

TOWARD A TRANSFORMATIVE AGENDA FOR FEDDEV ONTARIO

Neil Bradford & David A. Wolfe



School of Public Policy & Governance
UNIVERSITY OF TORONTO



APPLIED PUBLIC POLICY RESEARCH
INFORMED BY ONTARIO'S REALITY

EXECUTIVE SUMMARY

This paper lays out a strategic vision for the newly created economic development agency for southern Ontario—FedDev Ontario. The recommendations in this paper emerge from two companion research pieces by the authors which assessed the successes and failures of Canadian regional economic development policy in the past and the new approaches to economic development occurring in the European Union, the United Kingdom and the United States.

Regional economic development (RED) is increasingly less interested in equalizing outcomes between regions through top-down inter-regional redistributive programs that try to lure businesses to less prosperous regions. Instead, successful RED invests in the strengths of all regions, particularly those assets that can be mobilized to create competitive advantages for the region globally. This approach is “place-based” and embedded in local communities and networks that cross sectors and government departments.

Five specific lessons for Canada emerge from this research, leading to recommendations for FedDev Ontario.

RED agencies should invest in the innovation related assets of each region, rather than in regional redistribution. Particular emphasis should be placed on investing in local assets that cannot be easily replicated or moved.

Policy alignment across levels of government and sectors to maximize returns and exploit local synergies and regional strengths is

crucial. In practice this means that FedDev should invest in high-performing partnerships, joining industry and educational institutions, venture capitalists and commercialization incubators, anchor firms and spin-off entrepreneurs, and skills centres and business associations.

Institutionalizing collaborative governance is critical for success. A range of public and private actors, including provincial and municipal governments, must be formally involved in the process. So long as RED agencies are embedded locally and networked externally, they can serve as the focal point in the multi-level governance system and help establish formal contractual agreements between actors.

In southern Ontario, FedDev is only one of many actors in the RED space. As such, it must attempt to invest in transformative projects. A “Go Big or Go Home” approach should aspire to introduce high-impact interventions that address next generation challenges and seed solutions to transform businesses and communities. In Ontario, these should complement key provincial strategies for economic growth, such as investing resources around clusters of strength such as knowledge economy corridors and eco-industrial clusters.

Finally, FedDev Ontario should benchmark progress against goals and encourage policy learning across regions, agencies and communities. To ensure RED spending brings about positive and enduring change, government measurement and reporting must be rigorous and transparent. In Canada, cataloguing RED successes and failures, reporting on these and learning from them has been insufficient in the past. If Canada is to get the most bang for its RED buck, measurement, reporting and learning must become part of the institutional culture of RED agencies.

The strategic vision and recommendations outlined in this paper could enable FedDev Ontario and Canada’s other regional economic development agencies to play an important role in the transformation and economic success of many communities across Canada.

For more Mowat research on regional economic development, see:

FROM ENTANGLEMENT TO ALIGNMENT:

A Review of International Practice
in Regional Economic Development

By David A. Wolfe

&

REGIONAL ECONOMIC DEVELOPMENT AGENCIES IN CANADA:

Lessons for Southern Ontario

By Neil Bradford

Available at www.mowatcentre.ca

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The role of regional economic development policy has undergone a dramatic change in recent years in many OECD countries, Canada included. Despite the vast amounts of public funds expended on regional development policy across the leading industrial countries since the initial burst of enthusiasm in the 1960s, the return on that investment has been open to question as evidence mounted that the programs were not reducing inter-regional disparities. Combined, the regional economic development agencies in Canada are scheduled to spend more than \$3 billion over the next three fiscal years.¹ Of this, FedDev will account for approximately \$940 million.

Not surprisingly, the renewed interest in regional development policy departs from the old approaches in fundamental ways. There is a new focus on innovation as the centrepiece of a 'place-based' approach to development policy. Territorially grounded policies that are multi-level in their governance structure and tailored to the specific reality of individual regions, are now widely seen as a foundation for provincial economic competitiveness and social well-being in an increasingly turbulent global environment.

Policy interventions are tailored to the prevailing reality of regional contexts and based on the input, experience and local knowledge of key regional actors. The goals of such an approach include building institutional capacity, improving accessibility to goods, services and information in the region, and promoting innovation and entrepreneurship.

