Directions for Regional Economic Policy in the UK: Lessons from Canada

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Date:

January 2025

The Productivity Institute

Productivity Insights Paper No.042

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Key words
economic development, regional, productivity

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Acknowledgements
This paper was produced with the Centre for the Study of Living Standards, where Timothy Sargent was Deputy Executive Director until July 2024.

Suggested citation

T. Sargent (2025) *Directions for Regional Economic Policy in the UK: Lessons from Canada*, Productivity Insights Paper No. 042, The Productivity Institute.

The Productivity Institute is an organisation that works across academia, business and policy to better understand, measure and enable productivity across the UK. It is funded by the Economic and Social Research Council (grant number ES/V002740/1).

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Abstract

This paper looks at the regional economic and political structure of the UK and Canada, and how these have evolved over time. We look at the regional distribution of industries in both countries, noting both differences and similarities across the two countries, and look at each country's experience with regional economic development policy and political decentralisation over the last fifty years or so. We outline the current structure of economic development programming in Canada, at both the federal and provincial level, as well as programmes by the federal government that target specific sectors. We then look at the outcomes of regional economic development in Canada, which we find to be mixed at best.

Finally, we draw out lessons for UK policymakers from the Canadian experience. These include: the perceived need for an enduring central government role in regional development, however much political devolution takes place; the importance of political representation for economic development institutions; the tendency to uniformity despite political decentralization; and the existence of some innovative Canadian economic development programmes that bear watching.

Directions for Regional Economic Policy in the UK: Lessons from Canada

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Directions for Regional Economic Policy in the UK: Lessons from Canada

Executive Summary

In this paper we compare and contrast regional economic policy in the UK and Canada.

The UK's regional economic structure is notable for the large disparity between London, with its heavy dependence on financial services and absence of manufacturing, and the rest of the country, where manufacturing, such as motor vehicles, continues to play an important role. This greater dependence on manufacturing, particularly in the north, has driven regional economic development policy since before World War Two. Regional economic policies were scaled back under the administration of Margaret Thatcher, as was regional government more generally. Subsequent government have tended to expand both regional economic development and regional government.

In Canada, no province of Canada stands out the way the region of London does in the UK; however, there are considerable differences, with the oil-rich provinces of Alberta and Saskatchewan having considerably higher GDP per capita than the other provinces. Canada's political structure is quite different from that of the UK because it is a federation, with provinces that have constitutionally protected powers over large areas of economic policy.

Despite the broad powers of provinces, the federal government has a long history of involvement in regional economic development, going back to the 1960s. A key element of this history is the creation of Regional Development Agencies (RDAs), which now number seven and cover every province and territory. These agencies coexist with other federal programmes targeted to specific sectors, as well as a new initiative—the Global Innovation Hubs—that target specific industry clusters in specific regions. The RDAs provide programming aimed both at business and non-profit organizations. Provinces and Territories all have Ministries that deliver economic development programming that is similar to that of the RDAs, with roughly similar level of spending overall.

While federal involvement in economic development has grown over the years, the results are mixed. In some cases, such as Northern Ontario, economic disparities have been reduced, in other cases, such as economic disparities between Atlantic Canada and the rest of Canada, policy does not seem to have been successful.

There are a number of lessons for UK policymakers from the Canadian experience. Firstly, and following on from the previous point, regional economic policy does not necessarily have a discernable impact at the macro level. Industrial structure is hard for governments to change. Secondly, political decentralization does not mean that central governments will stay out of regional economic development, particularly if perceived problems exist. Furthermore, there will always be an overlap between national policies aimed at sectors and regional policy, when sectors are unevenly distributed across a country. Fortunately, at least in Canada, federal and provincial governments have generally worked together quite harmoniously in advancing economic development policy. Indeed, there a great deal of commonality in the structure of programming, both across provinces and compared to the federal government. Thirdly, having political representation in the Cabinet is a key part of Canada's regional economic development approach at the federal level; attempts to change this have swiftly been reversed. Finally, Canada has some innovative economic development programmes that would be useful models for the UK.

Directions for Regional Economic Policy in the UK: Lessons from Canada

Introduction[1]

For more than five decades, regional economic policy in the UK has seen very significant swings as different governments brought different ideological and political lenses to the problem of large regional disparities in income and output across the country. The Conservative governments of Margaret Thatcher and John Major largely eschewed regional policy, whereas the Blair government established Regional Development Agencies for all the regions of England. These were then abolished by the Cameron government. Following the Brexit vote and the 2019 election, both widely regarded as reflecting a clear economic divide in the UK, the Johnson government instituted its levelling up policy, designed to improve well-being and living standards outside the South-East. The election of a new Labour government in July 2024 seems likely to further change regional economic policy in the UK.

These changes in regional economic policy have been accompanied by equally significant changes in the political structure of the UK's regions. The Thatcher government eliminated layers of regional government, whereas the Blair government created new governments in Scotland and Wales and Greater London, a policy direction that has been built on by subsequent governments, with the creation of Regional Combined Authorities and elected Mayors in many parts of the country. Further devolution under the Starmer administration looks likely, and indeed had already been planned by its predecessor.

How should the UK move forward on regional economic policy? How important is political decentralisation as a necessary if perhaps not sufficient corollary of regional economic policies?

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[1] This research report was prepared by Timothy Sargent, who holds a Ph.D. in Economics from the University of British Columbia. He spent 28 years in the federal government in Canada, including as Associate Deputy of Finance and Deputy Minister of International Trade and of Fisheries and Oceans. We would like to thank The Productivity Institute for funding the project, and for their helpful comments. We would also like to thank Andrew Sharpe for insightful feedback.

One way to answer this question is to look to the experience of Canada: a country with a Westminster-style government and a broad industrial base with considerable regional heterogeneity. Although not subject to the same wide policy swings as the UK, Canada has had considerable experience with regional economic policies over many decades, as well as with supports to specific sectors that are very regionally concentrated (motor vehicles in Southern Ontario, aerospace in Quebec). As the UK seeks to do, Canada has negotiated trade agreements with many major economies; these put some limits on regional policy but provide more flexibility than EU rules. This has allowed Canada to provide more targeted support to firms in certain regions of the country.

In this paper we compare and contrast the different experiences of the UK and Canada in implementing regional economic policies since the 1960s and attempt to draw out some conclusions for UK policymakers as they contemplate the future path of policy.

We begin with a brief outline of the UK's regional economic structure and the history of UK regional economic development policy. We then look at Canada's regional economic and political structure, noting some of the key differences and similarities between the two countries. We then focus on regional economic development policy in Canada, looking first at the history of federal government involvement in regional development, which has been growing over time, and particularly Canada's Regional Development Agencies (RDAs), which have been the primary mechanism for delivering regional economic aid by the federal government since the 1980s. We then describe the main programmes and activities of the RDAs, and then we go on to discuss regional economic policy at the provincial level, given the political and constitutional salience of the provincial level of government in Canada. We go on to analyse the comparative success of RDAs in meeting their avowed goals of narrowing economic disparities and diversifying economies. In the final section we draw out implications for UK regional economic policy from the Canadian experience.

I. UK Regional Economic Structure

In this section we look at the UK's regional economic structure. For this exercise we use the ONS's major regional divisions, which divide the UK into 12 regions: nine in England, and the three nations of Wales, Scotland and Northern Ireland. Table 1 below shows how the UK's population and (nominal) Gross Value Added (GVA) is divided between these 12 regions, as well as Gross Value Added per capita for each region for 2019[2]. In the official data there is a 13th region, which comprises offshore energy, and British forces and diplomatic personnel stationed abroad. We have assigned the offshore energy component to Scotland as this industry is largely concentrated there.

[2] We have generally focussed on 2019 to avoid the impacts of COVID on the data.

Table 1: Population, Gross Value Added and Gross Value Added per capita, UK and regions, 2019

	Population	Population Share (%)	GVA (£m)	GVA Share (%)	GVA per capita	GVA per capita rel. to nat'l average
UK	67,596,281	100.0	1,995,708	100.0	29,524	100.0
North East	2,683,040	4.0	55,926	2.8	20,844	70.6
North West	7,516,113	11.1	189,804	9.5	25,253	85.5
Yorks. & Humber	5,541,262	8.2	128,454	6.4	23,181	78.5
East Midlands	4,934,939	7.3	113,367	5.7	22,972	77.8
West Midlands	6,021,653	8.9	143,430	7.2	23,819	80.7
East	6,398,497	9.5	168,719	8.5	26,369	89.3
London	8,866,180	13.1	473,666	23.7	53,424	181.0
South East	9,379,833	13.9	296,218	14.8	31,580	107.0
South West	5,764,881	8.5	146,854	7.4	25,474	86.3
Wales	3,131,640	4.6	68,040	3.4	21,727	73.6
Scotland	5,447,700	8.1	165,845	8.3	30,443	103.1
Northern Ireland	1,910,543	2.8	43,816	2.2	22,934	77.7

Sources: Office of National Statistics: Mid-Year Population Estimates, UK, June 2022; Regional economic activity by gross domestic product

Note: Offshore energy has been added to Scotland's GVA.

Immediately apparent from this chart is the economic preponderance of London, which accounts for only 13.4 of the population but 23.7 per cent of GVA. (Of course some people may be living outside London but working in London and so their output is assigned to London even though they reside outside London). As a result its GVA per capita was £53,424 in 2022: 181 per cent of the national average of £29,524. The other two regions with GVA per capita above the national average were the South East, with GVA per capita 107 per cent of the national average, and Scotland, with GVA 103.1 per cent of the national average (this would be 92.6 per cent without offshore energy). The other nine regions, accounting for 64.9 per cent of the UK population, produced only 52.9 per cent of UK GVA, with GVA per capita ranging from 70.6 of the UK average in the North East to 89.3 per cent in the East.

The persistence of this economic disparity is shown in Table 2 below, which shows the proportion of nominal GVA attributable to each region since 1998, which is where our data set begins. London's share of UK GVA rose over this time period, from 20.1 per cent in 1998 to 23.9 per cent in 2018, declining slightly to 23.1 per cent in 2022. The only other region to see an increase in its share was the South West over the 1998-2022 period; most other regions saw a decline, with the North East, the West Midlands and Scotland (largely due to oil) seeing the largest declines. More recently, there was a pick up in GVA share in the North West, Yorkshire and Humber, and the South East and South West. Whether the recent relative decline in London and pick up in (some) other areas is due to government policy, the lingering impacts of COVID, or other factors is hard to say given the short time period. London's share of GVA remains higher than at any time in the 1998–2013 period, and as we saw in Table 1, its GVA per capita is way above any other region.

Table 2: Gross Value Added by Region (per cent)

	1998	2003	2008	2013	2018	2022	p.p. change: 1998 to 2022
North East	3.2	3.1	3.1	3.0	2.8	2.8	-0.4
North West	9.8	9.8	9.6	9.5	9.4	9.8	0.0
Yorks. & Humber	7.0	7.0	6.9	6.6	6.5	6.7	-0.2
East Midlands	6.0	5.8	5.8	5.8	5.7	5.7	-0.3
West Midlands	7.8	7.5	7.1	7.2	7.3	7.1	-0.7
East	8.6	8.7	8.4	8.2	8.4	8.4	-0.2
London	20.1	20.5	21.6	22.8	23.9	23.1	3.0
South East	15.1	15.0	14.7	14.8	14.6	15.0	-0.1
South West	7.5	7.5	7.5	7.4	7.3	7.7	0.2
Wales	3.6	3.6	3.4	3.5	3.4	3.3	-0.3
Scotland	8.9	9.0	9.6	9.1	8.4	8.0	-0.9
Northern Ireland	2.2	2.3	2.2	2.1	2.2	2.2	0.0

Source: Office of National Statistics: Mid-Year Population Estimates, UK, June 2022; Regional economic activity by gross domestic product

Note: Offshore energy has been assigned to Scotland's GVA.

