Jobs and Investment Strategies:
The Challenge for Policy-Makers

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A version of this report was published by the Australian Business Council as one of its occasional papers in December 1997.

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Jobs Strategies: Investing in the Future

Regional economies, defined as highly localized complexes of economic and social activity, have long been crucial elements of every traditional nation-state. Notionally, regional governments are thought of as being subordinate to national economic goals and policies. This paper makes the case that state government in federated settings has become a more important centre of policy-making in recent times and has acquired a proprietary interest in mounting new public policy initiatives in an era of escalating joblessness. The reason for this recent change is that in many jurisdictions, the state or provincial government is in a strong position to provide a more stable environment and a different time and investment horizon for regionally-based firms. While there is still controversy about which type of government intervention is most appropriate, there is much more agreement about the large benefits to be obtained from planned intervention in support of tightly focused regional economic development policies. In the face of new competitive pressures from global markets, increasingly policy-makers have been forced to rethink their approach to job creation strategies in highly open economies. The hypothesis of this paper is that how a government proceeds to plan and invest has become as important as any set of dedicated measures it adopts to enhance job and employment creation.

What follows is a case study of the recent experience of Canada's major provincial authorities in the area of jobs and investment that occurred between 1990 and 1995 and it contains valuable lessons for other governments who wish to entertain similar kinds of initiatives. This is so for two principal reasons: first, Canada's leading provincial economies comprising Quebec, Ontario and British Columbia and accounting for almost eighty percent of GDP were increasingly a place of policy experimentation despite the fact that Ottawa had signed the North American Free Trade Agreement that imposed constraints on its role in national economic management. These kinds of regional industrial policies need to be closely monitored and assessed in jurisdictions where state governments in many countries are responsible for regional policy and play an important role in the life of the country, economically and politically. Secondly, for national or state governments with open economies, who may wish to entertain similar kinds of initiatives to counter the volatility of global markets and enhance the competitive advantage of their economies, the Canadian examples demonstrate the continued importance of the growing role for innovative state policy in the highly complex area of economic management. The place to begin, however, requires examining the new circumstances that are causing states to commit public resources for big picture employment and investment initiatives.

The proposition that regional governments are redefining governance is a relatively new phenomenon and needs to be looked at closely.[1] Regional governments have long been "crucial elements of the traditional nation-state" and regional economies defined as "these localized complexes of economic and social activity" are considered subordinate to national economic goals and policies. [Scott, 1996:397] But, increasingly, as financial markets impose new constraints on national government to spend less and invest less in the name of fiscal restraint, increased joblessness is causing regional governance to undergo something of a transformation.

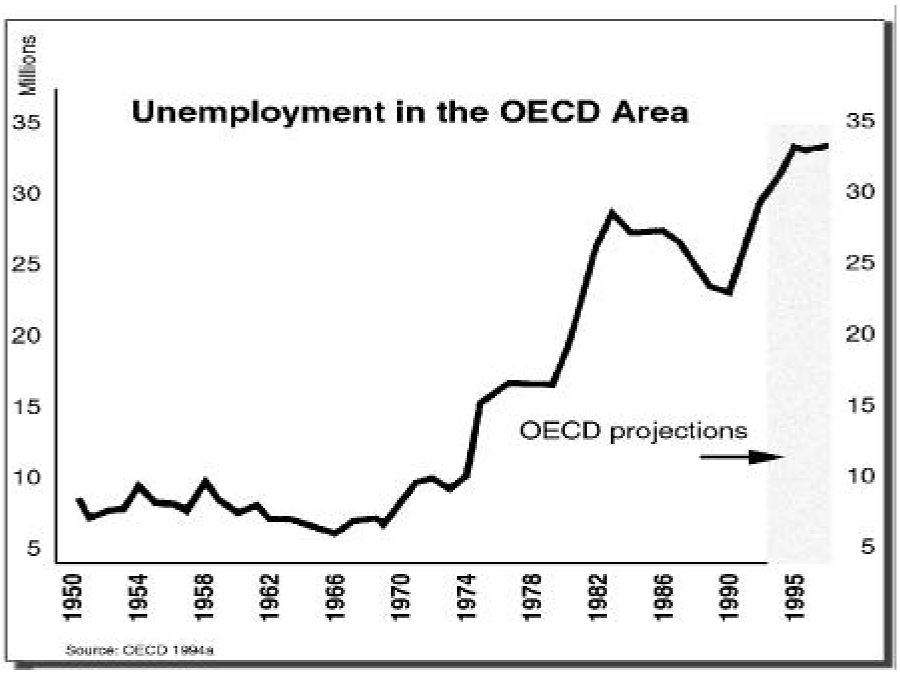
While there is still controversy about the most appropriate form of government intervention needed, it is the case that the regional state will have an expanded role to play in employment creation. It is this likelihood that raises many questions. With all governments facing an unparalleled employment crisis, sub-national government, in particular, has a vested interest in knowing where future job growth is to occur, how it can reduce labour-shedding by leading firms and how it can most effectively increase their productivity performance. Yet, there is still much to be understood about regional governance and its links to national macroeconomic management.

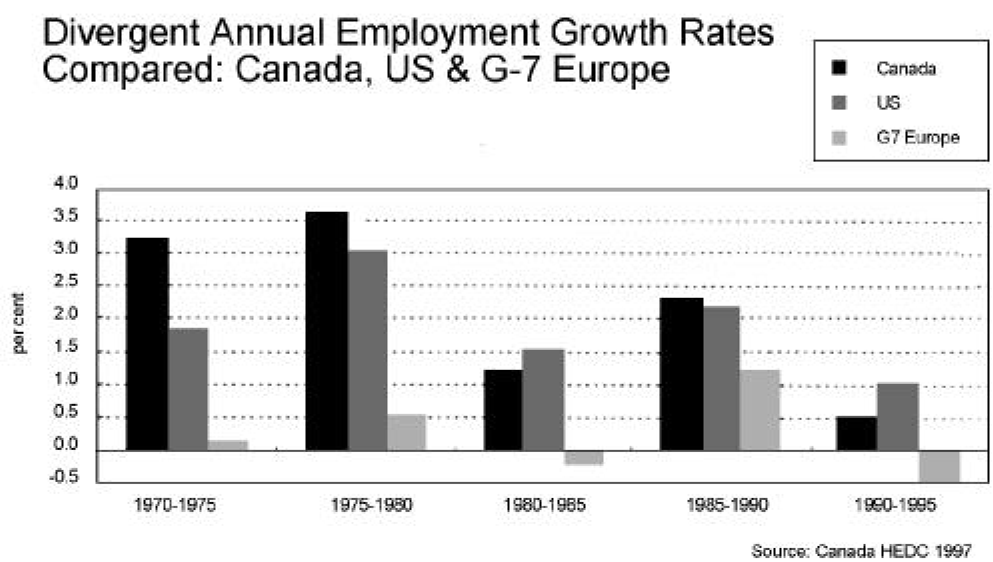
Do regional institutions and local social networks drive the restructuring of firms and industries to the degree many believe? Or, is the market the principal agent of adjustment for these regional industries as well? Does it make sense any longer for firms to stay in the region when global systems of transportation and communication enable them to sub-contract outside it? If those who live in these regional economies are to have a common future, the regional economy has to be more than a place for multinationals to do business. How is this to happen? Is there indeed a special role for the regional state in creating employment opportunities when job growth is at a standstill?

It is the last question that is at the centre of the new thinking about the growing importance of jobs and investment strategies. Recently, the OECD has emphasized the need for public policy authority to address employment creation. In its authoritative 1994 *Jobs Study*, the Paris-based international organization maintained that the long-term restructuring of labour markets requires new state responses and urged governments everywhere to develop broad policy frameworks for managing the adjustment process directly and indirectly. This idea is hardly path-breaking, but it comes at a time when the jobless rate throughout the industrial world shows little sign of falling. In fact, the trend has been relentlessly upwards. Unemployment levels have doubled in each

[1] Special thanks is due to Hamid Sodeifi for his computer skills and assistance on charts. Experts find it difficult to agree on the precise characteristics of a regional economy. This is not surprising given the fact that Brussels estimates that there are hundreds of regional economies of various sizes and importance inside the European Union. In the US, there are thousands of regional economies depending on the definition one employs. Canada has five, extremely large territorially-based regional economies and within each, there are dozens of sub-national entities. Some regions are, also, states such as Finland, Holland and Singapore, but it is difficult to think of them as 'just' another regional economy.

decade since the 1970s in many countries and, not unsurprisingly, the OECD describes the current jobs crisis as “ the most widely feared phenomenon of our times.” [see tables, *Unemployment in the OECD Area* and *Divergent Annual Employment Growth Rates Compared*]





The ca
se pr

esented is that between 1990-1995 British Columbia, Ontario and Quebec, three of Canada's leading provincial governments developed highly contrasting policy approaches to skills training, investing in infrastructure and innovation systems and building private-public partnerships. In the first example, The *Build BC Act and BC 21* can be thought of as a "made in British Columbia" version of a strategic trade and employment policy model. It began as a major undertaking of the Social Democratic Harcourt government elected to office in 1991 to address the province's structural difficulties but was subsequently replaced by Glen Clarke in the mid-90s. The unique feature of its broad initiative is the way the British Columbia Government has used tax revenues from its large resource sector to finance its jobs and investment strategy. With the onset of the economic crisis in the early 90s, Ontario's newly elected Social Democratic government headed by Bob Rae chose to develop an array of policy instruments to overhaul the comparative advantage of the province's industries as well as "promote equitable structural change" throughout the economy. Between its electoral victory in 1990 and its defeat in 1995, the Rae government's choice of policy instruments embodied a highly pragmatic approach to promoting economic renewal.

Subsequently, the paper examines Quebec's version of a strategic trade and employment policy model under the Parti Québecois elected in 1994 that it inherited from the previous Liberal Administration. Its use of a mix of state-owned enterprises, a sector cluster strategy with special emphasis on science and technology, priority to enhance provincial job-creation and a state-created venture capital instrument was inspired by Harvard Business School expert, Michael Porter. Quebec aimed to increase its share of high-value added production, particularly for Francophone firms in the high-technology service sectors.

Finally, this study assesses the effectiveness of these policy instruments. Part of the explanation of why a jobs and investment strategy has clearly defined limitations is that regional authority does not have access to fiscal and monetary policy. In Canada, exchange rate fluctuations were responsible for 89 percent in the changes in unit labour costs in the recent period and it is, thus, unrealistic to expect that regional jobless rates will shrink mainly due to increased exports. Further, it is shown that jobs and investment strategies are not instant policy panaceas that can reverse long-term problems found in the industrial fabric of a regional economy overnight. In each jurisdiction studied, difficult problems remain. British Columbia continues to be principally a resource-based economy; Ontario's core industries -- outside of its large and dynamic auto assembly sector and information technology giants such as Northern Telecom -- consist of many small, inefficient, branchplant firms and Quebec still not does not have an integrated industrial structure. Nonetheless, a job and investment strategy is particularly effective in a deep recession when exports are the main vehicle driving the economy. The study also explains that a jobs and investment strategy remains an essential tool to help communities and sectors of the economy cope with new competitive pressures.

