

NUMBER 11
1992 - 1993

**ALBERTA AND
NORTHWEST TERRITORIES
JOURNAL OF
PLANNING PRACTICE**

ALBERTA ASSOCIATION
CANADIAN INSTITUTE
OF PLANNERS

REGIONAL DIVERSIFICATION POLICY IN ALBERTA

Ian MacLachlan

Planners in Alberta cope with the most uncertain provincial economy in Canada. Using an index of regional economic instability, Mansell and Percy (1990) clearly established the variability of Western Canada in general and Alberta in particular. Whether measured in total personal income, gross domestic product, employment or population, Alberta has experienced greater variance in the amplitude of its business cycle than any other province. This volatility has far reaching ramifications for urban and regional planning. Planning depends on assumptions about future growth and nowhere else in Canada are these assumptions more tenuous than in Alberta. For example, Edmonton's Census Metropolitan Area dropped from an annualized growth rate of 6.0 percent over the 1976-1981 intercensal period to 0.4 percent between 1981 and 1986. Oil sands megaprojects caused the City of Fort McMurray to grow by 16.2 percent per year over the 1971-1981 intercensal period but this plummeted to -0.1 percent per year from 1986 to 1991. While these examples illustrate extremes, they portray the regional pattern of boom and bust resulting from specialization in relatively unstable resource sectors.

The volatility of the Western economy is generally attributed to its dependence on crude and semi-processed resource exports: petroleum, gas, and grain in the case of Alberta. And while there are other stabilization policy instruments, diversification has been commonly perceived as the best way to attenuate the amplitude of the business cycle. The most concerted effort ever undertaken to

diversify the West began in 1987 with the creation of Western Diversification Canada as a federal government department.

On August 4, 1992 Western Diversification Canada (WD) celebrated its 5th birthday. This anniversary provides an excellent opportunity to examine WD's mandate and programs and to assess the allocation of funding under its various programs. This article opens with a framework for conceptualizing regional economic development policy in terms of sectoral diversification and spatial diversification. It then considers how the Economic Council of Canada's Western Transition (1984) contributed to WD's policy orientation. The circumstances surrounding the creation of WD, limitations of its initial program structure, and the principles underlying the newly created Western Diversification Program are described. The paper concludes with an analysis of WD approved projects in Alberta to highlight some of the trends in the regional and sectoral distribution of funding.

The coordination of regional economic development programs in Canada was centralized for nearly twenty years in the Department of Regional Economic Expansion (DREE, 1969-1982) and its immediate successor, the Department of Regional Industrial Expansion (DRIE, 1982-1988). However these agencies never produced an overall plan for regional economic development. While traditional land use planning bases its policies on detailed goal-oriented documents generated through a structured process, higher levels of government in Canada have generally avoided formal planning exercises. Richardson (1989, 27) characterizes regional economic development as "planned land use without land use planning." Hodge (1991, 291) notes that regional economic planning takes place at the programmatic level, without explicit plans for facilities, resources, or land use.

The centralized approach to regional economic development came to an end in 1987 with the creation of three regionally based economic development agencies: the Atlantic Canada Opportunities Agency responsible for the four Atlantic Provinces, FedNor in Northern Ontario, and WD in the West. WD represents a fundamental change in the focus of policy administration yet, like its predecessors, it has not undertaken an explicit or public planning

process to conceptualize diversification and to evaluate the efficacy of programs in relation to regional development goals.

CONCEPTUALIZING REGIONAL DIVERSIFICATION AND DEVELOPMENT POLICY

Canadian planners confront a bewildering array of policy programs with an explicit or implicit focus on the social welfare, economic development and stability of regions. Federal government departments with explicit regional mandates (such as Western Diversification Canada), line departments with tangential regional concerns (such as Agriculture Canada) and economic development departments at provincial and municipal levels have all been involved in cooperative programs. The goals of these programs may be broadly conceptualized as varying along two axes (Figure 1).

