

# **A WHOLE RURAL POLICY FOR CANADA**

**Respectfully submitted to the  
House of Commons Standing Committee on Natural Resources  
for its Study on Natural Resources and Rural Economic Development**

**by**

**The Canadian Rural Restructuring Foundation**

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# A WHOLE RURAL POLICY FOR CANADA

## Purpose of this Submission

The Foundation's research activities currently address the need for a whole rural policy for Canada. Today we focus mainly on aspects most relevant to the rural natural resource economy. The approach taken here rests on five processes driving outcomes in rural Canada. These processes are drawn from economics, sociology, geography, ecology and mathematics.

We argue that mediation is needed through markets, social discourse, and within institutions, to achieve the balance needed to stabilize the rural economy and resolve financial, income, environmental and employment problems. We first propose a 'Rural Development Advisory Council', and then go on to outline a rural strategy and policy framework. We are looking for policy ideas which cost little or might actually reduce government spending.

Our approach is proactive and designed to encourage long term sustainable rural development, centred on rural employment and productive activity. It is linked to emerging OECD standards for rural economies and influenced by the principles and arguments contained in *Europe 2000*.

The Canadian Rural Restructuring Foundation is charitable and non-partisan, enjoying a wide diversity of philosophies, interests and scientific expertise. It is dedicated to improving social and economic outcomes for rural Canadians, through continuing education and research.

Further information may be obtained from our website at:

[http://artsci-ccwin.concordia.ca/SocAnth/CRRF/crrf\\_hm.html](http://artsci-ccwin.concordia.ca/SocAnth/CRRF/crrf_hm.html)

The Foundation appeared by invitation in 1993 before the joint Senate and House Agriculture, Agrifood and Forestry Committee deliberating on a rural vision and policy. The submission and written answers to members' questions are contained in ARRG Working Paper Number 7 "*Toward a Whole Rural Policy for Canada*" published by the Rural Development Institute of Brandon University for the Foundation.

## Context for a Whole Rural Policy

Rural Canada includes about 20% of the employed Canadian workforce, one third of the Canadian population and over 90% of the Nation's territory. It is a highly diverse economy and society, from its coastal regions, through its remote areas and its agrarian heartland. Rural Canada provides employment, forest products, minerals, oil and gas, manufactured goods, food security, and foreign exchange. It processes metropolitan pollution, educates a third of Canada's youth, and manages the environment on behalf of all Canadians. Rural Canada provides recreation and countryside amenities for all Canadians. The market value of rural GDP in 1986 is currently (1996) running at an estimated \$184 billion. To this number should be added the non-market value of services provided by rural Canada to the National interest, which are incalculable.

Paradoxically, rural Canada also has dying villages and towns, is losing population and has substandard social services including a chronic shortage of doctors. Unemployment rates are particularly high among rural youth, seasonal workers, and in the eastern rural areas. The rural workforce in coastal fishing, western logging, and central rural manufacturing have all taken heavy hits in the past decade. A similar hit may be anticipated for western farm families in the coming decade.

## **Processes in Rural Development**

Our research and study have identified five major processes which determine the structure, problems, and opportunities for rural Canadians:

- **production and depletion;**
  - Producing natural resource commodities is at the core of rural economic activities but it also depleats our natural resources, human energy, initiative, and institutional resources.
- **recovery;**
  - We should be able to replenish most of our reserves through environmental stewardship and rehabilitation, provision of human amenities, recreation, social activity, health, and a sense of justice and democracy. The costs of recovery rise exponentially, however, as depletion approaches irreversible levels, socially and environmentally.
- **social and individual learning;**
  - As rural people, we need to enhance our ability to understand and respond quickly and flexibly to problems and opportunities through formal education, apprenticeship, research, family and community life, cultural and sports activities, global awareness and communication. It can only be done, however, once the institutional arrangements for discovery and dialogue are put in place.
- **pricing;**
  - Variations in prices of inputs, labour, transportation, brokerage and other transactions costs, public services, and rural outputs are major determinants of the distribution of incomes and wealth between rural and metro Canada.
- **rule making;**
  - Formal policies, legal structures and informal rules in families, communities, businesses, governments and volunteer organizations about economic, social, political, personal, moral, and ethical behaviour, serve to guide and balance rural activities and manage uncertainty.

## Consequences of the Processes

The interaction and balance of the five processes produce four major consequences for rural Canada.