The Range of Policy Instruments For a Jobs and Investment Strategy

Strategic Objectives		*Policy Instruments*
Job-Creation Initiatives	**-------->**	**Labour market outreach; job training, skilling and public sector infra structural investment.**
Co-ordinate Capital Spending	**-------->**	**Co-ordination of social capital spending across key ministries by lead ministry.**
Employment Investment	**-------->**	**A focused commitment to jobs and skill training; a major commitment to community development; infra structural renewal; private sector/ trade union partnerships.**
Sectorial Restructuring	**------->**	**One-off bailouts or buyouts; voluntary, industry-wide committees; new institutional investment and industrial relations practices negotiated sector-wide.**
Consensus-Building Development	**-------->**	**Rent sharing: government puts resource or technological rents on the table and requires the social partners -- business, labour, community and First Nations to negotiate a plan to restructure an industry or a sector to obtain funds.**
Competitive-Enhancing Focus	**-------->**	**Diversification at firm and sector level. Technology venture funds; industry-wide restructuring; upgrading technological, backward and forward production and employment linkages.**
Productivity-Enhancing Initiatives	**-------->**	**Deepening the value-added chain of production by building stronger industries so that more of the chain is sourced locally. Strategic goal is to transform a static comparative advantage into a dynamic one by a diversification strategy to reduce the import/output gap.**

source: Drache, 1997

What's Included in a Jobs and Investment Strategy

Decision-makers have long been interested in the challenge of industrial kinds of policies, particularly when there are sharp adjustment problems to be addressed. In the 80s governments were required to develop both expertise and a variety of policy instruments to address poor macro-economic performance due to a severe turndown in the economy, rising levels of employment, the threat of inflation and the loss of competitiveness or all of the above combined.[Zysman, 1983]. The focus of many of these initiatives was to protect jobs where possible and devise new strategies to address the long-term change in the employment content in large-scale, smokestack production. The result was that policy makers learned a great deal about monitoring markets, the organization of labour markets and the dramatic change in the employment content of production.

Subsequently, governments in industrialized countries have followed with varying degrees of success three generic models of jobs and employment strategies. These are: (1) the decision by policy-makers to use public resources to build supranational champions by means of an industrial policy which, among other objectives implies a commitment to protect jobs in core industries; (2) the choice by many authorities to join a trade bloc to enhance job creation and restructure domestically-based industries; and, (3) the recent interest by public authorities to pursue a strategic trade policy that attempts to link export opportunity to job creation objectives

In the current period, states everywhere have had to develop a variety of responses that will enable them to manage a much more complex and contradictory adjustment process than previously. They can intervene in the labour market; governments can also dramatically change skill-levels of their workforce; and they can play a large role in economic restructuring both in an ad hoc way as well as in a comprehensive fashion. [see accompanying table, *The Range of Options for a Jobs and Investment Strategy*] Whatever the choice, they are required to stay abreast of the evolution of the economy and monitor the performance of leading sectors of the economy.

What makes the idea of a jobs and investment strategy feasible even in a period of intense globalization is that government continues to bring to the table significant resources to counter the volatility of global markets. Two of the most important are public finance and social capital. Together these state-directed levers enable governments to develop a proprietary interest in mounting public policy initiatives in an era of escalating joblessness. In the early part of the 90s, many authorities were taking their cue from the Japanese success in trying to link the imperative to trade in an open economy setting to the need for focused job creation programs.[Tyson, 1992; Fallows, 1994] Tyson defines a strategic trade policy as "trade that is controlled, directed, or administered by government policies" for a specific set of goals or ends. Since much of trade remains managed for one reason or another, the appropriate comparison for Tyson is not the doctrinaire notion of free trade where adjustment is seen to be automatic and frictionless, but the costs of not intervening in trade-led strategies when whole industries need to restructure and workers require retraining.

Thus, for policy-makers who want to understand the imperative of the new circumstances, the challenge is two-fold: first, export opportunities have to work to enhance employment rather than the reverse. A region has to have the capacity to transform its productive advantage so that it can acquire the human-skills, the investments and the new technologies needed to win new market share. So less favoured regions are looking for practical ways to invest in economic regeneration that are often seen as a corrective to the centralizing bias of the orthodox definition of a competitive market economy.[2] Secondly, what they promise is that they can slow down or reverse the rapidly enlarging gap between the leading industrial region and less-favoured ones.

Properly speaking, this is the domain of a jobs and investment strategy that makes a critical difference to what happens to people, communities, firms and industries particularly at the subnational regional level of governance. Increased export activity has to be made to support a high level of job growth that leads to 'good jobs' rather than low-paying non-standard kinds. This is only possible when governments know which industries will generate stable employment growth in the future. Since countries cannot reimpose traditional kinds of trade barriers, they have to take other measures to ensure that trade is not a 'job-killer' in open economies. [Yoffie and Milner, 1989]

While there are many models, 'policy mixes' and conceptual frameworks that governments can choose from, the core elements comprise the following areas of policy co-ordination:

- A focused financial commitment to job creation and skill training by both public and private authorities
- A range of policy instruments to promote regional diversification
- A sector strategy for restructuring of industries in difficulty
- A labour market outreach program for traditionally disadvantaged groups
- Targeted support for locally sourced R & D development
- Private sector partnerships where appropriate
- A major commitment to community development
- An extended commitment to infrastructure renewal
- Defensive measures to limit the intrusiveness of the trade bloc on a regional economy through, for example, public sector procurement practices.

Choosing the Right Model

[2] Governments of all persuasions continue to be committed to broad supply-side intervention in the areas of training, innovation, infrastructure upgrading. But it is mainly the social market economies such as France and Germany, for instance, where public authority continues to use its broad spending powers to create new employment opportunities in the public housing, state-owned enterprises and infrastructural works. With devolution, subnational authorities have to rely more on their own resources to stimulate growth in labour markets.

For governments who want to innovate and strengthen their economic performance, even in an intense period of competitiveness, public authority brings to the table at least four critical resources essential for this kind of 'big picture' initiative:

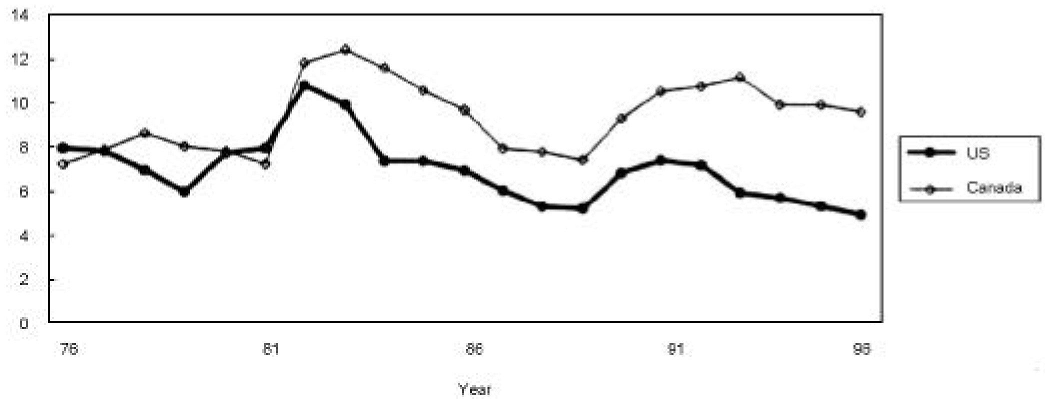
• the state continues to have significant amounts of public capital to invest for social and economic goals;
• every legislative authority has a large regulatory and legislative role to direct the economy and shape society;
• states everywhere continue to have the principal fiduciary responsibility to protect and ensure a sustainable environment;
• most governments are responsible for public ownership of land and collect significant amounts of rents, taxes and other fees from their resource base.

The question is, is there an optimal way to deploy these resources when so much of state policy is becoming internationalized? What kinds of local institution building, practical forms of empowerment and "functional and spatial policy co-ordination" are needed to link job creation to its primary goal of economic renewal? [Amin and Thrift, 1994]

In an era of open markets and global financial flows, these sorts of initiatives need to be evaluated by a minimal number of broad-gauge criteria: the general effectiveness to provide a regional (or national) economy the means to cope with long-term structural change; the innovative excellence to provide government with new policy instruments capable of providing a strong linkage between employment and trade; the ability to stimulate in the medium term enhanced employment and investment creation; and, finally, the demonstrated capacity to construct producer networks, new production relations between buyers, sellers and consumers.

The jobs and investment strategies developed by Canadian authorities can be assessed using this criteria. As will be seen, in highly open economies, provincial authorities in Canada have significant financial resources and state instruments at their disposal to protect and enhance regional industries and firms. Yet, while provinces have acquired a great deal of experience in resource development, the restructuring initiatives adopted by Quebec, Ontario and British Columbia were a direct response to the severity of the downturn of the Canadian economy beginning in 1989. Canadian unemployment soared to double that of its US counterpart even though Canada's inflation rate continued to be about half the US level. (See accompanying tables, *The Growing Canada-US Unemployment Gap* and *Employment, GDP and Productivity Growth During Recoveries*) Canada has been a high unemployment economy for almost a decade but, unlike its southern neighbour, its job creation record has been very weak. This is why provincial governments have been forced to play a more active role in this area than in the past.

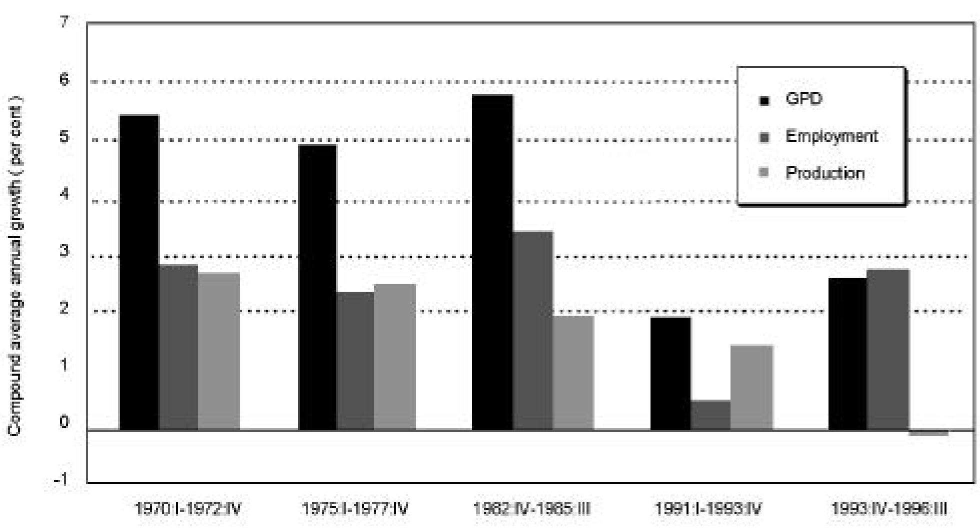
The Growing Canada-US Unemployment Gap



Canada's unemployment rate remains twice the US level, the gap has grown wider since the 1982 recession.

Source: Statistics Canada & US Bureau of Labor Statistics

Employment, GDP and Productivity Growth During Recoveries, Canada



Source: Statistics Canada, Catalogues 71-001 and 13-001

Regional Jobs and Investment Strategies in Canada: Three Contrasting Models

A. The British Columbia Jobs and Investment Strategy: Democratizing Rents
Context and Background: Where the BC Economy is Headed

In comparison with other provincial jurisdictions British Columbia, under the New Democratic Party (NDP), went further in responding to globalization pressures at a time when in policy circles, it was thought impossible to do so. The BC economy is extremely export-oriented and is particularly subject to severe and immediate market shocks through its trading relationship with the US and Pacific economies.[3] The NDP Government used its resource taxes and revenues to restructure industries, reduce regional disparities and enhance job creation in both long established primary industries mainly through diversification efforts, in modernizing the province's infrastructure, as well as creating new employment situations at the community level.

