



**THE HARRIS  
CENTRE**  
Memorial University

## Local Labour Markets as a New Way of Organizing Policies for Stronger Regional Economic Development in Atlantic Canada

David Freshwater, Alvin Simms & Jamie Ward  
January 2014



This report is supported in part by the Atlantic Canada Opportunities Agency (ACOA) under the Atlantic Policy Research Initiative, which provides a vehicle for the analysis of key socio-economic policy issues in Atlantic Canada. The views expressed in this study do not necessarily reflect the views of ACOA or of the Government of Canada. The author is responsible for the accuracy, reliability and currency of the information.

L'étude stratégique est commanditée en parti par l'agence de promotion économique du Canada atlantique (APECA) en vertu de la Mesure de recherche stratégique de l'Atlantique, laquelle constitue un mécanisme pour l'analyse des enjeux stratégiques socio-économiques au Canada atlantique. Les points de vue exprimés dans cette étude ne représentent pas nécessairement le point de vue de l'APECA ou du gouvernement du Canada. L'auteur est responsable de l'exactitude, de la fiabilité et de l'actualité de l'information.



**Atlantic Canada  
Opportunities  
Agency**

**Agence de  
promotion économique  
du Canada atlantique**



**Canada** 

Local Labour Markets  
as a New Way of Organizing Policies  
for Stronger Regional Economic Development  
in Atlantic Canada

Written by: David Freshwater, Alvin Simms & Jamie Ward

## Contents

About this Document.....	4
Introduction .....	6
The Process of Defining Regions .....	9
Figure 2: Size Distribution of Functional Regions .....	10
A Typology of Regions .....	12
Functional Region Maps of Atlantic Canada.....	13
Map 1a New Brunswick Functional Region Class .....	13
Map 1b Nova Scotia Functional Region Class.....	14
Map 1c Prince Edward Island Functional Region Class.....	15
Map 1d Labrador Functional Region Class.....	16
Map 1e Newfoundland Island Functional Region Class.....	17
The Functional Region Types of Atlantic Canada.....	18
Urban Centres .....	18
Small Cities and Regional Towns.....	18
Rural 1 .....	18
Rural 2 .....	18
Rural 3 .....	19
Looking Across the Categories .....	20
Figure 3: Population Change Ratio 2006 – 2011 by Functional Region Category .....	21
Figure 4: New Business Formation by Functional Region Category.....	22
Figure 5: Atlantic Canada GDP per Worker Index by Functional Region.....	23
Figure 6: Education Diversity by Functional Region Category.....	24
Building a Better Policy Framework for Local Economic Development.....	25
The Importance of Focusing on Productivity .....	28
Fostering Development at the Regional Level.....	30
Lessons for Larger Urbanized Regions.....	32
Lessons for Smaller Urban and Regional Towns.....	35
Lessons for First Order Rural Regions.....	38
Lessons for Second Order Rural Regions .....	40
Lessons for Third Order Rural Regions.....	42
Conclusion and Summary.....	43

## About this Document

For several years, researchers affiliated with the Leslie Harris Centre of Regional Policy and Development (The Harris Centre) at Memorial University, have been developing a new way for communities in Atlantic Canada to think about organizing their economic development efforts. The approach uses worker commuting data to identify local labour markets as the best unit for designing and implementing economic development strategies. Local labour markets developed from commuting data have long been used to define metropolitan regions associated with large cities, but have seldom been used for smaller places where multiple communities make up the local labour market. Our research suggests that this should change.

Smaller places often recognize that job openings in their towns are sometimes filled by people from nearby communities: as such, there are important spillover effects from any one community's development efforts on nearby places. Since these natural spillover effects exist, it makes sense to deal with them directly and to collaborate on plans for development efforts across the local labour market. This idea also applies to how support from provincial and federal programs could be provided. Government support for communities can be more effective when understood in the context of regional spillovers.

This publication describes how our research was carried out and proposes some ways that functional regions can be used to help communities approach development with a recognition of linkages with other places. We have identified 259 distinct local labour markets in Atlantic Canada. The largest has over 400,000 people, while the smallest has only several hundred. Clearly, the opportunities and challenges differ for regions with this degree of variability; however, we have identified five different size classes of region. Within each of those similarly sized classes, there are many useful similarities.

Suites of strategies and policies can be developed for each size class, and while individual regions will have to tweak these general strategies to fit their particular circumstances, the general recommendations provide a good starting point. Local leaders in a region can also use the research to identify other regions across Atlantic Canada experiencing similar situations. Regions in the same size class can provide useful ideas and experiences as a guide for forming a local strategy. Ideally, similar regions in different provinces could decide to collaborate in a peer learning arrangement.

The main conclusions from the research are that there are opportunities for economic growth in regions of all size, not just large regions. But many regions are not growing and the crucial public policy question is “how should governments organize to support growth?” Our analysis shows that local labour markets make a good unit for policy intervention, and that labour markets of different size need different types of support. Fortunately, it appears that there are five broad categories of labour market in the provinces of Atlantic Canada, which makes it easier for governments to think about policy strategies. We also believe that it could be important for regions in each category to look to other members in their category

for ideas and support. In many cases regions in one province can have more in common with regions in another province than they do with adjacent regions. Crucially the research demonstrates that economic success is largely the result of the people in a region identifying potential strengths and acting to make their region economically stronger. While the national and provincial governments can play an important role in supporting local action stronger local economies are largely the result of stronger local communities.

While this publication provides an overview of the work that was carried out, greater detail is available by visiting [www.mun.ca/harriscentre/regionalanalysis](http://www.mun.ca/harriscentre/regionalanalysis). There, you'll find a longer final report with further detail on the ideas introduced here. We've also posted several technical reports that describe how the regions were identified, and the categories of regions developed.

## Introduction

Atlantic Canada faces a challenging economic future. The global economy continues to struggle to overcome the recession that started in 2008. Trade flows increasingly occur across the Pacific Ocean, between the Americas and Asia, rather than across the Atlantic with Europe (with its economy still deeply challenged). In North America, the population center and the centroid of economic activity continues to move south and west toward the Mexican border, making Atlantic Canada increasingly remote from fast growing markets. In addition, Atlantic Canada is experiencing a fairly rapid aging of its population and a shrinking workforce as the effects of low fertility rates in the recent past combined with steady outmigration of youth, exerts long term consequences. Finally, there seems to be a realignment of government policy away from equalization as financial shortfalls reduce available funds.

In this environment it is increasingly clear that achieving economic growth requires an emphasis on productivity. Productivity is mainly an attribute of individual firms and the local environment they operate in, which leads to the importance of a more

---

*"Productivity is mainly an attribute of individual firms and the local environment they operate in, which leads to the importance of a more microeconomic approach to development policy."*

---

microeconomic approach to development policy. Local labour markets are a useful geographic unit for this type of approach since they capture the milieu in which individual firms operate <sup>1</sup>. In this study we examine the conditions of 259 local labour markets in Atlantic

Canada. Because these local labour markets are defined by the commuting patterns of workers, the boundaries of a local labour market can adjust over time in response to changing local employment conditions. If a major employer closes or gasoline costs increase sharply the boundaries of the local labour market are likely to contract. Conversely, if roads are improved, which makes commuting easier, or if local firms increase their workforce, the boundaries of the local labour market are likely to expand. Thus, in a sense, changes in the size of a local labour market inherently reflect how well the local economy is doing.

One measure of the magnitude of the development challenge facing Atlantic Canada is the significant number of long-distance commuters to Alberta who leave for extended periods. The absence of good local jobs contributes to this phenomenon, and while these commuters bring large amounts of money back to their home communities, nobody confuses this with economic development.

---

<sup>1</sup> A local labour market is defined as a geographic region where the vast majority of workers both live and work. Daily commuting flows take place mostly within the region. If commuting patterns change, the boundaries of the local labour market adjust to reflect this new reality.

In our analysis we refer to these 259 local labour markets as Functional Economic Regions (hereafter FERs). Typically, the term “region” is applied to an administrative unit defined by some level of government. County and city boundaries, school districts, postal codes, and other units used by government to define political jurisdictions or distinguish specific areas for the delivery of public services define administrative regions. The crucial characteristic of all these regions is that boundaries are set somewhat arbitrarily by government. By contrast, a functional region is defined by human behavior, and if behavior changes, the boundaries of the region also change. In our case we use commuting patterns of workers to define the functional regions. Other functional regions could be defined by the residential location of people attending a specific church, or shopping at a particular mall. Similarly, in nature the habitat of a particular species is another type of functional region - if the geographic range of the species changes so too does the size of the region.

This approach does not negate the important role of federal and provincial policies, but it recognizes that, just as within Canada there are differing conditions and

---

*“...just as within Canada there are differing conditions and opportunities between individual provinces, so too are there differences within provinces.”*

---

opportunities between individual provinces, so too are there differences within provinces. In particular, there are important differences in economic performance between the largest urban centers in

Atlantic Canada, most of which have weathered the recession reasonably well, and the smaller communities where, in many cases, economic conditions are more challenging. While it may be tempting to see this situation as simply reflecting a situation where economic growth inevitably concentrates in larger urban centers we believe this would be a mistake.

---

*“It is not politically feasible for any province to concentrate economic activity in a small number of larger urban regions. But even if it was, such a strategy also ignores the important role that smaller places play in provincial economies.”*

---

It is not politically feasible for any province to concentrate economic activity in a small number of larger urban regions. But even if it was, such a strategy also ignores the important role that smaller places play in provincial

economies. First, a considerable share of the economic activity in large centers is tied to providing goods and services into a more extended area. The economic footprint of a large urban region extends well beyond that region’s boundaries. For example, the economic footprint of Halifax extends across all of Atlantic Canada



because it is the main location for firms providing specialized goods and services to the entire four province region. Second, the economies of some smaller, more rural, regions are already operating at a high level, where productivity is as high, or even higher, than in major urban centers. The task for public policy makers is to understand what distinguishes these high performing smaller regions from those with low productivity, and to develop policies that help to raise economic performance in all regions.

The idea of functional economic regions based on commuting flows is also important at the local level. The vast majority of communities in Atlantic Canada are small. In many cases they struggle, independently, to provide good public services to their residents, and they lack the critical mass to mount effective economic development efforts. Yet these communities strongly resist efforts to force amalgamation, because they see it as bringing about a loss of control and a less responsive regional government. Functional regions offer a middle ground between autonomy and amalgamation. It is the chance for partnership among equals where there is already a strong tie - the local labour market. In a linked local labour market increases in employment in one community directly benefit all places in the local labour market because workers already flow across community boundaries. It should be easier to find opportunities for shared action among communities in a functional region because they already have common bonds and existing relationships through a shared labour market that results in people living in different communities but working in the same place.