The focus on innovation as the centrepiece of such a 'place-based' approach to regional development policy arises from a growing body of research which demonstrates that competitiveness in the knowledge-based economy rests on networked relationships and organizational synergies that flow through face-to-face interaction and ongoing dialogue among geographically proximate actors. In a globalized world of hyper mobility and virtual communication, regions become strategic economic spaces for nurturing such connections and capturing their collective benefits.

¹ This does not include FEDNOR, which is a program operated by Industry Canada.

The creation of a federal economic development agency for southern Ontario comes at an opportune time for many of the province's firms, workers, and communities. Facing a series of major adjustment challenges in the wake of continental restructuring and global financial crises, the region's economic actors need a common vision of their economic future and an action plan for long-term change that secures prosperity for all. As a new agency, equipped with federal resources, national networks, and a policy mandate to support economic and community innovation, the Federal Development Agency for Southern Ontario (FedDev) can be a strategic leader in regional transformation.

The purpose of this paper is to help inform Ontario's perspective on how FedDev can play such a dynamic role. It synthesizes key lessons from Canadian and international regional development policy experiences and offers strategic advice about the new agency's priorities. This paper builds on research and arguments presented in two accompanying papers prepared by the authors for the Mowat Centre: Neil Bradford, *Regional Economic Development Agencies in Canada: Lessons for Southern Ontario*, and David A. Wolfe, *From Entanglement to Alignment: A Review of International Practice in Regional Economic Development*.

The paper makes recommendations on the appropriate mandate, approach, governance structure, and evaluative framework for FedDev in the context of a broader perspective on the factors that contribute to the effectiveness of regional economic development policy in Canada. Briefly, these are:

- Strategic vision focused on investing in *the innovation related assets of each region, rather than on regional redistribution*
- Policy alignment across levels of government and sectors to maximize returns and exploit *local* synergies and regional strengths
- *Collaborative governance* that coordinates governments and sectors
- Focus on “*go big or go home*” *transformative projects* that complement key drivers of provincial economic growth
- Investment mechanisms to *benchmark progress against goals and encourage policy learning* across regions, agencies and communities

The discussion is organized in two parts. We begin with a contextual discussion of what has come to be known as the ‘new regionalism’, an overarching framework for policy and governance that now informs economic development strategies in regions around the world. Second, we explore five principles and practices central to the new regionalism, linking them to specific development challenges and opportunities in southern Ontario.

PART 1

CONTEXT: THE NEW REGIONALISM

The new regionalism is an action-framework responding to the changed conditions and drivers of economic development in the 21st century. Regional policies designed in the post-World War II period emphasized top-down redistributive schemes that focused on building infrastructure in, or attracting investments to, particular sectors or places in lagging regions. Today, the new regionalism focuses on promoting innovation through interventions which enable locally-networked actors *across sectors in all regions* to maximize their specific opportunities. The vision is one of place-based development policies that generate, transfer, and apply knowledge to diverse economic challenges, including the formation of new products and processes for firms, and strengthening of community capacity for more sustainable and inclusive forms of development.

The new regionalism's key approach to policy, governance, and projects can be summarized as follows.

1. *Regional policy is differentiated and integrated.* Policy supports are available to all regions, whether lagging or advanced, with the aim of enhancing the innovation-related assets and capacities specific to different areas from urban centres to rural and remote communities. Policies must also be integrated, recognizing the interdependence of development activities and interventions. While this approach does not ignore support for investments in building physical or research infrastructure, it recognizes that returns on such investment likely depend on the skills of local labour forces and the quality of business services.
2. *Regional governance is collaborative and coordinated.* Governance mechanisms that join-up levels of government and public, private and non-profit sectors are necessary because the innovation challenges reach beyond any single actor. Social learning amongst individuals, firms and institutions plays an important role in regional economic development.

An overarching message from the new regionalism emphasizes the importance of strategic leadership in harnessing knowledge flows across sectors and governments to developmental outcomes. Successful regions feature what we label "local social knowledge management" exercises that identify and cultivate their assets, undertake collaborative processes to plan and implement change, and encourage a collective mindset fostering innovation. Crucial here is coordination of multiple efforts and resources through facilitative regional leadership that convenes the players, monitors progress, and ensures accountability.