With its enormous resource base, BC presents a fundamental challenge to policy-makers. The market drivers of the economy are largely export-oriented. Wealth creation is mainly driven by international market forces. Job creation, on the other hand, is largely 'locally' propelled by the rapidly expanding service economy. Thus, the employment prospects of the service economy with respect to wages, skills and working conditions are very dissimilar to those in the export sector. The strategic issue for BC policy-makers has required them to find ways to make the policy levers and the economic market drivers work together rather than against each other. Finding the policy mix to ensure a greater use of BC based products and services has been a challenge for a critical reason. With the drivers of BC's economy so dependent on international demand and exchange rate fluctuations, expanding the province's economic opportunities is driven by economic forces that no government can control.

Yet, the key element for policy-makers is the fact that the province's natural resource base remains the main engine of growth. With its foreign exports reaching record levels in 1993, British Columbia surpassed the country in new employment growth. But even if BC leads the other provinces in employment creation, unemployment in the province *has* risen in each decade. As the BC economy has entered a period of fast-paced adjustment and rapid change, a consensus exists in provincial policy circles that BC is rapidly approaching a developmental 'crossroads'. The immediate need is to address these far-reaching structural shifts in the labour market and in the export-side of the economy as British Columbia's economy is evolving towards what Thomas Hutton has called "a mature staple economy in transition".[Hutton, 1994; Innis, 1995]

For the province, the answer lay in addressing the long term, contradictory trends of work and

[3] In 1998 with the collapse of Asian economies and Japan gripped by a deep recession, BC entered into a major recession. With such different conditions, the fundamentals of its previous jobs and investment strategy clearly require major changes even though the policy rationale remains as relevant as ever.

employment through its jobs and investment strategy. At the time, British Columbia had a very strong record in job creation. Forty-four thousand jobs were created in 1993 compared with 99,000 in the rest of Canada. More than three-quarters of these were full-time positions; half of the new jobs came from self-employment situations. In terms of men and women, men accounted for 77 percent of the new jobs and all were full-time. Women's new jobs were evenly split between full-time and part-time work.[*British Columbia Financial Review*, 1994:63] In 1993, employment growth in goods production increased 3.3 percent, well ahead of Ontario's performance, once the national leader in industrial job creation. For resource-dependent British Columbia, the top labour market priority was to address the decline in wages and salaries. This meant finding ways to prepare people for the kinds of changed circumstances that they faced. With highly paid jobs becoming scarcer, for many their incomes would decline unless new employment opportunities were created.

The fastest areas of job growth, such as in accommodation and food services as well as in financial services, remained the traditional kinds of 'enclaves' in the labour market, largely dependent on a part-time and casual workforce, mainly first-time entrants and women. This group faced very different earnings and life prospects from 'core' workers in the export-industry. Those in the export industries, by comparison, had a much higher degree of economic security because of collective bargaining agreements in place.[4] [Hayter and Barnes, 1992] Nonetheless, for more than a decade, the services industries had failed to close the 'wage gap' with the goods-producing industries. Part of the explanation was that the BC labour market had witnessed a new form of labour market segmentation between a functionally flexible, smaller core labour force in primary industries and a numerically larger peripheral one in the rapidly expanding service sectors. Real personal income remained flat in the province and had not made up for the 3 percent drop it suffered in 1991.

BC’s, Ontario’s and Quebec’s Jobs and Investment Strategies Compared

[4] According to February 1995 earnings and employment trends, average weekly earnings in primary industries amounted to just under $900 in comparison to only $540 in services in 1994, a wage gap of about 40 percent. Not all of the service sector is low-wage or at the low-end of the wage spectrum. Education and transportation sectors are better paid ($675 and $769 average weekly earnings respectively) than the rest of service economy.

British Columbia Model Capturing andDemocratizing Rents	**Quebec Model A Cluster Competitiveness Strategy**	**Ontario Model Going Global -- A Hybrid Market Strategy**
. main objective is to link job creation and economic renewal . main instrument -- capturing resource rents . main challenge is to co-ordinate levers and drivers of the economy . principal instrument -- co-ordinated capital spending across government ministries including: . a labour market outreach program for traditionally disadvantaged groups in the labour market . a large scale infrastructural investment through TFA . co-ordination of BC Crown Corporation through the Crown Corporation Secretariat . strong commitment to protect government procurement policy and make it exempt from NAFTA provisions -- largely successful despite lack of support from other provincial jurisdictions. . all stakeholders at table to negotiate rent distribution -- most advanced government in terms of involving the public in economic planning rather than consultations	. main goal: to enhance the chain of value-added production of high-tech growth oriented firms; invested heavily in a sector industrial strategy . main objective: to increase exports in sectors strongly competitive in foreign markets . principal agency: Ministry of Industry, Commerce and Technology . key components include: . state-owned enterprises still have a major role in Quebec . one percent compulsory payroll tax to upgrade labour market skill levels of workforce . aggressive science and technology policy -- the most generous tax subsidies of G-7 countries . *Innovatech* highly successful venture capital to promote leading edge Quebec firms . job creation record poor; unemployment above national average . no developed link between stakeholders and economic planning	. main focus: to build an enhanced comparative advantage for its leading industries and firms on a sector basis . main success story: selected buyouts and bailouts to rescue leading firms in trouble . key components include: a voluntary sector strategy; left to the individual firm to change. results have been predictably poor . two private sector partnerships, but the province can finance major highway cheaper than the private sector . *jobsOntario* -- centrepiece of the government's community development and labour market outreach; an umbrella kind of legislation to direct the province's public infrastructure investment; often a mix of 'bricks and mortar' with innovative labour market outreach . little interministerial co-ordination or public participation along the lines of the BC model . future growth trajectory. Ontario is becoming a low tax corporate jurisdiction with labour standards to match; corporate taxes lower than in neighbouring US states . no institutionalized role for stakeholders

Source: Drache, 1997.

BC 21: Core Elements and Policy Instruments

BC21 was originally conceived as an alternative to the restraint management policies of the previous government that flattened the province's economy by a mix of corporate tax cuts and capital spending restraints. In a period of rapid growth and change the Harcourt Government believed that it needed a comprehensive plan and economic strategy for the province to address the complex dynamics of trade and employment. The last time a government produced a comprehensive plan for BC was in 1944 when the W. A. C. Bennett Government prepared the *Post-War Rehabilitation Plan*. This plan guided BC's development in a period of rapid growth and change. With the pace of change in the modern era rivalling that of the post-war period, there was a need to reexamine the role of the Province of British Columbia in this rapidly evolving environment.[*Working Together*, 1995:2] The legislation that created *BC21* was designed to provide a stable basis for long-term growth not just by building schools and highways, but by supporting an expanded and modern regional infrastructure. Its mandate provided the strategic justification to make major investments in natural resources, skills training and government planning.

The Harcourt government built its jobs and investment strategy around major pieces of legislation, The *Build BC Act* and *BC21.* Together these key legislative initiatives can be thought of as a "made in BC" version of a strategic trade and employment policy model. Co-ordinating the 'levers' and the 'drivers' has been the focus of the province's developmental strategy. Not only has it created a superministry, the Ministry of Employment and Investment (MEI) to co-ordinate its activities but it has used *BC 21* as its implementing agent: making strategic investments by the government and its Crown Corporations in public infrastructure, building major transportation links, establishing government partnerships with the private sector to expand science and technology industries, promoting out-of-province capital and trade investments in BC, and co-ordinating innovative job creation and adjustment strategies. The principal components are:

< *BC21* co-ordinates the social capital spending of major government ministries and Crown Corporations.

< Through the *Special Account* with startup funds of $100 million, *BC21* assists traditionally disadvantaged groups in the labour market and supports imaginative community development projects. Many of the projects are imaginative, often low-cost and help individuals who have been part of the marginal work world or excluded from meaningful employment opportunities such as the downtown women's program in Victoria involving street women and another involving aboriginal youth who are being trained in the cultural stewardship skills developed by the Royal British Columbia Museum in co-ordination with the University of Victoria. Many grants are linked to improving fish stocks and have strong environmental dimensions to them.

< The *Build BC Act* establishes the *Transportation Financing Authority (TFA)* which oversees and co-ordinate the modernization, future planning and effective funding of BC's railways, roads, bridges and ferry system.

< British Columbia's *Crown Corporations* make a major contribution to the economy each year. In order to increase their effectiveness, a Crown Corporation secretariat has been established to co-ordinate their capital spending and integrate their activities within the broad aims of *BC21*.

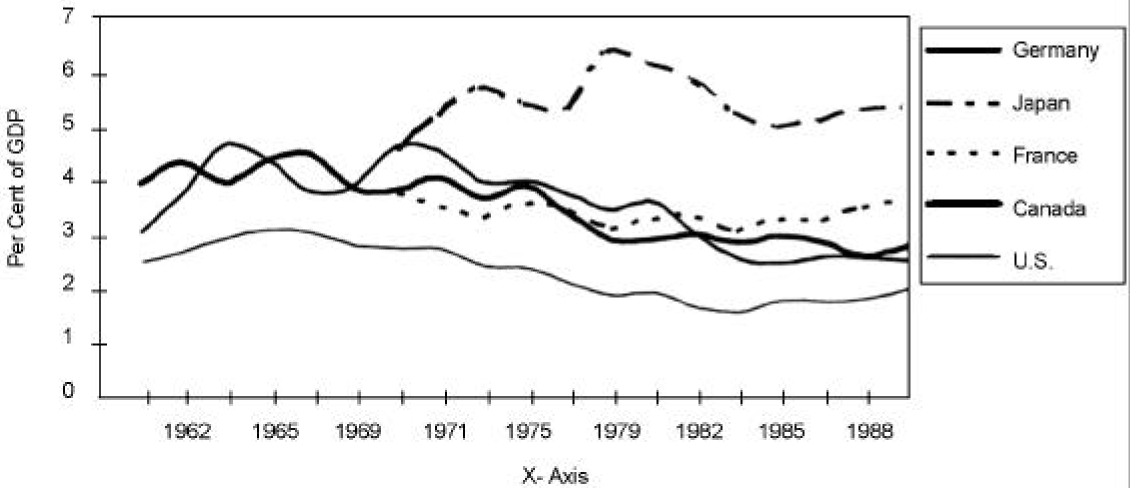
< The *Build BC Act* includes a vision statement that commits the government to develop an economic strategy for the province. The future of the province's economy was extensively addressed through a major consultation process that involved representatives from business, labour, local government, First Nations and academe to examine the range of options for "a sustainable development plan for British Columbia". There were two Premier's Forums on Jobs and Investment in July and November of 1994 and a Premier's Summit on Strong and Secure Economy for British Columbians in January 1995.

< *BC21* is responsible to encourage private sector investment projects that do not involve industry subsidies. The legislative framework for making loans and equity investments exists through the *Industrial Development Incentive Act* and the *Financial Administration Act*. As well, funding under the *Industrial Development Incentive Act* has been increased, thus giving the Ministry a variety of ways it can participate on commercial terms in private sector investment projects.

Easing the province's transition to a 'post-staples' future has been one of the top priorities of the BC's jobs and investment strategy in the area of public capital investment. Capital investment broadly defined remains one of the most important areas in provincial hands. The BC government spent over $1.4 billion in the social capital envelope in 1993.[Informetrica, 1995] As a percentage of GDP, BC's infrastructure investment has actually been declining in recent years. Provincial investment in health, education, and Crown Corporations including transportation stood at 1.80 percent of GDP in 1980 and dropped to 1.62 percent in 93-94.