What drives these regional disparities? One way to answer this question is to look at the sectoral composition of each region. Table 3 shows the share of selected industries as a share of business sector GVA, where we define the business sector to exclude non-market activities such as government and implicit rents from owner-occupied housing.

Table 3: Industry Share of Value Added by Region 2019

	UK	North East	North West	Yorks	East Mid.	West Mid.	East	London	South East	South West	Wales	Scotland	N.I.
Agric., Forestry and Fishing	0.9	0.9	0.6	1.1	1.7	1.1	1.3	0.0	0.6	2.0	1.6	2.1	2.3
Mining and Quarrying	1.5	0.4	0.1	0.2	0.5	0.1	0.1	0.1	0.2	0.6	0.4	15.5	0.5
Manufacturing	13.6	21.9	19.6	19.8	23.7	21.1	15.1	2.5	12.4	15.9	25.1	12.8	20.4
Petrochemicals	1.1	2.5	3.0	2.6	0.9	0.8	1.1	0.1	1.0	0.6	2.5	0.8	0.8
Basic and Fab. Metals	1.5	3.0	1.7	3.0	2.5	3.6	1.5	0.2	1.2	1.5	3.0	1.1	2.3
Motor Vehicles	1.1	2.5	1.6	0.5	2.1	5.6	0.7	0.2	0.7	1.1	1.3	0.2	0.7
Other Tsptn Eqt	0.8	0.3	1.8	0.2	1.7	1.0	0.7	0.0	0.4	2.6	2.7	0.4	1.4
Services	71.5	61.2	67.8	66.0	59.2	63.6	67.6	90.1	72.9	66.5	56.7	56.4	60.8
Finance and Insurance	11.3	7.3	7.8	8.0	4.7	7.5	6.9	22.1	6.6	9.0	8.4	10.1	6.0
Prof, Science and Tech.	7.5	4.6	6.6	5.4	5.4	5.1	6.8	12.3	7.7	6.1	3.6	6.2	4.1

Source: Office of National Statistics: Regional gross value added (balanced) by industry: all International Territorial Level (ITL) regions

Notes: Business sector is defined as Total GVA less public administration and defence, education, human health and social work activities, Activities of households and owner-occupiers' imputed rental. Petrochemicals is coke, refined petroleum and chemicals. Offshore energy has been added to Scotland's GVA. Table excludes construction and utilities which are fairly evenly distributed.

The key difference that immediately strikes one is the role of manufacturing. While in London only 2.5 per cent of GVA is in manufacturing, the rest of the country has a manufacturing share of GVA of 12 to 24 per cent, a difference of 10 to 22 percentage points. The difference is made up by finance and insurance, which in London is at least 12 percentage points higher than in other regions, and professional, scientific and technical services, which is at least 4 points higher than any other region.

Another key difference is the role of oil and gas, which largely accounts for the 15.5 per cent share of mining and quarrying in Scotland, compared to less than 1 per cent elsewhere. Within manufacturing the motor vehicle industry is important in the Midlands and the North East, the regions most dependent on manufacturing, with the exception of Wales.

II. UK History of Regional Development Policy

The roots of regional economic policy in the UK lie in the decline of the traditional industries that fuelled the industrial revolution: coal mining, textiles, steel and shipbuilding, which were concentrated in Northern England, Scotland and Wales. This decline, and the increasing importance of London and the South East in the British economy, became increasingly apparent after World War One, and was greatly exacerbated by the Depression. As a result, by 1937 the British Government had designated parts of Central Scotland, West Cumberland, the northeast of England and south Wales as “Special areas”. These regions benefitted from measures such as loan guarantees, tax advantages and government-built factories let to firms at cost. (Howarth, 1984). The Labour Government of 1945–51 broadened geographical reach of incentives programmes to cover more of the industrial North, and over the next thirty years or so successive governments, both Conservative and Labour, extended the reach of regional policy still further so that by 1979 much of the UK was covered by some form of regional economic incentive programme.

The election of the Conservative government in 1979 marked a significant shift in regional development policy. The Thatcher administration prioritized market-led economic growth, leading to a reduction in direct government intervention in regional economies. The focus shifted towards creating an environment conducive to private sector investment, with initiatives such as

Enterprise Zones and the Urban Development Corporations (UDCs) established in the 1980s. These policies aimed to stimulate economic growth through tax incentives and deregulation but often led to uneven development and increased regional disparities (Deas et al., 2000).

In tandem with the roll back of economic development programmes, the Thatcher administration also eliminated much of regional government in the UK, eliminating county councils, including six metropolitan counties in the midlands and the North, and the Greater London council.

In 1997 the incoming Labour government introduced a more interventionist regional policy framework, emphasizing regional devolution and the establishment of nine Regional Development Agencies (RDAs) covering all of England. (Pearce and Ayers, 2009). The RDAs were tasked with promoting economic development and regeneration within their respective regions, coordinating efforts across various sectors and stakeholders. This period saw a renewed focus on addressing regional inequalities through targeted investments and strategic planning.

Labour's embrace of explicit regional economic policy was accompanied by commitment to political decentralization. This agenda was successful in both Scotland and Wales, with both nations voting for devolved legislatures following referenda in 1997. London also voted for a directly elected Mayor and assembly in 1998. However, plans to introduce elected regional assemblies elsewhere in England were shelved following a decisive defeat in the referendum in North-East England in 2004.

The election in 2010 of the Conservative-Liberal coalition government led to another significant change of direction for regional economic policy. As part of the new government's drive for fiscal austerity, the RDAs were abolished and replaced with 39 Local Enterprise Partnerships (Westwood et al. 2022). However, the Coalition government did pursue further political decentralisation by creating Mayoral Combined Authorities in areas such as Greater Manchester and the West Midlands (there are now nine), alongside devolution deals that provided new powers and resources. The Coalition also announced the "Northern Powerhouse" and "Midlands Engine" initiatives, which were intended to provide an organizing framework for investments, particularly in transportation, that would boost agglomeration effects in the Northern Core Cities (Hull, Leeds, Sheffield, Newcastle, Manchester and Liverpool) and the East and West Midlands (See Lee 2017 for a critical discussion of the Northern Powerhouse initiative).

In 2016 came the Brexit vote, and the ultimate departure of the UK from the EU in 2019. This is quite relevant for regional policy in the UK as it meant that the country was no longer subject to EU rules on state aid. In practice, however, both the UK's existing WTO commitments and the UK-EU Trade and Cooperation Agreement limit the extent to which the UK could significantly broaden its subsidy regime (See UK Government 2023).

After 2019 the rhetorical focus of regional policy became "Levelling Up": giving primacy to the idea that inequalities should be reduced not by reducing prosperity in London and the South-East, but by improving economic conditions in the rest of the country. A White Paper on the new policy was released in February 2022 (UK Government 2022) and has been endorsed by the Sunak government. This policy was accompanied by funding for a series of centrally administered funds, including the 'Levelling Up', 'High Street' and 'Community Ownership' funds, to which local institutions could submit bids.

The newly elected Labour government has dropped the rhetorical label of levelling up, but certainly remains committed to further devolution. In the King's speech, the new Labour government stated its view that "greater devolution…is a key driver of economic growth.", announced its intention to give greater powers to Mayors and local authorities, and announced a new Council of the Nations and Regions to help improve relations and collaboration between the heads of devolved governments, Mayors and the Prime Minister. Whether these commitments are accompanied by new resources remains to be seen.

In summary, the UK has seen very significant changes in regional policy, both in terms of economic policy and political structure. Indeed, this "churn" has been severely criticized by some observers (Norris and Adam 2017). Nor, according to Kenney et al. (2023), has the UK arrived at a consistent approach to devolution of powers, resources and responsibilities. Nonetheless, the direction of travel is clear: towards greater devolution of powers, moving the UK closer towards countries like Canada and Germany which have a constitutionally entrenched federal system of government. It is to Canada we now turn.

III. Canada's Regional Economic Structure

We begin by outlining how the economic structure of Canada differs across regions. As the world's second largest country by physical size, Canada's economic geography varies enormously across its ten provinces and three territories. In analyzing this structure, it is convenient both from an economic and an institutional perspective to aggregate these 13 jurisdictions into six regions: the Atlantic region, comprising the provinces of Newfoundland and Labrador, Nova Scotia, Prince Edward Island and New Brunswick; the province of Quebec; the province of Ontario; the Prairie provinces, comprising Manitoba, Saskatchewan and Alberta; the province of British Columbia (B.C.); and the North, comprising the territories of Nunavut, Northwest Territories and Yukon.

In Table 4 below we show the relative importance of these six regions in Canada's population, and GDP. The table makes clear the massive disparities in size between these regions, with Ontario 39 per cent of Canada's GDP and 37 per cent of its population, followed in order of population by Quebec, the Prairies, British Columbia, the Atlantic and finally the North, which has only 0.3 per cent of Canada's population and 0.5 per cent of its GDP.

Table 4: Population and Nominal GDP Share of Provinces and Regions of Canada 2019

	Population	Population Share (%)	GDP ($m)	GDP Share (%)	GDP per capita	GDP per capita rel. to nat'l average
Canada	38,939,056	100.0	2,813,289	100.0	72,249	100.0
Atlantic	2,533,784	6.5	148,980	5.3	58,797	81.4
Newfoundland and Labrador	531,583	1.4	40,720	1.4	76,601	106.0
Prince Edward Island	167,188	0.4	9,376	0.3	56,081	77.6
Nova Scotia	1,025,445	2.6	54,383	1.9	53,034	73.4
New Brunswick	809,568	2.1	44,501	1.6	54,969	76.1
Quebec	8,672,185	22.3	545,594	19.4	62,913	87.1
Ontario	15,145,006	38.9	1,048,258	37.3	69,215	95.8
Prairies	7,102,722	18.2	660,231	23.5	92,955	128.7
Manitoba	1,413,409	3.6	86,531	3.1	61,221	84.7
Saskatchewan	1,178,422	3.0	114,412	4.1	97,089	134.4
Alberta	4,510,891	11.6	459,288	16.3	101,818	140.9
British Columbia	5,356,284	13.8	395,215	14.0	73,785	102.1
North	129,075	0.3	14,257	0.5	110,455	152.9
Yukon	43,905	0.1	3,930	0.1	89,511	123.9
Northwest Territories	44,685	0.1	5,574	0.2	124,740	172.7
Nunavut	40,485	0.1	4,753	0.2	117,402	162.5

Sources: Statistics Canada. Table 17-10-0005-01 Population estimates on July 1, by age and sex; Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000)

Table 5 below illustrates the industrial structure of each region by showing the proportion of certain sectors as a share of total business sector GDP in 2019.