The "Spatial Diversification" axis measures the degree to which policies are geared to spreading growth throughout rural and peripheral regions (dispersion) or to focusing growth in larger centres (concentration). DREE began with an explicit growth pole orientation. By 1980, DREE's Regional Development Incentives Program covered 93 percent of Canada's land area and over 50 percent of its population (Savoie, 1992, 81) including many large metropolitan areas. In contrast, programs operated under the former Agricultural and Rural Development Act (ARDA) and the Fund for Regional Economic Development (FRED) were explicitly concerned with peripheral regions and services for traditional resource extraction industries.

The vertical axis of Figure 1 represents "Sectoral Diversification". It ranges from policies which permit and encourage a broad array of different economic activities to diversify a region's economic structure to an emphasis on specialization in a narrow range of industries which exploit regional comparative advantages. A truly diversified approach encourages the development of any sector that is under-represented in the region. Thus an economy based on agriculture, fishing or forestry should endeavour to move into high value added manufacturing. The construction of a multi-million dollar plant to assemble Bricklin sports cars in New Brunswick is an infamous example of such diversification efforts.¹

The neoclassical economic doctrine of regional comparative advantage suggests the reverse approach. Regions should specialize in the commodities in which their resource base gives them a cost advantage relative to other regions. Specialization implies a narrow economic base with increased interdependence between regions with complementary comparative advantages. The most appropriate regional policies would be those which encourage the provision and upgrading of infrastructure to foster growth and development of the existing economic base. Calls for improved rail service to assist in getting Prairie grains to market fall into this category.

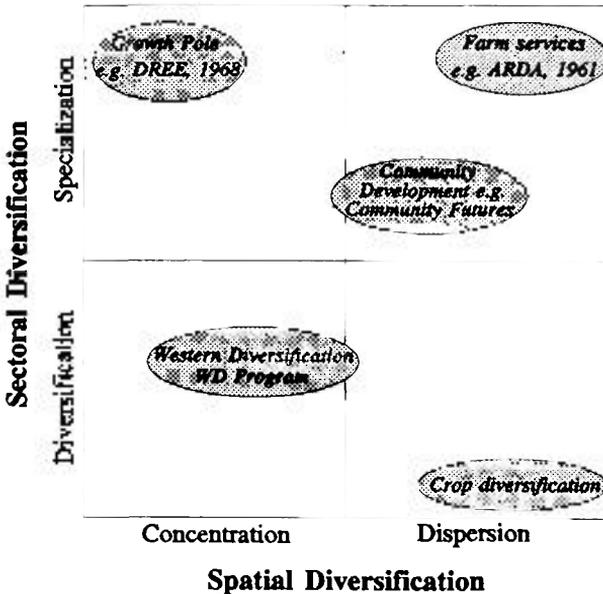


Figure 1: Conceptual Framework for Regional Development Policy

PLANNING DIVERSIFICATION

Dependence on a narrow industrial base has been a perennial concern of urban and regional planning. While region-specific comparative advantages may have been the impetus for concentrated economic growth, there is often concern that these regions are over-exposed to the vicissitudes of product markets, foreign competition, or raw material shortages.

Cities which specialize in one particular economic activity tend to benefit most from region specific comparative advantages. Ironically, it is those same precincts which most want to dilute their comparative advantage and broaden the scope of their economic activities. For example, the City of Toronto has experimented with policies to curb office growth in the downtown and increase the level of manufacturing activity in the inner city. But in south-western Ontario, the City of Windsor has persisted in attempts to become less dependent on manufacturing. The thrust of economic development policies in many Western Canadian cities is to foster anything except traditional activities in the administration and logistics of resource extraction. Smaller centres which specialize in the provision of a diverse range of low level services to local markets have launched economic development programs to identify local resources and develop a specialty that exploits new market opportunities. Thus diversified centres want to specialize and specialized centres want to diversify: far-away hills look greener.

Sectoral Diversification

In the narrowest strategic sense of the word, diversification implies the addition of new activities to the corporate portfolio which are wholly unrelated to existing operations. In this sense, diversification is an alternative to vertical or horizontal integration. However, the meaning of the term "diversification" has come to have three additional dimensions in its application to economic development:

1. Intrasectoral diversification: the production of new commodities within existing industries (e.g. the introduction of beans and canola cultivation to Alberta's existing crop base).
2. Market expansion: developing new markets for existing industries and promoting increased output (e.g. increasing Prairie grain exports to the Pacific Rim).
3. Vertical diversification: the development of industries related to traditional resource extraction. Upstream industries may produce the materials and capital equipment required for resource extraction (e.g. fertilizer, farm machinery) while downstream industries may process and add value to crude resource products (e.g. meat packing, flour milling).