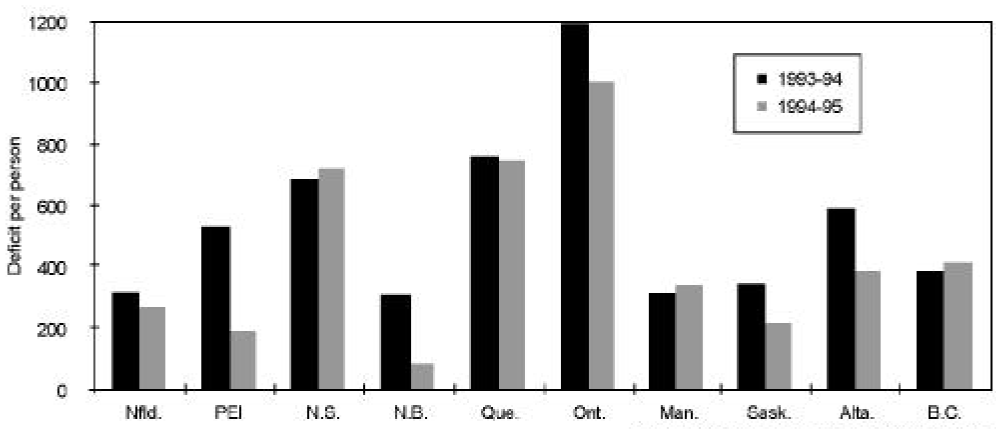
According to international comparative data, Canada is one of the lowest spenders on R & D, skills training and product development among the G-7 countries. National spending on Canada's infrastructure, an important indicator of a country's long-term health, also declined since 1960.[See table, *Declining Public Capital Investment Expenditures in Canada and Selected Countries 1960-1990*] In a recent major article, Wylie examined the relationship between infrastructure and the productivity slowdown. [Wylie, 1994] He discovered that expenditures by all governments on infrastructure fell from 5.93 percent per year to only 1.21 percent between 1946-73 and 1973-91. The decline was most pronounced for capital growth stocks in hospitals, schools, universities, hospitals and other institutions, falling from 9.91 to 0.56 percent per annum.[Wylie, 1995:48]By contrast, most provincial jurisdictions are forecasting much smaller budget deficits ahead or at least have plans to reduce their deficits significantly.

Divergent Public Capital Investment Expenditure Canada & Selected Countries, 1960-90



Source: OECD National Accounts; Government of Ontario, Ministry of Finance

Smaller Provincial Deficits Ahead- Potentiality for State Spending on Jobs and Investment?



Source: Statistics Canada, Public Institutions Division

If BC was to make the transition to a modern diversified staple economy, a forward-looking investment strategy was essential for improving the productivity performance in its goods industries. Towards this end, the Harcourt government created a short-term program designed to be a testing ground to address in an innovative way job creation, training and skills development for traditionally disadvantaged individuals and groups. It was to be accessible to community groups from all of BC regions to enhance community-based development. The inspiration for it came in part from the highly successful *Manitoba Jobs Fund* which had created work and employment opportunities in this western province.[5]

'The Crowns': Another Powerful Instrument

A second and related way that the Government attempted to change the public enterprise culture of the province was to use state enterprises or crown corporations as another powerful instrument in BC's jobs and investment strategy. The province's 23 Crown Corporations and government agencies are a unique feature of British Columbia's economic and social development. In 1993-94, they contributed over $1 billion in revenues to the public purse. By comparison, natural resource revenue from petroleum, natural gas, minerals and forests generated another $1.7 billion. The leading government enterprises such as BC Hydro, BC Rail and Ferries as well as BC Liquor and Lottery Corporation generated revenue from the sale of services at commercial rates and paid their own operating expenses. Economic development Crown Corporations usually sell services to the public. Since these services are considered a 'public good', they may require subsidization. The BC Ferry Corporation, BC Transit, BC Trade and Development Corporation, Columbia Power Corporation fall into this category. Since Crown Corporations incur major debt and are major borrowers in international money markets in order to finance operations and capital projects to deliver varying types of services, their spending decisions have "implications for broader corporate and provincial goals and strategies."[CCS, 1993:1] Using the crown corporations as quasi-market actors became a key part of BC's jobs and investment strategy.[6]

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[5] The *Account* spent slightly less than $100 million in 1993-94 on community labour market outreach programs. Twenty million was earmarked for community kinds of grants; *Homes BC* received $20 million; *PowerSmart* $17 million; forest worker development program $32.6 million and the balance was divided between 18 agencies.

[6] To meet BC's growing needs, the Government created the *Transportation Financial Authority* to co-ordinate the cost of overhauling and modernizing the province's transportation system. The Harcourt government made a major commitment in this critical area. The *TFA* plans to invest some $400 million per year to improve highways; the BC Transit plans to spend another $200 million on rail improvements; and BC Ferries has allocated $80 million. The *TFA* approach reflects a new orientation to transportation planning in two senses. First, it proposes new partnership arrangements among different levels of government and with the private sector. It calls for greater reliance on the private sector to develop new facilities and services through competition and innovation.

Forest Renewal

One of the largest undertakings of BC's job and investment strategy has been to address the structural problems of the forest industry through the Government's forest renewal strategy to revitalize the province's forests. Resource production continues to be undertaken by big, often foreign-owned, multinationals. Corporate concentration in the wood products industry has become more pronounced since World War II. The concentration of exports by a handful of firms continues to dominate the BC economy. The five largest exporters in the manufacturing sector accounted for 67.5 and 69.3 percent of exports in 1981 and 1986. [7] This lack of economic diversification in the leading resource sector has brought BC to a developmental 'crossroads'. Since 1979, over 25,000 jobs have been lost due to downsizing, technological change and new competitive pressures. At the same time, productivity gains are not being transformed into high value-added products. This long-term problem is due to the kinds of primary forest products produced in BC compared with jurisdictions such as Chile, Argentina and New Zealand. The low levels of technological investment and innovation in this sector have exacerbated the process of adjustment

Even though forestry, mining and fishing continue to play a dominant role in the economic life of the province, these traditional sectors no longer are enough to secure BC's economic future. Between 1983 and 1993, goods-producing employment showed a gain of 51,000 jobs, an increase of only 11.6 percent. Between 1971 and 1989, service employment grew by 13 percent while the share of resource industries (logging, wood products, paper and allied products, mining and primary metals as well as agriculture and fishing) declined by more than 25 percent to 26 percent of total employment. Three-quarters of the province's workforce are now employed in the service-side of the economy

The most difficult step for the industry and unions was to reduce the annual cut. In 1994, the provincial government announced a new Forest Renewal Plan that would reduce the annual cut and but increase stumpage and royalty rates. The latter measure was expected to generate up to $2 billion in investment over the following five years in the forest land-based economy. (The recent collapse of primary marketss for BC forest products has changed all this.) Nonetheless, the aim was not only to reduce the production of logs, lumber and pulp and paper but, more importantly, to develop new products and more efficient cutting methods through diversification. The increase in revenues from stumpage and royalty payments was supposed to give the BC government significant economic resources to restructure the industry. By being prepared to share these revenues with the logging communities, environmentalists, trade unionists and the powerful resource giants, the government gave itself a powerful lever and the means to involve all

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[7] The same pattern exists in wholesale exporters, 83.5 and 87.1 percent, as well as the province's two largest service firms that accounted for 46.0 percent and 63.0 percent of service sector exports.[Hayter and Barnes, 1990]

the major social actors in the planning process.

In theoretical terms, the idea was that countries that foster a social consensus between the principal social partners due to their institutional arrangements are likely to be more competitive than societies which are organized around rent-seeking market actors. If social harmony can be turned into a competitive advantage, then, social stability becomes an important part of economic decision-making. [Albert, 1993] In this regard, the experience of British Columbia offered important lessons for other jurisdictions. It demonstrated that all the interested parties could come to the table, negotiate with each other and arrive at a consensus no matter how difficult the process, particularly when real decisions are made that affect their individual and collectives interests.

Strengths and Weaknesses: The Challenge to Diversify

Despite a range of instruments linking trade and employment, the BC government was not able to develop a set of co-ordinated policies to shift the strategic centre of the economy away from the existing resource base towards the emergence of new industries. Without this development, the province has not been able to support a range of employment and skill opportunities to address the future employment needs of the province.

The major policy deficit in its approach was that the government had a jobs and investment strategy but it did not see the need for having a diversification plan for the province. A strategy of diversification requires building links between forestry, mining and fishing sectors; finding ways to integrate these different resource industries with the fast growing service-side of the economy; balancing dramatic changes in labour market practices with private sector investment aims; protecting equity objectives from the relentless drive to enhance efficiency; transforming a static comparative advantage into a dynamic one; and empowering BC's regional economies to grow and prosper with leading-edge sustainable environmental practices. Under the best conditions, all of these goals are difficult to reconcile and the current economic downturn in British Columbia makes it very difficult for the government to take this step.

What was lacking were new institutional arrangements to complement the government's labour market priorities and technology transfer goals. In concrete terms, the BC government did not have a restructuring plan to give the province's resources industries the capacity to develop new products, a better productivity record and the capacity to sell in highly competitive US and Pacific Rim markets. The danger is that BC will continue to have an economy whose principal competitive advantage is to compete on labour costs and the volume advantages of its resources. It has yet to define a growth trajectory "to go up market, not down".[*Working Together*, 1995] For instance, employers find it more economical to poach skilled workers from other firms and the incentive to invest in training is low. BC policy-makers have to look for ways to strengthen inter-firm co-operation that would require sector-wide training by all firms in an industry along the lines that exist in Italy or Germany. So far it has done little to address this major policy gap.

British Columbia still does not have a detailed analysis of how it could develop effective networks between suppliers, customers and producers to realize economies of scale and other cost-saving measures. The concept of sectoral partnership takes different forms depending on regional, community and sector needs. What works for building the electronic highway with users, private companies, universities and business will be dramatically different from a sector partnership in sophisticated wood products. If there is to be better integration between government strategic planning, communities, the labour movement and business, it is essential that the long-term analysis contained in the government's jobs plan be extended to sector and regional levels. Should this not happen, then, this sort of exercise can well turn out to be a source of disillusionment and "a calculated deception of the public at worst."[Wellar:3] An effective jobs and investment strategy has to ensure that the internal dynamics of government do not work against having a focused set of policy instruments.

Investing in new technologies and new production techniques remains the most effective way to improve the overall productivity of a modern economy and the standard of living of its citizens. The preferred option is for companies and communities to discover that by adding more value by processing wood into finished products higher revenues are generated than through the export of rough lumber and raw pulp. More skilled products require a better trained workforce to produce these products and more sophisticated machinery. In the words of BC's *Jobs and Investment Strategy*, high-value economies "tend to spiral up, rather than down, as they build on their investment and experience. High-value economies have high level of savings and investment and offer high-skill, high-wage jobs."[*Ibid*:5] Redefining the terms and conditions that British Columbia's industries participate in the global economy is critical. Signficantly, many of the government's traditional tools are not designed to do this. If BC is to prosper, it has to have policies similar to the advanced economies of Europe and Japan rather than Mexico and Taiwan.

As the economy is expected to move into a slower growth mode, numerous communities which depend on a single sector for their livelihood will "face a gradual erosion of their economic base."[*Round Table*, 1993:43] British Columbia continues to have many areas in the province which derive more than 40 percent or more of their income from single resource industries. In mining and forestry communities, the transition to a different kind of economy has been arduous. Unless there is a strong commitment from government to a regional development plan which was not a leading element of its jobs and investment strategy, many of BC's interior communities will face an uncertain future and likely economic decline.