For such approaches to succeed, they must engage dynamic civic leaders with vision and commitment to orchestrate and oversee social learning processes. What's most important is the sustained presence of *creative*

leadership working deftly within the region while also remaining connected to outside networks. Creative leaders are locally embedded, partnering with firms and community organizations to fill gaps, eliminate duplication, and address emerging priorities in the regional innovation system. At the same time, they function in extra-regional networks to tap the external resources and fresh perspectives that help prevent communities from becoming locked-in to outdated practices. They also help facilitate transformative change.

3. *Development projects are contextualized and transformative.* Regional policy takes effect through implementation of various kinds of development projects. To be viable, such projects build on local assets and regional advantages, leveraging contextual opportunities that move regions along new growth paths. At the same time, development projects are not just 'business as usual.' In their scope (of partners, sectors) and scale (of investments, outcomes) they have the potential to transform a region's capabilities and long-term prospects. Most jurisdictions pursue a strategy which is defined by the collective decisions that actors within that jurisdiction make over time, whether in coordination or not and whether articulated or not. However, top-performing jurisdictions are those that create an economic base with unique and valuable assets for differentiated competitive advantage and high and rising wages for their workers. Cluster strategies in both high technology and more traditional industries provide the foundation for such jurisdictional advantage by embedding firms in knowledge networks and upgrading local skills.

For southern Ontario, FedDev can be such a dynamic 'change agency.' With more flexibility than traditional line departments, operating through decentralized networks, and linked to a national community of regional development agencies and an international body of OECD expertise, as well as the relevant provincial departments and agencies, FedDev is well-positioned to play a leadership role in southern Ontario.

As a 'start-up' agency, FedDev has an opportunity to craft a new approach to regional development in Canada. Drawing on research and experience from Canada and elsewhere, this paper offers five principles and practices to help move FedDev along an innovation-driven policy pathway.

PART 2 FEDDEV: PRINCIPLES AND PRACTICES

1. STRATEGIC VISION: FROM REDISTRIBUTION TO INNOVATION

A baseline principle of the new regionalism is the focus on innovation that mobilizes the local assets and taps the economic potential of all places and sectors to attain world-class performance. This approach represents the culmination of decades-long policy experimentation in regional development. The oldest and most traditional approach, which corresponds historically to the Keynesian era from the 1950s to the 1970s, focused on strategies to attract individual firms to a region or locality, frequently by emphasizing the economic value of cheap factor inputs and by affording the target firms direct subsidies or tax reductions of an increasingly generous nature. The practice originated in the southern US states that offered low-wage, non-union labour, inexpensive land prices and reduced taxes to attract plants from the industrial North. By the 1970s, some Canadian provinces, caught in the triple bind of competition from low-cost jurisdictions, declining productivity levels, and increased international competition, responded with a host of similar policies – including expensive tax abatements, job tax credits, training programs, low-interest loans and other government subsidies to lower the cost of business. In Europe, this approach took the form of building infrastructure and upgrading the public infrastructure in order to bring the standards in lagging regions up to those found in more developed regions of the Community.

These economic development approaches were increasingly recognized as inadequate to meeting the

challenges of a rapidly globalizing and more knowledge-intensive economy. In the 1980s, a second phase of economic development strategies emerged focused on building the educational and technological infrastructure to provide the knowledge base for indigenous firms and investment attraction. Numerous policies were introduced by various levels of government, including efforts to fill gaps in the capital markets, modernize small and medium-sized enterprises, accelerate the development and transfer of technology from universities to industry, enhance workers' skills, and provide entrepreneurs with a higher level of management information. These included initiatives like the Edison Centres in Ohio, the Centres of Excellence in New York State and Ontario's own Premier's Council Fund and Centres of Excellence.

By the 1990s, a growing number of provincial and state governments began to perceive the limits to both the first and second 'waves' of regional development policy. While the policy target shifted from chasing smoke stacks to building research infrastructure and filling market gaps, both approaches relied on the same top-down organizational structures, creating a plethora of new programs administered by discrete branches of individual line departments with little integration of instruments or coordination across programs. Recognition of their institutional and structural limits led to the gradual emergence of a third approach to regional development policy, which has evolved over the 1990s and 2000s.