The last key benefit we see from constructing regions on the basis of local labour markets is that it is possible to identify economic specialization within each region. In small economies specialization is crucial if productivity is to be high. The local labour force is too small to allow many firms to achieve minimum efficient scale. Several important implications flow from this situation. The first is that regions in

---

*"A better alternative could be to form local development assistance strategies on the basis of economic specialization and provide support to specific types of regions."*

---

close proximity may have quite different economic functions and opportunities. Where governments have in the past assembled large geographic territories into economic development regions one key reason that

these approaches have failed is that the regions lacked much in common. A better alternative could be to form local development assistance strategies on the basis of economic specialization and provide support to specific types of regions. A second implication is that when a region looks for peers to emulate, it should look for regions that are economically similar, recognizing that these may be far away, perhaps even in another province. The last point is that smaller local labour markets are highly diverse, necessitating tailored approaches to policy supporting economic development. While no government can offer unique packages of assistance to

individual regions it should be possible to aggregate similar regions into a small number of categories where specific packages of support can be offered.

### **The Process of Defining Regions**

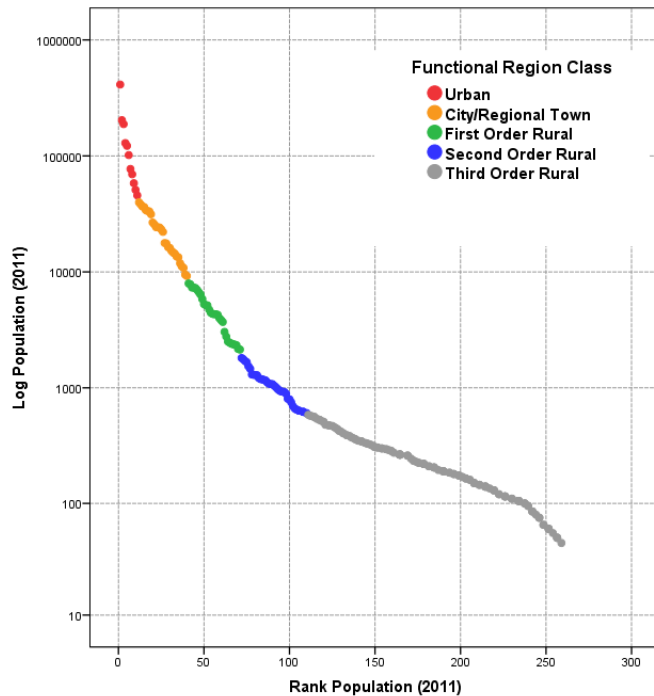
To form the functional regions we start with Census Sub-Divisions (CSDs) as defined by Statistics Canada. While there are 54 different types of CSD defined by Statistics Canada they are all communities of some sort and most are units of local government. Some CSDs, bigger cities and major towns, have large populations and large territories, while others, like fishing villages or summer communities, are quite small and may lack a formal government. We use data from the 2007 Census on commuting patterns among CSDs to construct the functional regions, or local labour markets. The strategy is to assemble blocks of CSDs where there are strong commuting flows. We constrain the assembly process so that only contiguous CSDs are included in each region, and we limit commuting distances within a region to roughly 100 kilometers.

Ideally we would want all CSDs to be included in a functional region, so that we could achieve regions that are large enough to be more efficient, in the sense of having enough firms to have a fluid local labour market and big enough populations to allow public services to be provided economically. However, the settlement geography in parts of Atlantic Canada makes this impossible. Especially in Newfoundland and Labrador, but also in New Brunswick, there are small isolated communities (CSDs) that are too far away from other population centers to allow commuting. As a result there is a considerable number of functional regions that consist of one or two autonomous CSDs.

**Figure 1: The five distinct functional regions of Atlantic Canada**

	Number of Regions	Average Population	Range in Size of Regional Population
Urban Centres	11	132,541	45,645 - 412,000
Small Cities & Regional Towns	29	22,237	9,225 - 38,805
First Order Rural	31	4,568	2,140 - 7,950
Second Order Rural	39	1,055	1,810 - 2,139
Third Order Rural	149	236	96 - 600

Geographic proximity has typically been used by governments to form groups of communities into administrative regions but we believe this is not the best approach for economic development policy. Places near to each other can experience very different economic circumstances and have different development options. Lumping together dissimilar places is a key argument against trying to form clusters of regions of uniform size that are in close proximity. Because the various local labour markets differ so significantly we developed a way to group them into a small number of categories that each contains a set of relatively homogenous



**Figure 2: Size Distribution of Functional Regions**

region's degree of connectivity (roads, airports, internet access, etc.). Importantly, the local development capacity is much stronger in larger regions, both because they have more local staff engaged in that area, but also because the regions themselves have stronger skills and more resources. This suggests that support for economic development initiatives can be more effective when it explicitly recognizes that different size places have distinct opportunities.

Figure 2 (above) shows that we have a fairly small number of larger population regions and a relatively large number of small population regions, which is consistent with a common regularity known as Zipf's Law. Zipf's Law says that the population of the second largest city in a country is  $1/2$  of the population of the largest city, the population of the third largest city in a country is  $1/3$  of the population of the largest city, and so on with the  $n$ th smallest place being  $1/n$  of the population of the largest city.

Zipf's Law holds across a variety of countries with very different economic and political systems. There is no good explanation for its existence, but its regularity suggests that the growth of any city is constrained by where it falls within an existing city system. In a sense it implies that for one city to grow to a higher rank another must decline.

For functional economic regions in Atlantic Canada, we see this phenomenon where there is a fairly straight line relationship between the logarithm of rank and the logarithm of population, and with each class of region having progressively smaller populations and a progressively larger number of members. Two important points come from this relationship. The first is that it is consistent with a hierarchy of regions where larger regions provide a greater variety of goods and services than

regions. This allows governments to construct distinct tailored policy menus or regimes for each category of regions. The result is a set of five distinct sizes of functional region (Figure 1.)

We then use size of region, as measured by population, as the starting point for defining a small number of distinct policy regimes. Size of population is highly correlated with the size and complexity of the regional economy. It is also highly correlated with the level of workforce skills, the quality of public services and the

smaller regions and sell these goods and services to smaller regions as well as to their local customers. This results in big and small regions being jointly dependent through trade flows. The second point is that smaller regions account for a larger share of total population and economic activity than their average population might suggest. This is a simple reflection of the larger number of small regions relative to the number of large regions.

## A Typology of Regions

By using a clustering algorithm we were able to create the five distinct categories of region identified in Figure 1. Members of each category are roughly the same size, in terms of population, except for the larger urban regions where there are considerable differences in FER size. Most importantly, members of each category have fairly similar economic functions, although there is considerable variability

---

*“Prosperity is not restricted to only the largest and most urbanized regions.”*

---

within each category in terms of economic well-being as measured by: income levels, GDP, unemployment rates, and levels of productivity. These differences within

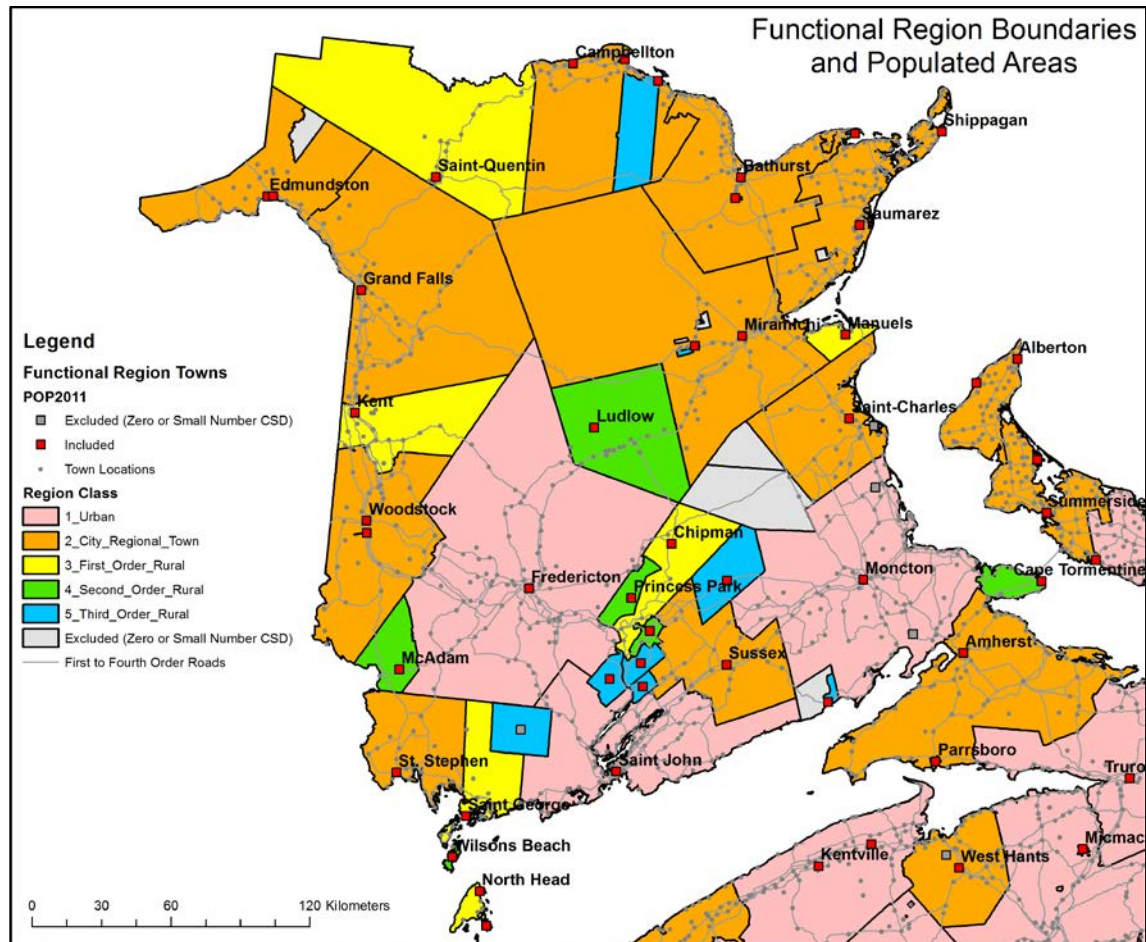
categories are important for developing public policy because they show that there are places of various size within Atlantic Canada that are prospering. Prosperity is not restricted to only the largest and most urbanized regions. This leads to two important points.

- The first is that we need to have a better understanding of why some places within a size category are doing well while others of similar size are not.
- The second is the importance of forming policy support for places of different size that reflects this better understanding of what leads to economic prosperity within each category.