Table 5: Industry Share of Nominal Business Sector GDP in 2019 in Canada

	Canada	Atlantic	Quebec	Ontario	Prairies	B.C.	North
Agriculture, Forestry and Fishing	2.4	4.6	2.1	1.3	3.8	3.0	0.9
of which							
Agriculture	1.9	1.5	1.7	1.2	3.6	1.5	0.1
Forestry	0.3	0.5	0.3	0.1	0.2	1.3	0.1
Fishing and Aquaculture	0.2	2.6	0.1	0.0	0.0	0.3	0.7
Mining, Oil and Gas	7.8	13.3	2.3	1.4	22.9	4.5	33.7
of which							
Mining	2.2	4.2	2.3	1.4	2.1	2.9	31.7
Oil and Gas	5.6	9.2	0.0	0.0	20.8	1.6	2.0
Manufacturing	13.6	11.4	18.7	15.3	10.0	8.7	0.8
of which							
Wood and Paper Products	1.2	2.0	2.0	0.8	0.7	1.6	0.0
Petroleum and Coal Products	0.9	1.2	0.6	0.5	1.7	0.5	0.0
Primary Metals	0.7	0.2	1.5	0.8	0.3	0.5	0.0
Transportation Equipment	2.0	1.1	3.2	3.0	0.4	0.5	0.0
of which							
Motor Vehicles	1.1	0.1	0.5	2.4	0.2	0.2	0.0
Aerospace	0.7	0.5	2.2	0.4	0.2	0.1	0.0
Shipbuilding	0.1	0.6	0.1	0.0	0.0	0.2	0.0
Services	63.1	56.6	63.1	69.8	50.5	68.7	46.3
of which							
Finance and Insurance	9.0	7.2	7.9	12.5	5.6	7.6	3.6
Prof. Scientific, and Tech.	8.5	5.8	8.7	10.0	5.8	9.6	3.6

Source: Statistics Canada Table 36-10-0480-01 Labour productivity and related measures by business sector industry and by non-commercial activity

Note: Table excludes construction and utilities which are fairly evenly distributed.

As with other advanced economies, the bulk of economic activity in the business sector (which excludes sectors with non-marketed output such as government but also owner-occupied housing) is in services, ranging from 46 per cent in the North to 70 per cent in Ontario, where the Finance and Insurance sector (including most of Canada's large banks) is situated. Turning to the goods sector, there are three key sectors that provide most of Canada's exports and which drive economic activity in the rest of the economy. The first is Agriculture, Forestry and Fishing, which accounts for between 0.9 and 4.6 per cent of business sector output across regions.

Agriculture is most important to the Prairie region, driven by crop production. Forestry is most important in British Columbia, and fishing and aquaculture in the Atlantic region, where all the provinces have a coastline.

The second key sector, which is larger than agriculture, forestry and fishing in every region, is mining, oil and gas, which ranges from 34 per cent of business sector output in the North and 23 per cent in the Prairies to only 1.4 per cent in Ontario. This wide disparity reflects the overwhelming importance of mining (iron ore, gold, diamonds and non-metallic minerals) in the North, and oil and gas production in the Prairies (largely concentrated in the province of Alberta). It should be noted that oil and gas is also important in the Atlantic region, where it accounts for 9.2 per cent of business sector GDP. Here the industry is almost entirely concentrated in Newfoundland and Labrador.

Manufacturing is an important sector in all regions except the North. Its share of business sector GDP ranges from 19 per cent in Quebec and 15 per cent in Ontario to 10 per cent in the Prairies, 8.7 per cent in B.C. and only 0.8 per cent in the North. Manufacturing in Canada has historically been split into two broad areas. The first is the upstream activity of processing of raw materials from the Agriculture, Forestry and Fishing and Mining, Oil and Gas sectors (what we will call the resource sector, also known as the primary sector). A good example of this is the wood and paper products industry, which is most important in those provinces where the forestry industry is located. If it were not for Canada's plentiful supply of wood fibre, it is highly unlikely that there would be much of a wood and paper industry in Canada, given the high cost of transporting lumber. Primary metal manufacturing is another example: aluminium smelting in Quebec and steelmaking in Ontario developed because of easily available sources of ore (aluminium smelting also depends on very cheap hydroelectricity that is available in Quebec). Food and beverage manufacturing, non-metallic mineral manufacturing and basic chemical manufacturing are other examples of these more upstream industries that process raw materials from the resource sector.

The second broad area of Canadian manufacturing is the more downstream industries which are not tied as closely as the first group of industries to the resource sector. The most important of these overall is transportation equipment, which is particularly important as a share of the regional economy in Ontario (3.2 per cent), Quebec (3.0 per cent) and to a lesser extent in the

Atlantic (1.1 per cent). Breaking this industry down into its principal sub-industries, we can see from Table 5 that motor vehicles is particularly important in Ontario, where all of Canada's assembly plants are located, whereas aerospace is more important in Quebec, and shipbuilding in Atlantic Canada. It should be noted that the transportation sector is an important customer for other downstream manufacturing sectors such as machinery, fabricated metals, electrical equipment and rubber and plastics, and so that sector's economic footprint is significant.

These differences in industrial structure help drive regional differences in productivity and wages. In Table 6 below we show nominal GDP per hour and hourly compensation for the business sector for each of the six regions. Productivity is significantly higher in the Prairies and the North, driven by the mining and energy sectors which are both very capital-intensive. Among the other regions Ontario has the highest productivity—helped by its large financial services sector—followed by B.C., Quebec and finally the Atlantic.

Table 6: GDP per Hour and Hourly Wages by Region 2019, Business Sector

	Canada	Atlantic	Quebec	Ontario	Prairies	B.C.	North
Nominal GDP per Hour ($)	61.0	53.9	55.5	59.2	76.2	56.0	86.8
Per cent of national average		*88.4*	*91.0*	*97.1*	*125.0*	*91.9*	*142.4*
Hourly Wages ($)	35.3	28.8	33.6	36.5	37.2	34.0	43.5
Per cent of national average		*81.8*	*95.4*	*103.4*	*105.5*	*96.5*	*123.4*

Source: Statistics Canada Table 36-10-0480-01 Labour productivity and related measures by business sector industry and by non-commercial activity

Wage differences are more muted, but follow the same ordering, with the North and the Prairies having the highest wages, followed by Ontario, B.C., Quebec, and finally the Atlantic. Wage levels in the North are skewed by the much higher cost of living in a region where road access is limited or non-existent.

Comparison to the UK

One key fact that stands out when comparing Canadian provinces and territories to UK regions and nations is that while the UK often sees its economy as being very much (and perhaps overly) skewed towards London and the South East (which together accounted for 38 per cent of GVA in 2019 compared to 2.2 per cent for Northern Ireland, as per Table 1), if we look at the distribution of economic activity by administrative jurisdiction Canada's economy is even more skewed. The province of Ontario accounts for 38 per cent of GDP in Canada, whereas Prince Edawrd Island accounts for only 0.3 per cent—with the Territories even smaller. One could argue that Ontario is very large, but even if we just confine our attention to Toronto, this city accounts for 16 per cent of Canada's population in 2022, greater than London's share of the UK population. Like London, Ontario is disproportionately reliant on financial services, although nothing like to the same extent (that would likely change if we had data for Toronto); interestingly, Canada as a whole has a financial services sector that is only slightly smaller than that of the UK in relative terms (9 per cent in Canada compared to 11.3 per cent in the UK).

In both countries manufacturing was 13.6 per cent of GDP in 2019; however, regional concentration differs. Essentially, manufacturing in Canada is more concentrated than the UK outside London, with Quebec and Ontario having significantly higher shares than the rest of the country, this picture changes when we include London which has very little manufacturing. Generally speaking, the regions with less manufacturing are more dependent on resources; this pattern is true in the UK too, with Scotland having the lowest proportion of manufacturing in GVA of any region but London and the South East (and it is very similar to the South East). Interestingly, Scotland's dependence on oil and gas is similar although a little lower than the Prairie region (15.5 per cent for mining and quarrying in Scotland, which is largely oil and gas, compared 20.8 per cent for oil and gas in the prairies).

Where Canada's economy is much less skewed than the UK's is in GDP per capita. As we saw in Table 1, London's GVA per capita is 180 per cent of the national average, with everywhere else apart for Scotland and the South-East at 86 per cent or below. In Canada, the distribution is less bimodal, with the oil-rich provinces of Alberta and Saskatchewan at 134-141 per cent of the national average, and most other provinces ranging between 84 and 106 per cent. Only the three

Maritime provinces of Nova Scotia, New Brunswick and Prince Edward Island are in the 70-80 per cent range, like the North East, Yorkshire and Humber, East Midlands, Wales and Northern Ireland in the UK.

IV. Canada's Regional Political Structure

Canada, like Australia and the United States, and unlike the United Kingdom, is a federation. Under Canada's constitution, Canada's ten provinces have powers over a wide swathe of economic and social policy. In some cases, such as education or natural resources, provinces have exclusive jurisdiction, whereas in others, such as agriculture, the federal and provincial levels of government have shared responsibility[3]. The federal government has exclusive responsibility for areas such as defence, international trade and fisheries. (See Canada (2021)). Provinces can levy direct and indirect taxes (except for tariffs), and benefit from resource revenues. Thus each province has its own corporate income tax rate, although in practice these are usually not allowed to deviate too much for fear that companies will move province. They also can borrow in world markets, although they do not of course have their own central banks or currency.

In practice the federal and provincial governments often coexist in the same sphere, even when one or the other has exclusive jurisdiction. The federal government can use its largely unrestricted spending power to influence provincial policy (in health for example), by tying spending to provincial behaviour. In the domain of international trade, modern trade agreements usually cover areas such as economic subsidies and public procurement where provinces often have trade-distorting policies, and so provinces need to be consulted when Canada negotiates these kinds of trade agreements. (The Canada–EU Trade Agreement is a good example).

[3] The three territories also have significant devolved powers, although these are not constitutionally protected the same way that provincial powers are.

Equalization

One important feature of Canadian federalism that distinguishes it from the United States is the Equalization programme (See Finance Canada 2023). Enshrined in Canada's constitution, this is a federally financed transfer programme that is designed to ensure that provinces can provide similar levels of public services at similar levels of taxation. Because health and education are provincial responsibilities, and because of the large income disparities between Canadian provinces, there would otherwise be significant provincial disparities in health and education provision that would not be politically palatable in Canada they way they are in the U.S. with its greater tolerance for inequality. (Beland *et al.* (2022) calculate that equalization-receiving provinces would need tax rates to be 25 per cent higher without the Equalization programme). This approach to regional distribution is similar in intent to the Barnett formula in the UK (see Cheung 2020) that is used to calculate transfers to the devolved governments of Scotland, Wales and Northern Island. However, it differs in that it is not based on actual spending; rather, on fiscal capacity (essentially per capita GDP). This means that if the "have" provinces see faster growth than the "have not" provinces, the "have not" provinces receive larger transfers, whether or not the "have" provinces actually raised their spending.

One potential negative impact of the Equalization programme is that it provides a disincentive for provinces to develop their economies, because some of the benefits will be "taxed away" through lower equalization payments. This point was made vociferously by the government of Newfoundland and Labrador following the discovery of offshore oil and gas in the 1990s, resulting in changes in the way natural resource revenues are calculated; nonetheless, the broader issue remains.

Employment Insurance

Another regionally differentiated transfer programme in Canada is the federally financed and administered unemployment benefit programme, called Employment Insurance. Almost uniquely in the OECD, the weeks of work required to qualify and the duration of benefits depends not only on factors pertaining to the individual, such as he or she was employed prior to becoming unemployed, but also on which of 66 economic regions of the country that the claimant resides in (see Canada 2024). Those claimants in regions with higher unemployment receive longer unemployment benefit for longer. Although this feature of the programme helps make it more counter-cyclical, and thus a better automatic stabilizer from a macroeconomic point of view, it also favours regions of the country where unemployment is higher for structural reasons (indeed, it could be argued that it reinforces structural unemployment by reducing incentives to move to parts of the country with lower unemployment). These areas with higher unemployment are often areas of the country that rely more heavily on seasonal industries, such as fishing, and so regions such as Atlantic Canada that have a greater dependency on seasonal industries effectively receive a significant subsidy from the other parts of the country through this programme. (See Gray and Busby 2022 for a critical review of the EI programme).

