

Federal Regional Development Initiatives in Canada and the United States: Lessons from History

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Abstract

Regional development in the United States and Canada can be traced to a period before World War II. Current initiatives in both countries traditionally have reflected a bias toward equalizing the imbalance of development, a sentiment that dates from the concern of the 1960s for poverty and equity. In Canada, the provinces are important drivers of federal policy, while in the United States recent efforts to devolve authority to the states has met with a great deal of resistance. Regional development as a policy has declined in importance during the past decade. Not surprisingly, the decline has been more acute in the United States where a stronger anti-statist attitude dominates and regional differences are not as much a part of the political scene as in Canada.

Overview of the Issues

Regional development policy involves policy intervention that addresses the economic and social structure of subnational economies. The goal in these efforts is to assist the economy to expand and to encourage market-driven mechanisms capable of sustaining that expansion over time. Successful strategies help the targeted region to develop its resources and capabilities so that growth occurs from endogenous inputs.

With the similar economic structures shared by the United States and Canada, one might expect tremendous similarities in the economic problems they face. And that is the case. Both nations have a traditional economic core that tends to be the leading region. The manufacturing belt, which adjoins the Great Lakes on both sides of the border, has often been cited as the central core of North America's economic growth during the past fifty years. Emerging economic centers on the west coast of both nations represent a simultaneous economic evolution reflecting the growing importance of economic trade with Asia and westward migration.

Both nations also have laggard economic regions. In Canada, the Atlantic Provinces—New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland—have suffered from economic isolation and a dependence on natural resources for their economic base much like Appalachia and many other agrarian U.S. regions. The Prairies have undergone the same boom and bust cycles as their counterparts in the energy-dependent High Plains region to the south. In the past two decades, both countries also have suffered economic setbacks in their core regions caused by the decline of manufacturing employment and increased global competition.

Even though the two nations may have similarities in terms of regional disparities,

they currently approach regional development in fundamentally different ways. Canada has an organized federally driven system focused on addressing regional needs, while the United States attempted such a strategy in the 1960s but has watched layers of new initiatives devolve resources and authority into a fragmented set of unrelated programs. Why are these approaches so different when the problems they seek to address are so similar?

The thesis of this article is that cultural differences predict these two policy approaches. Canada has long been more group-oriented and statist than the United States (Lipset 1993, 331). Consequently, one would expect Canada to be more willing to intervene in the economy to address regional disparities and to support that intervention over a period of time. Canada also is willing to spend more federal dollars addressing these needs, and that trend has been borne out over time (Lipset 1991, 138). In fact, the interplay between the U.S. and Canadian economies explains part of that cultural difference. Canadians are more accepting of state intervention in the economy because that nation's economy is so dependent upon the United States (Brym 1986, 24).

The purpose of this paper is to examine the disparities in the two nations' approaches to regional development and to better understand the roots of each. Much has been written on the implications of culture on policy, but it is important to understand the traditions of policy. Particularly in the United States, public policy often is determined by peeling away the layers of history. In Canada, where changes by a particular government can be made more readily, it is important to understand the lessons learned from previous governments. The next two sections will examine the history of regional development policy-making in each country, starting with the

Great Depression and working forward. Lessons from the experiences are sometimes learned from each experience and applied to emerging policies, and those lessons will be discussed as appropriate. The concluding section will step back and discuss the cultural and political context in which regional development policy was made in each country in an effort to explain differences in how regional development policies have emerged in somewhat different forms in the two nations today.

U.S. History of Regional Development

America's regional development policy can be traced to the 1930s. The National Resources Planning Board (NRPB) and the Tennessee Valley Authority (TVA) both were created during the Great Depression to address the severe economic problems facing the country. While the NRPB existed only eleven years, TVA still survives today—but in a much different form than when it was founded. The lessons learned from the TVA experience were particularly influential in shaping later development programs, particularly those of the 1960s. It was during that period that several key legislative initiatives created the U.S. Economic Development Administration and the Appalachian Regional Commission. Those programs and others layered on them evolved through the 1970s and 1980s as the government chose to devolve greater responsibility for regional development to state and local governments.

Legacy of the Great Depression

Regional development in the United States can be traced to 1933 when Franklin D. Roosevelt issued an executive order establishing the NRPB. The NRPB was an advisory council to the president on economic and labor issues facing the nation.

It included several members of cabinet including the secretary of war as well as the secretaries of labor and agriculture and the administrator of public works. Using national defense as the justification for its creation, F.D.R. encouraged the NRPB to undertake economic planning for the country. Among its activities, the NRPB was the first governmental institution that attempted to divide the United States into regions for economic planning purposes.

The NRPB provided valuable background research for policy discussions, but it was defunded in 1943 in large part because Congress had become afraid of it. As a planning agency, the NRPB had no capacity to implement those plans. As a consequence, it could not build a strong constituency. Once the economy started prospering, the NRPB was terminated. The NRPB experience has never again been replicated, and it illustrates two lessons: how top-down (or "corporatist") planning is antithetical to American culture and how programs and policies need support from constituency groups to survive.

While the NRPB could not survive the political winds of Washington, the TVA has managed to do so for six decades. TVA succeeded for many years using a corporatist model for planning, but it also managed to build a strong constituency in its region. Also established in 1933, the Tennessee Valley Authority can be explained as much by accident of history as by design. During World War I, the federal government started the Wilson Dam at Muscle Shoals, Tennessee, to generate power for a defense company making nitrates for munitions. Due to a number of delays, the project was not finished until 1925, well after the war had ended.

To help his colleagues save face and to address the severe poverty and perennial flooding problems of the valley, Senator George Norris of Nebraska helped create the

TVA as an agency to build dams and generate electric power for this backward agricultural region. The dams also would improve navigation, providing transportation access to bauxite, coal, and timber resources needed for the production of armaments and other defense-related purposes. Again, the justification for federal involvement in the activity was related to national defense. The added justification for TVA was the construction of dams to tame the waterways of a multistate region. Even so, the proposal met great resistance. Hoover vetoed two earlier bills to create TVA before F.D.R. finally signed it.