As shown in Maps 1a through 1e the resulting set of regions are of highly variable size, both in terms of geographic space and in terms of population. This may be seen as a disadvantage by those used to working with regions that are designed to be of a relatively uniform size, but it reflects the reality of the distinct local economies in Atlantic Canada. Local labour markets are seen as a potentially important new way to deliver policy to help local economic development. Crucially our research suggests that a local labour market captures the majority of current employment relations; and this implies that this market area is the most useful geography for successful efforts to improve the number and quality of future employment opportunities.

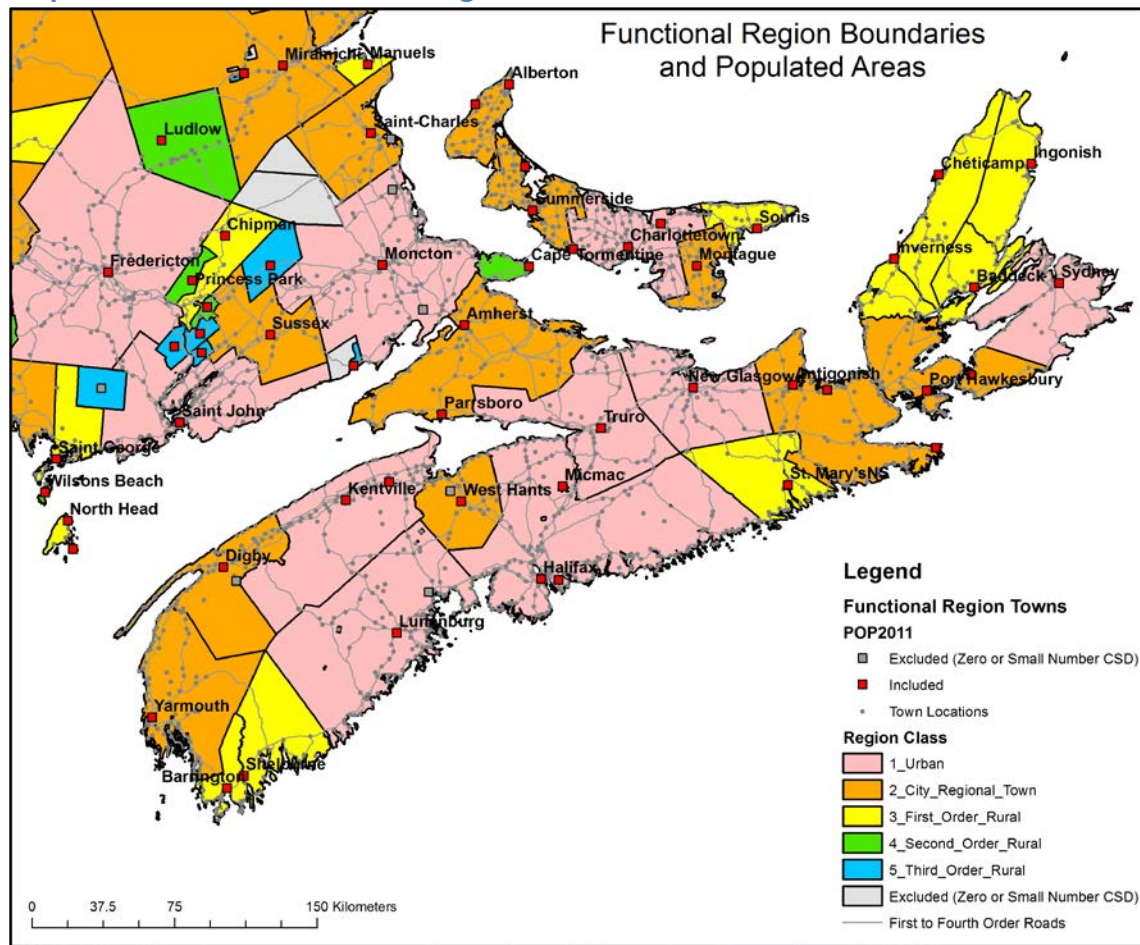
## Functional Region Maps of Atlantic Canada

### Map 1a New Brunswick Functional Region Class

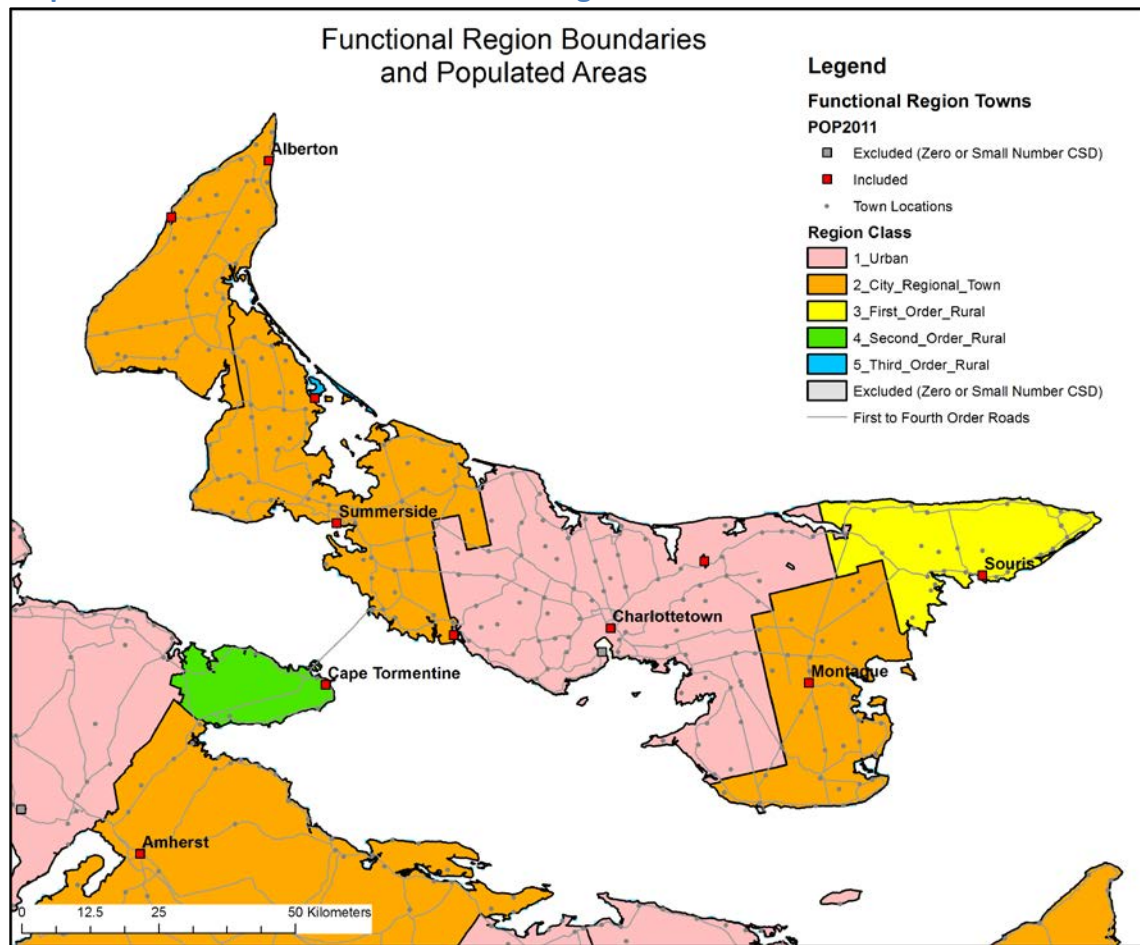




Map 1b Nova Scotia Functional Region Class



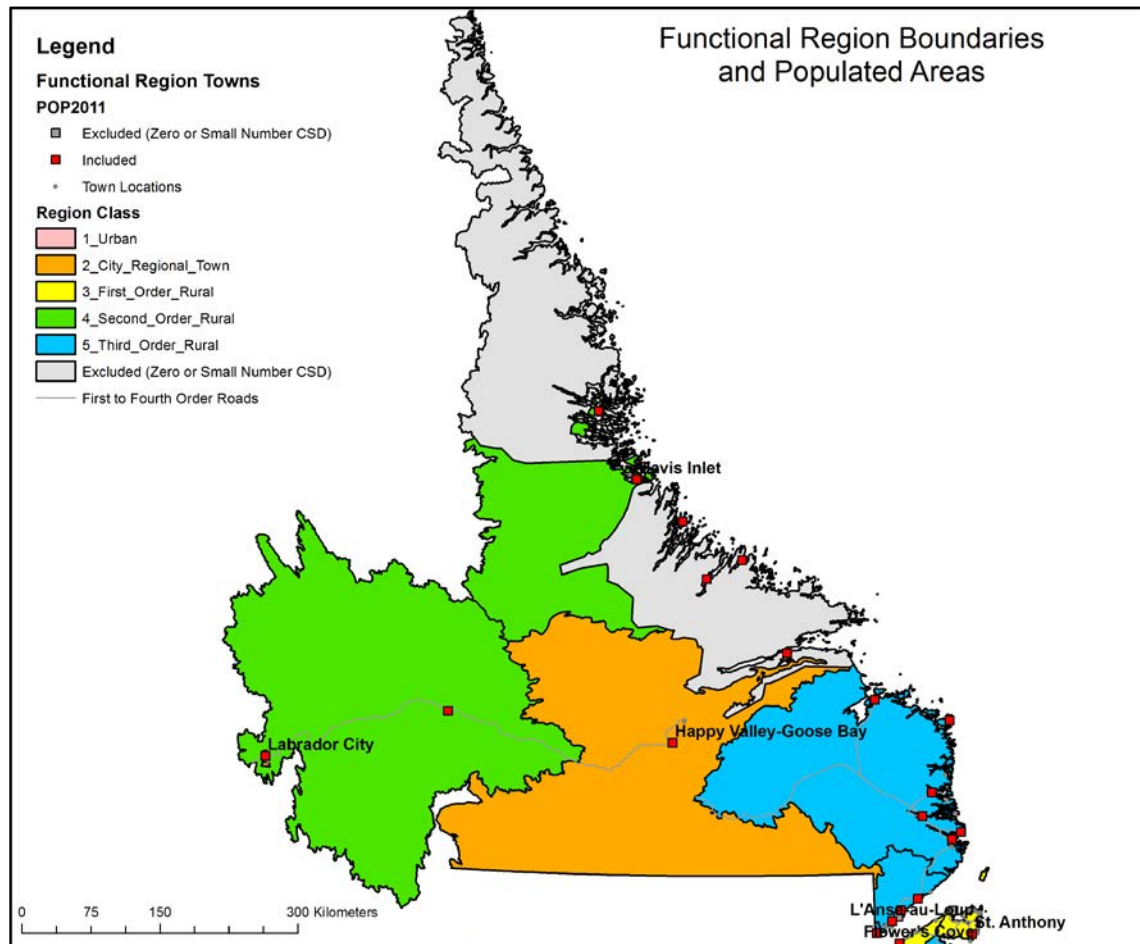
Map 1c Prince Edward Island Functional Region Class