Comparison to the UK

The most obvious points of similarity between Canada and the UK are between the provinces and the nations with devolved governments—Scotland, Northern Ireland and Wales. While the legal status of which powers are devolved is different—Westminster could in principle take powers back unilaterally, whereas in Canada that would require provincial consent—in practice the areas of sub-national responsibility are not dissimilar: health, education and policing for example.

One significant difference is internal trade. Because Canadian provinces have wide sway over policies as diverse as trucking regulation, professional regulation and alcohol sales, there are numerous de facto or de jure internal trade barriers between provinces that have been heavily criticized by many observers (see Alvarez et al. 2019). In the UK membership in the EU, with its Single Market requirements, and the subsequent 2020 Internal Market Act, generally preclude these kinds of internal trade barriers.

Fiscal capacity is another difference, with provinces having unrestricted ability to borrow for both capital and current spending, and also access to corporate income taxes and sales taxes. However, like the devolved governments in the UK, provinces are still dependent on federal government transfers.

Of course, England is very different in comparison: not even London has anything like the powers of a Canadian provinces. However, it should be noted that major Canadian cities do have large municipal governments that have powers not dissimilar to combined authorities such as Greater Manchester, including over housing, public transport and land use planning. This followed a series of amalgamations or smaller municipal councils in cities such as Toronto, Ottawa and Montreal.

V. History of Federal Government Involvement in Regional Development

From Confederation to the late 1980s

The federal government has been involved in the national economy since Confederation in 1867. However, up until the 1950s, this involvement was largely confined to trade policy, to developing infrastructure such as railways and highways, or specific sectors such as agriculture or fisheries where the federal government had explicit constitutional authority. It was only in the late 1950s and early 1960s that that the Federal Government started to view economic policy through a specifically regional lens (See Bradford 2010). The catalyst for this change in thinking was the relative economic decline of traditional rural and resource-based communities in the post war period, as economic growth become increasingly focussed on downstream manufacturing industries located around large urban areas, which led to calls from those provinces most negatively affected for some form of federal assistance.

At first this intervention took place in a fairly *ad hoc* manner, through the existing Departments of Industry and Agriculture. However, it was quickly realized that unilateral action by the federal government was inefficient, and in 1969 the government established the Department of Regional Economic Expansion (DREE), with a dual mandate to coordinate regional policy within the federal government, and to negotiate economic development agreements with provinces. The new department was very much focussed on eastern Quebec and the Atlantic provinces, with 80 per cent of its expenditures concentrated in this area (Beaumier 1998). In 1973-1974, DREE was decentralised into four economic regions: Western Canada, Ontario, Quebec and the Atlantic. In the context of a severe recession in the early 1980s, DREE was superseded by a new Department of Regional Industrial Expansion (DRIE), which amalgamated regional programming from DREE and sectoral programming from the Department of Industry, Trade and Commerce (which was then disbanded) in order to concentrate resources on the hardest-hit areas, including not just the rural and resources-based regions, but also regions such as southwestern Ontario where traditional manufacturing industries such as steel and autos were facing significant challenges.

While DRIE and its successor DRIE were viewed as improvements on the previous regime, there were nonetheless complaints that federal policy was still insufficiently responsive to local needs and priorities. Furthermore, the amalgamation of regional and sectoral programming was viewed by less-developed regions as leading to too much assistance going to manufacturing in Ontario and western Quebec (Beaumier 1998). There were also concerns that Western provinces, while comparatively wealthy, were too dependent on resources, particularly energy, and that the economy of Western Canada needed to be diversified away from resources and towards manufacturing.

1980s – 1990s Establishing the Regional Development Agencies.

These concerns would get a sympathetic hearing from the Progressive Conservative government of Brian Mulroney, which swept to power in 1984 after two decades of almost uninterrupted rule by the Liberal party. The Mulroney government had an ambitious agenda of economic renewal, which was very much focussed on moving way from what it viewed as an overly *dirigiste*, central-Canadian focussed economic policy towards a more free market policy that would be more sensitive to other regions of the country, particularly the West.

Accordingly, the Mulroney government revamped the structure of federal regional support. In 1987 the DRIE was abolished, and two new stand-alone Regional Development Agencies were established: the Atlantic Canada Opportunities Agency for the Atlantic region and Western Economic Diversification Canada (WED) for Western Canada, each with a Minister of State (a junior Minister). Meanwhile, a new Department of Industry Science and Technology took over direct responsibility for regional development in southern Ontario and Quebec, as well as responsibility for what remained of sectoral programs. This department also had responsibility for a new agency, the Federal Economic Development Agency for Northern Ontario (FedNor). In 1991 responsibility for regional economic development in Quebec was devolved to another new agency, the Federal Office of Regional Development-Quebec (renamed the Economic Development Agency of Canada for the Regions of Quebec (CED-Q) in 1998 to better reflect its focus on areas outside Quebec's largest city of Montreal).

This new structure was quite different institutionally from what preceded it. The new stand-alone agencies were headquartered in their respective regions, and each had their own Minister who was from that region (who sometimes combine the role with another Ministerial position), as well as their own Deputy Minister (Canada's equivalent of a Permanent Secretary), also resident in that region. The role of RDA's was now explicitly conceived of not just a conduit for federal assistance, but also as a way to give regions of Canada that were more distant from the centres of political gravity in central Canada a voice both around the Cabinet table, and also in senior levels of the bureaucracy.

Meanwhile, sectoral policy was severely curtailed in the mid 1990s, partly owing to severe budgetary pressures, and partly from a desire to focus more on horizontal framework policy such as investment in science, education and infrastructure, and to leave "picking winners" to the regional agencies.

2000s – 2015 Evolution of the RDA structure

The new RDA structure proved popular and durable. Closer physical proximity to provincial governments and local communities meant that the RDAs were viewed as much more responsive to their respective regions, and the RDAs proved adept at partnerships with provinces. Indeed, new RDAs were established. In response to a growing recognition of the importance of Canada's Arctic, the Canadian Northern Economic Development Agency (CanNor) was established in 2008, and in response to the Great Financial Crisis, which disproportionately affected the southwestern Ontario-based motor vehicle manufacturing industry, the Federal Economic Development Agency for Southern Ontario (FedDev) was established in 2010.

During this time sectoral policy at the federal level re-emerged, focussed largely on aerospace (located in and around Montreal), and motor vehicles (located in southwestern Ontario). In 2005 the federal government announced a large aid package for Bombardier, a large aerospace company, and in 2007 the government launched the Strategic Aerospace and Defence Initiative (SADI), which provided repayable contributions (at zero interest rates) for investment in the airplane, space and defence industry. In 2008 the government launched the Automobile Innovation Fund, which provided repayable contributions for large-scale projects in the motor vehicle industry. The government also participated in bailouts of General Motors and Chrysler (as it then was), following the Global Financial Crisis. In both cases the government was also reacting to aggressive subsidies from other countries: Brazil, the EU and the U.S. in the case of aerospace, and southern U.S. states in the case of motor vehicles. Given the size and importance of these industries it was felt necessary to bypass the RDAs and have Industry Canada (as it had then become) deliver this assistance directly.

2015 – today

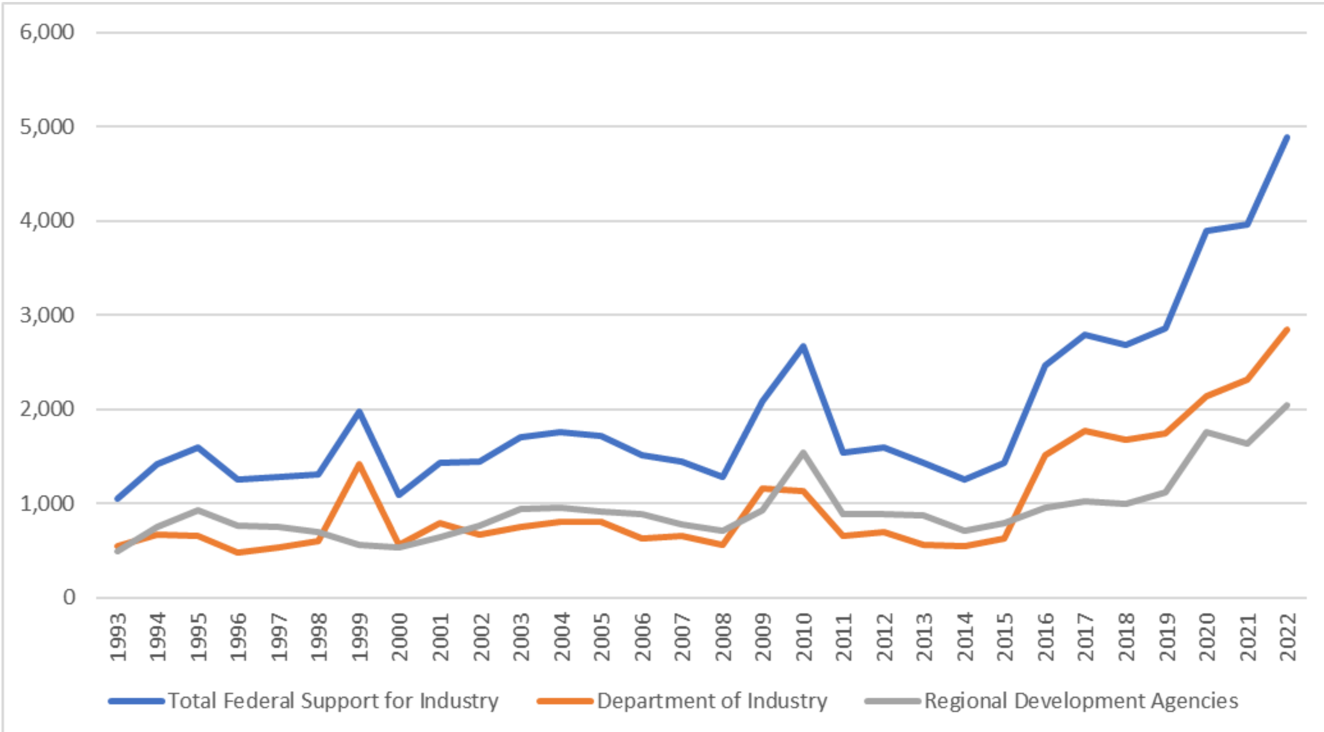
In 2015 the new Liberal government combined all the RDAs with the exception of CanNor under one Minister, the Minister of Innovation, Science and Economic Development Canada, (the renamed Industry Canada). Although the Agencies themselves and their Deputy Ministers remained as before, the Agencies no longer had their own Ministers. At the same time the government broadened sectoral policy from being largely focussed on the automotive and aerospace sectors to also focussing on "other dynamic and emerging sectors" of the economy by merging SADI, the Technology Demonstration Program, the Automotive Innovation Fund and the Automotive Supplier Innovation Program into the Strategic Innovation Fund (Finance Canada 2017).

At the same time the government also launched the Superclusters Initiative (later renamed to Global Innovation Clusters) which mixed regional and sectoral policy by explicitly seeking to foster specific regional clusters of economic activity. The Initiative ultimately settled on five such clusters: the Ocean supercluster in Atlantic Canada; the Scale AI supercluster in Quebec; the Advanced Manufacturing supercluster in Ontario; the Protein Industries supercluster in the Prairies; and the Digital Technology supercluster in British Columbia. Each cluster is essentially a public-private partnership in which academia, not-for-profit organizations and companies of all sizes work together on strategies to boost high-growth sectors. The government provided up to $950 million of public funding to the clusters which will match, dollar-for-dollar, funding that the participants are able to raise, to be invested in various growth-enhancing investments related to each specific initiative.