Today's third approach, informed by the research underlying the new regionalism, recognizes that regions need to maximize their investments in local assets that cannot be easily replicated or moved to other parts of the globe. Rather than playing in zero-sum competition for inward investment, the most successful places generate economic knowledge that drives innovation and export success. This new approach recognizes that regional governments and

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national agencies can't continue to layer new programs on existing ones in a disjointed fashion. Instead, robust regional development strategies must engage in a process of collaboration across different levels of government, and between public and private actors in cities and communities. The resulting emphasis on flexible, associative forms of governance and bottom-up participatory approaches offers the right conditions for social learning and knowledge management that are now understood to be crucial for regional innovation based on economic clustering and industrial agglomeration.

The challenge for FedDev is to ensure that its policies and programs are designed to work effectively with existing provincial, municipal, and federal initiatives within the context of a broader strategic vision for building the next economy in southern Ontario.

2. POLICY ALIGNMENT: SYNERGY AND INTERDEPENDENCE

A key principle of the new regionalism states that the simple co-location or concentration of resources in one place does not necessarily translate into economic innovation. Rather, the key is how such resources are deployed and leveraged into assets. The challenge and opportunity for regions, then, is to exploit the synergies among organizations and interdependencies across policies. Regions need to blend different kinds of knowledge in high-performing partnerships, joining industry and educational institutions, venture capitalists and commercialization incubators, anchor firms and spin-off entrepreneurs, and skills centres and business associations.

From a public policy perspective, similar join-ups add value to the regional development process. For example, investments in the infrastructure of the 'new economy' must connect the traditional physical components such as transportation and land use planning

with the more intangible forms of social and human capital that drive knowledge-driven innovation. Similarly, regional innovation requires alignment across levels of governments and their sectoral policies, both macro (taxation, trade, and immigration) and micro (labour market, education, amenities). Certain of these sectoral policies are the responsibility of a single level of government, while others, such as research or the environment, are jointly managed. In either case, successful regional development demands that all policies work together in mutually reinforcing ways. Indeed, studies from the OECD underscore that a main advantage of regionally-focused economic development is that it represents the geographic scale where these organizational synergies and policy interdependencies play-out most profoundly and therefore can best be leveraged.

However, these same studies also catalogue the missed opportunities at the regional scale that result from a lack of alignment and coordination. For example, many OECD countries have introduced government funding for research centers or centre of excellence programs in parallel with other innovation support policies. These policies typically develop from a research focus based in ministries of higher education with responsibility for university funding. The centers funded under these initiatives serve to support the development of regional specialization, but without formulating direct linkages to existing regional development policies and strategies, regions cannot capture the full benefits of that research. Similar gaps arise from the lack of integration of science and industrial parks with other programs. Programs to promote science and industrial parks often originate at the local level and are therefore not explicitly aligned with innovation policies and programs originating at the national or provincial level.

A coordinated approach to economic development at the regional and local level requires integration with policy planning at the ‘meta-governance’ level—that is, across existing program boundaries, as well as levels of government. The national level plays a preponderant role in establishing the broad framework for research and innovation policies, in providing a coherent system of public laboratories and research organizations, and in setting the rules of operation for the financial system that determine the availability of different sources of financing and time horizons for new and established firms. A greater degree of coordination between the upper levels of government with responsibility for research and education policy and local and regional development agencies with economic development responsibilities is required. The creation of FedDev represents an important chance to overcome the traditional failing of ‘missed opportunities’ in regional economic development and bring about a greater degree of policy alignment between federal, provincial and local initiatives.