While the service industries are the largest and fastest growing sectors in every Canadian region, they are particularly vital in the West because services represent the best opportunities for growth and diversification and they tend to be more recession-resistant than other sectors. However, many economic development policies are implicitly or explicitly biased against the service industries. Thus the Economic Council (1984, 165-166) recommended promoting technological change in Western Canada's service sector especially in transportation and utilities where improvements in the productivity of distributive services would reduce the costs of exporting resource products.

In the past local government policies have shown a preference for manufacturing over service activities (Gertler, 1990, 44). In recent years however, development policy has begun to recognize the potential for services to become an active propulsive sector. The Economic Council (1984, 166) advocated a more active role for municipal government in facilitating the growth and development of service sector firms. Some of the technology intensive producer services such as agronomy research, oilfield services, petroleum engineering, and cold climate construction technologies have the potential for export to world markets. This underscores the versatility of service industries. They may contribute to all three dimensions of diversification: intrasectoral diversification, market expansion, and vertical diversification.

Spatial Diversification

The second element of Western Transition important from the point of view of diversification was its emphasis on agglomeration economies². To exploit these economies the Economic Council (1984, 181) advocated growth and diversification in larger urban areas: "For the largest proportion of economic activity, larger cities promote growth in efficiency through agglomeration." Not only are larger cities more efficient, they also tend to be more stable through the economic cycle. Taking unemployment as an example, the Economic Council (1984, 170) argued that the smaller centres of Western Canada tended to experience much higher unemployment rates in recessive conditions than did metropolitan centres with their proportionally larger service sectors. For political reasons, the Council could not explicitly recommend a sink or swim approach to

Western Canada's towns and villages but it came close. "The western provinces should recognize that too much emphasis on preserving small communities could have economic costs" (Economic Council of Canada, 1984, 181).

This amounts to an endorsement of the growth pole concept and a recommendation that economic growth and sectoral diversification efforts be spatially concentrated in larger urban centres.

At the same time, with the publication of Western Transition in 1984, there seems to have been renewed concern about the welfare and development of smaller communities. One of the six components of the Canadian Jobs Strategy announced in 1986 was the Community Futures Program which saw the establishment of twenty-five Community Futures Committees in small towns and rural communities throughout Alberta. Scores of locally based development organizations (LDOs) have been established in Canada's smaller communities as a form of grass roots economic development initiative. In its assessment of these local organizations the Economic Council of Canada noted (1990, 15) that while the Atlantic Canada Opportunities Agency had funded eight LDOs in 1988-89, WD had not assisted any. While the WD has still not supported a single LDO, it has funded organizations which promote specific sectors such as: Alberta Food Processor's Association, Canada Beef Export Federation, and the Canadian Manufacturer's Association. The only locally based associations receiving funding were the Calgary Transportation Authority and the Edmonton Regional Airports Task Force, both oriented towards the privatisation of airports. Unlike the ACOA, WD has had a distinct sectoral thrust to its diversification strategy but no discernible interest in spatial diversification.

THE MANDATE OF WESTERN DIVERSIFICATION CANADA

By 1986, it had become clear that the West was not recovering as quickly as the East from the recession of the early 1980s. Demand for oil, gas, and agricultural exports had fallen and their prices had plummeted (Carmichael, 1986). The vulnerability of forest product exports to protectionism was confirmed by trade disputes and

countervails over shakes and shingles and softwood lumber. The Western economy was once again in a bust phase and calls for a regional diversification program were justified by the fact that Western Canada had 30 percent of the nation's population but only 16 percent of its manufacturing output. Only 10 percent of Western Canada's employment base was in manufacturing compared to 17 percent for Canada as a whole (Canada, no date, 18). But the Department of Regional Industrial Expansion was unpopular in the West because its programs were perceived to be biased in favour of the interests of Central Canada and the problems of Eastern Canada (Byfield, 1987; Savoie, 1992, 140). Thus an entirely new agency was organized.