Governed by three presidential appointees who served at the region's headquarters in Knoxville, the TVA coordinated federal activities involving resource development in the region across functional or departmental lines. The states collaborated in the effort primarily by delegating their powers of eminent domain to the agency for the dam construction projects. In many ways, TVA represented a similar planning strategy at the regional level as that being employed by the NRPB at the national level—a planning process in which the federal government determined strategies and convinced state/local areas that they represented the public's best interest. The primary influence of the TVA was that it supplied low-cost electricity, conservation training, and flood control (Robock 1967).

However, TVA's strategy never would have created self-generating economic growth without adapting to changing needs over time. TVA has been successful in achieving its objectives, particularly in improving the labor force, attracting manufacturing jobs, improving local institutions (e.g., the regional library system), moving communities out of dangers of floods, and providing a higher value for the water resource (e.g., through recreation). This success has ensured its long-term survival

because it built a constituency for the agency.

TVA is an anomaly. Similar authorities proposed for the Missouri and Arkansas river valleys were never passed by Congress, and TVA has adapted over time to increase the involvement of state and local policy-makers in its planning process. The TVA model has not been replicated for many of the same reasons that NRPB was discontinued. Long-range economic planning by government, particularly the federal government, simply is not palatable in the United States.

The Great Society

Economic prosperity during the late 1940s and 1950s deterred any further government involvement in regional development. Not until an economic malaise set in during the late 1950s and 1960s did the issue re-emerge. John F. Kennedy, while campaigning in West Virginia during the 1960 presidential primaries, witnessed first-hand the extreme poverty of the Appalachian region and vowed to address the issue.

Once in office, he proposed two initiatives, the Area Redevelopment Act and the Accelerated Public Works Act. Duplicating strategies used during the Great Depression, the Area Redevelopment Act was designed to promote economic diversification in rural areas, and the Accelerated Public Works Act provided federal funding for public works projects in rural areas. These programs tended to support county-level efforts to develop community facilities.

At the same time, Kennedy also appointed the President's Appalachian Regional Commission (PARC) to formulate a strategy for that region (U.S. Congress 1981). Issued in 1964, the PARC report proposed creating urban concentrations (or "growth centers") in the region, educating its work

force, and improving access to the region by highway and air. Based on the PARC report, Congress passed the Appalachian Regional Development Act, creating the Appalachian Regional Commission (ARC).

ARC is governed by a unique organizational structure in which the states participate as partners with the federal government. Learning its lessons from the TVA experience, ARC was designed to generate grassroots support for development efforts by allowing each of the thirteen states within the region to appoint a commissioner to serve on the governing body. A federal appointee and one of the state commissioners serve as co-chairs. Any one commissioner has veto power over the entire ARC plan so that the program has to be developed in consensus with all other parties. ARC funding for projects is matched by the state in which the project is located. This organizational approach ensures that state and local support and control are maintained for the ARC efforts, while federal accountability is ensured through the involvement of the federal co-chair (Fuller 1995).

While ARC began making headway almost immediately, the federal Area Development Agency (ADA) did not seem to be progressing as well in addressing the needs of other distressed regions. ADA's public works approach to regional development was creating only temporary construction jobs that did not contribute significantly to long-term regional development. Furthermore, like TVA before it, the project managers for public works projects often had to import labor into the region to fill jobs because local workers did not have the skills to get the projects done.

New legislation passed in 1965, the Public Works and Economic Development Act (PWEDA), tried to incorporate training and human services as part of the strategic approach. In Title V of PWEDA, Congress

also authorized the selection of six federally managed multistate development regions (Walker 1972). Essentially, this was an effort to adapt and expand the already successful ARC approach, but no state or local involvement was planned in managing the entities. Furthermore, the implementing organizations were provided very little funding, and after only a few years the Title V regions were defunded. Like the National Resources Planning Board before them, the Title V regions were driven primarily by federal initiative, and there was simply never enough resources (political as well as financial) to support their economic planning activities or implement the plans.

The PWEDA legislation also authorized the creation of the U.S. Economic Development Administration (EDA) to target federal dollars to those areas with the greatest distress as measured by unemployment rates. The primary purpose of the program was to support sustainable economic development efforts in rural areas by creating local planning capacity (Martin and Leone 1977). During the next several years, EDA created a network of planning entities, or economic development districts (EDDs) (Levin 1969). The districts were locally controlled economic development organizations serving multicounty regions (Beaumont and Hovey 1985; Luke et al. 1988; Maynard-Moody et al. 1991).

While EDDs were asked to provide guidance in the allocation of federal resources to fight unemployment and poverty, the local districts also were given the freedom to leverage other resources to support the implementation of their plans and were encouraged to look to states and localities for additional resources (Leach 1987, Kelly and Maynard-Moody 1993). The local control offered greater support for EDA, and the agency emerged during the late 1960s as an important component of the federal approach to regional development.

Sustaining Federal Activism

EDA quickly became controversial. It was at the center of annual budget battles during the early 1970s as the Nixon administration tried to eliminate the agency, maintaining that regional development was a state or local responsibility in which the federal government should have no role. But the agency became a favorite of Congress, and the number of EDDs rose to more than 150. EDA provided a mechanism for directing federal dollars to projects in a large number of congressional districts.

EDA funding could not keep pace with the increase in EDDs, and by the mid-1970s EDA accounted for less than 10 percent of EDD funding. With little money to share with the EDDs, EDA maintained only a limited amount of leverage over the semi-autonomous districts. The independence of the EDDs and their coverage of most of the nation would later prove essential to the survival of EDA during the Reagan and Bush years because the districts offered EDA a national constituency base in Congress.