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3. COLLABORATIVE GOVERNANCE: VERTICAL AND HORIZONTAL

It is widely recognized today that effective and efficient regional development policy moves beyond the traditional distinction between top-down and bottom-up

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processes. The most important problems are simply too complex and multi-faceted for any single actor to solve in isolation. Indeed, unilateral or solo efforts are likely only to increase fragmentation and delay regional innovation. Moreover, numerous community-based actors in both civil society and business are increasingly valued as important policy actors in their own right, with strategic local knowledge to contribute to government decision-making. It follows that the focus now turns to institutionalizing collaborative governance that brings together a range of public and private actors, each with their own mandates and accountabilities, for joint work on common, longer term challenges. Such collaborative governance has both a vertical dimension (across levels of government) and a horizontal dimension (among local and regional communities).

Along these lines, it is clear that a certain ‘policy division of labour’ exists for regional economic development. Federal and provincial governments have jurisdiction, resources, and tools to establish innovation frameworks and invest in key programs for business development, knowledge enhancement, and local capacity-building. At the same time, these macro level offerings must connect with community-based and private sector networks that are positioned to articulate regional priorities. Multi-level collaborative governance thus needs to align regional assets and aspirations with national or provincial objectives.

How does such collaboration work in practice? OECD studies document the use of various contractual agreements that bring the different players together for regional planning and action. These contracts, negotiated between levels of government and including private and third-sector partners, establish a table for dialogue and specify the terms of joint work—the purposes and goals of the collaboration, the different roles and responsibilities, and accountability frameworks.

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Faced with complex, multi-faceted economic and social development challenges, these collaborative agreements enable focused decision-making, establish the terms for flowing resources, and frame learning through experimentation.

A strength of such contracting is its flexibility in responding to the particular coordination challenges faced by regional actors. For some issues (delimited problem, few actors, specific goals), *transactional* contracts are appropriate, while in other contexts with more complexity and uncertainty, *relational* contracts allow for greater ‘learning by doing.’² Further, both kinds of contracting have been used to engage horizontal networks of local and regional actors across administrative boundaries in urban and rural settings, producing innovative spatial strategies for high-quality

² For a detailed discussion of the rationale, design, and application of the transactional and relational contractual approaches to different regional development challenges, with explicit reference to Canada, see *Linking Regions and Central Governments: Contracts for Regional Development* (Paris: OECD, 2007).

inter-municipal regional economic development and public service delivery.

A good example of such a horizontal network in southern Ontario is the Southwest Economic Alliance which convenes government officials, firms, universities and colleges from Waterloo to Windsor to create a common vision for the region and cooperative action to generate growth in five key sectors—agriculture, advanced manufacturing, green technologies, transportation and tourism. In June 2010, the Alliance held its fifth annual Assembly with over 250 regional delegates.

In many jurisdictions, multi-level collaborative governance is delivering quality policy outcomes by helping ensure that upper-level government programs and services present in a region are aligned and responsive to local priorities. Two aspects of such governance dynamics are especially noteworthy.

First, they often involve active use of economic clusters as a focusing device to achieve policy integration, channeling public investments to their most productive targets where the ‘receptor capacity’ is greatest. Second, a regional development agency, embedded locally and externally networked, can be the focal point in the multi-level governance system, convening the players for action, leading negotiation of appropriate contractual frameworks for collaborative work, and driving the innovation process forward.

The creation of FedDev introduces a major new actor into the economic development scene of southern Ontario. It is incumbent on the Federal Government and its regional development agency for southern Ontario to work in an integrated and coordinated fashion with other key actors at the provincial and local level, ensuring the most effective use of the public resources available for economic development.

4. TRANSFORMATIVE PROJECTS: “GO BIG OR GO HOME”

FedDev’s opportunity is to look beyond ‘business as usual’ incremental change. Rather than marginal add-

itions to what already exists in southern Ontario economic development policy, FedDev should aspire to introduce high impact interventions that address next generation challenges and seed solutions to *transform* businesses and communities. Such transformation involves new relationships, capacities, and outcomes: firms that are more competitive, communities that are more inclusive, and economies that are more innovative and sustainable. Development projects are the vehicle for regional transformation. They address long term national objectives and mobilize provincial economic drivers of growth. Importantly, they express regionally defined priorities that integrate sectors, engage multiple investors, and monitor progress on big goals.