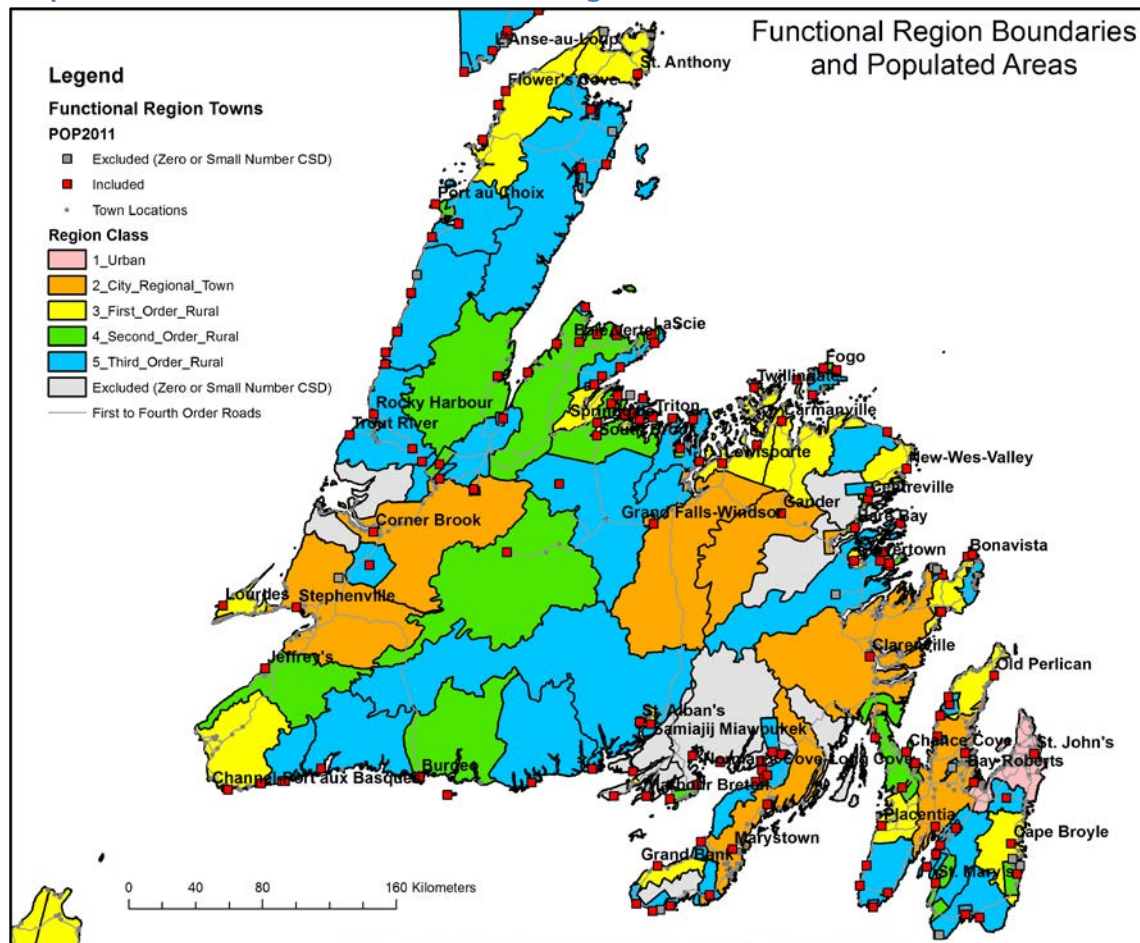


## Map 1d Labrador Functional Region Class

(Note Labrador City is classed as a regional town)



Map 1e Newfoundland Island Functional Region Class



## The Functional Region Types of Atlantic Canada

**Urban Centres**– There are 11 urban regions in Atlantic Canada. The six biggest regions with populations ranging from 101,620 to 412,200 are Sydney NS FER, Fredericton NB FER, Saint John NB FER, Moncton NB FER, St. John's, NL FER and Halifax NS FER. In addition, there are 5 somewhat smaller functional regions also classified as urban because of their industrial and service diversity: Charlottetown PE FER, Kentville NS FER, Lunenburg NS FER, Truro NS FER, and New Glasgow NS FER. The populations of these 5 smaller urbanized regions range from 45,645 to 77,150. By international standards these are all small metropolitan regions, but in the context of Atlantic Canada these are the largest urban places, with each providing higher order goods and services to surrounding functional regions.



Photo via Flickr user Hoboken

**Halifax NS FER is the largest functional region in Atlantic Canada.**

**Small Cities and Regional Towns** - There are 29 functional regions classified as small cities and regional towns with regional populations ranging from 9,225 to 39,805. These regions are characterized by having at least one reasonably sized town that is a focal point for public services and higher order retail for its region and for adjacent smaller regions. Some of the regions in this category are quite distant from one of the urban centre regions and have a significant spatial reach into other smaller regions. Other members of this group are relatively close to a larger region that dominates the broader territory. In this latter case their opportunities for growth hinge to a great extent on what happens in the larger urban centre. If it grows they are weakened because its economic footprint expands and displaces their role, but if it declines they may have the opportunity to capture additional markets.

**Rural 1** – There are 31 first order rural regions in Atlantic Canada. These regions have populations ranging from 2,140 to 7,950, and contain communities having populations from 27 to 6,994 people distributed across an otherwise sparsely populated countryside. They are the small service centres for retail and government services for their own residents and some surrounding regions and have the most diversified economies of the rural categories.



Photo via Flickr user Andrea-44

**Souris, PEI is part of a Rural 1 region.**

**Rural 2**- There are 39 second order rural regions in Atlantic Canada. The population of these functional regions ranges from 1,810 to 2,140. In many cases these are single industry towns, and often employment is dominated by a single firm. Again, these regions are sparsely populated with limited connectivity between communities. People have to leave their region to obtain all but the most basic retail goods and most public



Photo via Flickr user WAFClough

**The Fogo NL FER is a Rural 2 region.**

services. The population range of individual communities in this type of region is between 27 and 528 people.

**Rural 3** – There are 149 third order small rural functional economic regions in Atlantic Canada. These regions consist of either one or two CSDs. They have total regional populations of less than 600 with settlement sizes ranging from 15 to 583, and very weak economic activity. A majority of these regions are remote, but there are single CSDs that are relatively close to higher order regions, but exist outside the local labour market of the larger region. Residents in these regions travel to other regions to obtain virtually all goods and services because very little is available locally, but there is insignificant daily commuting for employment. Regions in this category have the highest variability in condition. Some have a small but relatively productive local economy, while others have almost no earned income from the private sector. Some face imminent disappearance because they are dominated by people too old to work and have almost no local employment, while others have a growing population. In all these regions, a common element is the lack of critical mass to assemble a strong local economy.

## Looking Across the Categories

Before thinking about how to develop better policies for economic growth we need a better understanding of the current status of the various regions. This involves looking at differences among the five categories and at the differences within each category. In general, we find that irrespective of the metric used, the larger population categories perform better on average than the smaller population categories. This means that there is distinct downward cascade in average performance from urban regions to Rural 3 regions. This is really not very surprising and it tends to confirm the common sense logic that larger places on average have been doing better than smaller places for some time.

However what is somewhat surprising is that while the average performance in each category erodes as the size of region declines there is also a considerable increase in variability of performance within each category as size declines. What this means is that there are not really large differences in performance within the large urban category of regions. Although the Halifax FER dominates the category,

---

*“In general, what we find is that the highest performing regions in every category, aside from the large urban class, perform better than the average for the large urban class.”*

---

for the most part the other members are not that distant from it in terms of economic condition. By contrast, for the Rural 3 category the variability about the average level of performance is large. In

general, what we find is that the highest performing regions in every category, aside from the large urban class, perform better than the average for the large urban class. In fact, the best performing regions in the small city and regional town category perform better than the average city in the urban class. This is also the case for Rural 1, Rural 2 and Rural 3 categories. The Box and Whisker plots<sup>2</sup> in Figures 3 through 6 make this point clearer.

---

<sup>2</sup> These plots summarize the distribution of a data set. The box is centered on the median (middle) value of the data. The upper and lower bounds of the box are the first and third quartiles (50% of the data points are in the box). The lines extending from the box (whiskers) show how the upper and lower 25% of the data are distributed. The end of the whisker is determined by multiplying 1.5 times the inter quartile range (the difference between the value that defines the top of the box and the value defining the bottom of the box). These two bounds roughly correspond to the range where we would expect all the data to lie in a “well-behaved” distribution. Any additional extreme points shown beyond these two values indicate that the data is characterized by unusually large outliers.

**Figure 3: Population Change Ratio 2006 – 2011 by Functional Region Category**

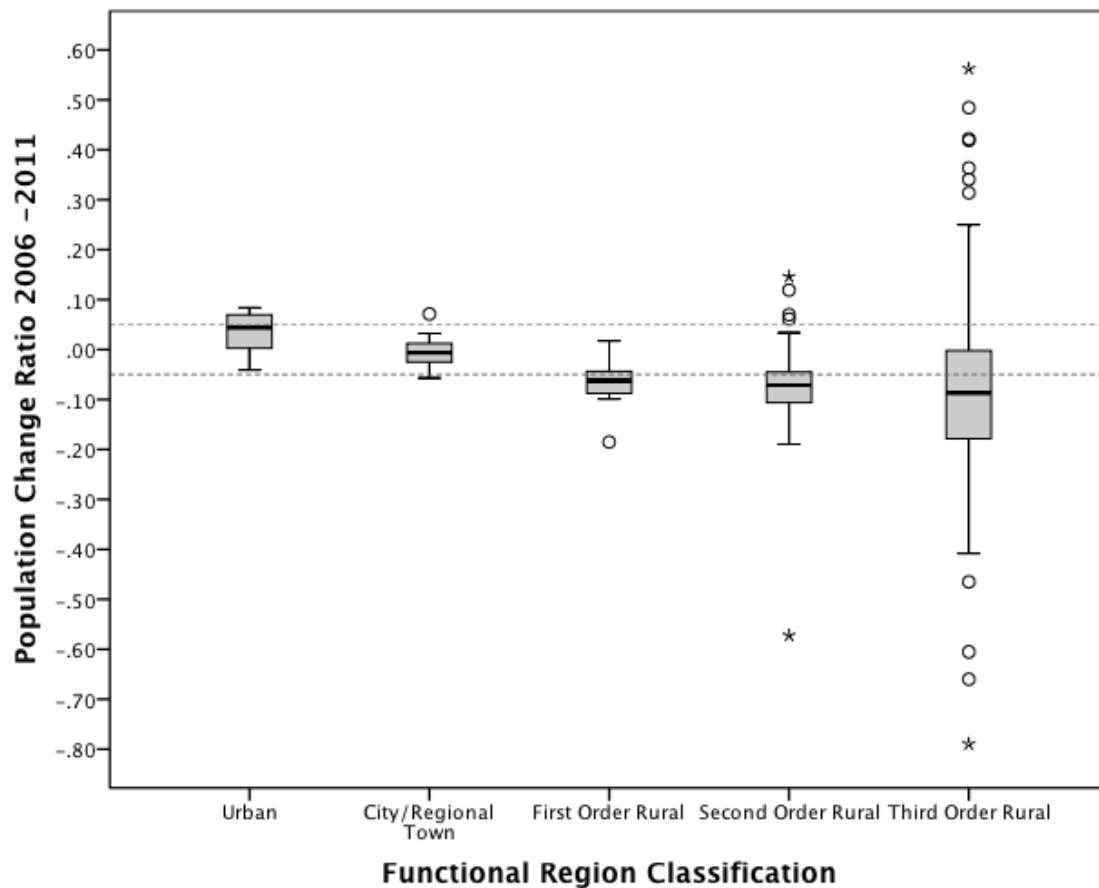


Figure 3 shows change in population between 2006 and 2011. Only the larger urban regions, on average, experienced positive population growth, while on average population declined in all other categories. And, on average, population declined more as we move down the categories from larger regions to smaller regions. But Figure 3 also shows that in percentage terms, some of the smaller regions had the highest increase in population over the 2006 to 2011 period, well in excess of the fastest population growth region in the larger urban category.