But EDA was not the only focus of the Nixon budget ax. Other programs that focused on supporting local community development activities also drew the administration's attention. A number of federal programs, created as part of Johnson's Great Society, offered grants directly to communities for community facilities, neighborhood improvements, and related social services. The Nixon administration felt that these activities would be better implemented if funding control were devolved to the local level (Fainstein and Fainstein 1989).

Nixon succeeded in creating the Community Development Block Grant (CDBG), marking the start of a period between 1974 and 1980 that is now viewed as the heyday of federal activism in economic development (Eisinger 1988). In addition to creating CDBG

during that period, Congress amended the program to emphasize economic development, authorized the EDA economic adjustment program (Title IX), initiated the Urban Development Action Grant (UDAG) program, and established a strong federal role in providing financing to businesses through the Small Business Administration's (SBA's) Section 503 certified development companies.

These efforts, targeted primarily to assist local communities directly, came under fire immediately upon the election of Ronald Reagan in 1980. The Reagan administration, as part of its deregulation efforts, wanted to move the federal government completely out of regional development and annually proposed the elimination of EDA, UDAG, and SBA. Reagan also proposed a significant cutback in CDBG (Clarke and Gaile 1989). Reagan viewed these programs as tools to move economic activity from one place to another—inhibiting the efficient operation of the marketplace and providing opportunities for congressional pork barrel politics. Although threatened with extinction, EDA and SBA managed to hang on because key congressional leaders supported them. EDA, in particular, survived the 1980s even though its authorization expired in 1981. But Reagan had some success. UDAG was eliminated entirely, and CDBG, EDA, and SBA all suffered funding reductions.

Regional Development Today

By the end of the 1980s, however, an era of renewed federal activism had emerged. Beginning during the Bush administration and continuing into the Clinton years, regional economic development has been revived but in a different form. In 1988, Congress authorized the National Institutes of Standards and Technology (NIST) to work with state and local economic development organizations, as

well as with other federal agencies including EDA and SBA, to promote technology transfer at a regional level. NIST's new technology transfer initiative, the Manufacturing Extension Partnership (MEP), works with universities and state networks of industrial extension agents to help companies deploy new technology for commercial purposes. Funded primarily by NIST and the states, the MEPs are regional development centers providing assistance to companies in targeted economic sectors. Today, nearly four dozen regional centers supporting manufacturing modernization and technology transfer have been started in thirty-two states.

EDA's programs are beginning to be redefined, addressing industrial sectors at a regional level. In particular, the agency has become active in addressing the needs of regions affected by defense downsizing and natural disasters. By the early 1990s, the agency's single largest program helped communities fostering defense industry conversion and reusing military bases. The EDA grants provided to communities for defense industry conversion require a match of at least 25 percent, ensuring local financial commitment to the effort.

The matching grant concept also has been extended to other efforts targeted to the most distressed pockets of poverty. In response to the 1993 Empowerment Zone and Enterprise Community (EZ/EC) initiative, Clinton created a Community Enterprise Board to coordinate federal program efforts and to oversee the designation of 106 communities to receive federal funds in support of locally generated projects. The EZ/EC initiative differs substantially from the enterprise zone concept first placed on the federal agenda by conservatives in the early 1980s because EZ/ECs offer very little in the way of tax incentives. Instead, the EZ/EC initiative focused on offering federal regulatory waivers and approximately \$1.3

billion in social service block grants. These federal resources were expected to leverage an additional \$2 billion to \$3 billion in state, local, and private resources targeted to the designated communities. The designations were made at the end of 1994, and the communities are just beginning the implementation phase. This program already has encouraged local leaders to drive project development and implementation with the opportunity to tap federal resources to support their efforts. The program also has created an incentive for community leaders to come together to address a wide variety of problems affecting the structural economic base of targeted areas (US HUD 1994).

While the EZ/EC initiative is funded for the next three to five years, its future as a long-term policy is very much in doubt. The 104th Congress has not yet weighed in on the regional development question, but the prospects of a conservative Congress supporting regional development is very dim. Current proposals include eliminating the Department of Commerce and many programs wholesale, including EDA and NIST. HUD, the lead agency for CDBG and the EZ/EC initiative, is also at risk. The Appalachian Regional Commission and the Tennessee Valley Authority also are on the House Republican list of programs to terminate. On the whole, it is very likely that the federal government's role in promoting development in targeted regions will be greatly diminished if not ended.

The philosophy of the new Republican House majority is that tax incentives are sufficient to entice development to particular regions or communities, and bureaucratic involvement is not necessary. In fact, the Republicans complain that these programs are primarily pork for selected congressional districts and do not offer any serious strategy to improve the economic environment of the regions or communities

assisted. The Senate Republicans, who tend to be more moderate, seem less inclined to eliminate these programs wholesale but will likely be looking to put their imprimatur on the federal regional development efforts. The likely impact is that states and localities will be asked to take a larger role in regional development, and that federal involvement will be minimized if not completely terminated.

The History of Regional Development in Canada

Canada's history in regional development actually began after World War II (Lithwick 1986; Savoie 1992). While the Maritime Freight Rates Act of 1927 and the Prairie Farm Rehabilitation Act of 1935 had important regional consequences, both were primarily concerned with the national economic competitiveness of shipping and farming. With the troops returning from the war, policymakers feared that unemployment might return to the high pre-war levels. Economic intervention focused on stabilizing the national economy and demobilizing the war economy. A number of nationally sponsored public works programs were instituted, including the construction of the Trans-Canada Highway, airports, telecommunication systems, and the Trans-Canada Pipeline (Lithwick 1986, 116). These investments in the nation's infrastructure helped reinforce the post-war economic boom. As the country succeeded economically, greater emphasis began to be placed on regional disparities (Cannon 1989).

The First Regional Development Programs

Even though tax concessions were his primary tool, Conservative Prime Minister John Diefenbaker created three new programs in the late 1950s and early 1960s to

address national economic problems, with important implications for regional development. Those were a national training program, a road-building program, and a rural poverty program. Technical and Vocational Training Assistance (TVTA), a \$1 billion vocational training program, was designed to improve the nation's workforce. The Roads to Resources Program, established in 1960, planned to build 4,000 miles of roads to inaccessible northern areas with abundant natural resources. The Agricultural Rural Development Act (ARDA) of 1961 was designed to help low-income farmers increase their income so that they could remain on the farm.