WD was designed as a tailor-made solution to Western Canadian economic problems with three unique features.

1. WD's goal is to reduce Western dependence on resource industries and target new products, new technologies, and new markets. With the status of a full government department and a head office in Edmonton, WD is the first federal department to ever be located outside of the Ottawa-Hull region. It has provincial branch offices in Winnipeg, Saskatoon, Edmonton and Vancouver.
2. The WD has a unique matrix organization that provides expertise in all of the principal economic sectors. Sectoral analysis teams are headquartered wherever the expertise resides (Savoie, 1992, 149). For example, the head of agricultural analysis is situated in the Winnipeg office, energy is directed from Edmonton and mining and fisheries are based in Vancouver.
3. WD is flexible and determined to simplify the application process. There is no application form for funding which is symbolic of the avoidance of bureaucratic procedures. Both commercial enterprises and non-profit organizations may be funded provided the proposed project will confer significant economic benefits and diversification to Western Canada.

Programs of Western Diversification Canada

While WD started from scratch and developed a unique and distinctive approach to regional development incentives, it was immediately saddled with all of the regional policy baggage that had previously been managed under DRIE for Western Canada. For example, the Agricultural Processing and Marketing Agreement (APMA) was a component of the five year Economic Regional Development Agreement between DRIE and Alberta. Under this agreement WD found itself administering and approving funding for a program which provided non-repayable grants to resource processing and food retailing sectors which were already well represented in Alberta. In short, WD inherited a program which was not consistent with its mandate. Between its creation in 1987 and the time when the APMA expired, WD approved grants totalling \$12 million in Alberta alone for retail-based enterprises such as in-store bakeries, ice cream, and sausage stuffing or the processing of crude agricultural products such as alfalfa dehydration.

WD also inherited the Western-based users of the defunct Department of Industry Trade and Commerce's Industry and Regional Development Program (IRDP). IRDP provided grants with no provisions for repayment. The level of assistance under the IRDP was staggered in four tiers so that regional eligibility for funding was determined by the level of unemployment in each census division. Under this system of tiers, 17 of Alberta's 19 census divisions were completely ineligible for funding and the remainder could receive only the lowest level of support. IRDP's mandate precluded the funding of non-profit associations even though these could potentially undertake projects which would diversify entire sectors.

WD was saddled with IRDP until it expired in June, 1988, and APMA until it was fully subscribed in June 1989. Thus it took several years after its creation before WD could begin to shape programs which were congruent with its mandate. In the meantime WD's apparent inactivity was subject to some criticism. The project appeared slow to get on its feet and it was some time before the mechanics of program administration were functioning. Some critics pointed out that its relatively small size (\$1.2 billion dollars over five years amounts to about \$60 million per Western province per year) would be insufficient to accomplish the goal of diversification (Robert

Mansell quoted in Ingram, 1988). Unlike ACOA, which is guided by a locally based board of directors, WD is a full government department thus it is more subject to political interference. One of the earliest and largest contributions ever made by WD in Alberta was \$7.75 million for the Centre for Frontier Engineering Research, an institute of the University of Alberta in Edmonton. The laboratory facility was geared to research and testing of oilfield equipment, hardly a stellar example of diversification, job creation or expansion of private enterprise. (Woloshen, 1988). Finally, there were allegations that the program merely reacted to entrepreneurial initiatives rather than taking an active role in targeting diversification funds to the regions most in need of them. The majority of applications for funding originated with metropolitan entrepreneurs while smaller firms in towns, villages or rural areas were poorly represented (York, 1990).

It was not until late in 1988 that the Western Development Program (WD) was finally inaugurated to provide the tools to implement WD's mandate. The goal of the WD is to foster: feasibility studies of potential investments; applied research and development; increased productivity; domestic and international market development; and the establishment, expansion, or modernization of new plants provided that they are likely to generate significant economic benefits to Western Canada.