Figure 4: New Business Formation by Functional Region Category

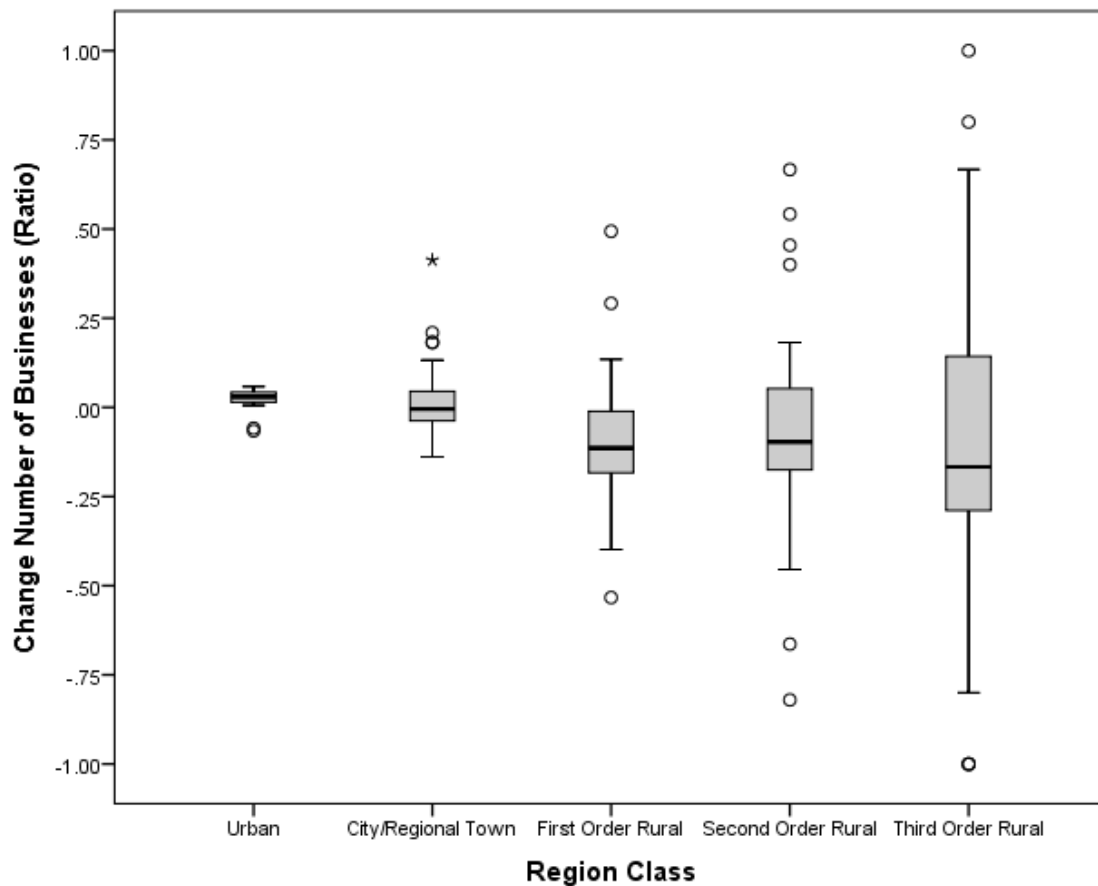
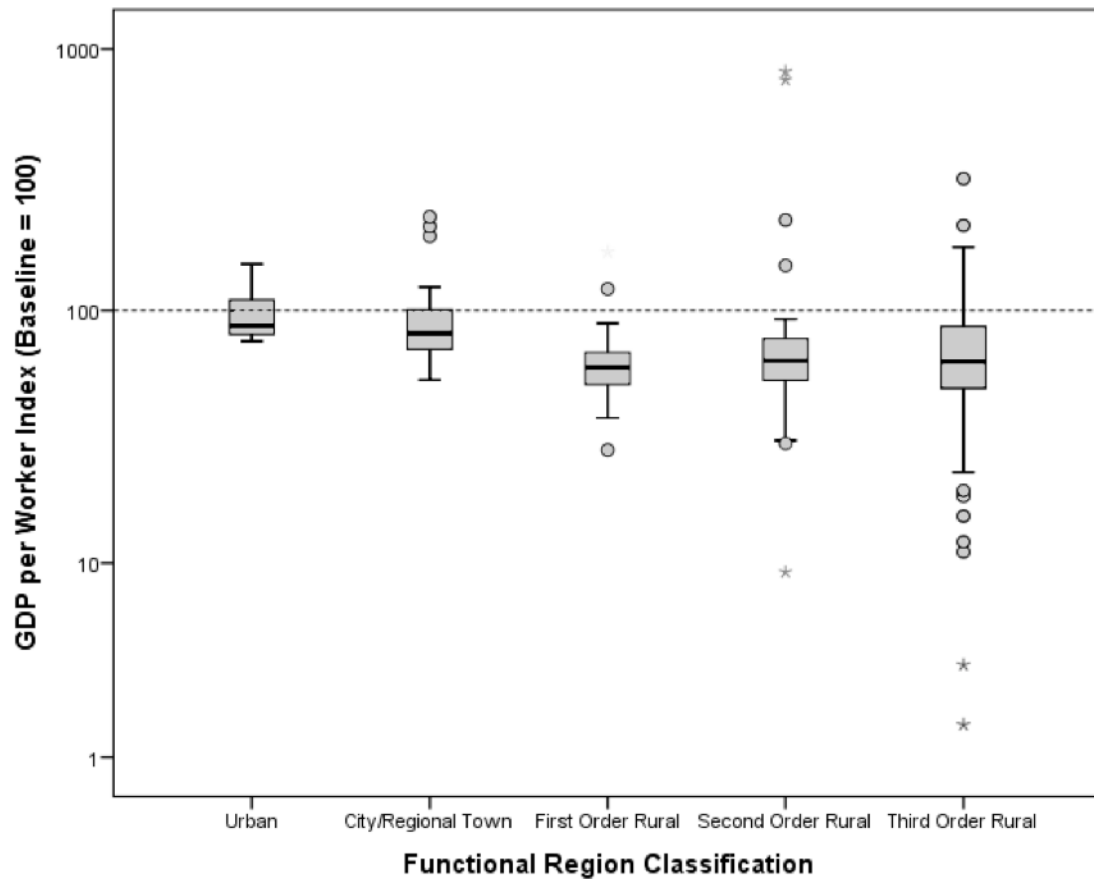


Figure 4 shows the percentage change in the number of businesses in each region between 2007 and 2011. This is an interesting metric because it conveys a sense of business dynamism and whether entrepreneurs perceive opportunity in a local labour market. Once again, while larger regions, on average, perform better than smaller regions, the best performing small regions perform better than both the average and the best performing large urban regions.

Figure 5: Atlantic Canada GDP per Worker Index by Functional Region

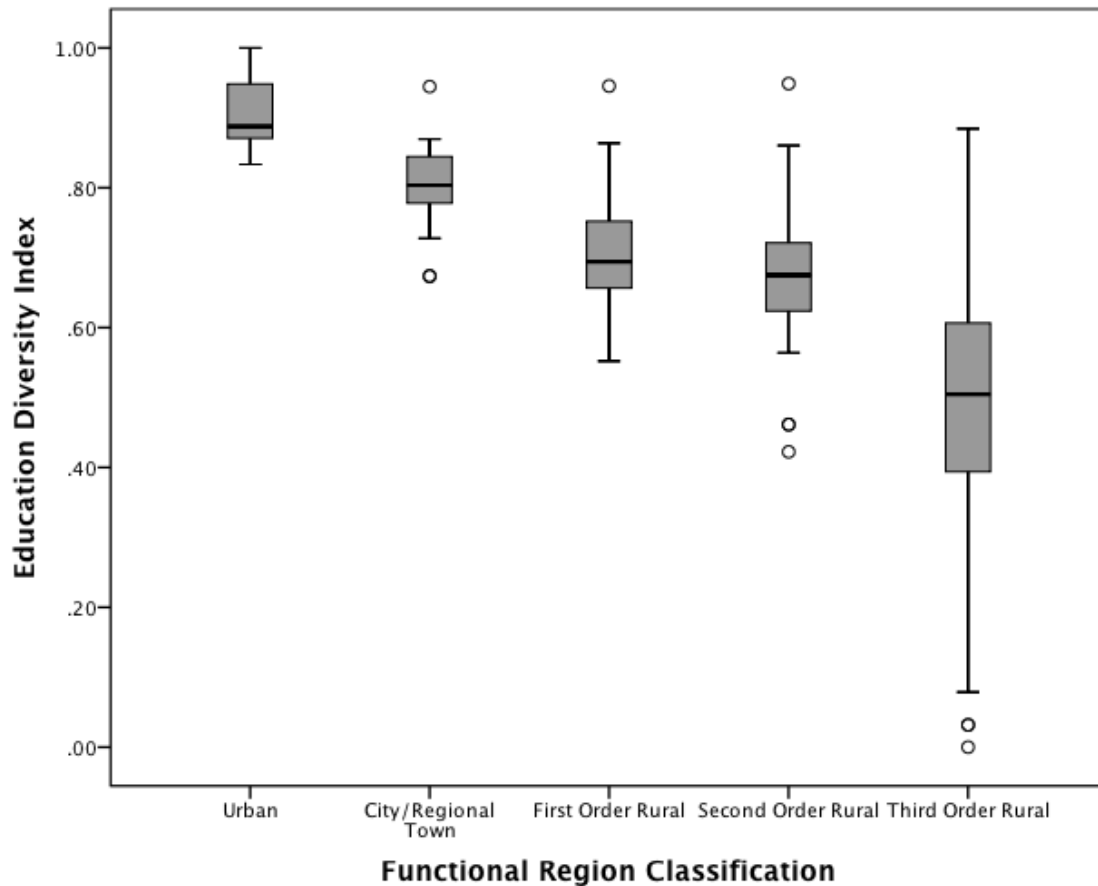


In Figure 5 we see the level of GDP per worker for the various regions. GDP per worker is one of the most common measures of labour productivity. High levels of GDP per worker are associated with industries that are competitive in their markets and more likely to remain viable for an extended period. Typically high levels are associated with industries where the firm has made major investments in machinery and equipment to complement its work force. Once again where firms make this kind of investment there is a greater likelihood that the owners perceive the firm will be viable into the future. On average productivity as measured by GDP per worker is higher in larger regions, but the best performing regions in the smaller categories have the highest levels of productivity.