Each program included a cost-sharing component that limited its effectiveness in reducing regional disparities because the poorer provinces had difficulty raising the matching funds required to participate in the programs. Furthermore, the highway and rural development programs were never fully implemented because Alvin Hamilton, a key Minister in Diefenbaker's government and the champion for both programs, was never given adequate time to operationalize them before he was reassigned to other duties (Lithwick 1986). The three initiatives also were designed to be uniform across the provinces, reflecting a prevailing attitude that the federal government could not openly treat any province differently than the others (Careless 1977, 182).

Still, Diefenbaker defined the issue of regional development as an issue that involved federal-provincial relations. He recognized that his programs were not really designed as a vehicle for this policy, so in 1962, he created the first federally supported regional body, the Atlantic Development Board (ADB), breaking new ground in federal-provincial relations. The ADB was an advisory body with no implementing authority, but it created a forum for providing input to the government on economic

problems facing New Brunswick, Newfoundland, Nova Scotia, and Prince Edward Island—the four provinces of the Atlantic region.

A Plethora of Programs

When the Liberals, led by Lester Pearson, took office in 1963, regional development policy began to be formulated more fully with the institution of several new programs. For instance, the Area Development Incentives Act (ADIA) was approved, giving tax concessions and cash grants to stimulate private investment in distressed areas (Savoie 1992, 29). Pearson also created a new Area Development Agency and expanded several of the Diefenbaker initiatives.

One of those initiatives was the Atlantic Development Board. Under Pearson, the ADB became a much more substantial organization. The ADB was given staff and a budget to develop a plan for regional economic growth. Its budget, \$100 million, grew to \$150 million by 1966. Pearson led a minority government in coalition with the left-leaning New Democratic Party, and, like in the United States, concerns about poverty and equality emerged to dominate the political discourse of his government (Lithwick 1986, 121). Pearson also needed to develop political support wherever he could. With Pearson's tenuous hold on government, there was a strong disincentive to implement programs with short-term costs, even if they had long-term benefits.

Consequently, the ADB was used to address broader poverty problems at a regional level, but on a project-by-project basis. Even though it was charged with developing an economic plan, the ADB focused its attention on implementing projects and paid very little attention to the plan. As the program evolved, the ADB attempted to target its resources to designated "rural development areas" and "special rural development areas." The areas

were determined based on poverty, their capacity to sustain economic growth, and the mobility of their workforce in seeking new opportunities.

The Pearson government also created the Area Development Agency (ADA) as a tool for diversifying farm-based economies. Initially created in 1963 and expanded in 1965, the ADA provided tax exemptions for areas with high unemployment, targeting 126 communities and offering cash grants to leverage private investment in the area. The dilemma was that the ADA grants were made as an entitlement and were not linked to any development strategies for the targeted communities. Consequently, very few linkages to sustained development activities could be found as a result of the assistance. In 1966, the program was expanded again to include sectors of the rural economy besides agriculture and natural resources.

However, the complaint about all these development programs had little to do with performance. Instead, programs were criticized for not being sufficiently targeted. In fact, a disproportionate share of ARDA, ADA, and TVTA funding was being allocated to the richer provinces that could afford the match. Furthermore, after the funds were transferred to the provinces, very little monitoring occurred because the federal government had few assessment tools and the provinces were very resistant to federal bureaucrats "meddling" in provincial programs (Careless 1977, 183).

To address some of these concerns, Pearson amended ARDA to create the Fund for Rural Economic Development (FRED) in 1964. Based on the "growth pole" theory emerging from academic circles, FRED targeted its resources to creating urban concentrations in selected rural areas and provided an adjustment plan that dealt with human resource development and offered new capital investment opportunities

(Lithwick 1986, 123). The federal government identified five districts with particularly high unemployment in which FRED resources would be invested. The districts included three in the Atlantic provinces; one, the Gaspé Peninsula, in Quebec; and the final district in Manitoba's Interlake region (Savoie 1992, 28).

With a wide variety of new initiatives, Pearson had created a kaleidoscope of programs designed to address slightly different problems independently of one another (Careless 1977, 185). For instance, FRED provided resources to support the development of a comprehensive approach to promoting rural growth centers, ARDA funded efforts to address specific rural adjustment problems, and ADIA targeted its assistance to districts trying to attract new industries. Established in an era of cooperative federalism, the inefficiency and overlaps in this system began to create concerns about the sustainability of these programs.

Centralizing Policies

By the late 1960s, Canada's field of regional development was awash in uncoordinated programs with varying objectives. The election of a stronger Liberal majority under Pierre Trudeau in 1968 began a period of weeding, designed to encourage the best of the initiatives and eliminate the others. Trudeau supported stronger centralization and a stronger federal role than did his predecessor (Careless 1977, 185). He noted the conflicting goals of a variety of initiatives that served to negate the effects of one another, their strong bias toward helping rural areas, and their success at independently soaking up resources that might be better spent if they had some overall direction (Lithwick 1986, 126).

To deal with these concerns, he created a cabinet-level post for regional development, the Department of Regional Economic Expansion (DREE), in 1970. With DREE,

Trudeau combined and eliminated the ADB, the ADA, and FRED. The department also created the Regional Development Industrial Assistance (RDIA) program. RDIA used the growth pole concept favored in FRED to target development of growth centers in regional areas (of up to 5,000 square miles) in each of the provinces. It provided resources to companies locating in the targeted area, including equity and debt financing to attract capital investment in plant expansion and modernization, and subsidies for jobs created in existing or new facilities (Lithwick 1986, 127).