At the heart of such transformational activity for southern Ontario is a vision and process of *cluster-based economic development*. There is an increasing recognition that the focusing and concentration of economic resources around clusters of strength generate considerable economic benefits for regions, provinces, and countries. Indeed, there has been a virtual explosion of interest in cluster development in recent years across North America, Europe and newly industrialized countries (as was seen in the recent series of policy measures introduced in the President’s budget to Congress in the U.S.).

Clusters can consist of both high-technology concentrations of firms, which often centre around research-intensive universities or institutes, as is clearly the case with Silicon Valley and many of its emulators, as well as those based in more traditional industries, such as the furniture, beer or dairy industries in Denmark.

The underlying rationale for this emphasis is the distinct advantages that clusters afford to firms and the communities that house them. First, the cluster acts as a magnet drawing talent, and the location of specialized training and educational institutions can supply new skilled labour to the firms in the cluster. Second, membership in the cluster makes it easier for firms to source needed parts and components, thereby enhancing their technological and productive capabilities. A third key benefit of clusters arises from the formation of new firms when larger, anchor firms

generate new ideas and research findings that support entrepreneurial spin-offs taking breakthroughs to market. Finally, the strength of clusters can provide an important stimulus to public investment in specialized infrastructure, such as communication networks, joint training and research institutions, specialized testing facilities and the expansion of public laboratories or post-secondary educational institutions.

As the depth and value of such investments increase, so do the economic benefits flowing to firms located in the cluster and their surrounding communities. Indeed, the strength of the cluster and its supporting infrastructure of public investments and collaborative institutions create a mutually reinforcing positive feedback loop that benefits the entire region.

Cluster-building dynamics are central to the economics of the new regionalism. Consistent with the policy principle that ‘no one size fits all’, different development projects—reflecting particular territorial assets and economic opportunities across the region—can help transform the southern Ontario economy. Such projects could include:

Knowledge Economy Corridors

A major challenge for the southern Ontario economy is bringing new ideas and products to market through intensive networking among leading researchers and their students, entrepreneurs and venture capitalists, and local or regional economic development agencies. Simply put, southern Ontario needs more globally-oriented business clusters rooted in local communities.

An excellent example of such an innovation cluster can be found in southwestern Ontario, linking and leveraging the knowledge and creativity of Waterloo, Stratford, and London. The cluster finds its origins in the outstanding ability of firms in Waterloo Region to

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The current economic recession has severely impacted the more traditional manufacturing base in southwestern Ontario.

In response, the local municipalities have drawn upon existing federal and provincial program initiatives to link the region’s industrial capabilities with the expansion of the its post-secondary institutions into digital media. The Digital Media Corridor brings together the City of Stratford, the University of Waterloo, the University of Western Ontario, major technology industries, and municipal authorities, for innovation at the intersection of technology, culture, and commerce. The

most recent measure involves linking a new branch of the University of Waterloo in Stratford working on the creation of content for digital media with a new Digital Media Convergence Centre in downtown Kitchener. With initial support from the CEO’s of key local firms, such as Open Text and Christie Digital, and the Commitech Technology Association playing a leadership role, the Digital Media Hub aims to create Canada’s largest concentration of digital media research, development, and commercial expertise while developing globally competitive capacity in digital innovation.

Similar examples of such cluster-based initiatives can be found in other cities and regions in southern Ontario. Hamilton has long been the home to Canada’s steel industry, and both its university and college have great strengths in traditional and new materials research. The recent launch of the McMaster Innovation Park, the much anticipated relocation of the federal CanMet laboratory to the Innovation Park and related efforts to expand the local R&D activities of the leading international steel firms in the Hamilton region represent

another critical opportunity for FedDev to support current and prospective cluster-building efforts.

Similar opportunities exist in the Windsor and London areas with their existing concentrations of automotive assembly and parts production and research expertise in fields from green technologies to tool, die and mold making. In other Canadian and international regions, national regional development agencies have recognized the transformative potential of such regional clusters of industrial strength and supported them with investments, incentives, and assistance. These represent the kind of large-scale research and economic development opportunities that FedDev should seek to strengthen and support.