Finally, Figure 6 shows a category where urban regions have a distinct advantage - educational diversity. Educational diversity measures the range of educational attainment within a region. It is increasingly clear that in the industrialized nations, economic growth is closely associated with improvements in human capital, particularly the share of people with more formal education. In Atlantic Canada the larger FERs have greater diversity, in part because they host the higher education institutions, but also because the jobs for more educated people are concentrated in larger FERs

**Figure 6: Education Diversity by Functional Region Category**



To offset the challenge of competition from lower wage developing countries, industrialized countries must increase worker productivity to offset higher cost labour. While productivity can be increased in multiple ways, almost all of them hinge on the presence of a well-qualified workforce. For the smaller FERs, the relative absence of highly qualified workers suggests that this could be a constraint on growth and that where productivity is high the region has either attracted enough qualified workers to meet its needs or identified a development strategy that does not depend on the presence of highly qualified workers.

We also looked at how a variety of other socio-economic indicators varied across the five categories of FER. While there were one or two other indicators, such as access

to tertiary health care that strongly favored large urban regions the majority of indicators were consistent with the general trend of some smaller FERs in a category performing as well as the large urban FERs, even though on average the category performed worse. This suggests that economic prosperity can be achieved across the spectrum of regional sizes. Individual local labour markets of any size may have the potential to be competitive in national and international markets and provide a good standard of living for their residents. However as the bottom parts of the distribution in each size category show this is not a simple task and unfortunately there are many regions of varying size in Atlantic Canada where economic opportunity is currently bleak.

### **Building a Better Policy Framework for Local Economic Development**

Both the provinces and the national government have a demonstrated interest in helping to support economic growth in Atlantic Canada. Both have engaged in numerous regional policy approaches in the past, and there have also been numerous definitions of what constitutes an appropriate size of region for delivering policy. Each of the approaches has delivered a certain degree of success and helped some places progress; however, both the provinces and the national government feel a need to reorganize how they deliver economic development to improve the efficiency and effectiveness of their investments

Looking at past approaches suggests that governments have tended to rely on drawing boundaries for regions that make the task of government program providers easier, but that result in boundaries that do not correspond well to how local economies are organized. In addition, programs have typically been structured so that various communities receive roughly similar types of support. Providing uniform support does address concerns with equity, but the approach runs the risk that the policies provided may not truly address the needs of many places, especially given the high degree of diversity in Atlantic Canada.

Why does this matter? Governments provide economic development support to regions because they believe that this support is necessary for growth to occur at a faster rate. But for this to happen, the policies must provide the type of support that the various regions need. For this to happen it is important that the policies be compatible with the local economy; they must address key bottlenecks or impediments to growth. Additionally, the regions themselves have to be capable of making effective use of the policies.

Both of these conditions are affected by how regions are defined. If a region is geographically large it may look like it is big enough to have sufficient internal resources and the ability to work effectively with government, but this is often not the case. Large geographic areas that are sparsely settled, as is the case in much of Atlantic Canada, have very limited internal connectivity and the economies of the constituent communities can vary widely. The combination of highly differentiated needs and weak interactions within these large regions is a prime suspect in

understanding why past regional policy interventions by national and provincial governments have had only limited success.

Our approach is to build regions on the basis of strong existing interactions through local labour markets. Atlantic Canada has been divided into 259 distinct regions, each of which comprises a local labour market. Within each region the majority of those employed, live and work in the region. These regions differ greatly in geographic size, population and economic function. The largest FER, centred on the city of Halifax, has 412,000 people and stretches across Nova Scotia to the Bay of Fundy. The major part of this region is the Halifax Regional Municipality (HRM), which itself represents an extended territory greater than the urbanized portion of the city, with 390,000 people. The urbanized portion of the HRM, the former cities of Halifax, Bedford and Dartmouth, has a population of 298,000. While the former cities account for the majority of the population and economic activity of the Halifax functional economic region, there is still a considerable number of people and degree of economic activity in more rural territory that is strongly connected to the urban core. On the other hand, the smallest regions have populations of less than 200 and are found along the coast of the island of Newfoundland. They contain very small settlements with weak local economies and very low levels of employment, and have very little activity or population in open territory outside the small communities.

The use of small regions is a distinct feature of this analysis. Typically regional analysis aggregates small rural regions into large units in order to construct regions of similar size. The belief is that this results in regions that can achieve “scale” effects. But where the resulting region is only weakly integrated, economies of scale will not be achieved. Certainly an important policy objective is to build regions that are as efficient as possible, but when local labour markets are small and poorly connected it is only possible to construct larger regions if first the local labour markets become better linked.

The obvious downside of this approach is that there are 259 distinct regions, each of which is unique. In an ideal world governments would work with each region to help it achieve its goals. In reality, no government can design individual policy

---

*“Each of the five categories contains a significant share of the population of Atlantic Canada, and the development problems of the member regions within the categories are relatively similar.”*

---

responses for this many regions. What is needed is some mechanism for grouping regions into a small number of groups that have similar members. The government can then offer a tailored policy menu to each group. While

geographic proximity has typically been used by governments in forming its groups we believe this is not the best approach for economic development policy. Places

near to each other can experience varying economic circumstances and have different development options.

To resolve this policy delivery problem, we use the five categories of functional regions to allow governments to develop policy suites tailored to the attributes of each category of region. Each of the five categories contains a significant share of the population of Atlantic Canada, and the development problems of the member regions within the categories are relatively similar. While there are only a few large urban regions, they contain almost half the population and a similar share of economic activity. On the other hand, while no rural region contains very many people or much economic activity, there are far more of them, so in aggregate, they make a meaningful contribution to provincial economies and to the economy of Atlantic Canada.

## The Importance of Focusing on Productivity

While it is important to get the basic building block for regional economic development right, we believe that this is not enough if governments continue to rely on the policy focus of the past. Historically in Atlantic Canada the focus of economic development policy was on creating jobs to provide employment opportunity for a large number of unemployed and underemployed citizens. The focus on the number of jobs was so strong that there was only limited concern with the quality of jobs, which contributed to low wages and low productivity. As the workforce in the region shrinks and global competition intensifies it will become more important to focus policy support on creating good jobs.

With this in mind, the second major policy prescription in our analysis is that national and provincial support for local economic development should focus on increasing productivity. With the shrinking workforce that characterizes Atlantic Canadian labour markets, the main way that economic prosperity will occur is through higher levels of output per worker. In particular, increasing levels of

---

*“...national and provincial support for local economic development should focus on increasing productivity.”*

---

productivity will be the main means by which people and firms in small and remote regions will survive. Our focus on productivity reflects the fact that we are dealing

with small and very small economies in the majority of cases. In only the largest size category is the population large enough to be considered to have any endogenous growth potential. In all other cases the fate of individual firms largely determines the fate of the region in which they are located. Productivity is the largest factor influencing competitiveness that can be influenced by the firm. Distance to market, the behavior of competitors, the stage of the business cycle and macroeconomic policy are all important but the firm cannot influence them, but it can influence productivity and regional economic development policy can help or impede the efforts of the firm.

In a series of studies<sup>3</sup> the UK government identified productivity as a key driver of economic growth. Yet, in the past, regional policy has tended to emphasize increasing the number of employed people as the main economic objective. The emphasis on employment was understandable in a period of high unemployment, a growing workforce, and relatively strong job opportunities in natural resource extraction and first stage processing. But, going forward, one of the crucial challenges for Atlantic Canada is a shrinking population, and, more importantly, an aging and shrinking workforce. In addition, Canada is a relatively high wage environment when compared to developing countries, so future opportunities for

---

<sup>3</sup> HM Treasury (2000) Productivity in the UK: The Evidence and the Government's Approach; HM Treasury (2001) Productivity in the UK: The Regional Dimension; HM Treasury (2003) Productivity in the UK: The Local Dimension.

the employment of unskilled, low productivity workers in tradable sectors will remain limited.

A full discussion of the drivers of productivity is beyond the scope of this publication, but there are some basic points that can be raised. The first is that productivity is fundamentally a characteristic of firms and not of regions so there can be highly productive firms in any given region. What differs among regions is the proportion of high and low productivity firms, but there are characteristics that influence this. One of these is the presence of a significant number of highly skilled individuals, since human capital is a driver of productivity. More generally the economic capacity of a region influences firm productivity. The environment in which a firm operates influences productivity and if a region is able to supply key inputs, provide access to markets and a supportive business environment this will contribute to regional productivity.

## Fostering Development at the Regional Level

The five types of region require different policy approaches because their conditions and opportunities are different. Dealing with this reality requires that governments adapt their existing suite of policies to develop five subsets that target specific combinations of policy to each element of the urban hierarchy. This approach can provide a region with appropriate support without imposing the large costs on the government of designing and delivering unique policy responses to every region.

Notably, we suggest that in terms of pure economic development policy, governments should focus their efforts on the three middle categories. This does not mean that the largest and smallest regions should be ignored, but there are, we feel, compelling arguments that the highest return from economic development policy investments come from support to the middle tiers of regions. In general, the large

---

*"...we suggest that in terms of pure economic development policy, governments should focus their efforts on the three middle categories."*

---

urban regions have the internal capacity to define and execute their own development approaches. While they will certainly require support from national and provincial governments in execution

they are able to identify specific sources of project funding that are appropriate. The very smallest regions, the Rural 3 category, have total populations of less than 600. While the local economies of many of these regions, especially the more remote ones, are in an exceedingly weak position there is, in most cases, very little that external actors can do that would make a meaningful change in local economic conditions. While public support for the quality of life of the people in these regions remains a clear public policy responsibility, it is unrealistic to expect that economic development initiatives will be an effective way to accomplish this function. Certainly, where individual firms and communities can identify a viable economic development action, there should be support. But this support can best be delivered on a case-by-case basis rather than through a formal suite of policies.