In addition, resources were allocated for twenty-three specially targeted areas located primarily in the Atlantic provinces, the Prairie provinces, and Quebec. Those resources were allocated to improve the capacities of the local economies by investing in roads, social services, and community facilities in an effort to create agglomeration effects.

Deteriorating Provincial Relations

DREE focused on initiatives to industrialize targeted areas and build urban growth centers, and the department moved away from the strategies of prior programs targeted to address rural poverty. Almost immediately, DREE began to encounter resistance, but the change in policy direction did not create the problem so much as the way the federal government involved the provinces in the programs. The provinces complained that DREE initiatives were developed without consulting them in any meaningful way. DREE programs essentially made funds available for regional development initiatives that met national objectives, and the provinces were allowed to choose whether or not to participate.

Under the RDIA program, the limited number of designations created political pressure for more designations. The government was able to withstand this pressure

until 1972 when a new election left the Liberal government clinging precariously to power. In particular, the concerns of Quebec began to overshadow concerns about regional disparity and equity. The issue also began to drive DREE funding decisions as the Quebec question began to dominate the political debate.

As an illustration of Quebec's growing strength, one can look at DREE's allocation of funds by region. In 1970, DREE allocated 51 percent of its budget to the Atlantic provinces and 12 percent to Quebec. By 1974, the Atlantic provinces accounted for 38 percent of DREE funding, and 39 percent was allocated to projects in Quebec (Lithwick 1986, 128). Montreal, with Quebec's support, succeeded in obtaining an RDIA special area designation even though it did not technically meet the eligibility standards (Savoie 1992, 46).

DREE was gaining a reputation among the provinces as bureaucratic and difficult—and now political. A loan guarantee program, created in 1971 to enhance the RDIA program, reinforced this impression because each project required the Minister of Finance's approval. In a ten-year period, the program made less than forty loans. The application approval process was so cumbersome that DREE staff were disinclined to market the program to potential beneficiaries.

While DREE's funding continued to increase, the agency maintained stringent controls over spending. As Lithwick (1986, 129) notes, "[G]ood relations were considered less important than money well spent." This parsimonious behavior caused many to begin questioning why an agency with so many resources was making so few gains in decreasing regional disparity and why DREE's staff was so resistant to spending the agency's funds. Within only a couple of years of its existence, the provinces had actively begun to resist DREE initiatives,

exacerbating the agency's problems, affecting its ability to maintain funding levels, and creating even greater program inefficiencies.

A New Federalism: Balancing Federal-Provincial Relations

Trudeau recognized DREE as a contributor to increasing tensions between the federal and provincial governments. He shifted the agency's funding strategy to gain more input from and give more control to the provinces. DREE began to allocate its resources based on negotiated agreements with the provinces. Using these General Development Agreements (GDAs), DREE began to allocate much of its funding to provincial priorities. The primary goal of the GDAs was to devolve responsibility while preserving accountability and visibility for the federal government in regional development initiatives (Lithwick 1986, 129).

The GDAs represented negotiated relationships between DREE and each province to achieve specific goals and objectives. Subsidiary agreements linked to the GDA tended to focus on addressing the issues of a particular industrial sector, such as tourism or small business development. The projects were implemented jointly by DREE and provincial staff. DREE also created regional offices so that its staff could be closer to the needs of the province. Between 50 and 90 percent of the funding came from the federal government, and during 1974, every province signed an agreement with DREE to undertake joint efforts.

More than 130 subsidiary agreements were signed between 1974 and 1982, committing \$3.3 billion in federal resources and \$2.7 billion in provincial funds to joint projects (Savoie 1992, 60). Provinces began to become more proactive, proposing projects to the federal government rather than waiting to react to federal initiatives. The GDAs helped seed the formation of

provincial development agencies and resulted in "province-building" activities (Lithwick 1986, 130). This GDA approach also helped ease the interprovincial tensions created by Quebec's increasing success in obtaining DREE funding. By 1978, as the Atlantic provinces maintained their funding level at 39 percent of DREE's budget, Quebec's share declined to 31 percent, Ontario received 5 percent, and the western provinces received 21 percent (Savoie 1992, 61-62).

With the GDAs, the federal-provincial balance swung greatly toward the provinces. DREE was criticized for devolving too much authority because the GDAs reflected provincial priorities that were often at odds with national economic goals (Lithwick 1986, 132). Furthermore, the GDAs were supposed to coordinate all federal programs, not just DREE expenditures, but the DREE regional staff were the only federal officials participating in negotiations with the provinces. Because the GDAs included issues beyond DREE's departmental responsibilities, the agreements created tension between DREE and other ministries. As a result, DREE began to lose credibility within the "Ottawa 'framework'" (Savoie 1992, 64). The problem was that the GDA approach was making the provinces too powerful in their relationship with the federal government, and the approach created incentives for the provinces to use federal funds to work independently of the federal government.

In 1979, the Progressive Conservatives, under the leadership of Joe Clark, formed a short-lived minority government. Clark's slim election reinforced the need for DREE to build stronger relations with the provinces, and the provinces began taking over as senior partners in the GDA arrangement. DREE's lower profile and lower control spelled its end. The agency's budget declined precipitously, and the Cabinet began to place

constraints on DREE to ensure cooperation with other departments and greater consistency between DREE-funded initiatives and national economic policies.

The refocusing of these regional efforts to a more sectorial approach coincided with a greater focus on working with local entities rather than the provinces (Lithwick 1986, 134). Before Clark could really accomplish anything in reforming the department, however, the nation returned power to Trudeau and the Liberals.

By the early 1980s, critics complained that DREE funding was not really addressing regional disparities as much as it was contributing to regional divisions, particularly the growing Quebec secessionist movement. The 1981 recession hit the entire country hard, and national economic competitiveness emerged as a key issue to be confronted. That meant that regional disparity was less important since the entire national economy was anemic. In an effort to jumpstart the economy, the government began to pay much greater attention to the nation's economic engines—British Columbia, Ontario, and Quebec (Lithwick 1986, 134).