Eco-Industrial Clusters

A key priority for regional development is to support projects that capture the mutual interdependence of economic innovation and environmental sustainability. Markets can be redirected to address environmental problems to not only create new business opportunities but also make existing practices more efficient. An emerging trend across OECD countries is 'green clustering' in eco-industrial parks where co-located firms recycle, retrofit, and share carbon neutral production. An excellent example in southern Ontario is the Ontario East Wood Centre & Industrial Park dedicated to combining strong economic performance with an improved environment. Located in a region that offers high-quality wood in sustainably managed forests, the Park is designed to foster environmentally sound business practices for research, development and demonstration of value-added wood products destined for domestic and international markets. The Park includes a Wood Science Innovation Centre to support sustainable production research and company incubation through mentoring entrepreneurs and researchers.

Another regional development process creatively blending economic and environmental objectives relates to water. Ontario's proposed *Water Opportunities Act* is designed to position the province for global leadership in the development and sale of new technologies and services for water conservation and wastewater treatment. At present, Ontario firms have established a presence in this high-growth sector with a global market in the \$400 billion range. Ontario's evident strengths in water-related research, technology development, and entrepreneurial talent provide a foundation for further growth. However, obstacles to innovation remain in connecting ideas with investment, and in linking emerging water technologies with industrial and municipal conservation efforts. There is a tremendous opportunity for FedDev to work with the province in consolidating Ontario's—and Canada's—position as a leader in water technology, through the collaborative efforts of both governments, in pursuing pilot projects, and more effective research co-ordination.

Elsewhere, regional development agencies have recognized the transformative potential of such regional clusters of industrial strength and supported them with investments, incentives, and assistance. These represent the kind of large-scale research and economic development opportunities that FedDev should seek to strengthen.

Each of the aforementioned wood products and water technology initiatives represents a leading edge project that brings together a host of partners in pursuit of transformative change in traditional natural resource-based sectors. With their knowledge-driven integration of economic and environmental goals they are precisely the kind of transformative projects that a national regional development agency should support, and in so doing, encourage and enable similar institutional experimentation in related sectors across the region.

5. SOCIAL LEARNING: KNOWLEDGE MATTERS

All of the above discussions of 21st century regional economic development, whether focused on the dynamics of clustering or the synergies of policy alignment, converge in their emphasis on the importance of knowledge and learning. There are four ways in which knowledge and learning are integral to the process.

First, purposeful regional economic action and therefore supportive public policy rest on clear and systematic analysis of the regional economy in the context of national, continental, and global trends. Combining quantitative data and qualitative assessments, regional development profiles will document durable strengths and comparative advantages as well as new opportunities and targets for transformational investments.

Second, recognizing that there is no 'off-the-shelf' or cookie cutter template for promoting regional innovation, governments and other stakeholders will continue to rely on applied policy research that tracks which interventions and instruments work best and where. Such action-research will also contribute useful knowledge about governance strategies that align objectives, priorities and projects.

Third, given the complexity of regional economic development policy and the uncertainty surrounding the causal effects of its various interventions, research into evaluation remains a priority. A promising recent direction focuses on development of robust indicator systems that benchmark progress in relation to goals, embeds an outcomes orientation among all stakeholders, and guides program adjustment and policy change.

Finally, it is important to reiterate that one of the latent advantages of the decentralized national agency approach to regional economic development is inter-regional lesson drawing and knowledge transfer. Localized experiments and best practices in one part of the country can be systematically shared through the national network of regional development agencies. In effect, they become an ongoing forum for dialogue and learning, building a system-wide capacity to take promising experiments to scale and embed innovation more widely.

CONCLUSION

The creation of the Federal Development Agency for Southern Ontario is a long awaited and much anticipated development. Its timing is critical, as many of the local economies in southern Ontario struggle to recover from the recent recession. However, as the American economist Paul Romer is quoted as saying, a crisis is a terrible thing to waste. It would be a missed opportunity if the addition of FedDev to the suite of economic development activities in southern Ontario were to result in nothing more than 'business as usual.' There is credible evidence that some regional economic development spending in the past has been used for political purposes, rather than to contribute to the strategic economic development of communities (Milligan and Smart).³ FedDev should not travel this path.

