ECONOMIC SOVEREIGNTY FOR PRINCE EDWARD ISLAND

Tim Carroll

Almost since Confederation, Prince Edward Island's development strategy has been to see how much it can get out of the federal government. The experience of a number of "miracle islands" around the world shows that a better way to pursue development is to use whatever sovereignty a jurisdiction has in order to craft its own strategies for economic success. A similar strategy for Prince Edward Island need not require a change in the distribution of powers within the Canadian confederation: A number of the most successful islands are also members of federations. But it would require a change in Islanders' attitudes—nothing less, in fact than a return to their pre-Confederation confidence and ingenuity.

Depuis la Confédération, ou presque, la stratégie de développement de l'Île-du-Prince-Édouard a consisté à mesurer ce que cette province pouvait obtenir du gouvernement fédéral. Ailleurs au monde, pourtant, nombre d'« îles miracles » ont su emprunter une voie plus sûre : l'utilisation de toute la souveraineté dont une collectivité dispose pour affiner les outils de sa réussite économique. L'application d'une telle stratégie à l'Île-du-Prince-Édouard n'exige aucune redistribution des pouvoirs au sein de la Confédération canadienne : bon nombre des îles qui ont le mieux réussi sur le plan économique font partie de fédérations. Mais elle demanderait un profond changement d'attitude de la part des insulaires : un retour, ni plus ni moins, à l'assurance et à l'ingéniosité qu'ils manifestaient avant la Confédération.

The forces of globalization, new information technologies and new thinking about economics and business are creating opportunities for dramatic change in the economic fortunes of Prince Edward Island. By contrast, the traditional and still dominant Canadian paradigm of disparity/development is based upon textbook industrial-age thinking, while the time-honoured and comfortable pattern of turning to Ottawa every time a challenge presents itself or, worse still, believing that a fiscal boost from the federal government is needed to improve our standard of living relegates Islanders in perpetuity to being victims of circumstance.

Despite the best of intentions the conventional bureaucratic approach to economic development has not worked. This relic of colonial economics rests on unchallenged beliefs about economic development. We have known for some time now that the current programs, no matter how they are configured or targeted, fall short of achieving the stated goal of economic parity with the rest of Canada.

An alternative strategy—economic sovereignty for PEI—is about turning away from those patterns and instead acting decisively in matters of provincial jurisdiction. It is difficult to convey the heresy that this kind of thinking represents for Islanders. I have spent much of my professional life in the orthodox system, as a university professor, a bureaucrat, an MLA and a cabinet minister. I too believed for a long time that the lack of success with economic development programs was mainly a matter of adjusting programs until we got them right. It isn't. Economic sovereignty for PEI is about building a better, more mature relationship with Canada, not about separation from Canada. The success of PEI's mission for self-reliance lies within its constitutional jurisdiction as a Canadian province. Here I first want to argue that economic sovereignty is a viable option for Islanders and then describe some principles gleaned from the experience of other small islands that are using their jurisdiction effectively.

The University of PEI's Institute of Island Studies (IIS) has been a leader in developing the idea of jurisdiction as a resource. The IIS has examined many small, island jurisdictions that enjoy a standard of living comparable to or even better than that of most large countries. Most such places would seem to have economic circumstances which are at least as challenging—in some cases even more challenging—than PEI's. And yet the Aland Islands (off Finland), the Isle of Man, Iceland, Mauritius, and Jersey, to name just a few, have prospered in spite of remoteness, smallness and scarce

resources—so much so, in fact, that they are often referred to as the "miracle islands".

All jurisdictions, be they sub-national, like a province, or a free-standing independent republic like Iceland, have powers. The lesson of the miracle islands is not that success requires a specified set of powers but that it comes from making the best use of whatever powers are available. These islands' mindset is best understood by looking at their culture and history. Size, resources, geography and the like seem to have had only a peripheral influence on their economic success. For the most part, their government programs in support of industrial development are very similar to what is offered just about everywhere else in the world, including PEI—which is convincing evidence of the irrelevance of such development programs.

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The Faeroe Islands in the North Atlantic have had political independence from Denmark for several years, yet they continue to depend on what amounts to a Home Office subsidy of about C$250 million. When I visited with the Deputy Prime Minister and leader of the Independence Party, Hogne Hoydal, the discussion turned to imminent offshore oil development and its implication for economic self-reliance in the Faeroes. Hogne's party stands for ending any kind of reliance on the Danish or any other treasury. He explained that he was ambivalent about the prospect of oil exploration and extraction. In his view, sovereignty is an internal issue for the Faeroes and oil might simply confuse the issue by trading one form of dependence for another. That's sovereign thinking!