Furthermore, the political clout of the traditionally Conservative-leaning western region was becoming an important counterbalance to Quebec's political power. In 1980, the multibillion dollar Western Development Fund was created to lead a new development framework that inextricably linked British Columbia and the three Prairie provinces together. While the program was not clearly focused, it provided funding for transportation, housing, and social programs as key tools for development (Lithwick 1986, 140). It also served as a precursor for later efforts.

The recession took its toll on DREE. In 1982, the Cabinet created a new central agency to oversee the department's functions, the Ministry of State for Economic

and Regional Development (MSERD) (Savoie 1992, 87; Lithwick 1986, 138). Soon afterward, Trudeau disbanded DREE and the Department of Industry, Trade, and Commerce, replacing them with a consolidated agency, the Department of Regional Industrial Expansion (DRIE). The consolidation took more than a year.

Under the reorganized department, Turner, who took office in 1984, de-emphasized the Cabinet standing of regional development in favor of the development of targeted economic sectors. He also increased the role of the former DREE's regional offices, which were headed by federal economic development coordinators (FEDCs), so the new agency could provide "one-stop shopping" for economic development assistance at the regional level and reassert the role of the federal government in the federal-provincial partnership (Savoie 1992, 87; Lithwick 1986, 138).

DRIE also phased out the special districts used under old programs and created a new system of targeting funds for regional development. Under the new Industrial and Regional Development Program, communities were sorted into four tiers. Funding was provided for sectorial development at the regional level, providing assistance for technology development, business assistance, market development, and industrial restructuring.

Provincial cost-sharing was still required, but the federal share increased as distress increased. The federal funds also could be used to support local nonprofit institutions providing economic development services, thereby reducing the importance of the provinces as the project initiators and service delivery agents. DRIE identified 189 districts (later expanded to 260) to which funds could be allocated. As a result, the DRIE programs were directed primarily to local rather than provincial service providers (Lithwick 1986, 138).

The FEDCs were charged with implementing DRIE's amalgamated regional small business, tourism, and industry development programs. The policy role of the regional offices was centralized to the national level, and the regional staff became more directly involved in program implementation (Savoie 1992, 95). The GDAs were replaced by Economic and Regional Development Agreements (ERDAs), designed to more fully coordinate the efforts of other federal agencies with regional development initiatives (Savoie 1992, 88). The ERDAs stressed a more visible role for the federal government and mandated that federal agencies assume responsibility for some of the initiatives previously implemented by the provinces (Savoie 1992, 98).

When John Turner assumed leadership of the government in June 1984, one of his first acts was to streamline the Cabinet by eliminating MSERD, putting all its functions into DRIE. Although Turner's government was short-lived, this de-emphasis of regional and economic development proved more lasting. With the election of the Conservatives and Brian Mulroney in the general elections of fall 1984, the focus turned back to decentralizing DRIE. Mulroney re-oriented the programs to target the nation's least developed regions. The least distressed, or tier 1, regions were restricted from receiving funds for many activities, but the Conservatives decided to continue the ERDA program as their basic approach to supporting regional development.

Creating Regional Agencies to Implement National Policy

The ERDA program was only a small part of DRIE's activities. In fact, much like the U.S. Department of Commerce, most of its efforts were targeted to developing industrial sectors rather than regions. Except for the FEDCs, the agency was doing very

little to support this activity. Many of the traditional supporters of regional development were becoming frustrated with this orientation. By 1986, the Atlantic province premiers were particularly upset with the department because they felt that the agency's resources were being allocated primarily to Ontario and Quebec to the detriment of their own region. The share of the agency's budget had shifted dramatically, with more than 70 percent of the agency's funding going to the two largest provinces. By comparison, in the late 1970s the two provinces combined received 36 percent of the agency's funding (Savoie 1992, 114).

The premiers succeeded in gaining the Cabinet's attention when two DRIE ministers, Sinclair Stevens and Michel Côté, resigned within a year of one another (Savoie 1992, 115). Rife with scandal and lacking leadership in the department, the premiers pressed Mulroney directly. In response, the prime minister, who had a long personal link to the region, decided to establish the Atlantic Canada Opportunities Agency (ACOA) in June 1987 outside DRIE.

Witnessing the success of their colleagues and playing on the weakening political support for the Progressive Conservatives, the four western premiers joined together to develop their own regional development department. The Western Economic Diversification Fund (WD) was created that same summer in August 1987.

By the time these two separate agencies were formed, DRIE's tiered targeting approach had been discredited as ineffective and the department was reorganized. The ERDAs from the eight provinces of Atlantic Canada and western Canada were transferred to the new regional agencies. Additional funding totaling \$2.2 billion (\$1 billion for the Atlantic provinces and \$1.2 billion for the western provinces) was added to the resources authorized under the existing ERDAs and the ongoing Industrial

and Regional Development Program. The headquarters of the two agencies were moved from Ottawa to Moncton, New Brunswick (for ACOA), and Edmonton, Alberta (for WD). ACOA even established a regional advisory board to oversee its activities.

Meanwhile, the remaining DRIE functions were reorganized into the Department of Industry, Science, and Technology (DIST) and merged with the Ministry of State for Science and Technology. As part of the reshuffling, the government unveiled a new division within DIST—Federal Economic Development in Northern Ontario (FEDNOR). FEDNOR received a small allocation, \$55 million, to address the needs of rural Ontario but was not supported as strongly by the provincial government as were ACOA and WD in their respective regions.

DIST also inherited the Quebec ERDA as part of its responsibility. That agreement emerged from the *Plan de l'est* prepared in 1983 to be implemented almost entirely by the federal government. The ERDA expired in 1988, and a new one based on the Canada-Quebec entente was signed in 1988. In that program, Quebec took a larger role in implementing the programs funded partially by the federal government (Savoie 1992, 159). In 1990, the Federal Office of Regional Development-Quebec (FORD-Q) was created within DIST to coordinate these initiatives. The office was reassigned to the Ministry of National Health and Welfare in 1991 and then moved to the Ministry of Finance at the end of 1993.