Perhaps not unsurprisingly, each major region of the country ended up with its own cluster, and the money was spread out largely evenly across the clusters; nonetheless the initiative is notable in that the federal government is explicitly favouring specific region/sector pairs, as opposed to all sectors in a given region (like the RDAs), or any regions for a given sector (like SADI).

The loss of individual Ministers and the renewed focus on sectoral policy delivered directly from Ottawa (or by public-private partnerships) did not reduce the budgets of RDAs in absolute terms (see Chart 1). Indeed, along with much of the rest of government, the RDAs increased their activities during the COVID emergency in order to support an economy during lockdowns and their aftermath. Notable though is that spending on support to industry not delivered through the RDAs has grown more: while in 2015 spending was roughly similar, by 2022 direct spending was roughly 50 per cent higher than RDA spending.

Chart 1: Nominal Federal Programme Expenditure on Economic Development

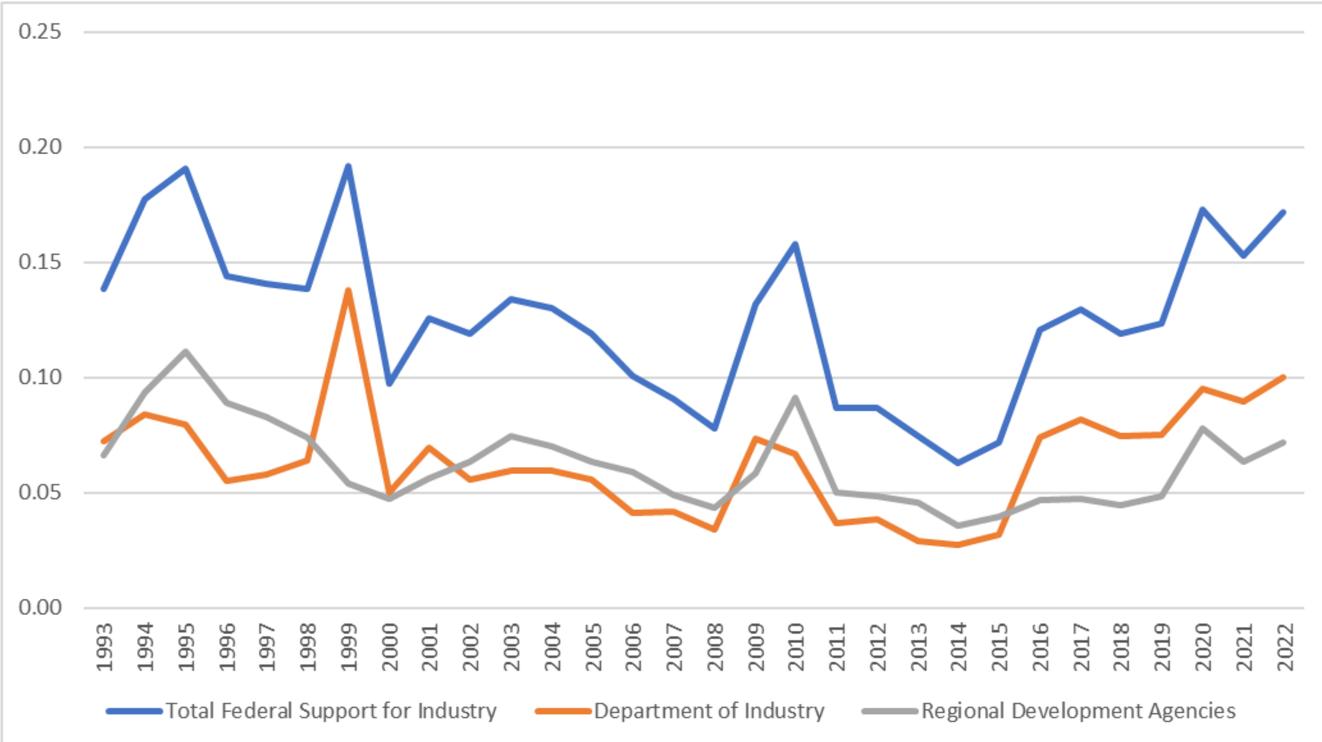


Source: Public Accounts of Canada https://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/2023/index.html

Note: Data exclude non-programme costs such as administrative costs and are on a Fiscal Year (April to March) basis.

As Chart 2 shows, relative to GDP, RDA spending has grown significantly under the current government, and is now back to a similar share of GDP to the 1990s.

Chart 2: Federal Programme Expenditure on Economic Development Relative to GDP (%)



Source: Public Accounts of Canada https://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/2023/index.html

Note: Data exclude non-programme costs such as administrative costs. Spending is on a fiscal year basis (April to March), whereas GDP is on a calendar year basis.

Nonetheless, there was significant criticism of the loss of individual Ministers for the RDAs (see Savoie 2017), with a general feeling that the RDAs, particularly from regions outside southern Ontario and Quebec, would no longer have much of a hearing from a Minister from southern Ontario with a Department and twelve agencies to manage.

In 2021 the newly re-elected federal government reinstated individual ministers of the RDAs, in recognition of the importance of each Agency having its own political head. The government also created two new RDAs: Prairies Economic Development Canada (PrairiesCan) and Pacific Economic Development Canada (PacifiCan) out of Western Economic Diversification Canada, the former to cover the Prairies and the latter British Columbia. This brought the total complement of RDAs in the federal government to seven.

VI. Description of Regional Agencies' Programmes and Activities

In this section we delve more deeply into the main activities of Regional Development Agencies.

Table 7 below lists all the RDAs, along with their year of establishment, their overall budgets for fiscal year 2022-23, and their headquarters city or town.

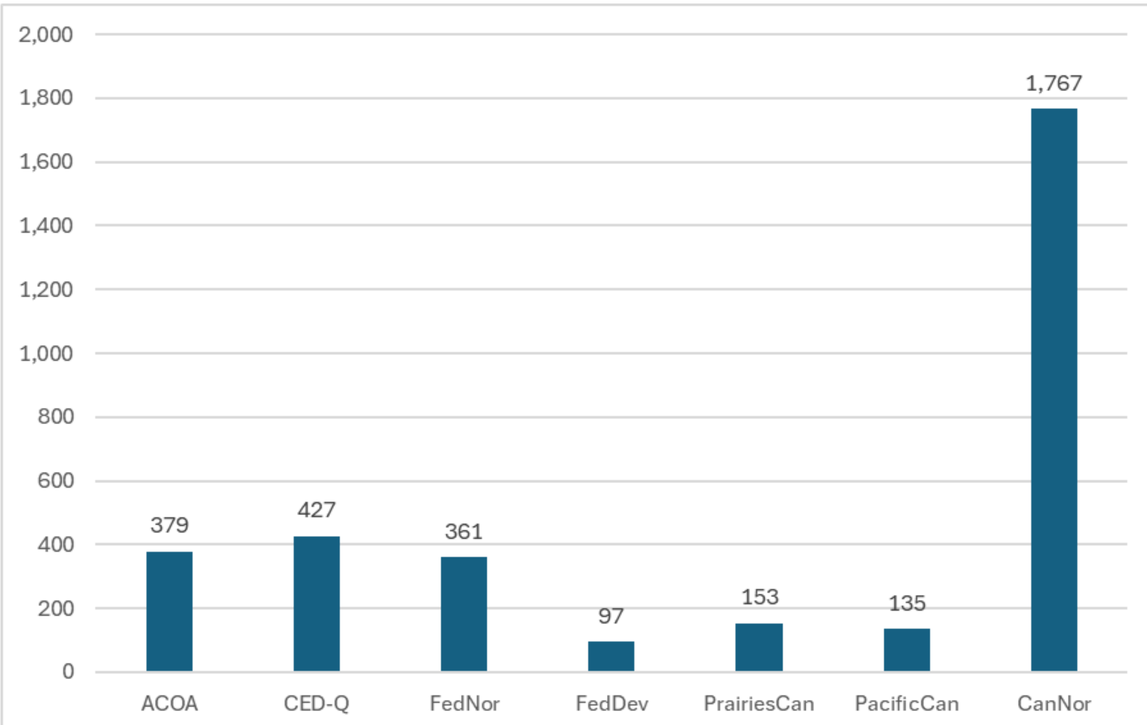
Table 7: Federal Regional Development Agencies in Canada

Agency	Region	Year Founded	Budget (2022-23)	Headquarters
Atlantic Canada Opportunities Agency (ACOA)	Atlantic	1987	466.8	Moncton, N.B.
Economic Development Agency of Canada for the Regions of Quebec (CED-Q)	Quebec	1991	715.2	Montreal, Qc
Federal Economic Development Agency for Northern Ontario (FedNor)	Ontario (Northern)	1987	135.2	Sudbury, Ont.
Federal Economic Development Agency for Southern Ontario (FedDev)	Ontario (Southwestern)	2010	705.0	Waterloo, Ont.
Prairies Economic Development Canada (PrairiesCan)	Prairies	2021	586.3	Edmonton, Alta.
Pacific Economic Development Canada (PacifiCan)	B.C.	2021	362.7	Vancouver, B.C.
Canadian Northern Economic Development Agency (CanNor)	North	2009	108.7	Iqualuit, Nun.

Source: Public Accounts of Canada https://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/2023/index.html; Organizations' websites.

It should be noted that the budgets of the RDAs are not large relative to the populations they serve. In chart 3 we show the budget of each RDA relative to the labour force of the area which its serves. Excluding the North, where CanNor spends $1,767 per worker, amounts range from $97 per worker in Southern Ontario to $427 per worker in the regions of Quebec. (It should be noted that in practice FedDev devotes very little of its budget to Toronto: excluding the city would increase spending by worker to $206).

Chart 3: Spending per worker: Regional Development Agencies



Source: Public Accounts of Canada https://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/2023/index.html ; Statistics Canada Table 14-10-0146-01

Note: Spending is on a fiscal year basis (April to March), whereas the labour force is on a calendar year basis.

Each RDA has a mix of national programming that is delivered by the Agency, and its own particular programming tailored to its specific region. In the case of national programming, the objectives and rules of the programme are set centrally, but the application process and the decisions are made by the local RDA. (The responsible Minister is usually very much involved in decisions as well).

The main national programmes are:

Business Scale-Up and Productivity (BSUP)

> This programme is aimed at companies that are growing fast, scaling up and producing innovative goods, services or technologies. It provides matching funding for most of the costs (including capital, labour, R&D etc.) associated with a project that seeks to improve productivity, scale-up and commercialize technology. Funding is repayable, but interest-free.

Regional Innovation Ecosystems (RIE)

> RIE is open to not-for-profit organizations (universities, industry associations, municipalities) that support businesses, innovators and entrepreneurs, for start-up, growth, productivity, technology commercialization, technology adoption, export and investment attraction. RIE provides non-repayable matching funding.

Community Futures Programme (CFP)

> The CFP provides financial support for community development organizations. These are community-based, not-for-profit organizations which are staffed by professionals and are each governed by local volunteer board of directors. They offer a wide variety of programs and services supporting community economic development and small business growth.

While these programmes account for the bulk of RDA spending, there are also programmes that are specific to each Agency. These often focus on specific industries, such as tourism, or specific technologies, such as quantum computing. They can also focus on specific groups, such as Black entrepreneurs.