The WD shares the diversification and flexibility emphasized by its parent department and it has some clear principles governing how it will direct its diversification efforts:

1. Incrementality: WD assistance must be imperative for the project to continue. Funding is not available to projects which do not absolutely require it to continue. (In practice this requirement is met by demonstrating that all other avenues of funding (debt, equity, or other government programs) have been explored and that further financial support is not available³).
2. Risk sharing: The policy of WD is to provide "top-up" funding to projects which have already received debt and equity financial commitments on their own merits. Thus WD shares the risk on a "last-in" basis with other funding sources.

3. **Repayability:** Most funding under the auspices of WD is treated as a "repayable contribution". The department adheres quite strongly to a philosophy that funds are not disbursed until expenditures have been made and that they should be repaid according to an agreed schedule. Exceptions include projects undertaken by non-profit associations and the first \$20,000 for some projects.
4. **Avoidance of "competitive sectors":** In WD parlance, a "competitive sector" is one in which there is an existing business in Western Canada. Funding a firm which competes with other Western Canadian business would create an unfair advantage which could undermine existing enterprise.
5. **Eligibility of resource-related industries, services, and non-profit organizations:** Flexibility is an important principle of the WD and a wider array of projects are eligible than under many previous programs. However, there does appear to be an implicit bias in favour of goods producing sectors. Ineligible enterprises include those in retail and wholesale trade and those involving the purchase of rights, franchises, or licenses. Projects to create municipal infrastructure or urban redevelopment and projects involving social services, personal services, training, education, primary research and professional services are similarly excluded. Since most primary production is considered to be competitive and many of the largest employers in the service sector are excluded, the program appears to favour the goods producing manufacturing sectors.

In December 1989 two new initiatives were added to WD.

The Quality Assurance Assistance Program (QAAP) was designed to assist firms in meeting a wide range of quality standards set by agencies such as the International Standards Association (ISO) or procurement criteria such as Ford Motor Company's Q1 standard. The program was motivated by a concern that improved quality control was essential if Western firms were to exploit new markets and supply government procurement contracts which had traditionally gone to firms in central Canada. The International Marketing Initiative (IMI) was created to permit the exploration of foreign markets for firms with little or no export experience. Both the QAAP and IMI were geared to Western firms intending to expand market penetration in Canada and offshore. The creation of these

programs is evidence that WD defines diversification to include market expansion.

EVALUATION OF WESTERN DIVERSIFICATION PROJECT FUNDING

To examine the funding propensities of the WD, an analysis of WD's activities in Alberta was undertaken. Using WD press releases a data base was created with a record for every project funded over the five years since WD was established. For each of the 626 funded projects, the following items were recorded: organization name, location of the project, date of approval, approved funding, program under which funding was provided, a brief description of the nature of the project, and the sectoral classification of the establishment receiving the funds.

Evaluation of Spatial Diversification

The forgoing discussion of the WD demonstrates its distinctive orientation. It provides repayable contributions to private sector firms in competitive sectors where economic and employment benefits will occur mainly in Western Canada. However, there are no targeted regions and it has not funded any local development organizations. No matter where a firm is located in Western Canada, it is eligible to receive funding. Thus in a region which is considerably larger than any European nation state, the thrust of the program is more industrial than it is regional.

This raises an important question for regional economic planning: How equitably are smaller and larger urban areas sharing in this industrial policy program? There have been allegations that the WD has been unfairly geared to large urban centres (York, 1990). Metropolitan centres have the greatest propensity for innovation; benefit most from agglomeration economies; and have the best access to capital, transportation to world markets, and skilled labour for innovative activities. Broadway's (1991) analysis of Nebraska's "Employment and Investment Growth Act" found that the legislation was designed primarily to benefit large corporations based in metropolitan areas and that the jobs created were disproportionately concentrated in metropolitan areas.

