRD see export-led growth as the only path forward. This position seems to be based on the belief that the people of Atlantic Canada will continue to aspire to a North American lifestyle and the latest consumer goods and leisure activities. This may be the “realist” position. Atlantic Canada cannot produce all its needed goods and services and must export to pay for imports. These goods and services could be given to Atlantic Canadians as a gift via transfer payments from the rest of the country but current trends suggest that transfer payments will decline not increase. On the other hand, MacLeod and most of his colleagues at UCCB, advocate what the late David Alexander

27 Notable in this regard is Samuel Bowles and Herbert Gintis, *Recasting Egalitarianism: New Rules for Communities, States and Markets* (New York, 1998).



once called “new notions of happiness”.<sup>28</sup> This involves abandoning the goal of attaining a North American lifestyle and adopting instead new cultural attitudes. Both Alexander and MacLeod recognize that a small region such as Atlantic Canada will always have to export; however, dependence on foreign markets can be reduced if people recognize that there is more to life than consumption and that people can be rich and happy without North American income levels.

In the end, Atlantic Canadians can choose to pursue the good life — North American capitalist-style — or opt for new notions of happiness based on strong communitarian principles. If experience is any indication, Atlantic Canadians will continue to opt for the North American way in the 21st century. Economists are trained to avoid value judgements about the subjective preferences of individuals; but those less reticent to form normative conclusions about social outcomes may find little solace in this prediction.

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28 David Alexander, “New Notions of Happiness: Nationalism, Regionalism and Atlantic Canada”, *Journal of Canadian Studies*, 15, 2 (Summer 1980).