1. They **increase complexity**, thereby diminishing our ability to predict outcomes. Complexity produces conditions where history is less and less important for prediction and structural change becomes irreversible. On the other hand, we understand there to be greater room for human discretion and a wider range of opportunity, though of shorter duration. This implies a need for flexible and timely adjustments to rural policies based on close monitoring and objective data. It also suggests that the usefulness of sectoral policy to meet the modern day requirements of rural Canada is diminishing.
2. **Specialization** is the second consequence of rural Canadians' responsiveness to changing prices and their sense of abundance or scarcity. Specialization introduces both diversity and uncertainty to the rural economy. Some places specialize in tourism because of an abundance of amenities such as agrarian countryside, wilderness or seascapes. Other places retain a specialization in one of the natural resource industries. Rural businesses are increasing their specialization in recovery or production. Still others specialize in services to metro markets. The geographic pattern of specialization is in constant flux, especially where depletion reduces abundance, and relative prices change under the force of regulation or markets. Changing specialization is more difficult within generations, for older people and for the less educated.
3. **Economic instability** is a problem for rural Canada, as revealed in markets for minerals and forest products and both the supply and demand sides of agriculture. The ebb and flow of incomes and wealth for rural Canadians are distinctly different from those of metro Canadians, requiring a distinct and differentiated policy approach. The oscillations are irregular and sensitive to terms of trade. They may be made more predictable, and smoother, with a flexible business climate and higher recovery capability, both environmental and economic.
4. Rural Canada is becoming **marginalized** relative to the National and global economies. Rural Canadians are remote from pricing decisions, not only geographically, but socially and economically. Rural is captive to ever more concentrated markets for transactions services, and vulnerable to deregulation of the price of global access which disproportionately favours metro economies. Marginalization is one of the most powerful forces converting the rural economy to a wage economy from an enterprise economy.

## Addressing the Consequences

The five processes behind these consequences require coherent and collective mediation to solve both the immediate problems and to protect the next generation of rural Canadians. Mediation cannot be achieved without a clear understanding and representation of the diversity of rural interests. Rural Canada is not homogeneous.

1. Rates of depletion and recovery vary considerably across climatic, cultural and economic circumstances. Categorizing rural Canada into rural zones such as Atlantic, southern Québec and Ontario, agrarian plains, Pacific, and remote could be useful to capture this diversity.
2. Social, economic, and political orientations and outcomes vary significantly within all rural areas. Not all rural residents have the same access or interest in a mediation of their conflicting agendas. Rural Canada could be viewed as three closely associated, yet distinct economies, following upon a classification of economic, social and political life being developed by Dr. David Davila-Villers of the University of the Americas in Mexico.

It is appropriate to pause and elaborate on this idea of three rural Canadas. The classification is both intuitive and informative.

### Three Rural Canadas

The **first rural Canada** is part of the competitive global economy, in cultural, political and economic terms. It has more in common with global rivals than with rural communities. Rural Canada 1 is productivist, focused on international trade, and integrated into corporate Canada and the World. It comprises most of the lumber, pulp and paper industry, mining and energy industries, the trawler fleets, commercial grain and oilseed production and cattle feedlots. It very roughly accounts for less than 10% of the rural population and employment and well over 80% of the market value of rural output of basic commodities. This world-class rural Canada is supported by sectoral policies. Agriculture Canada's new business plan approach is an example.

Rural Canada 1's interests go well beyond the National interest. Pursuit of these interests is primarily part of the depletion process, contributing to rural growth through international trade to the extent of local rural capability. Provincial and federal departments of agriculture, forests and fisheries and resources all emphasize industrialization, information technology geared to exports and global competitiveness to capture these interests for their jurisdictions. Rural Canada 1 may be expected to gain control of most of the private and communal property rights of rural Canada by means of fisheries licenses and forest management agreements. It finds recovery processes hard on competitiveness and profits, on labour/management relations and extremely challenging to the conventional wisdom of abundance and natural renewability.

The **second rural Canada** is mainly in the business of producing niche products, and market and non-market services. It is focused mainly on meeting local and provincial needs, although many enterprises successfully sell far beyond provincial boundaries. Rural Canada 2 also supports Rural Canada 1 in its global trade, with professional and environmental services such as oil field servicing and silvicultural work. It also continues its historic role of producing basic commodities by fishing

and farming. Households usually have more than one source of income, commute to work in medium and large sized centres, and generally meet national viability standards.

This second rural Canada includes the rural services of national and provincial administrations, most employed workers, and small to medium sized farms, fishing boats and businesses. It contributes indirectly to economic growth through trade. It accounts for about 75% of the rural population and labour force, and 25% of the market value of agricultural output.