Hogne, by the way, is an avowed socialist, who has no intention of sacrificing a traditional Scandinavian social support system simply because the Islands choose economic self-reliance. He seemed genuinely perplexed by the suggestion that economic self-reliance for PEI is viewed as a threat to the Island's social safety net. In all of the miracle islands social programs similar to if not better than PEI's co-exist with self-reliance.

Premier Vance Emory of Nevis expressed similar views shortly after that island's referendum vote fell just shy of the two-thirds majority required to effect its separation from St. Kitts. I asked about his plans for the three years before there can be another vote. His reply was that, since the vote, his new government had learned that official sovereignty was secondary to acting in a sovereign way. As a result, they are pursuing development of their reputation and ability as a player in the now highly competitive offshore financial services industry. In other words, sovereignty is not crucial.

It was interesting to observe the impact of a sovereign mindset at a recent offshore finance conference. Different responses were evident to an OECD report threatening to "blacklist" a number of offshore jurisdictions. All 50 or so such jurisdictions in the world were being threatened under criteria set out by the OECD. Some of the more dependent jurisdictions were quite visibly concerned, but others, most notably the Isle of Man and the Channel Islands, seemed quite serene Their sovereign mindset was apparent in conversation. If the offshore industry ended tomorrow, then they would move on to other ways of making their jurisdiction work for them.

For example, while the US and UK grapple with the complex issue of a legal framework for e-commerce (involving questions of how to treat digital signatures and so on) Bermuda passed its legislation in 1997. The sovereign mindset sees the tsunami-like forces of globalization and the information revolution as creating all sorts of opportunities. Shipping, insurance, and tax planning are a few of the more traditional areas where jurisdictional solutions can be found. In future, as education, health care, e-commerce and so on are transformed, more opportunities are likely to appear.

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There has been the odd occasion in recent years when PEI demonstrated sovereign tendencies. For instance, it opted out of a scheme to blend its provincial sales tax (PST) with the GST. The federal government's proposal involved a sales tax on services, which had not been taxed in this way in any of the partnering provinces. But its most offensive aspect was that in future Ottawa would essentially call the shots on which goods and services would be subject to GST. Only Quebec, which had signed on to a blended scheme when the GST was first introduced, retained some control over what is or is not taxable. At the time when discussions over the blended tax were taking place, "e-comm" was not yet part of the language. Even so, the Island's refusal

to enter the federal sales tax system has put it in a position to make its own decisions as, like governments everywhere, it grapples with the question of how and whether to tax the Internet.

The capacity of a jurisdiction to "act sovereign" is admittedly not clear-cut. Sovereign action is like empowerment. While power can be transferred, empowerment rests within the individual. Similarly, sovereign action by PEI is not primarily a matter of acquiring more powers or trying a set of new programs. (What program has *not* been tried in the last 40 years?) It is more a question of attitude. Among the miracle islands, history, culture, and an independent mindset seem to have had a greater affect on development than "economic reality." We very likely have all the powers we need. We just have to decide to use them.

Prince Edward Island's history offers some appreciation of what a more independent attitude might imply. Because the 1864 Charlottetown Conference was held here PEI is usually regarded as the birthplace of Confederation. The usual rendition of that era's history implies that this little pearl of the sea seized the opportunity to be part of a larger association that would protect it from the ravages of an unfriendly world. Nothing could be further from the truth. In fact, the Upper Canadians had not originally been invited to the 1864 meeting. They had to ask to join it. And the meeting itself had been set up with neighboring Nova Scotia and New Brunswick with the purpose of informing them that PEI did not want to join their proposed Maritime Union.

At the time, Upper Canadians were just breaking free from a wilderness economy dependent on a narrow, monopolized trade with Mother England. PEI, by contrast, enjoyed more diverse trading patterns, and Islanders indulged themselves in all the amenities that the highest per capita income in British North America could buy.

PEI had earlier sought its own free-trade discussions with the New England states, an initiative that was not tolerated by the Canadians, who protested to England, which promptly shut it down. Later, as Sir John A. Macdonald persisted in his attempts to get PEI to join Canada, he is reported to have responded to the debate over PEI's special status by commenting in Parliament, "We don't want them to be another Isle of Man."

The modern history of PEI is quite different. Beginning with the initial bailout from Canada in 1873, a pattern of dependency achieved systemic status in the 20th century, particularly in its second half. The National Policy that dominated through 1950 favoured an industrialized economy in the centre that would provide a market for resources produced in the eastern and western hinterlands, including PEI. The conventional wisdom of the day held that PEI had the added limitations of smallness and remoteness, which became the justification for a wide range of compensatory regional development programs. Some observers argue that these federal programs are the principal author of the dependency cycle that has plagued PEI in recent decades.