Finally, the outlook of BC's fast-growing, high-tech service industries is far from positive. Foreign revenues generated by the service sector remain small by comparison with the wealth generated by the resource-side of the economy even though in recent times they have shown capacity for growth.[Hayter and Barnes, 1990] These niche-level industries represent a dynamic component of the BC economy, but they are relatively small and often unable to survive for a long time. At a time when the export of services is seen to be one of the growth frontiers of the future, British Columbia prospects are paradoxically uncertain if not poor in this key sector. It has not been able to transform its comparative advantage in ways that it had anticipated and as a result it has not been able to diversify its dynamic resource sectors. As a result, the transition to more diversified production strategies appears to be slower and more uneven than many have previously believed.[8]

Quebec: A Cluster Competitiveness Strategy
Context and Background

With high unemployment, lower per capita income than other provincial jurisdictions and a weak French-speaking industrial class, Quebec's industrial development has needed a strong policy hand from the state. Successive Quebec governments have committed themselves to expanding the financial management capacity of government. This has entailed creating a variety of centralized agencies to enhance the role of government in economic planning.

Since the Quiet Revolution of the sixties, Quebec has relied upon state-owned enterprises to create jobs and investment opportunities for its citizens. These publicly-owned enterprises have been the chosen instruments by which all Quebec governments have achieved a broad range of social, commercial and industrial objectives. As well, they have developed a range of sector policies, job training programs, support to small- and medium-sized firms, infrastructure investment in schools and hospitals as well as other kinds of programs to promote the development of indigenous science and technology for Quebec firms.

By the 80s, many of these policies had succeeded.[Gagnon, 1993] State-owned enterprises acted as bankers, traders, investors and producers. Many were in competition or co-operation with private enterprises in finance, forest products, steel, mining, oil and gas and television. Many proved to be useful instruments of government; others proved to be more problematic. Some were costly failures. State-owned enterprises such as Société Québecoise d'initiatives pétrolières (SOQUIP), Société générale de financement (SGF), Quebec Steel Corporation (SIDBEC) and Société de récupération et d'exploration forestière (REXFOR) were used by government to achieve commercial and industrial ends. Subsequently, a large number were sold or privatized. Nonetheless, those that remain, like Société de financement, continue to have important interests in aluminum, forest products and metal mining, and are important to the PQ government because these state-owned enterprises continue to be powerful instruments to transform Quebec's organizational and industrial culture.

In an era of globalized markets, Quebec government has also been forced to rethink its industrial strategy for two reasons: first, productivity gains have been uncoupled from future employment growth in the goods producing-side of the economy. Trade is no longer automatically job-

[8] Barnes [1995] has shown that the skewing of the economy towards resource extraction has become more pronounced since the 1981 and 1986 downturns in the economy. So far BC's jobs and investment strategy has not been able to reverse this trend, but it is premature to make a definitive judgement in this matter.

enhancing as it once was in the mass production sectors of the economy. The number of workers employed in the manufacturing sector has continued to drop and the growth in personal disposal income has been declining since the 80s. Secondly, the 'old infrastructure ' kinds of investment have had to be rethought in order to support the growth of high value-added industries in the service-side of the economy. Quebec has had a strong position in newly formed industries such as multi-media and computer design. As well Quebec has been a leader in the field of engineering, largely as a result of the very large expenditures in R & D and training programs of Québec-Hydro.

Recent Quebec governments have used a mix of state-owned enterprises and a special emphasis on science and technology to enhance provincial job-creation. The current PQ government has developed a number of partnerships with the private sector in the area of venture capital but its most innovative feature has been to enhance the chain of value-added production of high technology growth-oriented firms by means of a cluster strategy inspired by the research and writing of Harvard business consultant Michael Porter. The PQ inherited this policy from the previous government and has considerably refined it. The idea has been to create a core group of high performing sectors and firms capable of winning new market share particularly in the US. The principal agency carrying out this strategy has been the Ministry of Industry, Commerce and Technology.

Growth in Per Capita Consumption and Real Personal Disposible Income

	1970-1979	***1980-89***	***1990-1995***
Consumption	***3.8%***	***1.8%***	***0.0%***
Personal Disposal Income	***4.7***	***1.3***	***- 0.3***

Source: Ministère des Finances, *The Québec Economy*, 1996, p.49.

Quebec's Cluster Strategy*: *Principal Elements

In place of a 'broad brush' industrial policy of a Keynesian kind, the Quebec government has adopted a new sector, or cluster approach, organized around innovative individual enterprises with strong growth prospects. It has targeted the value-added enterprise as the Quebec model.[Gagné and Lefèvre, 1993] This is because many Quebec-based enterprises are small and are grouped together by sector ties rather than by location. The idea, inspired by Michael Porter's work, is to create synergy between dynamic growth-oriented firms by enhancing the chain of value-added production.[Porter, 1991] The hope is that the 'desirable' jobs will result if Quebec is able to expand its science, technology and computer programming sectors. While job-creation was not given the same high-level visibility as it was in British Columbia and Ontario, nonetheless, planning officials regard their cluster strategy as an integral part of building strong competitive Francophone industries. In this sense, the Quebec government is committed to investing and supporting the new information-age industries in engineering, design and financial services.

Thirteen sectors have been identified which are strongly competitive in foreign markets or have expanded their share of the domestic market in Quebec. Four groups have been singled out including mass transportation equipment constructors and aerospace industries; generic firms in computer software; firms capable of building sophisticated technological automated systems; and those building environmental products or information systems. It is possible that other sectors will be added in the near future.

The principal goal, targeted by the new strategy, is to assist firms and sectors not with subsidies as in the past, but to develop a long-term sector plan to increase exports and maximize the value-added throughout the production chain. The core idea is that the Ministry of Industry, Commerce and Technology has to provide leadership and assistance to create a different kind of environment for Quebec firms to flourish. The Quebec government has also been prepared to support its co-ordinating role with direct financial and regulatory assistance to industry.

This approach is tailored to Quebec's industrial structure and the government has invested heavily in it. There are 150 government professionals who work with sectors and firms from regionally-based bureaus. A large part of their time is spent finding ways for sectors to upgrade their manufacturing, training and industry practices. They do this by creating forums that will require firms to upgrade voluntarily skill-training in their firm, adopt leading management practices and intensify the pace of technology diffusion and adoption. Forums are used as a major organizing tool. This brings together representatives from different enterprises to solve common problems. The Ministry also has a small amount of funds it can use to seed pilot projects. Ten million dollars has been set aside to encourage more rapid diffusion of skilled personnel such as engineers. Recently, the Ministry has insisted that trade union representatives also be at the table when strategic discussions about the future of the sector take place.

This cluster strategy has received mixed reviews in public policy circles. One line of criticism is that Quebec has not a wide range of industries to enhance the chain of value-added production. Porter's policy ideas assume that Quebec's economy is no different from the highly sophisticated and technology-endowed economies of the American Eastern seaboard states. One of the problems encountered by the Quebec government has been the need to adapt Porter's ideas to the specificity of Quebec's industrial structure. In doing so it discovered that Quebec has fewer industrial sectors capable of forming viable clusters than was originally thought. To make matters more complex, many of Quebec's leading high-tech firms such as Bell Helicopters, Bombardier and Bell Canada do not need this kind of government cluster policy and have not participated in this policy initiative.

The practical result is that with many leading firms 'opting out', Quebec government officials have had to work with small firms that, more often than not, do not have the resources, the products or the market presence to become 'value-added' enterprises as was hoped. Many are at a different stage of their corporate development and have found difficulty in relating to the government's initiative. While labour-intensive industries and resource-intensive industries continue to dominate Quebec's manufacturing sector, the government has had more success with its information technology, consulting engineering and biotechnology firms. Montreal is a centre of Canada's large international pharmaceutical firms and Quebec is an important location for basic research in the field in Canada.

Another difficult challenge facing Quebec's cluster strategy is that Quebec's exports continue to be dominated disproportionately by its resource-based industries. An analysis of the composition of its exports shows that Quebec's comparative advantage has not been transformed in the medium-term by this kind of strategy. It continues to have a large technology-deficit in sophisticated goods even though Quebec's export industries such as aircraft and parts, electricity-based products as well as in telecommunications equipment have been successful in foreign markets. Particularly in the area of the transmission equipment and hydroelectric infrastructure facilities Quebec is a leading producer in these sectors. Many small Quebec firms have carved out specialized niches in these product areas. This phenomenon can be explained in part by the critical role of Hyrdro Quebec and its research institute, Institut de recherche d'Hydro-Quebec in supporting research and product development among small enterprise. Without this financial support from state-related enterprises, most Quebec firms could not have achieved the same results on their own.

Yet, so far Quebec's indigenous entrepreneurs in leading sectors of the economy have not been able to win back market share lost to foreign firms. While small business growth has been an important phenomenon in Quebec and rapidly growing, the areas of leading specialization remain heavily resource-related. For instance, Quebec is 30th among world exporters and its goods account for 25 percent of the world trade in newsprint, 56 percent of asbestos, 15 percent of aluminum and 5 percent of electrical energy. Its single largest high-valued added export is engines and its products account for close to 4 percent of the world trade. Still, information technology exports remain an important but small part of the total value of Quebec's exports. This sector remains dominated by large manufacturers of telecommunications equipment. Overall, of its top 10 principal exports, better than half depend on its traditional resource-base including aluminum and alloys, newsprint, lumber, wood pulp, copper, precious metals and alloys. Total international exports were valued at $16.5 billion in 1993 and of that $8.3 billion were from its traditional 'rocks and logs' industries.

Science and Technology Initiatives

In the area of science and technology, the Quebec government has also been highly active addressing Quebec's long-term need to support innovative firms without subsidies, but on a commercial basis. For this reason, it has created a different kind of state agency that is not owned by it. The government has established an arms-length venture capital corporation, *Société Innovatech*, with an opening balance of $300 million. It operates independently of government much like a BC Crown Corporation. In other respects it is quite different. The Minister has a right to nominate only one non-voting member to the board of directors.

Located in Montreal, *Innovatech* has acquired assets in leading-edge high tech firms worth $600 million, a debt-asset ratio of 1:6. If successful, these investments are meant to provide a permanent revenue flow for the future.[*Ibid.*] When one of its firms returns a profit, *Innovatech* will use these revenues to support new investments in others. In the meantime, it has developed an initial investment strategy. It targets 'stage one' firms which need start-up capital to develop products; 'stage two' firms, those that need a large capital infusion to penetrate a market with a product; 'stage three' firms that need outside financing to grow.

Venture capital financing normally has a success rate of about one in ten. So far, *Innovatech* has achieved a much better results from its initial investment choices. Based on its initial success, the PQ government has decided to create two others, one in Quebec City to serve the surrounding regional economies and a third, to promote innovative firms in the rest of the province. No further expansion is envisaged. About 50 percent of the 'acquired' firms are in computer software; a second group is in medical, non-pharmaceutical kinds of industries. In addition to its investment activities, *Innovatech* provides expert advice to other investment syndicates such as the 'Caisse' and the Fond de Solidarité. It also participates in venture capital syndicates.

Investing in the Information Highway

Another initiative taken in the 1990s by the government has been to support the information highway. It has established a $50 million fund for this purpose. The fund has three principal goals: to develop the Francophone content of new information-based technologies; to encourage the state to be 'first in' and adopt new information technologies through government; and to support firms that are high technology users. Basically, this initiative was designed to prepare Quebec for long-term development and not to pay for the 'nuts and bolts' of the information infrastructure.

Not surprisingly, the program has been over-subscribed by eager businesses looking to get access to some of these funds. The Ministry has received more projects than there is money available to hand out. In addition, it has experienced other difficulties. Many of large Quebec-based firms such as Bell, Hitachi and Digital have been more concerned with having the government pay the up-front infrastructure costs of building the 'information highway' rather than adapt English language software for Francophone users.