This report suggests an alternative conception of regional economic development policy built around five themes: innovation; alignment; collaboration; transformation; and learning. Guided by these principles, the federal government can work strategically and collaboratively with its provincial and local partners in charting a new approach to *placed-based, innovation-driven* development policy for southern Ontario. MC

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³ See, for example, Milligan, Kevin, and Smart, Michael, Regional Grants as Pork Barrel Politics (April 2005). CESifo Working Paper Series No. 1453. Available at SSRN: <http://ssrn.com/abstract=710903>

APPENDIX

TABLE 1: PRINCIPLES AND PRACTICES TO INFORM THE WORK OF FEDDEV

PRINCIPLES	PRACTICES
Strategic Vision: From Redistribution to Innovation	<ul style="list-style-type: none">▪ Move from regional re-distribution and equalizing outcomes to focusing on regional strengths▪ Mobilize local assets and tap the economic potential of all places and sectors▪ Maximize investments in local assets that cannot be easily replicated or moved▪ Emphasize flexible, associative forms of governance and bottom-up participatory approaches
Policy Alignment: Synergy and Interdependence	<ul style="list-style-type: none">▪ Align policies across sectors and levels of governments, at both the macro (taxation, trade, and immigration) and micro (labour market, education, amenities) levels▪ Exploit synergies among organizations and interdependencies across policies▪ Blend different kinds of knowledge in high-performing partnerships, joining industry and educational institutions, venture capitalists and commercialization incubators, anchor firms and spin-off entrepreneurs, and skills centres and business associations
Collaborative Governance: Vertical and Horizontal	<ul style="list-style-type: none">▪ Institutionalize collaborative governance and decision-making that brings together a range of public and private actors for joint work on common, long-term challenges▪ Align national or provincial objectives with regional assets and aspirations▪ Use economic clusters as a focusing device to achieve policy integration, channeling public investments to their most productive targets where the 'receptor capacity' is greatest▪ Embed locally and externally networked regional development agencies so that they can serve as the focal point in the multi-level governance system
Transformative Projects: "Go Big or Go Home"	<ul style="list-style-type: none">▪ Aspire to introduce high-impact interventions that address next generation challenges and seed solutions to transform businesses and communities▪ Focus and concentrate economic resources around clusters of strength such as knowledge economy corridors and eco-industrial clusters
Social Learning: Knowledge Matters	<ul style="list-style-type: none">▪ Emphasize the importance of knowledge and learning▪ Promote clear and systematic analysis of regional economies in the context of national, continental, and global trends▪ Recognize that there is no 'off-the-shelf' or cookie cutter template for promoting regional innovation, and rely on applied policy research to help inform decision-making▪ Develop robust indicator systems that benchmark progress in relation to goals and embed an outcomes-orientation among all stakeholders▪ Emphasize inter-regional policy learning and knowledge transfer

About the Authors

Neil Bradford teaches Political Science at Huron University College, University of Western Ontario. His research interests include political economy, public policy, and multi-level governance with a focus on local economic development and community-building. He is the author of *Commissioning Ideas: Canadian National Policy Innovation in Comparative Perspective* (Oxford 1998) and numerous scholarly articles and book chapters. He published a CPRN series of discussion papers on Canada's New Deal for Cities and Communities and is also working on three SSHRC projects exploring local innovation systems and diversity planning in mid-sized cities. He served as a civil servant in the government of Ontario, and has also advised the Government of Canada's Department of Human Resources and Social Development on place-based public policy.

David A. Wolfe is Professor of Political Science at the University of Toronto and Co-Director of the Program on Globalization and Regional Innovation Systems (PROGRIS) at the Munk School for Global Affairs. In July, 2009 he was named Royal Bank Chair in Public and Economic Policy at U of T. His research interests include the political economy of technological change and the role of local and regional economic development. Past research projects have included Innovation Systems and Economic Development: The Role of Local and Regional Clusters in Canada and the Social Dynamics of Economic Performance: Innovation and Creativity in City Regions.

David has also served in the Cabinet Office of the Government of Ontario and has been a research associate at the Canadian Institute for Advanced Research's Program on Law and the Determinants of Social Ordering. He has also advised numerous provincial and national governmental and private organizations and was a 2008/9 CIBC Scholar-in-Residence. David also recently published the book *21st Century Cities in Canada: The Geography of Innovation*.

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