Based on the data provided, it appears clear that funding of projects by Western Diversification Canada has been biased towards the larger metropolitan centres of Alberta (Table 1). The Edmonton and Calgary Census Metropolitan Areas (CMAs) account for 70 percent of the projects and 73 percent of the total funds allocated to all projects yet these metropolitan regions represent only 63 percent of the province's total population. Towns and rural areas obtained 21 percent of the projects and 16 percent of the funds allocated while they account for over 25 percent of the population. The balance of 9 percent of the projects and 11 percent of the funds were destined for middle-sized urban areas, cities with between 10,000 and 65,000 population which in aggregate account for 12 percent of the population⁴. Of the \$13.1 million in contributions made to enterprises in Lethbridge, 95 percent was provided to a single large manufacturing enterprise: the Pratt and Whitney of Canada aerospace venture. Without the Pratt and Whitney project, the funding bias in favour of Calgary and Edmonton would be even more pronounced.

In short, the two metropolitan centres received more than their fair share of funds while rural and small town Alberta received somewhat less than their expected share. However these differences appear surprisingly small considering the advantages enjoyed by larger urban areas. That rural and small town Alberta does as well as it does in terms of WD funding is due to the fact that for the first two years of its existence, WD administered the APMA which was targeted toward agricultural and retail value added activities and funding was targeted to a large number of small grants to smaller centres. When the data displayed in Table 1 is recomputed to exclude APMA projects, the Calgary and Edmonton CMAs account for 83 percent of the projects and 75 percent of the funding.

Evaluation of Sectoral Diversification

There are two ways of evaluating the degree to which WD has fostered diversification: by examining the level of funding awarded to different economic sectors and by examining the intended purposes of the contributions.

**WESTERN DIVERSIFICATION CANADA PROJECTS AND
CONTRIBUTIONS BY URBAN AREA
TABLE 1**

City	Population 1991		Approved Projects		Funded Contribution	
	Number	Percent	Number	Percent	Amount (\$'000)	Percent
Edmonton CMA ^a	839,924	33.0	234	37.3	72,298	43.4
Calgary CMA ^a	754,033	29.6	203	32.4	49,279	29.6
Lethbridge CA ^b	60,974	2.4	11	1.8	13,104	7.9
Red Deer CA ^b	58,134	2.3	12	1.9	1,377	0.8
Medicine Hat CA ^b	52,681	2.1	4	0.6	110	0.1
Smaller Cities	128,579	5.1	30	4.8	3,988	2.4
Metro/City	1,894,325	74.4	494	78.8	140,156	84.1
Rural/Town	651,225	25.6	133	21.2	26,432	15.9
Alberta Total	2,545,550	100.0	627	100.0	166,589	100.0

Notes: a. Census Metropolitan Area
b. Census Agglomeration

Source: Population data obtained from Statistics Canada, 1991 Census of Canada

Based on brief descriptions of the firms and establishments which are provided in WD Press Releases, projects were allocated to one of four sectors: agriculture and related industries⁵, other resource extraction and related industries⁶, manufacturing, and services. This classification is too crude to be directly comparable with Statistics Canada's Standard Industrial Classification thus there is no benchmark for these figures in the Census of Manufactures.

Table 2 shows that over half of all the funded projects (52.1 percent) and 29.8 percent of the \$167 million in contributions were concerned to some degree with agriculture or other resource extraction

activities. Agriculture tended to attract a large number of small contributions while other resource industries (principally oil and gas) attracted a smaller number of larger projects. About one-third of the funds (37.7 percent) and one-third of the projects (31.0 percent) provided contributions to manufacturing ventures. And one-sixth of the projects (16.9 percent) but one-third of the funds (32.5 percent) were garnered by service sector activities. Considering that services represent over 70 percent of Alberta's employment structure⁷ it does appear that the projects and contributions made by Western

**WESTERN DIVERSIFICATION CANADA PROJECTS
AND FUNDING BY INDUSTRY
TABLE 2**

	Industrial Sector				Total for All Sectors
	Agriculture and Related Industries	Other Resource and Related Industries	Manufacturing Industries	Service Industries	
Number of Projects	221	105	194	106	626
Projects as a Percent of Total Projects	35.3	16.8	31.0	16.9	100
Total Funding (\$'000s)	14,322	35,271	62,792	54,204	166,589
Funding as Percent of Total Funding	8.6	21.2	37.7	32.5	100.0

Diversification programs have been biased towards goods producing sectors.