The area where the program has shown the greatest promise has been in having state institutions like hospitals adopt the newest technologies. Often, public sector agencies do not have the funds to buy the latest information system. It is always costly to be the 'first in' and one advantage of this program is that it pays the difference between standards costs of the 'old' software system plus the new costs of training personnel and other peripheral costs associated with new information systems.

Tax Credits: Are they Worth the Money?

Finally, Quebec has the most generous system of tax credits for companies who are engaged in R & D. It wants to use the tax system to create an enhanced comparative advantage in its race to 'better' its Ontario-based competitors. Its tax expenditures are publicized as among the "most favourable in the world" if not the most favourable among OECD countries. Expenditures devoted to scientific research are fully deductible from taxable income and may also entitle a taxpayer to a federal investment credit equivalent up to 35 percent.

The advantage of the Quebec tax credit is that a firm receives a cheque for a refundable tax credit, depending on the firm size and amount of money expended regardless of whether it makes a profit or not. No other jurisdiction in the OECD has such a generous tax incentive program. For example, Michigan, California and Illinois are nowhere near as generous. Industrial leaders such as Sweden, Japan, Italy and Germany have rejected these kinds of measures as inefficient and wasteful.[*Conference Board*, 1994] The problem is that once firms become dependent on this 'disguised' form of subsidization, they look to government to pay for the research rather than invest themselves.

Nonetheless, the Quebec government believes that this policy has been successful as a business incentive. Five years ago, the government refunded $60 million dollars to firms; in 1995, it sent out cheques to firms totalling $330 million. Eighty percent of its R & D expenditures are made through this program and half the recipients produce information technology products. One important feature of this program is that firms which form partnerships with university-based research institutes are able to deduct 100 percent of the costs of related equipment, salaries and other expenses. For university researchers, this is a highly attractive feature of the program and has helped form a link between private sector needs and university-based research particularly in the engineering sciences.

Promoting publicly-funded R & D in institutions of higher learning has been an important aim of the government. R & D expenditures carried out by all universities totalled $844 million in 1992 and Quebec's share was about 30 percent. In Canada, more than half of industrial financing for university R & D is invested in Quebec. Quebec's share was even higher in the scientific sectors, natural sciences and engineering.[*Ministry of Industry, Commerce and Technology*, 1995] Another part of its science and technology policy is to encourage business to form partnerships with Quebec's universities as well as create publicly funded research centres. Both the federal and the provincial governments have contributed to these kinds of "liaison and transfer" centres in a variety of ways. In 1994, the Quebec government direct aid was in the order of $13 million. These include: Biotechnology Research Institute, Centre de recherche industrielle du Québec, Centre de recherche informatique de Montréal, Centre de recherches minérales, Centre for Information Technologies innovation, Defence Research Establishment Valcartier, Food Research and Development Centre, Industrial Materials Institute, Institut de recherche en électricité du Québec, Institut de recherche en pharmacie industrielle, Institute of Magnesium Technology, Maurice Lamontage Institute and National Optics Institute. All these measures are designed to make Quebec a leader in technological innovation and automation and to support the long-term goals of its industrial policy.

Jobs Creation: An Uneven Record

So far, the cluster synergy has not materialized to the degree anticipated. One area where the deficit is pronounced is in terms of job-creation. While there has been a growth of small firms in many sectors, the number of new jobs has proved to be disappointing. In particular, Quebec's jobs and investment strategy rests largely on a highly optimistic reading of the growth prospects of small- and medium-sized businesses. Developing competitive clusters oriented for international markets also poses significant risks in the area of job creation. Quebec has been a high unemployment economy since the 1980s. Normally, its unemployment rate is well above the national average and only in 1998 has its unemployment level dropped below 10 percent. The Ministry of Industry, Trade and Technology states that Quebec needs to create more than 500,000 permanent quality jobs by the year 2000. Even if this target were met, it would leave Quebec with an unemployment rate of more than eight percent. Just how realistic is this employment policy aim? In 1992, full time employment declined by 3.4 percent while part-time job creation grew by 9.3 percent. The picture improved considerably in 1993 with full-time employment increasing by 1.3 percent and part-time employment declining by 3.5 percent. What these figures reveal is that Quebec is nowhere near its goal of creating 75,000 good paying permanent jobs annually.

Persistent high levels of unemployment continue to erode the economy's ability to create enough jobs. On only two occasions -- in 1988 and in 1989 -- has Quebec's unemployment rate fell below ten percent.[Quebec, 1966b] As Quebec's economy has become more open to foreign markets, this has contributed to large-scale structural change in the labour market. While Quebec has redefined its labour market and welfare programs to limit state intervention and social benefits, its industries still need to expand their markets. Efforts to penetrate the Canadian market in other provinces have often not succeeded. The initial impact of the free trade agreement has not been spectacular given the context of the recession. Nonetheless, Quebec's exports to the US now surpass those to Ontario, previously its largest export market. Some of this increase in exports is due to the fact that leading industries there are selling more automobiles, aeroplanes and computer parts to American buyers. Yet, despite this stronger performance, only a few sectors specialize in high value-added activity and much of the economy continues to produce more traditional kinds of goods based on a static comparative advantage.

So, if these present trends continue, building a diversified economy remains very much an elusive goal at this point in time rather than an emerging reality. Quebec's cluster strategy however, is important because it represents a new point of departure for Quebec government thinking in terms of jobs and investment kinds of initiatives. In the recent past, Quebec government policy supported the creation of state enterprises and small and medium-sized firms in order to allow Quebecers have greater control over their local market. Now the imperative has changed. Quebec's strategy emphasizes increasingly the importance of international markets as a principal goal and this requires a different kind of Quebec firm, one that has the technology and expertise to compete in the highly complex and demanding US market.

The growth of indigenous-based capital as well as the emergence of strong regional groupings within Quebec has allowed for the diversification and growth of local firms. [Bélanger, 1993] In particular, these changes were made possible by Quebec-based financial institutions such as the Caisse Populaire and the Mouvement desjardins, highly successful credit unions that support local industry, as well as the Quebec government agency, the Caisse de Depot that invests both government funds and retirement savings of Quebecers for the purpose of developing strong and viable Quebec-based firms. The overall success of past government policies to support the economic renaissance of Francophones has prompted the present government to refocus its efforts away from firms in declining industries towards those with long-term growth potential.

Despite the various accomplishments of the last decade and the many new initiatives to support a 'high-tech private-sector Quebec', the province is faced with many unresolved structural problems. The most important in terms of job creation is that the province remains over-specialized in resources and under-specialized in many of the high value-added sectors. The transition to a more mature economy has yet to occur to the degree that the current generation of public policy-makers anticipated after a decade of energetic state policy by various administrations. Small firms continue to be highly unstable, much of the employment created in the service industries is often short-term and temporary and Quebec still lacks a province-wide system of innovation that matches the needs of the enterprise with the skills of Quebec's highly trained workforce.

The Ontario Model: Going Global -- A Hybrid Market Strategy

Context and Background

With the onset of the current economic crisis in the early 90s, Ontario's newly elected social democratic government headed by Bob Rae developed an array of policy instruments to overhaul the comparative advantage of the province's industries as well as "promote equitable structural change" throughout the economy. Between its electoral victory in 1990 and its defeat in 1995, the Rae government's choice of policy instruments reflected a highly pragmatic approach to promoting economic renewal. It adopted a market-driven competitive strategy to reshape Ontario's competitive advantage, enhance market access to the US market and provide support for Ontario-based firms facing large-scale adjustment problems. Under the Rae administration, Ontario took many initiatives to modernize the province's infrastructure, invest in job skilling for its workforce and develop a sector strategy to foster industrial competitiveness.

The key objective of the Rae government was to "to upgrade Ontario's capacity to respond quickly and creatively to economic change." It sought to do this by encouraging industrial innovation, skills improvement, a greater technological capacity for industry and a focus on a sectorial strategy. Ontario produced one of the most sophisticated

Output and Employment Shares by Industry Division, 1984-1994

1984 1994

Industry	Output %	Employment %	Output %	Employment %
Primary	3.4	4.0	2.4	3.0
Secondary	32.0	28.6	28.8	23.0
Service Sector	57.2	60.9	62.2	67.8
Public Admin	6.7	6.5	5.9	6.3

Source: Ontario, Ministry of Education and Training, 1996, p.12

plans on paper for economic renewal in Canada with principal goals, main objectives and macroeconomic priorities clearly established. Its point of departure was to rely on a state-led industrial policy to anticipate, adjust and adapt Ontario's economy to global change.[9]

What triggered the government to act was the severity of a structural crisis that began in the mid-1980s. Ontario's industries have faced long term painful adjustment problems subsequently. Provincial unemployment levels reached new highs. More than 65 percent of major layoffs in recent times were the result of permanent plant closures compared to only 24 percent in the 1982 recession. As well, there has been a decline in the terms of trade for its resource products, one of the traditional strengths of the Ontario economy. Job-shedding has been widespread. It is estimated that Ontario lost one industrial job in five in its goods producing industries since the 1988 recession began. Studies show that most of these trends will continue into the next decade. [*Restructuring Ontario's Economy and Labour Market*, *1996]*

Core Elements and Policy Instruments

The severity of the above conditions was reflected in the government's highly visible, focused and pro-active jobs and investment strategy. Its central policy premise was that government can help business by enhancing the individual competitiveness of the leading firms on a sector by sector basis.[Drache, 1992] The state's role was to make Ontario as attractive as possible for new investments by cutting the cost of doing business in Ontario.[*Ontario Budget*, *1994*] The Rae government's industrial and employment strategy had five distinct parts in all including: repeated buyout and bailout aid to Ontario companies in difficulty; a broad sectoral strategy bringing together business and labour in such diverse industries as aerospace, construction, machine tools to develop innovative industries with the latest technology; a variety of private sector partnerships; *jobsOntario* -- a high profile community-led labour market outreach initiative; and an upscale public investment infrastructure program that included using Ontario's Crown Corporations.

Bailouts and Buyouts

[9] The key policy statements are: *1991 Ontario Budget*, *Budget Paper E "Ontario in the 1990s: Creating Equitable Structural Change*; *1992 Budget, Supplementary Paper, Investing in Tomorrow's Jobs: Effective Investment and Economic Renewal*; *An Industrial Policy Framework for Ontario, July, 1992* and *Public Investment for Economic Renewal, 1993.*

The Rae government used provincial money in a selected number of instances to rescue major private companies in deep financial trouble. The big names included: Spruce Falls Power and Paper Co., in Northern Ontario; Urban Transportation Development Corporation, Kingston Ontario; DeHavilland Aircraft Canada, Toronto; Algoma Steel, Sault Ste. Marie; and Mitel Corp., Kanata.[*Globe and Mail*, May 23, 1995] On the face of it, its rescue strategy was surprisingly effective. Jobs and communities were saved and firms brought back from edge of bankruptcy.