A New Era

With his election in 1994, Jean Chrétien proposed to refocus the regional development agencies to address the debt and equity capital needs of small and medium-sized businesses (Dept. Finance 1995a). At the same time, the roles of the regional agencies would be de-emphasized. The agency budgets would be reduced by nearly

50 percent between 1995 and 1998 as part of an overall deficit reduction plan (Dept. Finance 1995b).

What seems clear from the historical analyses of Canada's regional development initiatives is that they have ebbed and flowed with the changing administrations—much more so than in the United States. Lithwick identifies six different policy phases between 1947 and 1984. Savoie adds at least two more in the period between 1984 and 1992, and the Chrétien government is destined to take Canada in a new direction based more on a need to reduce spending than on any particular regional priorities.

Conclusion

Regional development policy provides a lesson in the similarities and differences in policymaking in Canada and the United States. These lessons go to the fundamental character of the two nations—from their willingness to participate in government-sponsored economic planning to the relationship between the federal and state or provincial government. But the influence of politics in making regional development choices is one similarity that both nations share.

The United States can trace its regional development history further, pointing to the National Resources Planning Board and the Tennessee Valley Authority. The NRPB was an anomaly of the Great Depression, never again repeated. But Canada has been much more willing to encourage government intervention in regional economic planning. Both the TVA and the NRPB were based on a rationale similar to the rationale for Canada's initial involvement in regional development—national defense. Canada was attempting to protect its early interests from an economically dominant United States, while America used regional development

strategies to improve its access to vital natural resources that could improve its military might.

Regional Development Agencies in Two Nations

Comparing the American regional development entities, the TVA and the Appalachian Regional Commission (ARC), with their Canadian counterpart, the Atlantic Development Board—and later the Atlantic Canada Opportunities Agency (ACOA) and the Western Economic Diversification Fund (WD)—could prove quite helpful in explaining many of the distinctions between U.S. and Canadian regional development strategies.

In both nations, these regional organizations serve multiple provinces or states. In the Canadian organizations, the provincial boundaries are integrated into the definition of the region. In the American organizations, the states participate, but only West Virginia is located wholly within either of the two entities. ACOA and WD coordinate the federal initiatives with the provinces, and the provinces control the targeting of those resources. For ARC and TVA, the economic development activities involve state or local organizations, but because the regions do not include entire states, the state planning efforts are tiered. Those regions within the defined federal region receive support, but those outside are solely the responsibility of the state.

Furthermore, other federal resources, such as Community Development Block Grants, the designation of EZ/ECs, and EDA funding, are all allocated outside the decision making framework of TVA and ARC. Even the jurisdictions of the two U.S. regional organizations overlap, with the central and southern Appalachian region being included in both organizations. Clearly, this is a simplified comparison, but it offers a foundation from which to work.

The U.S. system is much more fragmented than the Canadian one, even though the Canadian provinces have more power than the U.S. states in the system.

Yet, in both countries, the regional development initiatives come from a tradition of aiding regions faced with rural poverty. Both the U.S. Economic Development Administration and its predecessor, the Area Development Administration, were created for just such a purpose. The strategy was to fund local or sub-state organizations initiating development activities. The Canadian Department of Regional and Economic Expansion evolved from a consolidation of several programs, including the Fund for Rural Economic Development, the Agricultural Rural Development Act, and the Area Development Agency—all of which were focused on addressing various aspects of the rural problem.

Evolving National Approaches Compared

In the 1960s, both governments created nationwide programs (EDA in the United States and FRED in Canada) to develop rural areas based on growth pole theory. The model involved promoting development in urban areas that would then presumably spread throughout the entire region. Over the past three decades, EDA has continued with very few changes as the key American program for regional development. After the Johnson administration, the agency also had little support from the president. At the same time, Canada's programs have undergone a series of reforms and revisions designed to adapt to a changing political and economic climate; FRED and related programs have long been replaced by a series of new initiatives of the prime minister. While EDA was initially designed utilizing local organizations as delivery mechanisms for its programs, the Canadian programs began with the federal

government directly delivering the services through national and later regional offices. Eventually, the service delivery was shifted to the provinces and to some degree to local nonprofit service delivery agents.

These constant changes in Canadian programs are indicative of the ease with which the country can adapt its programs. Since the prime minister also controls Parliament, his proposals quite often are implemented with very few changes. On the other hand, EDA struggled for years to maintain its existence (with support from Congress) against a hostile president. Today, it faces a hostile Congress and a sympathetic president. Since 1980, Congress, illustrating its distrust of the executive branch, maintained an EDA program that changed very little from its form in the 1970s. Meanwhile, the president experimented with new approaches to regional development by creating entirely new programs in other agencies. Unlike in Canada, the state governments have been a very minimal actor in federal efforts to promote regional development, even though they are increasingly creating their own independent regional development programs. In some cases, these state programs duplicate the federal effort, while in others, the states are filling needs that the federal government cannot meet.

The key theme of the 1980s was the decline of the importance of regional development. The 1970s represented a hey-day for federal activism in regional policymaking in both countries. In the United States, federal activism was at its greatest as new program elements were created at HUD, SBA, and Commerce, while EDA was expanded. In Canada, regional development was elevated to a Cabinet-level post where it stayed until the mid-1980s.

During the 1980s, the U.S. agencies promoting economic development were all under fire from the Reagan administration. Reagan wanted to eliminate the federal programs,

devolving authority for regional development to state and local governments while detaching the federal government from any involvement in economic planning at the regional level. Reagan simply could not accomplish all he set out to do because a resistant Congress appreciated EDA's ability to target federal resources to their respective districts. Interest groups, particularly the economic development districts funded by EDA, supported the maintenance of the agency and pressured a supportive Congress to continue its funding. Consequently, the agency continued to gain annual appropriations but had no real ability to support economic planning activities beyond the current budget cycle.