By contrast, the economic sovereigntist acknowledges PEI's role in co-authoring the dependency cycle. In fact, a more accurate description might be "managed dependency." For example, the reason usually cited for perpetual dependence is that PEI's economy relies on seasonal industries such as fishing, agriculture and tourism and is therefore incapable of providing year-round high-income employment. But the limitations of seasonality occur more by design than circumstance. Support programs, subsidies, and executive focus—that is, the attention given the matter by premiers and everyone else—all serve to reinforce both seasonality itself and the difficulties it creates for everyone in these industries, except possibly those who own the capital. And yet each time any support program is threatened the immediate assumption is that the victims of cutbacks will be the people who earn a subsistence living from the industry. This makes for good press, even if such people's dependence is clearly shared by many others, many of whom are not so poor, be they store owners, bankers, or car dealers.

The traditional view that this form of managed dependency keeps money in circulation and is therefore benign is now being replaced by a belief that managed dependency has caused real damage to the economic viability of PEI. A study of the miracle islands suggests a further conclusion: Social and cultural damage must be added to managed dependency's casualty list. After several decades of dependency, Prince Edward Islanders now actually believe and act as if their home is a place of limited opportunity and advantages. Their forbears who confidently resisted Confederation with Canada would be perplexed. Or perhaps not.

Iceland, which by conventional definitions has even more serious limitations of remoteness, smallness and almost complete dependence on a single industry (the fishery), nevertheless also has a system of social support for the elderly, poor and the average person that is as good as or, in many respects, better than PEI's. Iceland's fishing indus-

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try continues to adapt to changing conditions, including the fluctuation of fish stocks, as it has for centuries. Persistent and creative schemes have resulted in Iceland enjoying remarkable growth in, of all things, winter tourism. Icelanders' habit of focusing on what they have rather than on what others might consider their limitations is evident in many endeavors, whether it be supplying energy or promoting the growth of information technology.

Consider Mauritius, which is isolated in the Indian Ocean and considered resource-scarce by usual standards. Its most conspicuous and in many ways daring act of economic sovereignty was to consciously enact policies and incentives that challenged the economic ascendancy of sugar and favoured alternatives to the colonial sugar trade. Although sugar has sustained Mauritius' economy for centuries relatively few Mauritians became wealthy from the sugar trade. Most of the island's people received a subsistence wage in the industry or related industries. The economic pundits were certain that the new government's bold policy moves would mean the end of their most viable industry, thereby further enfeebling an already weak economy. Instead the island successfully diversified into manufacturing, financial services and a more self-reliant agriculture. The pundits were wrong: In a region characterized by the desperate economies of Africa and the subcontinent, Mauritius is now consistently pointed to as an economic miracle. Its new wealth has even taken the edge off the racial tensions between Moslems and Hindus that are so predominant in that part of the world.

Madeira, an island province of Portugal off the coast of West Africa has taken a different approach. Like PEI, Madeira is highly dependent on transfers from outside governments—in its case both Portugal and the European Union. But Madeira has also been given the jurisdictional latitude to improve its economy rather than continue a cycle of dependence. After a decade of discussion the Portuguese equivalent to Canada's *Bank Act* was amended to give a Madeira agency some measure of control over tax matters. As a result, Madeira has positioned itself to exploit globalization by building infrastructure and services in support of an international banking center, a free port, and an international tax planning industry. Because tax planning is such a growth industry, Madeira is trying to create its niche by catering to those who wish to minimize the tax consequences of trading with Europe.

Madeira's case is most interesting to a Canadian because Madeira's constitutional situation appears remarkably similar to that of a Canadian province. Here as there, acquiring the control over banking and taxation that has been given to Madeira would also require amendments to federal law, and if tax powers were also to be transferred, it would have to be to an independent agency rather than the province itself.

At bottom, however, the strategy Madeira has chosen may not be attractive to PEI. A federal role would be required, particularly in easing the way with our international partners. Unfortunately, Canada's diplomats are not noted for riding the edge in any of our treaties and agreements—not even uninspired ones like the OECD agreements on taxation and finance.

The lesson in all these cases is not from the particular strategies followed but from the fact that any place, independent or otherwise, has at least some jurisdiction and can choose to be economically sovereign. PEI's route to economic sovereignty involves the same sorts of questions as were heard in the debate that took place in the Faeroe Islands. Should PEI reject the present level of dependence and just say "No," or should it continue on its traditional course of aiming to gradually phase itself out of dependence?