One advantage of the RDAs is that they can be used to quickly respond to economic emergencies. One example is disasters: in the wake of a fatal train crash in the town of Lac Megantic Quebec that destroyed the town centre in 2013, CED-Q set up a funding programme to aid restoration of the town’s economy. In 2022, following the devastation of Hurricane Fiona, ACOA set up the Hurricane Fiona Recovery Fund to support local communities and businesses affected by the storm and to help long-term recovery efforts. RDAs were also used during

COVID to deliver relief quickly to businesses and local communities through the Jobs and Growth Fund, which provide relief money to business and non-profit organization in order to kick start recovery following COVID lockdowns. Because RDAs are close to those they serve, and because they are relatively small and nimble, they can set up programming quickly and effectively when there is a pressing need.

VII. Provincial regional economic policies

Every Province and Territory has a government department that is charged with promoting economic development. In Ontario it is the Ministry of Economic Development, Job Creation and Trade, and in Quebec it is the Ministry of the Economy, Innovation and Energy. Even Nunavut, Canada's smallest provincial or territorial government with only 43,000 people has a Department of Economic Development and Transportation. Typically, these economic development departments will deliver programmes that are intended to encourage job creation and investment. The programmes come in three broad categories.

First, there are sectoral programmes, which favour specific sectors that the province or territory has identified as priorities. Often the focus is on providing subsidies—either grants or interest free loans--to investments or job creation in key sectors, generally manufacturing. For example, Ontario has targeted motor vehicle manufacturing, life sciences and steel, aerospace and defence, and ICT. An Agency of the Ministry of Economic Development, Job Creation and Trade called Invest Ontario provides financial support to new investments in these sectors.

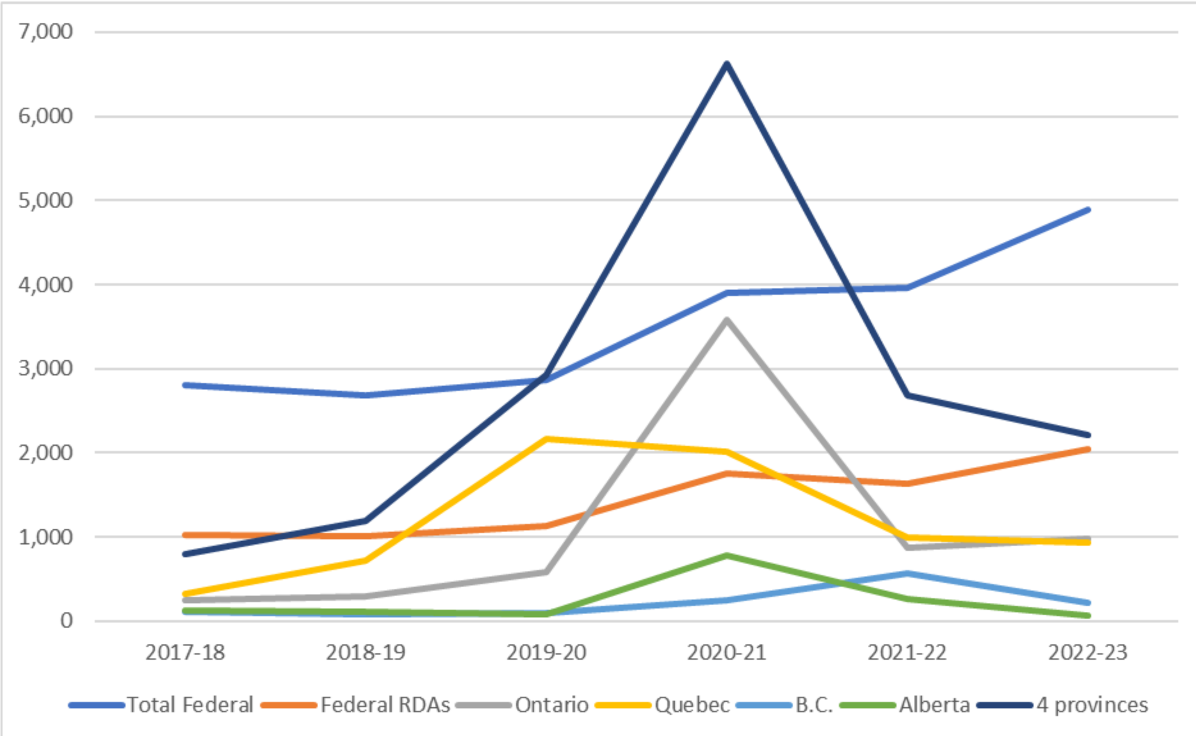
Second, many provinces are sufficiently large that they have significant disparities between different parts of the province, and so have regional programmes that are designed to cater parts of the province that are more dependent on resources or traditional industries, or are remote from major population centres. For example, Ontario has specific regional development funds for Eastern and for Southwestern Ontario.

Third, provinces will often have programmes aimed at specific groups, particularly Indigenous entrepreneurs.

Generally speaking, provinces will be funding the same sorts of activities as the federal government, and it is usual for there to be "stacking", with businesses accepting both federal and provincial money for the same project. This has become particularly evident in the auto sector. Auto makers are demanding very large subsidies for investing in a particular location, and there are often several U.S. and Mexican states vying for the same investment. As a result there is a long history of the Ontario provincial government and the Canadian federal government coming together to negotiate a subsidy package with automakers. (See Financial Post 2023 for a recent example). While in principle one could imagine conflict between federal and provincial priorities, in practice this rarely seems to be a problem in practice.

Chart 4 below compares spending on economic development for the four largest provinces (accounting for almost 90 per cent of Canada's GDP). Although the figures are distorted by emergency COVID programming, one can see that both before COVID, and in the most recent year, provincial spending on economic development was comparable to that provided by the RDAs—slightly over $2bn in 2022-23. Total federal spending on economic development is significantly higher, however, at $5bn in 2022-23, so that total federal spending is more than double provincial spending.

Chart 4: Programme Spending on Economic Development: Provincial and Federal



Source: Public Accounts of Canada https://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/2023/index.html ; Public Accounts of Ontario https://www.ontario.ca/page/public-accounts-ontario-past-editions ; Public Accounts of Quebec https://www.finances.gouv.qc.ca/documents/Comptespublics/en/CPTEN_vol2-2022-2023.pdf ; Public Accounts of British Columbia https://www2.gov.bc.ca/gov/content/governments/finances/public-accounts/archive ; Government of Alberta Annual Report https://www.alberta.ca/government-and-ministry-annual-reports

Note: Data exclude administrative costs. Spending is on a fiscal year basis (April to March),

Overall then, at least from a fiscal standpoint, it is the federal government that spends most on economic development, with explicitly regional spending at least equal to the four largest provinces (and greater if one counts the supercluster funding as regional). This reflects a common pattern in Canadian federalism, where the federal government ends up taking a greater role in local and regional policy than one might expect in a federation with strong subnational governments (or a comparison to the US).

VIII. Comparative Economic Performance of Different Canadian Regions

In this section we turn from a description of the various programmes used by different levels of government in Canada to looking at data on their overall effectiveness. While all RDAs and their counterparts at the provincial level seek to promote economic growth and well-paid jobs, the federal government does seek to "level up" areas of the country that are perceived as being left behind. Atlantic Canada, Northern Ontario, and Quebec's regions outside of Montreal, have always been viewed as "have not" regions, where the federal objective has always been to increase the GDP per capita to closer to the national average. This is reflected in the disparities in per capita spending on regional development. (Part of this disparity also reflects that sectoral programming has tended to disproportionately assist Southern Ontario and the Montreal area, because this is where the economically salient auto and aerospace industries are located).

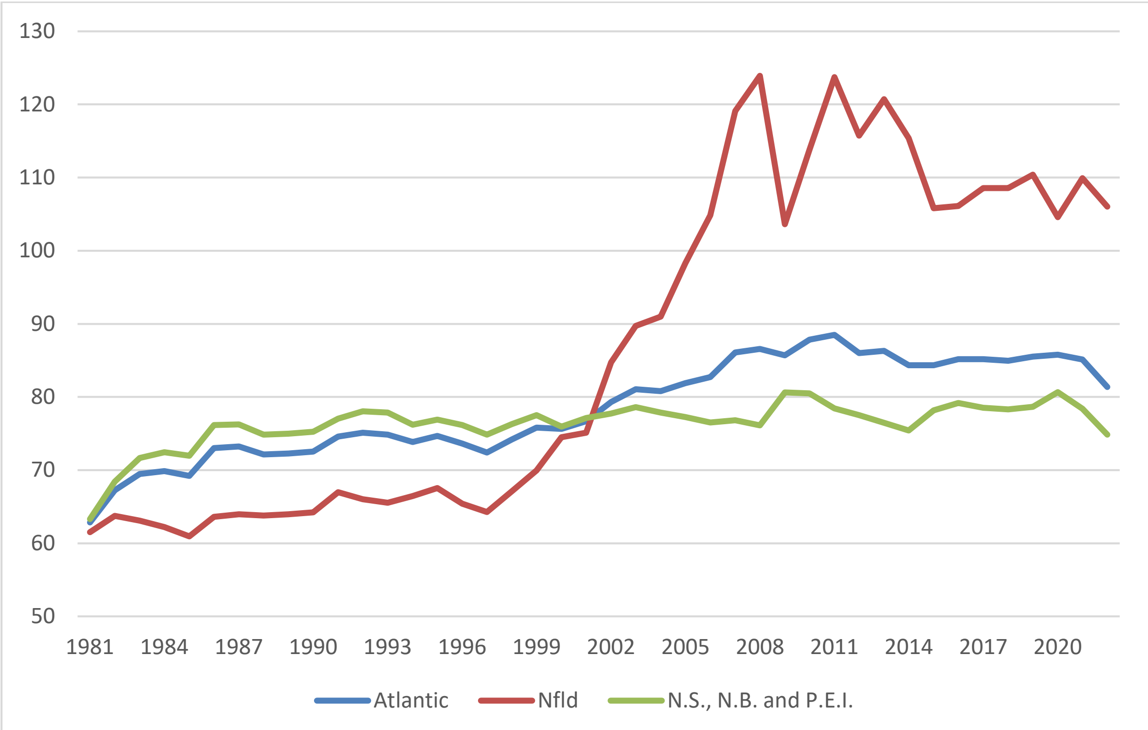
In Western Canada, the objective of federal assistance—as suggested by the name of the original agency, Western Economic Diversification—is to help diversify the region away from a dependence on cyclical resource industries, particularly oil and gas and forestry.

This suggests that one way to evaluate the performance of at least some of the RDAs—and of policy overall—is to see if indeed these goals of relative economic improvement and diversification have been met.

Has Atlantic Canada's Relative Economic Performance Improved?

We begin with Atlantic Canada's economic performance relative to the Canadian average. Chart 5 below shows GDP per capita for the Atlantic region as a percentage of that in Canada overall. This shows that Atlantic Canada has indeed improved its performance from well below 70 per cent in the early 1980s to around 85 per cent just before COVID.