At the same time, Mulroney—even though he was representing his nation's conservative wing—simply had little interest in disassembling regional development. Regional development was a tool for involving the federal government directly in provincial and local economic affairs, building an important linkage between targeted regions and the federal government. Reflecting the ongoing balancing act involved in federal-provincial relations, Mulroney also was not as interested as Reagan in completely eliminating regional development from the federal portfolio. Indeed, political pressure from the provinces was required to devolve the federal programs to a regional level, and the multiprovincial federal agencies seemed a perfect compromise in balancing federal provincial control by putting the agencies on neutral turf in neither the national nor the provincial capitals.

The Decline of Regional Policymaking If Not Regional Development

Several factors that affected Canada explain the decline of regional development policy in the 1980s (Cannon 1989). The factors are as follows:

1. the increased political importance of economic competitiveness as compared with regional disparity in the national policymaking arena;

2. the analytical and theoretical ambiguity involved in shaping regional development that has confused policymakers and caused a constant need for fine tuning those policies;

3. the conflicting policy objectives between efficiency and equity involved in addressing regional problems;

4. the inability of regional development programs to demonstrate significant results, in part because of inadequate assessment tools and conflicting policy objectives; and

5. the changing politics of federalism in which regional policy is viewed as a balkanizing influence on the national economy and a key tool for encouraging economic competition between provinces.

These same factors might explain regional policymaking's U.S. decline as well. But the traditions of the two nations suggest that Canada's interest in regional development is more integral to the nation's political identity than in the United States. For instance, Mulroney's policies that abandoned regional development in favor of creating an improved competitive position are viewed as "politically untenable" precisely because they ignore the regional dimension of Canadian politics (Cannon 1989). Canada is much more willing than the United States to support government intervention in the economy. In Canada, economic development aimed at addressing regional disparities has been used to bring the country together.

Canada's economy is also smaller and much more export-oriented than the United States'. It has traditionally accommodated a high level of foreign ownership (particularly U.S. ownership) and has a higher dependence on natural resources than the U.S. economy. Government economic intervention in Canada often has been seen as a

strategy designed to protect the national interest. In addition, the nation has a long social democratic tradition, particularly in certain provinces. Such a tradition simply does not exist in the United States. Thus, Canada has a lower fear than the United States of the "contagion from the left" that might be implied by government involvement in economic planning (Jackson 1992).

Tracing the federal role in Canada's regional development policy to a fear of the United States is not tremendously difficult. A stark illustration of this can be found in the Pacific Northwest Economic Region partnership. The partnership involves five northwestern U.S. states as well as Alberta and British Columbia that have come together to compete internationally for businesses and exports. Even though the two provinces are enthusiastically involved in the partnership, they will likely remain somewhat stand-offish because they

have let fears of American imperialism and threats to Canadian sovereignty prevent their legislatures from creating the provincial statutory structures that would facilitate participation (Irwin 1991).

Canada will likely continue to address regional policy issues at the federal level but will balance that federal control with a shift in the responsibility for implementing those policies to the provincial and local level (Cannon 1989). As an economic development professional in British Columbia points out,

At the heart of the Canada question...is our unresolved attitude to government.... In the west, we want to view Canada as an amalgam of ten equal partners but that is starkly at odds with Quebec's two founding nations (English and French) viewpoint. Many francophones outside of Quebec favor a strong central government in order to afford cultural protection from provincial governments... (Pyplacz 1993).

Canada has decided to address regional disparities using its own statist, particularistic approach—by creating four regional

development entities within the federal government. Each participates with the provinces in projects but ensures that the federal government is viewed as having a high profile in the economic future of the targeted regions.

Meanwhile in the United States, decades of gridlock on the issue of regional development policy have resulted in fragmentation in how the nation approaches the issue. This should come as no great surprise to students of American culture since the United States has long rebelled against strong state institutions, particularly those involved in economic planning (Lipset 1993). Americans have conflicting ideals—they want their regions to have an equal opportunity for success and encourage efforts to fix the disparity of opportunity, but they have very little faith in government to plan effectively for economic success.

During the 1970s and 1980s, attention turned away from regional development toward the ongoing national economic restructuring. Manufacturing was losing its competitive edge in the United States, and the dislocation of companies, particularly from cities, began to attract the attention of policymakers. Programs created during the Great Society to deal with urban decay were under challenge, and new initiatives were being created to address the hemorrhaging of jobs from declining areas.

But instead of reforming such initiatives as ARC and EDA, new initiatives including CDBG, UDAG, and SBA 503 were created. In another surge of activism during the late 1980s, a new round of programs, NIST's Manufacturing Extension Partnerships and the Empowerment Zone/Enterprise Community initiatives, resulted. Now, this is not to say that the United States has not learned any lessons from the experiences of the older programs. For instance, the primary lesson learned from the ARC and

EDA experiences of the 1960s was that a populist approach to economic planning is much more appealing to American policy-makers.

These programs suggested that grassroots strategies involving multiple tiers of government, developing decision making to the local level, and leveraging ongoing community participation will be successful. Both the ARC and EDA programs have instituted these strategies within their program elements. Furthermore, the concepts have been integrated into reforms of CDBG and the genesis of the new EZ/EC initiative. Matching grant funding also was instituted into all programs except CDBG during their design to encourage state and local involvement.

As both Lipset (1991) and Pyplacz (1993) have maintained, the essence of the differences in Canadian and U.S. regional development policy can be defined in the "anti-definition definition" of Canadianism. Canadians are "not-Americans." They are much more willing to accept state intervention in their economy and are more attuned to regional concerns. On the other hand, Americans are more anti-statist and much more interested in allowing the market to determine their economic future. Clearly, regional development policy, even at its nadir, will be much more important to Canada and the Canadian political system than it will be to the United States. It is also clear that the Canadian federal government will continue to take an active role working in concert with the provinces and the U.S. federal government will reduce its role until a crisis of some form presses it to step in again and take a leadership role. ☉

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