One large role for Rural Canada 2 is to produce most of the non-market outputs such as the heritage and countryside atmosphere of Muskoka, the Kootenays, the Prairie Parklands, l'Esterie, Charlevoix and Lunenburg Counties, and the Outports of Newfoundland, These valuable non-market and therefore unpriced, services are produced mainly in agrarian and coastal communities in the normal course of farming and fishing. Tourism is a way of marketing the amenity value of these services, but not the means of paying for these services.

The policies for Rural Canada 1 are not effective for Rural Canada 2. The latter faces investment problems more than financial ones. The process of shifting specialization from production of basic commodities and the absence of markets for pricing the non-market services are key reasons for the long run 'farm and fisheries income' problem. The restructuring difficulties of Rural Canada 2 cannot be attributed solely to structural adjustment imported by Rural Canada 1 from global competitors. The policy issue is that the opportunity to produce marketable commodities is being gradually removed from people and businesses in rural Canada 2, often by government action. This generates uncertainty and anxiety leading to investment of rural savings outside the rural economy, analogous to the capital flight problem of less developed countries. The most current example appears to be the reallocation of West Coast fishing licenses to Rural Canada 1 operators from rural Canada 2 fishermen.

The **third rural Canada** focuses primarily on survival. It is infrequently employed and depends to a large extent on transfer payments. Rural Canada 3 may include up to 15-20% of the rural population and accounts for less than 5% of market valued output. Most of its individual and social resources are fully committed to maintaining the basic necessities of life.

The third rural Canada could be thought of as the residual of the other two rural Canadas. Its appearance takes the form of impoverished households, communities, and geographic regions. These people and places represent depleted human and natural resources, a production capacity difficult to bring back on-stream. They experience varying degrees of deprivation, and are largely excluded socially and politically from the rest of rural and urban Canada.

## **A Mediative Strategy**

The issue of a Whole Rural Policy for Canada must get on the table for public discussion. There is an urgent need to strengthen discourse across existing sectoral and geographical boundaries and to enlarge the agendas to include all three rural Canada.

A potentially useful idea is to establish a 'Rural Development Advisory Council' reporting to the Prime Minister or to a 'Rural Advocate' in Cabinet.

The terms of reference for the Advisory Council on Rural Development could be along the following lines.

1. To develop and oversee a whole rural development strategy for Canada.
2. To work toward applying a 'basket' of indicators of rural well-being, based on the OECD Rural Indicators Project in direct consultation with rural representative organizations. See “*Rural Canada: A Profile*” put out by the Interdepartmental Committee on Rural and Remote Canada, and edited by CRRF member, Richard Rounds.
3. To oversee the review and modification or removal of rules and regulations with regard to removing impediments to the inclusion of all rural people, institutions and their resources in the National and Global economies.
4. To recommend policy corrections when signalled by lags in achievement from the goals of each of 'Rural Canada 1, 2, and 3'.
5. To mediate the competing interests of the three rural Canadas, particularly in regards to long-term environment issues, inclusion of 'Rural Canada 3' in productive and satisfying activity, alleviation of rural poverty, and achievement of global competitiveness.
6. To monitor and commission research on the five processes of rural development (depletion, recovery, learning, pricing, and rule-making) to increase the flexibility within the rural development strategy.

## **A Rural Strategy**

The place to start the strategy is in the second rural Canada. We should strengthen rural economic multipliers to increase the local employment and income effects of global success by the first rural Canada. Public investment has a significant place in this strategy. Its supporting role for private investment by the global players needs to be enhanced by lowering the higher transactions costs of rural places and ensuring the social and environmental recovery needed for sustained development of both the first and second rural Canadas.

Next turn to the first rural Canada. Its interests are not very sensitive to National policy. Some evidence suggests that the main effect of concessions, exemptions and financial grants to global scale enterprises is to raise the rate of return on equity capital beyond the minimum needed to secure the investment decision. The success of rural Canada 1 enterprises is based on trade induced growth made possible by technological competitiveness, not privileged and distorting entitlements. Thus, the strategy is to increase private investment in directly productive technology, plant, equipment and infrastructure. Care should be given to the form and extent of foreign participation because of the importance of retaining economic returns for future rural reinvestment

This strategy for the first two rural Canadas can have but little trickle down effect on the situation of the third rural Canada. Specific policies linked to this strategy are needed to roll back the poverty and dependency of poor rural Canadians, many of whom are first Nations' peoples and also ironically, the direct descendants of pioneer settlers. This is where the question of balance among the

five processes enters in. Rules which exclude, need to be made into rules that include and mobilize interest and initiative. Education and recovery strategies are needed. Rural Canada 3 is like a cut-over forest. A long period of recovery with sound human development is required to restore sustained productivity.