Even if many governments have turned away this kind of economic managerialism associated with the Keynesian policies, state aid continues to be an instrument of modern governance in many jurisdictions for good reason. Often it is in the public interest that leading firms be saved from collapse and jobs protected by public bailouts or buyouts. [Boyer and Drache, 1996] When required, state funds are used to rescue large regional, national or foreign firm(s) that are too important to a regional economy to have them shut down. The EU has approved major French state aid to companies such as Crédit-Lyonnais (1995-6), Air France, (1994) Bull (1994) and Thomson Multimedia (1996) in recent times. The French examples are not isolated instances of this kind of jobs and investment initiative. State aid continues to be used in many jurisdictions to provide transitional support for industries in strategic sectors of the economy such as aerospace and computers. In other situations, public money will be made available to assist enterprises to help them restructure in order to prevent significant job loss

These kinds of policies such as bailouts and buyouts are always a high risk exercise because each corporate failure has its own individual history of mistakes, mismanagement and bad judgement. Yet, despite the large risks involved in these rescues, most of these large Ontario-based firms are now in good financial shape and many are profitable. The loans guarantees, training grants, repayable loans and other kinds of regulatory assistance have helped get these major companies back on their feet and preserved core jobs throughout the province. To date, the Ontario government has been lucky that so many have done well. Much of this is due as to an improving economy, a lower dollar, adequate financing, labour-management joint problem-solving, a larger role for labour in the firm and effective new management practices as an important part of the rescue plan itself. In any event none of these firms would have had a second lease-on-life had it not been for the fact that the government chose to rescue these companies in financial trouble when no bank or other financial institution was ready to come forward with the necessary financial resources. Only then did the government become a "strategic investor". In retrospect, it can be seen that these companies share a number of characteristics in common: all were located in growth sectors with the exception of the Spruce Falls mill; all were heavily capitalized and had national and international market potential if additional funding became available; all had strong regional growth potential; and, finally, labour's support and co-operation in reorganizing the productive facilities was critical.

A Broad Sector Strategy

Ontario, like Quebec, has invested heavily in building sector working groups. In more than 20 sectors, industry and labour co-operated with the government to develop sector strategies. Some of the more interesting were in auto parts, to increase auto parts exports to Europe and Japan; in food processing, to develop higher valued-added products and pilot production runs at the University of Guelph; in the grape and wine industry, to improve the product quality and consumer acceptance of Ontario's wines. In other sectors, the initiative had a broader mandate. The Green Industry Strategy at the Ontario Centre for Environmental Technology Advancement supported the development, commercialization and the marketing of environmental technologies. A similar initiative existed in the health industry where the government established a public-private partnership to assist consortia management services and not-for-profit agencies who want to bid on international projects. Some were in critically strategic sectors involving Ontario's machine tool and die makers.

The centrepiece of its sectoral strategy was the *Sectoral Partnership Fund* (or *SPF*), a $150 million initiative over three years. This money was to lever other funds from industry, labour and government. The Fund was to provide seed money to develop multi-firm strategies in a given sector to strengthen technological capability, fund technology centres, support joint marketing efforts, upgrade skill training and, wherever, promote leading-edge industry practices. One of the more innovative features was to have all of the 'stakeholders' at the table. The sectoral initiatives program created a forum where business, labour and government tackled difficult short-term as well as long-term issues that were preventing Ontario's industries from becoming high value-added producers.[Gertler, 1995]

Despite much initial promise, the results have been inconclusive. Sector groupings had difficulty in producing a credible and realistic joint plan of action to lead to deep changes of practice or new relationships between business and labour. Even in the area of technology transfer, it is difficult to gauge the effectiveness of these sectoral groups. Gertler suggests that part of the reason has been the absence of an explicitly geographical framework to achieve new institutional outcomes by building different kinds of network relations. This is important because without this dimension, Ontario lacks one of the key ingredients for strengthening its regionally-based industrial system.

If the spatial dimension does not exist, it makes it very hard to have a multi-party dialogue between firms, unions, the government and local communities. He gives the example of the Industrial Research and Development Institute created to develop new technologies for its tool and die related industries. The Institute is located in Midland, but the firms are situated in the west end of Toronto, a good hour and a half driving distance from there!

The deeper problem is that the work of these sector groups does not oblige employers to change permanently any of their workplace practices. Training is voluntary and is left to the discretion of the individual firm's best judgement. So unless the regulatory framework demands more of leading firms, the only result of this kind of initiative is a 'wilderness of single instances': a few successes, many missed opportunities and too many failures. Despite a large amount of state activism, the inability to define and co-ordinate labour market and technologically dynamic initiatives has not brought about any long-term qualitative change in the economic relations between Ontario's economic actors.

Private Sector Partnerships

Like BC and Quebec, the Ontario government was looking to forming private sector partnership in order to make public administration more efficient and effective in delivering services. Ontario invested considerably in two major such efforts. First, was the Windsor Casino which was not really a private sector partnership, but a regulated industry in which the government has played a large and continuing role in setting "the rules of the game" under which the Casino operated. Given the special problems connected with establishing publicly regulated gambling, it presents a special case for government.

The second initiative was the building of a toll highway 407 in partnership with the private sector near Toronto to relieve the over-congested highway 401. Getting this partnership off the ground has been a difficult exercise. Initially, the major contractors wanted exclusivity over the project. Essentially, business did not want to compete against other consortia and have the cost structure lowered through a competitive process. Nor were the contractors prepared to assume the financial risks associated with a private partnership arrangement. They wanted the government to impose high user fees while the project's financing was to be guaranteed by the state. There were other problems as well. Private operators were looking for a 20 to 30 percent return on capital, much higher than what the government needed to charge if the highway was financed out of public funds. What business expected was a steady stream of revenue financed by public authority.

Another component of its jobs and investment strategy has been to help small businesses expand and grow. The Ontario government established the *Ontario Lead Investment Fund* with $200 million pool of investment over ten years to increase the availability of venture capital. The fact that the fund was small with limited resources is evidence that state support for small business has not been a major priority in this jobs and investment strategy. As well, it encouraged the growth of labour-sponsored investment funds to fill gaps in the venture capital market by changing the legislation to improve this kind of financing. Compared to Quebec, Ontario had no equivalent to *Innovatech* to play a leading role in supplying venture capital to highly innovative firms. Instead, it chose to compete with Quebec and offered a tax refundable credit to encourage small- and medium-sized firms to spend more on R & D. This tax expenditure will reduce the after-tax cost of R & D for these firms by ten percent.

jobsOntario -- *A Program of Community Development and Labour Market Outreach*

jobsOntario was the centrepiece of the government’s jobs and investment strategy and the program spent billions of dollars on government-induced projects. More than five billion dollars was invested in new infrastructure works for highway upgrades, rapid transit expansion, new entertainment and sports facilities. As well, it included *jobsOntario,*a $1.5 billion program to provide skills and employment training. *jobsOntario Homes* is a four-year program expected to generate some $2.1 billion in capital activity. Part of the funding came from Ontario's share of cost-sharing programs with Ottawa, but much was funded out of Ontario's general revenues.

Many existing programs were folded into this umbrella kind of legislation and many new initiatives were undertaken. It had responsibility for providing public housing, labour market adjustment, community-economic development, skills training and other capital works. It also was given the task to co-ordinate the province's public infrastructure investment in highways, schools, hospitals and water and sewage facilities. Finally, some of its projects were done jointly with the private sector while other projects are shared with municipalities.[10] They run the gamut from constructing day-care centres, building mining and forestry access roads, a violent kids school program, computers in schools, maintaining snowmobile trails, sewer and water grants, support for the National Ballet, community policing high-technology projects as well as grants for construction of public buildings such as new courthouse and the building of new transit lines in Toronto.

Public Infrastructure Investment

Investing in Ontario's infrastructure was one of the priorities of the NDP government's jobs and investment strategy. The Rae government was committed to providing a range of public services such as health, education and the capital infrastructure essential to a healthy environment. If the province is "to prosper in the increasingly competitive international economy, Ontario will provide these services as efficiently as possible."[*Ontario Budget 1994*:44]

It took a number of initiatives to modernize the province's infrastructure. Many were cross-cutting and were not specific to any ministry or any one program. For instance, *jobsOntario* assisted communities with capital infrastructure projects funded under its capital spending program. It was also the umbrella agency responsible for major projects such as the Metro Convention Centre, the building of non-profit housing, the newly initiated $1 billion Highway 407 with the private sector, new funding for strategic university and college projects, the expansion of four new subway lines and the Canada-Ontario Infrastructure works.

Finally, the government created four Crown Corporations with a mandate to invest in infrastructure projects. Ontario planned to spend $3.8 billion for 1994-95 on social capital

[10] This umbrella program included: *jobsOntario* capital funding infrastructure projects with municipalities and in partnership with the federal government; *jobsOntario Homes* to support new investment and jobs in public non-profit housing. As well, *jobsOntario Summer Employment* pays employers for training and adjustment programs for students to acquire on-the-job experience. Another component *jobsOntario Community Action* supported community-led development programs. Finally, *jobsOntario Training* have been involved in the bailouts both at Algoma Steel and Spruce Falls Power and Paper Corporation.

infrastructure projects. The new corporations were to provide "a more business-like and entrepreneurial approach" to capital spending. The Ontario Transportation Capital Corporation was to develop highways, rapid transit and other transportation services; the Ontario Clean Water Agency was to assist municipalities provide more cost-effective water and other services as well as better land use planning; the Ontario Reality Corporation managed the government's capital investments, particularly with respect to provincial land and buildings; and the Ontario Financing Authority was to assist these Crown Corporations to finance these capital investments at the most attractive market rates available. Its role was to help the Province borrow and invest money and ensure that its capital projects were completed more quickly and at a lower cost.

In establishing this financial Crown, Ontario expected to find itself on a more comparable footing with other provinces which already had adopted similar measures. In centralizing financial management for the Province, the OFA was intended to place greater emphasis on self-supporting debt to finance capital projects and conserve its credit to finance capital borrowing at highly competitive rates. It was intended that the Financial Authority would revamp the capital spending side of government management practice.

A Closer Look at Ontario's Industrial and Jobs Strategy: Costs and Benefits

These initiatives met with mixed success and did not have the intended results at the sector or macro-economic level. While Ontario industries continued to modernize and acquire the latest technologies, knowledge-based industries did not become the principal driver of the economy. Ontario's economy continues to rely largely on its traditional industries, namely, autos and auto parts, food-processing and 'metal bashing'. The only exception was the export of business equipment and information systems explained by IBM’s world product mandate for its Toronto-based facilities. This was (and is) the one high-tech area where Ontario's economy has considerable strength. Overall, Canada’s central province remains dependent on its high-specialized core smokestack industries as it's best hope for a strong growth in the future.

While Ontario has almost 70 percent of Canada's high-tech industries, these industries are not likely to be the cornerstone of its future. Of 14 countries surveyed by the OECD in its 1994 *Jobs Study*, Canada had only 10 percent of its industrial employment in high-tech manufacturing industries. France had 18 percent; the UK, 19 percent; Germany, 20 percent; Ireland, 20.5 percent; the US, 21 percent and Japan led the way with 22 percent. Another way to understand the contradictory dynamics at work in Ontario's industries is to look at projected productivity growth and job creation in key areas of the economy.

The most striking trend is that sectoral output gains have not been translated into equally impressive levels of employment growth. Not only has employment become uncoupled from productivity growth for its traditional industries, but this latest development also applies equally to the 'bright spot' of the Ontario economy, namely, auto and auto parts. It is expected to add only 22,000 new employment positions by 1998. The forecasted lacklustre employment outlook comes at a time when this industry has been shedding jobs in record numbers. Between 1984-91, auto employment grew steadily, if somewhat modestly, at 1.9 percent annually; the sector lost 4.3 percent per year between 1989-91 and has only marginally recovered in 1991-93 with a modest 1.5 percent growth.[*Ontario Economic Outlook*, 1994-1998]

For many other Ontario goods producing industries, the trend is downwards with no prospect of gaining back many of the jobs lost since 1988. In traditional blue collar industries -- steel, plastics, chemicals and fabricated metal products -- the news continues to be poor. Between 1989 and 1991, these sectors lost 6.7 percent, or almost 40,000 jobs, and another 5 percent, or 20,000 in the 1991-1993 period.[*Ontario Economic Outlook 1994-1998*] With industrial job creation much weaker than anticipated, and Ontario's service industries also cutting jobs in retail sales, financial and clerical services, the 1990s recession has left hundreds of thousands of Ontarians unable to find steady employment. Far too many young and middle-aged men and women have been excluded from the benefits of Ontario's modest economic recovery.