The second issue concerns the purpose of the project. If the funding is used simply to expand or modernize production in an existing establishment or to establish a new operation in an industry which is already well represented in the region, it is very difficult to meet the test of diversification. On the other hand, the development of new

products or new technology in an existing sector may in some cases be considered to be a true case of diversification.

Some 41.2 percent of the funds were in fact used to assist in the establishment of entirely new facilities while only 16.6 percent were to expand or modernize existing facilities (Table 3). The funding of projects to produce new products or services took up \$51 million (31 percent) of the total funds disbursed. Marketing or quality control improvements which in many cases were used to expand traditional markets and initiate exporting accounted for \$18.5 million (11 percent) of the total funded contributions. Thus the best measure of the success of diversification is not in the sectoral structure of funding but the purpose of the funding.

**WESTERN DIVERSIFICATION CANADA PROJECTS
AND FUNDING BY PURPOSE OF PROJECT
TABLE 3**

	Purpose of Project				Total for all Purposes ^a
	New Establishment	Expand Production of Existing Product Line	Marketing or Quality Control	New Products or Technology	
Projects	126	190	133	167	616
Projects as a Percent of Total Projects	20.5	30.8	21.6	27.1	100.0
Funding (\$'000s)	68,679	27,603	18,453	51,216	166,589
Funding as a Percent of Total Funding	41.2	16.6	11.1	30.7	100

Note: a. The purpose of 10 projects could not be determined

There is a marked tendency to diversify the markets of existing sectors rather than to create entirely new ones. WD has tended to fund new establishments and new products rather than the simple expansion of existing products or markets. In terms of the dimensions of diversification outlined above, WD has fostered intrasectoral diversification, albeit in sectors which are already well represented in Alberta

CONCLUSIONS

As so many analysts have concluded about regional economic development policy in Canada, it is still too early to assess the efficacy of WD's programs and expenditures. Development is a long run process. Even if it were to be demonstrated that the Western economy was more sectorally diversified and development was more spatially even, it is almost impossible to say whether these changes might not have occurred in the absence of development policy instruments. The influence of the Free Trade Agreement and the depth of the 1990-1992 recession are further confounding influences.

However, the analysis of WD's funding does offer some clues to the overall impact of the policy. In contrast with government assurances that funding has not been spatially biased, a disproportionate number of projects and contributions have been concentrated in the largest urban areas in Alberta. This bias is consistent with the dominant position of metropolitan centres in Western Canada's space economy. Agglomeration economies in large urban centres offer better profit potential for both new and expanded enterprises. Further, in the majority of economic sectors, entrepreneurial activity is concentrated in core regions. Metropolitan areas are the principal centres of innovation, they are nodal points in information and transportation networks, they have specialized and skilled labour markets, and they are the main source of financial capital.

From a sectoral point of view the funding record suggests that true sectoral diversification has been relatively limited. Service industry funding has been relatively low while a disproportionately large number of projects have been directed towards resource extraction and associated activities. Upstream and downstream linkages are an important first step in the development of resource dependent regions: but until they expand to extra-regional and international markets, they do little to address the vulnerability of the region to the vagaries of exhaustible resources and volatile commodity prices. That said, the majority of approved projects have tended to diversify the activities within existing sectors thus building on strength and reinforcing the existing economic base. Accordingly, Figure 1 suggests that WD tends to be spatially concentrated but it does involve a certain degree of sectoral diversification.

There is no evidence that the administration of WD programs is biased in favour of larger centres or sectors closely related to existing ones. Rather, these findings demonstrate that regional subsidies to enterprise are ultimately passive and dependent on the initiative and assessment of investors, mainly in the private sector. The fundamental conditions that made the West a resource extracting hinterland have not changed. Any program which relies on private investors and markets is almost bound to find that incentives will produce more and more of the same. This kind of growth may be beneficial for the core regions on the receiving end but its ability to generate broad-based and self-sustaining sectoral and spatial diversification is uncertain.