## Rural Policy Framework

The Foundation does not advocate any of the following policies. We are not a lobby group. This framework is simply a collection of policy ideas, synthesized from various research experiences. They are organized according to the five processes.

### 1. Growth through production:

- Promote Canadian private equity investment in productivity research and increases in globally competitive production capacity for natural resource based commodities. A rule of thumb for R&D spending by firms using moderately sophisticated technology is 2% of gross revenue. Applying this rule to rural Canada, the target level of research would be 2% of \$184 B, or \$3.6B per year.
- Promote trade and downstream processing sited in rural areas through strategic foreign equity investment tied to trade bloc access. Value adding, to be successful, requires partners or alliances within the markets where that value is determined.
- Reduce the costs of access to global technology by facilitating foreign technology alliances for rural Canadian firms, speeding up health safety testing, and working to reduce the intellectual property protectionism within the NAFTA.

### 2. Recovery Through Human and Environmental Rehabilitation

- Initiate a long term (e.g. 25 year) program of strategic investments in rural recovery activities and related research, encouraging a 'recovery culture' in rural communities. We are getting a late start with many environmental initiatives. These need to be broadened to include the social dimension, and shifted from regulations to learning processes.
- Revise the eligibility criteria for publicly sponsored recovery activities to favour employment of rural community residents in environmental recovery programs. One example is the multi-phase silviculture contracts with the Province of British Columbia.
- Take initiative at the municipal level to cope with higher levels of poverty in rural towns and villages.

### 3. Social and Individual Learning

- Aim for metro/rural parity of quality, quantity, and cost of information, communications and learning.
- Improve education and health standards for rural people to enhance learning and recovery.

- Shift human resources development programs away from training and toward a human mobilization effort based upon education, preventive health, credit, and basic literacy and numeracy skills.

#### 4. Pricing

- Broaden the use of Public Utility Board pricing to include transactions industries exhibiting the behaviour of technological public utilities. Ease rural access to niche markets and communications, by promoting broadly conceived trade corridor arrangements within North America. These may include a comprehensive harmonization of road carrying capacities, border crossing protocols, and all manner of insurance, load, safety and other regulations, aimed at competitively priced access by the rural hinterland to North American markets and ports.
- Permit producer firms to elect single desk selling for basic natural resource commodities in highly concentrated global markets.
- Exercise greater vigilance over uncompetitive market practices, especially for pricing upstream services and inputs to rural enterprises. This may include a complaint action process not unlike the US Department of Commerce grievance procedures for trade remediation.

#### 5. Rule Making

- Review and remove regulations restricting entry of new companies and businesses throughout the rural economy, especially those regulations contributing to exclusion of any individual from participation in the rural and National economy. Human rights enforcement is key to all policies of inclusion. For example, women have difficulty borrowing money for business ventures on their own, because of banking practice.
- Secure international agreement to include rural social and environmental costs into rules and measures of competitiveness.

#### **A caveat**

We emphasize that the financial consequences of balancing the five processes described above cannot be addressed by ad hoc income transfers or gerrymandered insurance schemes. Rather, a long term process to determine how the Nation is to pay for economic activity and valued outputs produced by business and people in their rural communities is needed for a sustainable improvement.

### **Some Different Ideas**

Some of us are thinking about how to replace the complicated entitlements, tax rules, grants, subsidies and concessionary access to Crown resources with a simpler, less government intensive approach. These ideas are not necessarily mutually exclusive.

1. Negotiate a rural/urban economic contract in Canada for rural recovery of costs of producing the non-market services and amenities enjoyed by the Nation.
2. Institute a supermarket levy of, for example 1% on turnover, to be earmarked for rural development activities, and administered in a manner to be designed by the advisory process proposed above.
3. Mandate Canada's public utilities to undertake the financing and implementation of rural development in its most comprehensive sense, including the three rural Canadas, and the coastal, agrarian and remote rural areas.
4. Mandate Canada's banks and credit unions to finance rural development in conjunction with the public utilities as managers and the advisory process as designers.
5. Develop a 'sustainable community' qualification for niche products and services along the lines of the AOC standards for French wines. This may be implemented by an ISO type process ensuring the presence of a mediated resolution of conflicting agendas among each of the rural Canadas described in our presentation. Such a long term program would lead to collective promotion of sales beyond rural boundaries and more importantly market development for the fruits of the labour and risk-taking of over 70% of rural Canadians.

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