Faced with the magnitude of province-wide adjustment the government has employed a range of measures to enhance the competitiveness of Ontario-based firms. These included cutting payroll taxes for new employees to create jobs and to provide additional tax incentives for R & D expenditures. Ontario's payroll taxes and employer-paid health benefits on new employees will be 29 percent lower than in Quebec and 49 percent lower than the average in the United States.[*Ontario Budget 1994*:3-4] Lower electricity rates for many big users; a freeze on Workers' Compensation assessment rates; a three year public sector freeze on wages as a result of its Social Contract and the exemption of new hires from the Employer Health Tax.[*Ontario Economic Outlook 1994; Ontario Budget 1994*]

As well the province made a policy of competitive deregulation an unofficial part of Ontario’s jobs and investment strategy. Although initially never a central element of its stated objectives, the NDP government used this to promote Ontario abroad as a ‘low-tax’ jurisdiction with wage and labour standards to match. For instance, corporate income tax rates for manufacturing firms in Ontario at 35.3 percent are lower than tax rates in neighbouring jurisdictions such as Michigan (36.5 percent) Tennessee (38.9 percent), Illinois (39.7 percent), Ohio (40.8 percent) and New York (41.7 percent). At a 40.0 percent tax rate, the US average is considerably higher than Ontario's.

Competitive De-Regulation: Another Element in Ontario’s Strategy

Another reason why US businesses locate in Ontario is that Ontario's payroll taxes, as a percentage of gross salaries and wages, are low compared to neighbouring jurisdictions. The average effective tax rate is only 8.2 percent on a new employee in Ontario; 11.5 percent in Quebec and 16.2 percent in the US. Add to this the fact that Ontario's manufacturing unit labour costs measured in US dollars fell by 14 percent between 1991 and 1993 it is not difficult to see why Ontario's competitive position has improved.

As important as all of these measures were, the main reason that Ontario was able to protect its industrial core from further erosion came from another quarter. The Minister of Finance publicly acknowledged in his 1994 budget how much of Ontario's competitive advantage depends on a devalued Canadian dollar. "The depreciation of the Canadian dollar accounted for most of this improvement."[*Ontario Economic Outlook 1994*:12] It is fiscal, labour market regulation and currency advantages like these that reveal Ontario's bottom line. Much of Ontario's economic restructuring is shaped by powerful structural forces rather than by any specific set of government policies and practices. Certainly, its elaborate policy documents do not always reflect the conditions on the ground. Often the government is unable to restructure the economy in ways that make it possible to maintain and improve incomes of those employed in core manufacturing industries or support the goal of promoting "equitable structural change". Nonetheless without its jobs and investment strategy Ontario’s industries would have paid a much higher cost both in terms of job-loss as well as plant closures.

Faced with an unprecedented economic recession that hit Ontario’s mass production industries hardest, in retrospect, it can be seen that Ontario adopted a highly pragmatic approach to promoting economic renewal. Its jobs and investment strategy was market-driven with a large role for government and with many policies that were business-supportive. In these conditions, economic restructuring has been largely propelled by proximity to the US market as much as its conditioning framework. Certainly, the NDP government sought to exploit its closeness to the US market as a principal feature of its jobs and investment strategy. Unlike British Columbia, Ontario did have a sector strategy. It has been ambitious and built on the previous government’s policy initiative. Largely, it was a voluntary plan that does not require individual sectors to take significant steps to reduce Ontario's technology deficit.

Finally, its job creation plan appeared to be inadequate faced with the magnitude of structural adjustment that its industries were experiencing. Many of the new jobs coming on stream in the future will not require a highly skilled workforce. Employers understand this trend, metal-bashing and sub-assembly production work do not require them to invest in training programs. This is why they were reticent to pay for skilling that is not needed. Instead, workers "will be leaving their heads at the door" even if they have received some skills training. If these trends continue, Ontario's labour markets will be increasingly organized around a sharply polarized part-time work world. In these conditions, the transition to a knowledge-based economy will not occur easily, automatically or rapidly.[11]

Jobs and Investment Strategies: The Challenge for Government

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[11] What is outside of this approach is any focused policy measure to address Ontario's high levels of foreign ownership or the need to diversify the economy and strengthen the position of local producers in Ontario’s domestic market.

Still the key question remains: how important are government-organized jobs and investment programs in affecting long-term change in the economy and in the domain of job-creation?

As we have seen, jobs and investment strategies are not instant policy panaceas that can reverse long-term problems in the industrial fabric of a regional economy overnight. In each jurisdiction examined, difficult problems remain unaddressed. British Columbia continues to be principally a resource-based economy; Ontario's core industries, outside of its large and dynamic auto and electronics sectors, consists of many small inefficient branch-plant firms; and Quebec still not does not have an integrated industrial structure. Even if the transition to a mature industrial economy increasingly requires this kind of pro-active state policy, a jobs and investment strategy has clearly defined limitations. The most important is that regional authority does not have access to fiscal and monetary policy, the most powerful lever of modern governance. For instance, in terms of regional competitiveness, exchange rate fluctuations were responsible for 89 percent in the changes in unit labour costs in Quebec in the recent period. [Ministère des finances, 1996, 13] To expect that BC's jobless rate or that of any other jurisdiction will shrink due to increased exports is, to say the very least, unrealistic.

Nonetheless, a job and investment strategy is particularly effective in a deep recession when exports are the main vehicle pulling the economy. As we have seen, in a highly open setting one of the preconditions of a successful jobs and investment strategy is that it relies on short-term price and demand advantages during the upswing of the export-driven business cycle. This being said it is also clear that there are drawbacks of relying on exports to fuel domestic growth. For instance, in Canada, an export-led recovery dependent on regional exports has not restored consumer confidence, the vital ingredient to spark an investment and a consumer-led recovery. Only a stronger domestic economy and renewed consumer demand can fill the void left by lower exports.[12]

Still, in all three instances a jobs and investment strategy remained an major policy instrument with significant benefits. British Columbia began to address in complex ways its transition to a 'post-staples' economy. Ontario succeeded surprisingly in protecting its industrial core despite strong and persistent pressures from US business interests to desert Ontario for other production sites in North America. Quebec was in the process of refocusing its cluster strategy and is expected to develop a more fully-articulated job-creation strategy shortly.

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[12] Canadian exports have grown little since the beginning of 1997 but many economists believe that the economy is firing on all cylinders nonetheless. Tim O'Neill, the chief economist with CIBC predicts the jobless rate could fall to 7 percent by the end of the decade provided that GDP growth remains in the area of 4 percent annually. His scenario explains why Canadians are more optimistic about the future prospects of the economy than any time during the past ten years. However, the threat of higher interest rates is likely to cut short this feisty consumer-led burst of enthusiasm. *Financial Times*, August 21, 1997.

The fact that regional authority believed it had a responsibility to develop new policy instruments to address the challenges of job-creation, investment-led restructuring and new export opportunities was itself a significant development. It suggests that government, once again, is looking at ways to be a more effective macro-economic manager of the economy. At a time of rapid internationalization if countries are not to risk losing their technological dynamism, they have to develop new responses to a world dominated by relentless price competition. This remains the primary rationale for taking a studied look at the efficiency and productivity- enhancing results from a focused and co-ordinated jobs and investment strategy.

Conclusion

In the period 1990-1995, the experience of the Canadian authorities teaches three significant lessons.

First is that government programs are never sufficient to protect a region from industrial decline and the loss of competitiveness. In a global economy, there are many other factors that are equally important such as the severity of the global crisis on the region; the flexibility of core sectors or industries of wealth-creation; the institutional capacity for industry-wide technological diffusion and adaptation; the level of inter-firm co-operation; the capacity of trade unions to contribute to restructuring; the amount of foreign direct investment; the availability of state resources to renew the infrastructure; the level of R&D expenditure at the firm and industry level; the presence of regional networking arrangements among firms; new sub-contracting arrangements; the effectiveness of sector adjustment strategies; unemployment levels; diversity and specialization of exports; the level of import penetration; and, of course, the degree of access to world or regional markets. All these factors directly affect the institutional capacity to mount an effective jobs and investment strategy.

Secondly, the success of a jobs and investment program depends to a very large degree upon the dominant firm's regional strategy and the way sectors are organized at the industry level. Contemporary research on regional restructuring underlines the fact that regions that are capable of sustaining strong and dynamic regional industries are those that have a high level of inter-firm co-operation, specialize in industries that have future growth capacity and can diversify, support regional networking so that the sub-contracting between suppliers and producers remains intra rather than extra-region. As well, high wage regions often have very innovative business cultures once the low wage option is closed off. For example, in the highly successful industrial districts in Tuscanny, Italy and Baden-Wurttemburg, Germany, business cannot compete by lowering wages but must rely on the quality of its products and its technological edge.[Reich, 1991] These regions are endowed with many small and medium-sized firms who compete in world markets, have highly skilled workforces and have long had many industries with an innovative capacity. [Markusen, 1995] Often they specialize in very specific kinds of industries, have unusual institutional networks of production, possess a strong cultural identity and have determined regional governments prepared to support regional industries.

By contrast, Ontario, Quebec and British Columbia lack the technological capacity to organize their industrial core industries as high-value added export centres. One reason for this is that leading Canadian firms in high-tech industries are increasingly taken over by US corporations. For instance, in Quebec and Ontario, many of Canada’s leading high tech firms with an international reputation in software development in the field of computer graphics and design have been bought out by major US interests. This too poses a significant obstacle to Canadian business competitiveness.

Without a strong local base, many medium-sized Canadian firms lack one of the essential ingredients that would give them a much better chance in a highly competitive world. They are more vulnerable than other national business cultures to the new competitive pressures because they do not exercise effective control over their corporate future. Their growth prospects are not as bright as they could be because regional business cultures have not yet found a way to use the domestic market to diversify their industries and generate strong employment growth.

Thirdly, faced with these radically altered circumstances, governments have to learn to do more with less resources. It requires government to become more strategic in the way it acts and uses its financial capital. Strategically, regional authorities have to find ways to make the 'drivers' of the economy and its public policy 'levers' work together rather than against each other. A jobs and investment strategy that hopes to succeed has to recognize the limits on government as a planner and agent of change. With the state itself becoming internationalized, government cannot be the principal agent of economic change any longer. It can be the catalyst and the lead partner, but any successful model of jobs and investment requires the state to reach out and involve the principal stakeholders. They have to be at the table and part of the planning process. For many governments, rethinking the consultation process is a formidable task.

New state forms are also needed to encourage new relationships to form between different social actors. Without this critical dimension, there is no reason to expect that quite different kinds of social relationships will emerge from government-sponsored policy activism. Increasingly, the continuing challenge for public policy-makers is to find ways to transform a society of narrow rent-seekers into rent-sharers. Sharing ' the economic rents' from technological change requires the state to intervene and create public forums that bring all social partners to the table. Having business at the table is the first step towards ensuring that the wealth generated from the introduction of new technologies and human resource strategies will be equitably allocated for developmental and other social needs.

Today, government has to re-engineer itself in a self-consciously innovative manner. The challenge is to open the planning process to the broad public without having the decision-making process captured by powerful private sector actors and without weakening the critical role of government as the guardian of the public interest. Without these measures and with business more footloose than ever, regional open economies not only in Canada, but throughout the industrialized world, will face a highly volatile international order that threatens their industries and communities.

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