One clear implication of this analysis of regional development policy for applied urban and regional land use planning in Alberta is the pressing need to build flexibility into plans and to emphasize the importance of contingencies in planning processes. Trends of the past two decades suggest that Alberta is the least stable of Canada's "have" regions and the activities of Western Diversification Canada are unlikely to redress this in the near future. In such a volatile environment it is essential to build robustness into plans and the planning process. Plans need "escape lanes" to accommodate double digit growth, sudden stagnation, and in smaller centres, a contingency for managing decline.

REFERENCES

- Broadway, Michael. 1991. "Economic Development Programs in the Great Plains: The Example of Nebraska" Great Plains Research 1: 324-344.
- Byfield, Mike. 1987. "Dumping on the hated DRIE" Western Report 2(25) July 6, 5-6.
- Canada. Undated. A Framework for Diversification in Western Canada. Ottawa: The Prime Minister's Office.
- Carmichael, Edward A. 1986. New Stresses on Confederation: Diverging Regional Economies. Observation No. 28. Toronto: C.D. Howe Institute.
- Economic Council of Canada. 1984. Western Transition Ottawa: Supply and Services.
- Economic Council of Canada. 1990. From the Bottom Up: The Community Economic Development Approach Ottawa: Supply and Services.
- Gertler, Meric. 1990. "Economic Development" in Urban Policy Issues: Canadian Perspectives edited by Richard A. Loreto and Trevor Price. Toronto: McClelland and Stewart.
- Hodge, Gerald. 1991. Planning Canadian Communities. Scarborough: Nelson Canada.
- Ingram, Matthew. 1988. "The political diversification fund" Western Report 3(24) July 4, 10-11.
- Mansell, Robert L. and Michael B. Percy. 1990. Strength in Adversity: A Study of the Alberta Economy. Edmonton: University of Alberta Press.
- Richardson, Nigel. 1989. Land Use Planning and Sustainable Development in Canada. Canadian Environmental Advisory Council. Ottawa: Supply and Services.

Savoie, Donald J. 1992. Regional Development Policy: Canada's Search for Solutions second edition. Toronto: University of Toronto Press.

Woloshen, Richard. 1988. "Redefining diversification" Western Report 2(50) January 4, 12.

York, Geoffrey. 1990. "Prairies wonder what happened to federal diversification promise" The Globe and Mail, May 21, A10.

ENDNOTES

1. The Bricklin was a U.S. designed sports car which was manufactured in Saint John New Brunswick starting in 1974. When the firm went into receivership in 1975, it had received some \$23 million from the provincial government and nearly \$3 million through DREE.

2. Agglomeration economies refer to the savings in unit costs stemming from the locational concentration of a number of production facilities.

3. Under the Terms and Conditions of the Western Diversification Program, and as WD administrators point out, this principle is justified by asserting that WDP is not an "entitlement program". This is curious terminology since the notion of an entitlement program is an American constitutional and budgetary concept. It refers primarily to the right of an individual to receive benefits such as Social Security, Medicare, or food stamps. There is no such thing as an "entitlement" or "entitlement program" in the Canadian economic or constitutional lexicon.

4. Middle-sized urban areas include the following Census Agglomerations: Lethbridge, Red Deer, Medicine Hat, Fort McMurray, Grand Centre (includes Bonnyville and Cold Lake), Grande Prairie, Camrose, Wetaskiwin, and Lloydminster.

5. Industries related to agriculture include downstream industries such as alfalfa dehydration and food processing such as in-store bakeries, specialty meats, and dairy products. Upstream industries

include the manufacture of farm machinery, granaries, feed lot equipment, and seed production.

6. These include oil and gas extraction, downstream processing of oil and gas (oil refining, ethane cracking, production of ethane and methane derivatives); forest products and woodlands operations, downstream processing of forest products (pulp and paper, saw mills, plywood and paper and wafer board); and the manufacture of machinery (drilling rig equipment, exploration instrumentation, and logging equipment) to support these sectors.

7. Service industries include: transportation and storage; communications and utilities; wholesale and retail trade; finance, insurance and real estate; and business, government, education, health, social, accommodation, food, beverage, and other services. They account for 71.1 percent of Alberta's total labour force according to the 1991 Census of Canada.