Chart 5: Nominal GDP per capita relative to the Canadian Average

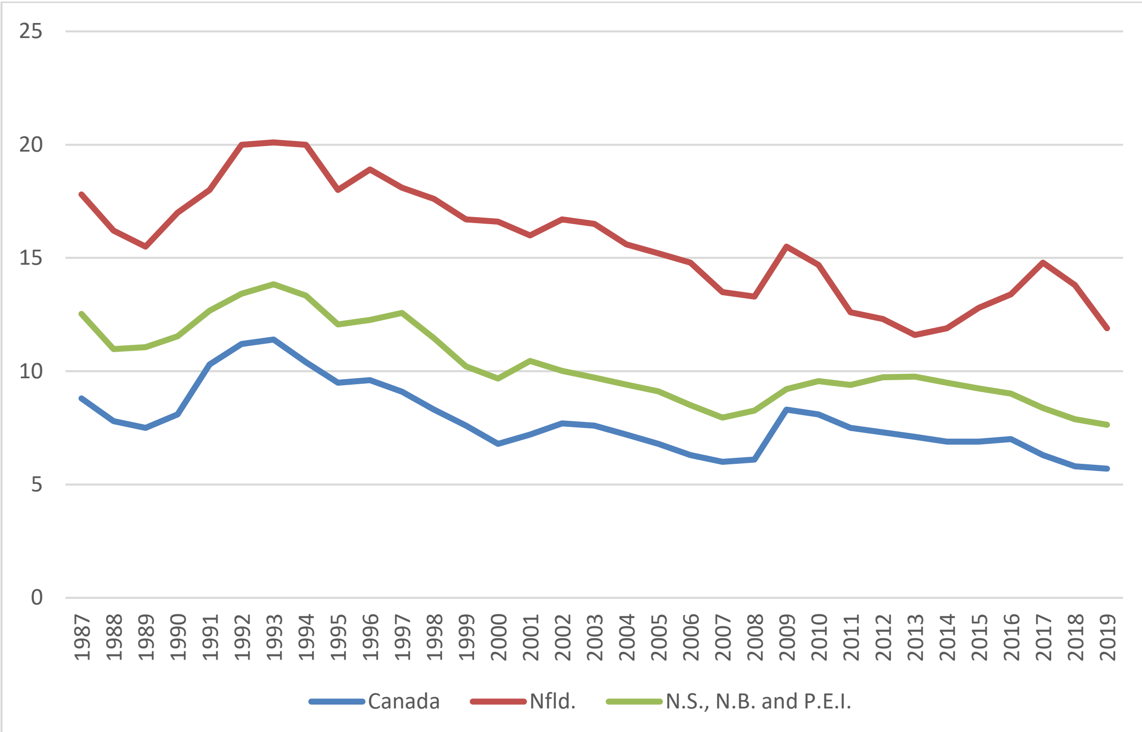


Source: Statistics Canada Tables 17-10-0005-01 and 36-10-0222-01

However, this performance is largely a result of the discovery and subsequent exploitation of oil reserves offshore of the island of Newfoundland. If we remove Newfoundland and Labrador from the mix and focus on the remaining three provinces, we find that GDP per capita has remained at around 75-80 per cent of the Canadian average since the mid-1980s.

Another measure of relative economic performance is unemployment rates. Indeed, the objective of regional economic development is more often portrayed as increasing the number of jobs, as opposed to higher productivity or wages. Chart 6 below shows unemployment rates for the Atlantic provinces, divided up into Newfoundland and Labrador, and the three other Atlantic provinces, as well as unemployment for Canada as a whole. We can see that unemployment rates have declined in the Atlantic by about a third from 1987 to 2019, from around 18 per cent in Newfoundland and 13 per cent in the rest of the Atlantic to 12 per cent in Newfoundland and 8 per cent in the rest of the Atlantic. However, the unemployment rate nationally also declined by about a third, from 8.8 per cent to 5.7 per cent.

Chart 6: Unemployment Rates in the Atlantic Provinces and Canada

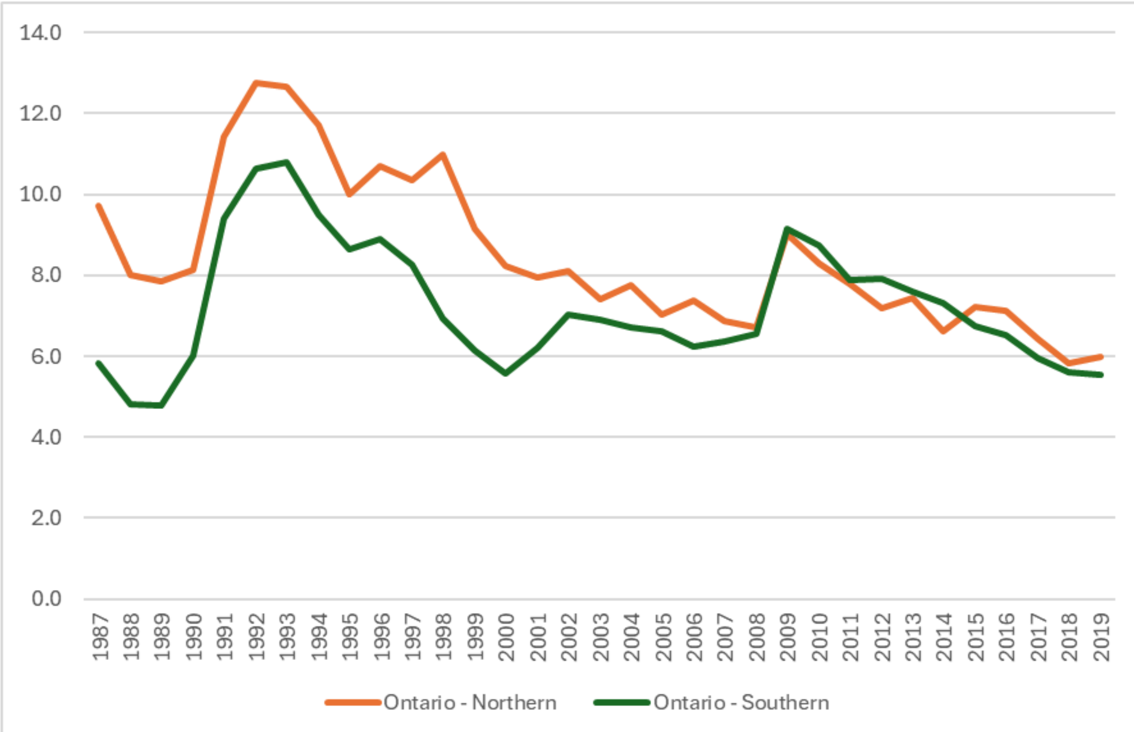


Source: Statistics Canada Tables 14-10-0146-01 and 14-10-0090-01

Have Northern Ontario and Quebec's Regions' Relative Economic Performance Improved?

For Northern Ontario and for the regions of Quebec, we do not have data on GDP over a long enough time period to draw any conclusions; however, we do have data on relative unemployment rates. Chart 7 below shows unemployment rates for northern and southern Ontario, from 1987 until 2019.

Chart 7: Unemployment Rates in Northern and Southern Ontario



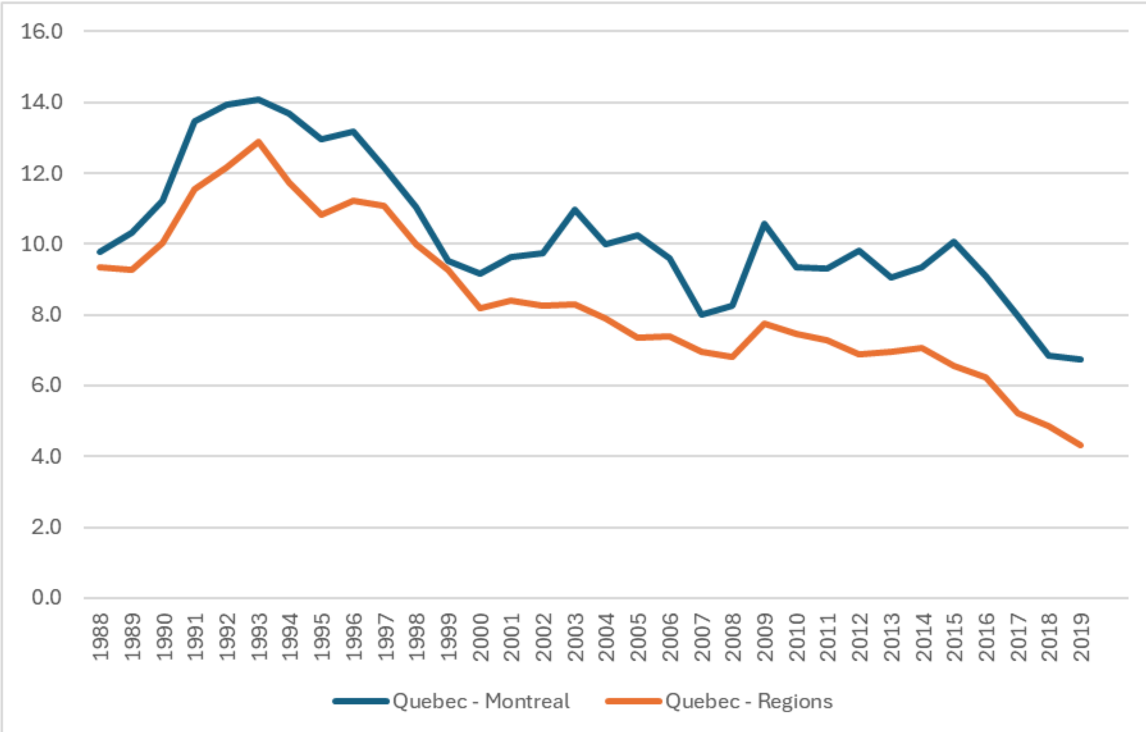
Source: Statistics Canada Tables 14-10-0146-01 and 14-10-0090-01

Notes: Northern Ontario is defined as the two economic regions of Northeast and Northwest Ontario. Southern Ontario is all Ontario less Northern Ontario.

One can see that the unemployment rate in Northern Ontario, which in 1987 was 10 per cent, well above the 6 per cent in Southern Ontario, has declined both in absolute and relative terms, so that now unemployment rates are very similar in both regions.

Turning to Quebec, in Chart 8 we compare unemployment rates in Montreal and its principal suburb (Laval) to the rest of Quebec. Here we see that the unemployment rate gap between the regions and Montreal was negative over the whole period, so that the regions had lower unemployment than Montreal. Indeed, the regions of Quebec went from unemployment rates averaging 1 percentage point below Montreal's rate over the five year period 1987–1991 to an average of 2.7 percentage points over the five year period 2015–2019.

Chart 8: Unemployment Rates in Montreal and the Regions of Quebec



Source: Statistics Canada Tables 14-10-0146-01 and 14-10-0090-01

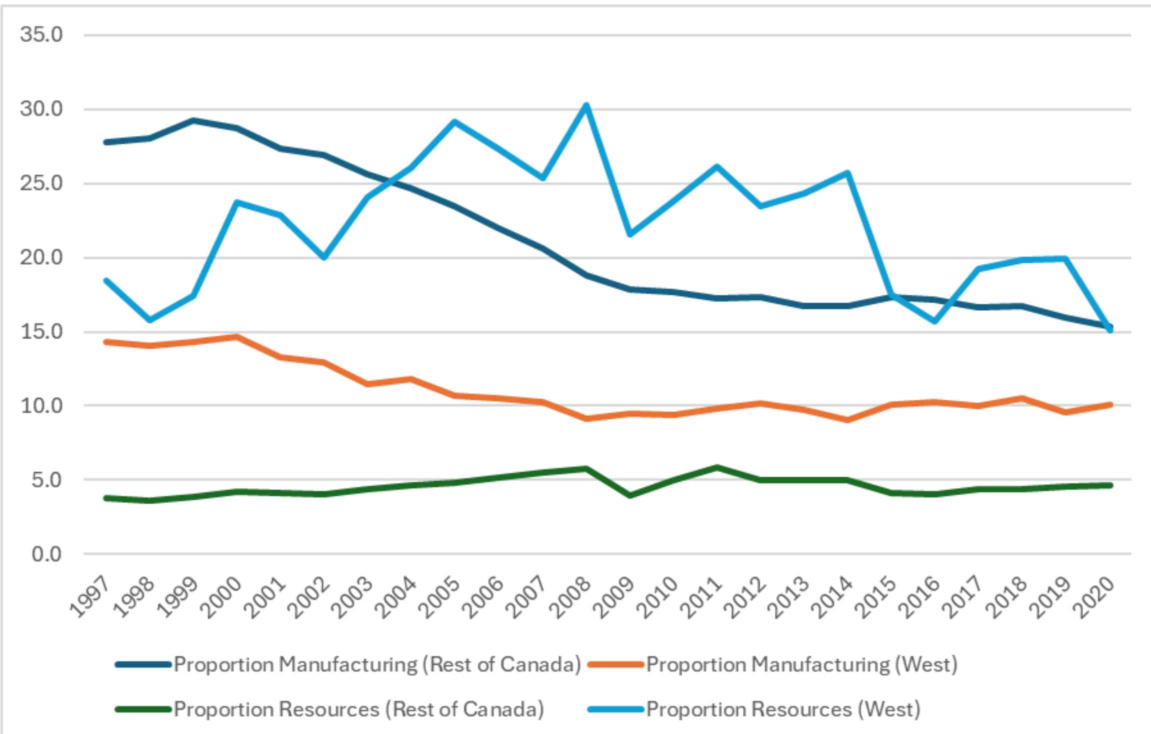
Notes: Montreal is defined as the economic regions of Laval and Montreal. Regions of Quebec is all Quebec less Montreal.