In making this choice, it would be a mistake to await federal decisions. Federal policy should be viewed as simply another component of the economic environment that is essentially uncontrollable from PEI's perspective, on a par with international crude oil prices or exchange rates. The economically sovereign "miracle islands" focus on what they can control. As a Canadian province, PEI has ample jurisdiction to effect changes in education, economic development, justice and even some taxation issues. And where jurisdiction is in doubt, Islanders should remember that Canada has yet to fire anyone for pushing the envelope on provincial jurisdiction.

Economic sovereignty for PEI is in many ways a leap of faith. Planners hate the idea. If economic sovereignty is to be PEI's new policy, they ask, how will it manifest itself? No one knows exactly. The Isle of Man's minister of industry told me about reaffirming their decision to be sovereign in the face of economic crisis in the 1960s: "We decided that we would overcome our challenges and good things started to happen." In their case, they decided to use their jurisdiction over taxes to begin the turnaround.

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A decision to be economically sovereign is quite different from deciding you want self-reliance. Self-reliance means replacing old programs with new ones. With economic sovereignty, program discussions are not an agenda item. Instead, you focus attention on those matters you can control. In PEI's case, we have to be pro-active in terms of assessing—and redressing—the impacts of programs like EI on the economic and social development of Islanders. We know that the effects go well beyond a benign transfer of income from Ottawa, yet that remains our underlying assumption. There are better ways to provide a social safety net. Instead of expending energy lobbying for program changes or a restoration of expenditures, could our efforts not be better spent mitigating the serious dependency issues EI raises?

In education, training and literacy, which have obvious implications for economic development, PEI has followed the money. Instead of being pro-active, creative and maybe even a little courageous, we have been quick to follow a federal lead or to copycat sister provinces.

What has come to be known as "the Irish miracle" highlights the effectiveness of taxation powers in promoting economic development. PEI has developed Slemon Park, once an air base, into an apparently successful tax-free zone for aerospace companies. The federal government does not participate in the tax concessions, though it does provide its usual program spending, in the form of employment incentives and retraining through HRDC. In effect, Ottawa and Charlottetown are co-dependent: Federal planners need the program as much as Islanders need the money the program offers. A way for both to break this dependency would be to find other arrangements to replace the program dollars that have flowed into the region for 40 years under a variety of acronyms: DREE, DRIE, ACOA and HRDC.

Economic sovereignty can express itself in goal-setting. In its quest for federal money, PEI has often adopted federal goals by default. Financial services, transportation, employment and, most recently, information technology are just a few areas where, rather than define its own directions, PEI has accepted the national strategy that came with federal money .

Opportunities for economic sovereignty present themselves every day, whether the subject is cutbacks in the CBC, privatization of airports, fishery issues or threats to the environment. Instead of always turning to the federal authorities for solutions, PEI might well do better by taking on these challenges on our own. In 1867, Premier George Coles warned Islanders of the consequences of federal powers. His warnings have largely been borne out. A better way of manifesting the legacy of a self-reliant PEI would be to turn our attention from minding the business of federal transfers and instead minding PEI's business itself.

The prospect of fundamental change will always cause fears of hardship. In fact, in addition to providing counterexamples that refute the alleged hardship of small size, remoteness and resource scarcity, the miracle islands also demonstrate the surprising benefits that come with sovereign action. New economic thinking is full of apparent paradoxes. (The idea that revenues might actually increase if taxes were cut is still surprising to most people.) But PEI's pre-Confederation history represents an important legacy for Islanders to consider. Historians reporting letters and newspaper articles of the period note that after we took the land back from the absentee landlords, Island culture abounded in pride and self-reliance and embraced the future eagerly, even, as noted, starting its own free-trade initiative. This is in complete contrast to today's attitudes.

In recent decades, PEI has invariably preoccupied itself with standardization, with following the patterns other provinces (usually Ontario) have set in education, health, economics and so on. I know this from personal experience in government. Aside from the obvious leap in logic required by the assumption that duplicating the action of others will work, there is also the question of how long you should keep doing something when it does *not* appear to work. The miracle islands offer solid grounds for hope that following our own Island way will work.

It is time for PEI to move on. The industrial age is fading and so should our traditional way of thinking about economic development. Seeing jurisdiction as a resource is more consistent with new-economy thinking. And the example of other successful islands the world around teaches that how much of the resource a jurisdiction happens to have is less important than finding creative ways to use what we do have. That should be PEI's goal in the new century.

Since 1982, Tim Carroll has been a professor in the University of Prince Edward Island's School of Business Administration. His teaching and research are focused on strategy and change. He served as a member of PEI's Legislative Assembly from 1986-96 and was the Island's minister of agriculture from 1986-88.

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