By contrast, the three medium size categories, Small Cities and Regional Towns,

---

*"Partnering capacity is crucial if federal and provincial agencies are to support development efforts rather than actually carry them out."*

---

First Order Rural and Second Order Rural, each contain a significant number of members having a relatively high degree of homogeneity. Moreover, these regions have large enough economies and

populations to support growth, especially if it fosters further integration within and across regions. Local government in these regions lacks the resources to act strategically but has the capacity to partner with federal and provincial agencies.

Partnering capacity is crucial if federal and provincial agencies are to support development efforts rather than actually carry them out.

Importantly, by providing a suite of support tailored to different needs and capabilities of regions of different size, government avoids the problem of picking winners. Regions with similar needs are offered similar support. Some will choose to take the support, others may not. Some that take the support will succeed, in part because of the support, but others will not. Federal and provincial governments are in essence betting on the pool of regions, and not on individual regions. Competition among regions is inevitable and growth cannot occur in all regions. What policy can do is level the playing field so that all regions have the opportunity to compete within the appropriate bracket.



## Lessons for Larger Urbanized Regions

The large urban regions already have significant internal development capacity and each of the eleven members has an almost unique situation in terms of problems and opportunities. These regions are, to a significant degree, capable of at least some endogenous growth based on their own capability. This makes it virtually impossible to design a single policy strategy. While one or two of the regions in this category are struggling to maintain strong income and employment bases, most of the members of the category have experienced relatively strong economic conditions in recent years, especially by Atlantic Canadian standards.

In this category, growth is driven by the largest city in each region, even though there may be multiple city governments. Opportunities come from each of these FERs, identifying its function in an Atlantic Canadian urban hierarchy that is dominated by the Halifax FER. Although each region has a distinct function that reflects its particular status, for example as a provincial capital in four cases, or as a significant manufacturing center, there are some common development challenges.

A key feature of these large urbanized regions, particularly the largest ones, is the role they exert over a much larger territory than their immediate functional region.

### **Box 1: Kentville NS FER**

The Kentville NS FER, in western Nova Scotia, has about 61,000 residents. The FER contains three towns, Kentville, Wolfville and Berwick. There are also smaller villages and a significant farm population. Historically, the economy has been dominated by apple production, although in the past Kentville had a considerable manufacturing base, and Acadia University is in Wolfville.

Manufacturing has largely left the Kentville region, weakening its role and while the apple industry continues to expand, it faces competition from other producing regions. In response, producers have switched from varieties that were better suited for processing to newer varieties that are preferred by consumers for fresh consumption. And there are efforts to diversify into wine production.

The Nova Scotia Farm Winery policy (2007) promotes a favorable economic and regulatory climate for investment in the development and expansion of a wide range of agricultural resources, including the production of wine. This industry has grown from ten wineries covering 400 acres to fifteen wineries and grape growers covering 650 acres across Nova Scotia with a large number in the Kentville FER. The goal for the sector is to have twenty wineries and 1,000 acres of grapevines by 2020. Not only does this effort diversify agriculture, but it also enhances tourism.

The economic and political influence of these large regions extends a great distance beyond the region. In the case of the Halifax FER it covers all of Atlantic Canada. A key element in their wealth and diverse economic structure is the ability to derive income from this broader role of providing goods and services to smaller regions.

However, in several of these large regions, economic activities that once provided a large share of income and employment in the core city have experienced a significant loss of competitiveness and are shrinking or have disappeared. This calls into question the health of the larger FER, because the surrounding communities are strongly integrated with the largest urban place, both through labour markets and supply chains.

The high degree of economic integration between the core and the region may be under-recognized by the local government of the core city: governments sometimes underestimate the importance of a shared regional approach to development. It may be that the solution to decline in the urban core involves strengthening the economic capacity of the more rural parts of the region as was the case in the Kentville NS FER (Box 1.)

**Box 2: Moncton NB FER**

Moncton is a larger urbanized region with a population around 140,000. Historically a railway hub, the city developed related distribution and wholesale functions for Atlantic Canada. The region also contains the communities of Dieppe, Shediac and Salisbury and the college town of Sackville. Its traditional economic base eroded in the 1970s and 1980s, but has reoriented, becoming one of the faster growing urban regions in Canada. A key factor in this revitalization was a broadly based set of economic development partnerships that identified new growth opportunities and implemented a strategy to bring them into being.

A major part of the strategy was to attract new industries to the region. Government incentives helped establish a major call center industry in the 1990s. Another key advantage for the region is its role as the center for francophone higher education in Atlantic Canada. Strengthening the Université de Moncton attracted students and encouraged the academic community to develop new businesses in the region. With four universities and two community colleges Moncton is well placed to attract employers seeing a more highly educated workforce. These institutions also contribute to the local quality of life.

The region has recognized the necessity to attract new residents if it is to continue to grow. Efforts to attract larger firms hinge on an adequate labour force, while emphasizing the retention and expansion of existing businesses. Crucially the region has recognized the importance of being competitive in the national, continental and global economies.

While a characteristic of these larger urbanized regions is a well-diversified economy, including strong business and government service sectors, the smaller urban regions still rely on manufacturing firms, many of which are large in the local economy, but small by international standards and employ older technologies. These firms are at risk as global competition intensifies, and, a lack of new investment and an improvement in workforce productivity, are at risk of closing. In particular, the smaller urban centers must find ways to either revitalize their existing economic base, identify and move toward a new economic base, or run the risk of economic and population decline that will drop them into the small city and regional town category.

Where larger urbanized regions do have a coherent regional strategy to adjust to changing economic circumstances, they

will still require support in making a transition that can take multiple years. The Moncton NB FER provides an example of a large urban region that restructured its local economy to build on distinct local strengths and on new opportunities (Box 2.) National and Provincial support for the transition was especially important in the key area of strengthening local higher education facilities and in providing support for targeted industrial recruitment. For these larger urbanized regions, a major element in development strategy hinges on assembling a strongly qualified workforce. The presence of universities and colleges in these regions is an

important advantage, but the regions must retain new graduates and attract additional skilled workers from other regions. To do this, these regions must provide both a high quality of life and good wages. Support for higher education by national and provincial governments is essential for these regions, as is support for connecting universities and colleges to the business community to foster local innovation.

### **Box 3: The Grand Falls-Windsor NL FER**

This FER falls within the Smaller City and Regional Towns category. It is located in north central Newfoundland on the Trans-Canada highway and historically its main economic activity was pulp and paper production. The FER is mainly the amalgamated towns and some surrounding smaller communities. The mill closed in 2009 after an extended period of decreasing production and employment. Grand Falls-Windsor and Gander compete for the dominant role as service centers for the northern and central parts of the Island.

With the closing of the mill, the second largest employer in the region, there has been a search for a new economic base. Currently, local and provincial government institutions provide the largest share of employment with retail trade a close second. Because the Grand Falls-Windsor region is large relative to other functional economic regions in central Newfoundland and because of its central location, it is a natural service center. About 70,000 people are within about a one hour drive to the town.

When the mill closed, community consultations and research led to a multi-point plan. The town created a new brand - "Perfectly Centred" to reflect its strategic location. The new approach has helped to create a cluster of cranberry producers and sees some potential for a processing plant if production can be further increased. In addition, excess generation capability at the local hydro plant is being used to market the region as a site for data centers, especially since the cool climate lowers the demand for air conditioning. There is a new emphasis on tourism, particularly based on the Exploits River in the summer and on winter tourism based on snowmobiles.

A major strategy has been to build the health administration function in the city. Focusing on innovative rural health care and making the region a site for developing new approaches, the city has partnered with Memorial University as a training centre for rural medicine. College programs are also being developed to bolster the medical focus.

Although Grand Falls-Windsor has not yet achieved all its goals it has been able to re-define itself and establish a new economic function. This involves an effort to shift from relying on a single large employer and create a suite of activities that provide a diversified and more stable economic base.

### **Lessons for Smaller Urban and Regional Towns**

This category of region has an economic footprint or zone of influence that extends into nearby regions even though they are not connected through labour markets. Like larger urban regions, smaller urban centers also provide goods and services to rural regions that are beyond the capacity of local communities to host. As a result the strength of the local economy depends not only on what happens in each of these regions individually, but also on how well nearby rural FERs are doing.

In Atlantic Canada many of these communities host first stage processing plants that are linked to primary production in nearby rural FERs. Because of the strong supply chain linkages there can be a particularly strong coupling between economic conditions in the small urban and regional town FER and adjacent rural FERs. For example, economic decline in the fishery and forestry industry has tended to affect fishing and wood-cutting in rural FERs but has important consequences for fish plants and wood and paper mills located in smaller urban and regional town FERs.

For these regions it is important to find ways to diversify their

internal economy to provide stability from the cyclical resource sector. Where the primary resource has had a major decline, as has been the case in fishing, forestry and mining, the pressure to find a new economic function is critical to the ability of

the region to maintain its role as a central provider of goods and services to a larger set of regions. In Newfoundland and Labrador, Grand Falls-Windsor has worked to redefine its role as its previous function as a center for the pulp and paper industry ceased to exist (Box 3.)

These regions can require a considerable degree of support from provincial and national governments. While they have relatively well developed local governments with professional staff, they typically lack specialized economic development expertise. They may be able to conceptualize a development strategy, but experience capacity challenges in its execution. In addition, while they may have budgets to cover relatively small investments, they lack the financial depth to

restructure local facilities to repurpose them for a new activity.

**Box 4: The Summerside PEI FER**

The Summerside FER is the second largest region in PEI. Anchored by the city of Summerside, with just under 15,000 residents, the region is in the Small Urban and Regional Town category. It includes a number of nearby smaller market towns and dispersed farms.

For decades, Summerside was dominated by CFB Summerside but in 1990 the base closed with a major adverse impact on the region. Since then, Summerside has followed a restructuring path built upon existing strengths, and strongly supported by federal and provincial governments, including the opening of a tax processing facility, which has become the city's largest employer.

Summerside has actively looked for ways to modernize and diversify its economy. The airbase has been converted into a business park focused on aerospace activities. The region also has a strong agricultural and processing base: Cavendish Farms operates two major plants in the region, serving domestic and export markets. The region is also expanding its health focus with a major remote medical diagnostic image reading facility and specialized health courses at a community college. Tourism also continues to flourish.

In some cases these regions have relied on one or two large employers to drive their local economy. Where these employers have closed or greatly reduced capacity, the region has struggled. While the first response is to look for another dominant firm, the reality is that it is far more likely that successfully rebuilding the economy will occur by developing a larger number of small and medium enterprises (SMEs), many of which will have local roots. Regions of this size have had success in developing clusters of SMEs either in the same industry, or in closely related industries, especially where there are strong local demands

for the products, for example fishing equipment in a coastal region.