Of course this raises the issue of why have an RDA for Quebec's region at all, given superior unemployment performance. That said the superior performance of Quebec's regions over this period, at least for unemployment, does seem clear from this chart.

Has Western Canada's Economy Become More Diversified?

We now look at whether Western Canada has managed to achieve a more diversified economy, a key aim of the Western Economic Diversification Agency and its two successor RDAs. We do this by comparing the proportion of business sector output accounted for by resources (agriculture, forestry, fishing, mining, oil and gas) in Western Canada with that in the rest of Canada. This is shown in Chart 9 below. It shows that that Western Canada's resource sector is a similar share of the business sector as it was in the late 1990s, although it was significantly bigger for most of the period; however, manufacturing has declined as a share of business sector GDP, going from around 15 per cent of GDP to 10 per cent. While this decline is proportionately less than in the rest of Canada, where manufacturing's share almost halved, it remains the case that Western Canada's economy is no less dependent on resources than before.

Chart 9: Proportion of Resources and Manufacturing in Business Sector GDP



Source: Statistics Canada Table: 36-10-0480-01

It is therefore hard to conclude that the Western Economic Diversification Agency succeeded in its mandate, although one could argue that the need for diversification is even greater than it was 25 years ago.

Conclusion

The performance of RDAs is therefore quite mixed. While economic disparities in Ontario seem to have dissipated, and Quebec's region seem to have been improving their already favourable performance relative to Montreal, Atlantic Canada's relative performance does not seem to have improved, and Western Canada's economy is as dependent on resources as it has always been. Of course, one does not observe the counterfactual and so it is possible the position of Atlantic Canada and Western Canada would have been worse without the RDAs. It is also quite likely that the RDA's budgets are too small to make a difference to the problems they are trying to solve. Politically the RDA's remain popular: their programmes provide many opportunities for the government to showcase help for specific regions and sectors: it is notable that even during the expenditure reduction exercises in the mid-1990s and the early 2010s, no RDAs were eliminated (although budgets were sometimes cut).

IX. Lessons Learned

In this section we reflect on the relevance of the Canadian experience for regional economic development policy in the UK, and suggest eight lessons for policymakers.

1. *Regional economic policy does not seem have much impact at a macro level*

As we have seen, with one exception, it is hard to see the impact of Canada's key federal regional economic policy in the data. Of course, governments might make a discernable impact with much more resources, but that seems unlikely in both Canada and the UK, given current fiscal exigences. The exception might be some quite small areas with outsized political importance (Northern Ireland would perhaps be an example).

2. *Industrial Structure is Hard for Governments to Change*

Policymakers in Canada have been bemoaning the dependence of Canada in general and Western Canada in particular on resources since Confederation, if not before. As we have seen, Western Canada's dependence on resources, while less than during the period of high resource prices in the late 2000s and early 2010s does not seem to have changed. In central Canada, the auto sector in southern Ontario and the aerospace sector in southern Quebec retain the economic importance that they have had since World War Two, when they expanded as part of Canada's wartime economy.

3. *Political decentralization does not necessarily mean complete decentralization of regional economic policy*

Canada's provinces have powers that even the governments of the three nations with devolved powers could only dream of. These include broad taxing powers and broad jurisdiction of economic affairs. Furthermore, each province has a fairly distinct economy—there are few clusters that cross provincial boundaries given the large geographic size of Canada. Nonetheless, and as we have seen, the federal government spends as much if not more on regional economic policy than the provinces do, and much more if sectoral policies (which in Canada are very regionally focussed) are taken into account.

This situation arises in part because there is less tolerance of regional disparities in Canada than in the United States. Some of this is linked to fears about the robustness of Confederation—Canada has faced two referendums on secession, as well as periodic unhappiness in Western Canada—as well as a tradition of more activist central government. Part of the reason as well is that the federal government, not unsurprisingly, would prefer to be able to decide what projects to fund, and take credit for those decisions, rather than just passing on the funds to the provinces.

Canada's experience would therefore imply that the trend towards political decentralization in the UK will not mean that the central government will simply leave regional policy to the national parliaments or elected mayors and regional authorities. To the extent that political decentralization, even accompanied by more resources, does not "solve" the problem of very significant regional economic imbalances, it is easy looking at the Canadian experience to envisage a dedicated regional development agency (for Northern England say), that allows Whitehall direct control over how money is spent.

4. *Regional Economic Policy is Hard to Divorce from Sectoral Industrial Policy*

To the extent that certain industries are clustered regionally, sectoral policies will inevitably have a regional flavour to them, raising issues about the appropriate level of government to implement such policies. In Canada, the federal government, after a period of largely confining sectoral policy to the automotive and aerospace sectors (a choice that itself reflected the political salience of central Canada where these industries are located), is now involved in supporting a broad range of industries from coast to coast. In the UK, one could certainly imagine support being given to specific sectors (steelmaking for example) by the central government that would have significant implications for regional development (and indeed might be largely motivated by these concerns). This provides another reason why, as discussed above, central government involvement in regional economic policy is likely to continue, whatever the degree of political decentralization.

5. *Political Representation of Regions through Regional Ministers in Cabinet is an Important Part of the System*

As we have seen, Canada has always placed a considerable importance on regional representation in Cabinet, both for RDAs but also more generally. Indeed, Cabinets in Canada are carefully crafted to ensure regional representation, although they often run into the problem (as with the Conservatives in Scotland before devolution) that there might be regions of the country that elected very few government MPs. The attempt by the Trudeau government to have RDAs report to a single Minister, and to eliminate regional Ministers, has been put aside, and there has been a return to the traditional approach.

Having their "own" Minister is important for RDAs not just so they can have a champion at budget time, and to move specific policy proposals through Cabinet, but also helps them in the regions that they serve. Provincial Ministers are much more likely to want to deal with an elected Minister than unelected civil servants.

For the UK then it might be worth thinking about the potential for regional Ministers, with or without RDAs. However much political and economic decentralization occurs in the UK going forward, there will still be policies that differ importantly by region (infrastructure is a good example), and having a voice around the Cabinet table that can speak to regional impacts, and whom regional governments can see as a natural and sympathetic interlocuter, could well pay dividends in making national government policy more attuned to regional views and needs.

6. *Central and Regional Governments Can be Complementary*

One important issue that is raised when both national and regional governments are engaged in policy in the same area is whether the two levels of government can work together rather than at cross purposes, as well as whether one or the other will exit the field, preferring to spend its resources elsewhere.

The Canadian experience suggests that national and regional governments can indeed work well together. Federal RDAs and provincial ministries of economic development generally have harmonious relationships and will often partner to attract investment or achieve other objectives. Having RDAs, including their most senior bureaucrats, based in the regions that they serve helps cement relations at the bureaucratic level, and regional Ministers are able to have good access to Provincial Premiers.

This is not to say that the federal and provincial governments are never at cross-purposes: under the current government there has been very significant battles over policies to deal with greenhouse gas emissions, with the oil and gas producing provinces of Alberta and Saskatchewan pushing back against federal policies that they see as intrusive and damaging. However, because the RDAs are not involved in setting those kinds of policies, they can continue to have a harmonious relationship with their counterparts in economic development Ministries in provinces.

Nor does there seem to be "crowding out" of provincial spending by federal spending: provincial spending on economic development has largely been maintained despite the increase in spending at the federal level under this government.

For the UK, this would imply that future initiatives by central government to spend directly on regional economic development need not crowd out spending by devolved authorities; however, the extent to which this spending dovetails well with local spending will probably depend on the extent to which central government has invested, both politically and bureaucratically, in its relations with the relevant regions.

7. *Although One Size Need Not Fit All, There is a Strong Tendency Towards Uniformity*

One of the arguments often made in favour of federal systems is that they allow for different regions to experiment with different policies and programmes that can respond to different local circumstances, needs and preferences. It is interesting to note therefore that there is a fair degree of uniformity in approaches to economic development across provinces, all of which have economic development Ministries with similar sorts of programmes. Indeed, there has historically been much more variation at the federal level: during the 1990s and 2000s, much of central Canada was without an RDA of its own. However, it proved impossible to keep such an important part of the country out of the RDA system, and the vast majority of the Canadian workforce is now covered by an RDA.

It is also notable how uniform provinces are in their responsibilities, even though Ontario has almost one hundred times the population of Prince Edward Island, they both maintain the same control over health care, education, policing etc. Politicians, and presumably voters, in these smaller provinces have been very loath to share power even amongst themselves, let alone delegate upwards to the federal government.

This experience suggest that it will be hard over the long run to sustain the degree of political and economic policy heterogeneity that is current in the UK today. It seems likely that regionally devolved administrations will push for the powers and resources that they see in other parts of the country, and while there are obvious historical reasons for treating the three devolved nations differently, it is hard to see how calls for other parts of England to be treated the same as, say, Greater Manchester, will be resisted over the long term.

8. *Canada's Global Innovation Clusters Programme is Innovative and Worth Watching*

A final takeaway for a UK audience is that there has been significant policy innovation in Canada that bears watching. The Global Innovation Clusters Programme, as we have seen, is quite unusual in that it is much more private sector initiated (with consortia bidding for funds) and led, and also its focus on specific industries in specific places, as opposed to one of the other. While it is a little early to judge the success of failure of this programme (COVID being one reason), it would be worth the attention of UK policymakers as they examine solutions to the enduring problem of regional economic disparities.

X. Conclusion

While there are certainly some significant differences between economic and political structures in the UK and in Canada, both face the challenge of responding to long standing economic disparities across the respective countries. While the direction of travel in the UK is towards further political decentralization, likely to include further powers over local economic development, the Canadian experience is that this does not have to preclude continuing engagement by central government. Furthermore, if this continuing engagement by Canada's federal government is any indication, central governments are unlikely to be able to wash their hands of the responsibility for dealing with these disparities, however much decentralization takes place. Eliminating or even significantly ameliorating these disparities is difficult, and certainly Canada has not been able to do so, although it has avoided the degree of disparity in the UK (or the US come to that). That said, Canada provides many examples of innovative approaches to regional economic development—and regional political arrangements—which may provide a useful guide for the UK as it continues to wrestle with its own approaches to these issues.

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