A crucial issue for many for these regions is enhancing the quality of the workforce and diversifying the set of available skills. When there are multiple employers there is likely to be a need for a much more diversified set of skills than if a single large firm provides a large share of employment. In the case of the Summerside PEI FER, which lost a major air force base, the answer was to focus on building new industries that used some of the skills that workers had developed in aeronautics (Box 4.) Support for the transition from provincial and national governments helped

facilitate the adjustment. In particular, the province targeted the aeronautical industry as one of its strategic economic development efforts.

Many of the regions lack a post-secondary institution of any kind and are a considerable distance from one. This makes training and enhancing the level of educational attainment more difficult. In some cases it has been possible to locate a branch campus in these regions, which can help resolve the problem. Another problem in organizing training programs is the small number of potential employment opportunities in the region for any particular skill. This can make organizing a course expensive. Internet based methods may address some of these difficulties, but provincial governments will have to invest in modifying training programs to make better use of the technology.

A major strategy should be related to improving the retention and expansion of existing firms. This can involve improving local infrastructure, providing support for training and helping to finance specific investments in plant or equipment. Especially in the case where a firm is part of a local supply chain, working to ensure viability not only strengthens that individual business but also provides benefits to other linked firms in the region.

## Lessons for First Order Rural Regions

Regions in this category typically have relatively specialized economies and usually have no more than one or two firms in any sector other than primary production. They provide basic services within the region and, in more remote territory, may also provide services to even smaller regions. Seasonal employment starts to become a more significant aspect of the economy. Local governments may have some professional staff, but in only a few technical areas. Elected officials are likely not to have advanced educational qualifications, often serving on a part-time basis. This makes the development of a strong local economic development plan more difficult. Local economies become even more open to external shocks because the region depends on a few exports to generate the bulk of its income. In some regions where poverty and aging are significant there can be a high dependence on transfer payments.

The fact that these are small population regions has both negative and positive aspects. The negative side is that the local labour force is limited in both numbers and in terms of skills which can then limit development opportunities. The positive side is that small increases in employment numbers can have a large impact on the local economy. Firms in these regions are most likely to be small with only a few employees and with limited scope for expansion. New job growth is more likely to come from adding a new firm that produces a different product or service than from adding additional firms in the same industry because of the small size of the local market.

Bypass, where people skip past the closest provider of a good or service, can be a significant problem for these regions if they are close to larger urban centers. Firms and residents make their purchases away from their home community, further weakening the local economy. While the internet can provide a way for small firms in rural regions to market their products, it also increases the problem of lost local sales. But proximity to larger places can allow a smaller region to develop new roles. Renewable energy generation is one opportunity. Smaller rural regions with a good resource base can host generation facilities and not require major investments in transmission to power markets (Box 5.) For this to happen, provincial governments

### Box 5: Alberton/Souris PEI FER

Both the Alberton (Small Urban or Regional Town) and Souris (Rural 1) regions of Prince Edward Island benefit from the provincial renewable energy strategy. These two FERs are the west and east tips of the Island and each consists of a dispersed variety of small towns and villages and farm households. In the past PEI relied on high cost fossil or imported electricity, but because it has very good wind resources, it has been able to replace a large share of this electricity with large, low cost, on-shore wind farms located in both of these regions. The wind farms provide few direct jobs, but the provincial agency responsible for developing the sites provides local governments with new tax revenue and relatively generous payments to nearby property owners for the disruptions the turbines provide. This has injected new revenue into the local economy. Finally all of PEI, including these regions, gain from lower cost electricity. Because the province structured its renewable energy strategy in a way that enhanced local benefits to the host region it was able to achieve a secondary regional economic development goal and minimize local opposition to the wind farm projects.

have to put in place policies that encourage renewable development and ensure that rural regions benefit from the development.

When the local economy loses an important source of income it may be possible to

**Box 6: Grand Manaan NB FER**

Grand Manaan NB FER is a Rural 1 region with a population of about 2,500 people. The FER is an island with several small communities located near the mouth of the Bay of Fundy. In recent years, the island has introduced aquaculture to replace declining fish stocks and strengthened its summer season tourism industry. About 240 direct and indirect full time, year-long jobs are associated with aquaculture, whereas fishing provided only seasonal employment.

Harvesting seaweed is also becoming a significant economic activity. In addition, the island has steadily increased the level of educational attainment creating a better educated workforce.

restructure in a way that continues to take advantage of existing skills. The Grand Manaan NB FER (Box 6) had a strong fishing inshore industry for decades but with the collapse of local fish stocks it refocused on aquaculture and seaweed collection. While these are different industries, many of the local labour force's skills were directly applicable making the transition simpler.



## Lessons for Second Order Rural Regions

Second Order Rural regions have total populations of about 2,000 people. Second Order regions are mainly found adjacent to either a major or minor urban region,

### Box 7: Fogo NL FER

The Fogo NL FER consists of most of Fogo Island with a population of slightly over 1,200 people, making it a Rural 2 region. Fogo Island has a rich history as a fishing community, and as a central node in the development and maintenance of traditional Newfoundland rural culture. While fishing was the main source of income for the residents of the region, it was best known as a source of Irish-Canadian music and culture, making Fogo one of the most famous of the numerous fishing communities on the northern coast of Newfoundland.

The decline of the fishery and the cod moratorium in 1992 depressed incomes and employment on Fogo and the Change Islands, and opportunities for economic diversification were limited by the small size, remoteness, and reliance on ferries and aircraft to move people and goods on and off the islands. The fishery switched its focus to crab and shrimp, and while income from fishing has recovered employment has not.

In 2008, Zita Cobb, a native of a small fishing community, Joe Batt's Arm, returned from a career as CFO for a major technology company and established the Shorefast Foundation to help revitalize Fogo and the nearby Change Islands. She focused on using arts, culture and natural beauty to attract people to the island, not just as tourists but to work as artists.

With support from the federal and provincial governments Shorefast has constructed artists' studios that are spread across the island and a major new tourism accommodation, the Fogo Island Inn, intended as a magnet for geotourism. While the idea itself is innovative, its success hinges on being able to spread the idea well beyond the borders of Canada and create a sense that Fogo Island is an important center of artistic activity. Ms. Cobb has been instrumental in doing this. She has travelled the globe promoting the concept and managed to interest major publications including the New York Times, National Geographic and Globe and Mail.

although in Newfoundland and Labrador there are examples of Second Order regions that are far from urban regions. With less than 2,000 people there is little scope for a diversified economy. These regions are able to provide some basic functions such as primary education and basic retail activity, but residents have to rely on larger regions for the majority of their goods and services. Local governments in these regions have extremely limited capacity, both in terms of personnel and finances.

Despite these underlying disadvantages, some FERs in this category perform quite well. These high performing regions are characterized by a specialized economy that relies on specialized attributes of the region for success. Typically this can be a resource based industry but it can also be a strong local cultural heritage that provides an attraction for tourists. The Fogo Island FER falls into this category. It has always had a strong cultural identity and this identity has recently been reinforced by a major investment in cultural tourism infrastructure (Box 7.)

Economic development opportunities in these regions are of a small size in terms of investment output and employment, but they have a large impact on the local economy. Investment opportunities are likely to be independent events since there are few opportunities

for synergies, supply chains or clusters given a local labour force of well under 1000 people. External finance is likely to be crucial for implementing any investment with good connectivity to larger regions both in terms of ICT and physical transport is vital for the development of these regions.

### **Lessons for Third Order Rural Regions**

Most Third Order Rural regions offer limited opportunities for regional economic development policy intervention. In many cases there are few opportunities for improving economic growth. Moreover, in these regions there is typically little local government capacity to provide partnership opportunities. When growth occurs in these very small local labour markets it is most likely to be idiosyncratic and driven by a single firm that identifies a specific opportunity. Finally, while there are large numbers of Third Order Rural Regions, they are all very small and most are isolated, which makes it more expensive to deliver policy support.

In most of the more remote places residents face not only a shortage of employment opportunities, but also a difficult time in gaining access to goods and services. Locally available goods and services will be limited by the small internal market and distances to larger centers with broader selections are great. For these regions, a clear constraint to economic growth is the limited availability of goods and services. While governments may be able to find ways to enhance availability out of concern for the well-being of the local population, their efforts are unlikely to improve the situation enough to a point where it is not a challenge for business.

When we find relatively prosperous small remote regions, it is typically because of the presence of a small but valuable site specific natural resource that allows a small community to be established and generate a relatively high level of income. These communities typically have a high employment rate and relatively few people who are not active in the labour force. Their lack of retail and public services beyond minimal levels is balanced by the opportunity to earn a relatively high wage. In the longer run, these regions may grow if the resource can be expanded, or they may decline if the resource is depleted. Without the resource, they have a very limited rationale for continuing to exist.

## Conclusion and Summary

Only the people who live in a place really know it, but ideas from outside can be useful in thinking about how to make your place better - which is what economic development is ultimately about. We have tried to provide a better way to think about how individual communities or places fit into a regional context, because individual communities are linked through labour markets. While more in-depth information from our study is available at [www.mun.ca/harriscentre/regionalanalysis](http://www.mun.ca/harriscentre/regionalanalysis), the main points of the work are captured by the following five points:

- Large cities are increasingly recognizing that their development plans must address the labor market flows to and from surrounding territory, often choosing to identify as metropolitan regions. This idea can be applied to places of all size.
- Thinking about development in terms of local labour markets identifies communities with which you already have strong economic ties. Labour market spillovers ignore municipal boundaries, so development efforts are more effective if the importance of those spillovers is understood.
- There is a clear hierarchy of regions in Atlantic Canada with regions within the same level fairly similar in terms of their opportunities and challenges. While a few regions may change position in the hierarchy of regions, most will not. This means that regions should choose development approaches that are consistent with their type.
- Looking across Atlantic Canada it is easy to find exemplar regions in every size class or rank. In many cases, these high performing regions have experienced adversity and successfully redefined their economic role in a way that has brought them renewed prosperity. While other regions should not simply try to follow their paths, they do show us that regions of any size can prosper.
- Finally, even the largest places in Atlantic Canada lack the resources to act independently. Increasingly, successful economic development requires a collaborative approach that combines local resources with support from provincial and perhaps federal agencies. But it also requires a territorial approach that goes beyond local municipal boundaries to bring in other nearby places that can contribute to a shared development approach.



**THE LESLIE HARRIS CENTRE OF REGIONAL POLICY AND DEVELOPMENT**

1st Floor Spencer Hall, St. John's, NL Canada A1C 5S7

Tel: 709 864 6170 Fax: 709 864 3734 [www.mun.ca/harriscentre](http://www.mun.ca/harriscentre)

# THE HARRIS CENTRE Memorial University

