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ECONOMIC DEVELOPMENT OF THE ATLANTIC PROVINCES

THE FIRST PART OF THIS PAPER* deals with the general framework within which provincial and regional economic development can best be considered; the second is concerned more specifically with the economy of the Atlantic Provinces. Economic development in any province should be considered in terms of the fundamental underlying factors that determine the types of development appropriate to the economy of that province. The basic problem is to determine how the resources in a province can be put to their best possible use and what public policies are conducive to this end. It is not in the long-run interest of a province or region to entice enterprises for which conditions are basically unsuitable; for such enterprises will either go bankrupt within a few years or survive only with continual transfusions of some kind of provincial subsidy. In either event, waste of human and material resources would result.

Adapting policy to the economic environment of a province is by no means easy. To gain a clear and thorough understanding of an economy—of its strengths and weaknesses and of the changes in it which should be encouraged—is enormously difficult. And even with a good understanding of an economy, the political and social limitations on policy making are still very great where human beings and not simply objects are involved.

Although the main concern here is with the health of the economy of the Atlantic Provinces, it is necessary to keep in mind that each provincial economy is part of the larger national economy and that the governing objective should be to make the best possible use of the resources of the nation as a whole. (Ultimately the international economy must also be taken into account.) Labour and capital are as free to move across provincial boundaries as they are to move inside of them.

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And it is in the national interest that they should move to where they are most productive, that is, to where the rewards for their use are greatest, whether the movement be within provinces or between provinces.

Over any period of time, some industrial sectors of the national and of any provincial economy may be growing, others remaining about the same, and still others shrinking. The shrinking of an industry is not necessarily a bad thing. If it means that some of the resources employed in it can be more productively employed elsewhere, its shrinkage is a healthy sign. One of the economic myths prevalent on this continent is that if a part of an economy is not expanding it is sick. The opposite may very well be true. To the extent that economic expansion is a feature of a good society, it is the *overall* increase in the amount of production of the whole economy that is important. For example, one reason for the low average income of the Atlantic Provinces is that a large part of the rural population is engaged in part-time subsistence operations in agriculture, fishing, and logging. There is considerable chronic unemployment and under-employment in these industries. It would be possible, with better use of the natural resources and of labour and capital in these primary industries, to expand production with a smaller labour force and in so doing to raise the average level of incomes of those who remain, as well as of those who move to other occupations, in this region or elsewhere, where they are more productive. There would be a shrinkage in the employment in the primary industries, but these would be in a much healthier state. Even if the displaced population left the region, it is possible that the total income of the region would be higher. One argument often given against the outward movement of population is that it reduces the market for consumer goods produced locally. But the validity of this argument is doubtful in this case, for the present incomes of the people in question are so low that their spending has little impact on the rest of the economy. Moreover, as has just been suggested, the increased spending out of higher incomes of those who remained might more than make up for the loss of spending of those who left. In fact, the population of the Atlantic Provinces has been increasing substantially in recent years in spite of continual emigration, and it will probably continue to do so.

In the same connection, it is of interest to observe that the population of Saskatchewan actually decreased from 1936 to 1951 as a result of movements from the farms caused by farm abandonment, by consolidation, and by technological change. There is little doubt that the economic health of that province was considerably improved by the shrinkage of its agricultural labour force, accompanied

by movements of population to other parts of the country. The alternative was for people to remain in Saskatchewan in a state of chronic unemployment or under-employment. This is an instance of the general economic expansion in most of the country facilitating painful but necessary economic adjustment in other parts of it. Similar adjustments in agriculture were facilitated within the province of Alberta by the expansion of the petroleum industry. No doubt the industrial expansion in other parts of the country that has spilled or at least dripped over into the Atlantic Provinces has served to draw much labour into more productive occupations, both within the region and elsewhere.

If capital and labour are to be employed where they are most productive, there must be some movements of them across provincial boundaries and some within them, both movements going on simultaneously and continuously. It is inevitable that at any given time some regions of this country will be growing more rapidly than others and that some will have a higher average income than others. It is also well to bear in mind that even with perfect national economic adjustment in the sense that all productive resources in the country were being used as effectively as they could be — so that, for example, a grocery clerk in Halifax was earning as much as he could in any similar occupation elsewhere in the country — there would still be differences in income per capita in the different provinces, simply because some provinces are more favourably endowed with natural resources and are more favourably located in relation to markets than others.

The discussion has thus far neglected one important factor. The economic development of this country has been influenced to a considerable extent by the policies of the federal government. The types of economic adjustments just described must be viewed within the framework of these policies. While these policies will not be reviewed here, it is important to observe that their existence modifies the extent of economic adjustments even though it does not alter their nature. Federal policies are intended to accord with the national interest, but the national interest is never an easy thing to determine when the nation is composed of provinces which have some sovereignty in their own right, each one jealous of what it deems to be its own interest and each one with a somewhat different concept of the national interest. Some compromises, including the compensation of each region for policies that have particularly benefited others regions, are in the nature of things, but the basic facts of economic life nevertheless dominate. The economic level of each province continues to depend mainly upon the quality and quantity of its

exploitable natural resources, upon the skills and diligence of its people, and upon its location in relation to markets.

The economic justification for building the St. Lawrence Seaway was the expectation that its value to Canadian commerce will more than offset the cost of constructing and maintaining it. What if its effect on the Atlantic region is harmful, even though this is more than offset by the favourable effects elsewhere? Should the Atlantic region be compensated for this by the implementation of some other policy that does favour it, even if the cost of implementing that policy is greater than its value to Canadian commerce? It is clear that such a policy would be wasteful of the country's resources; and yet the understandable unwillingness of provinces to submit wholly to economic determinism operating at a national level is a political fact. (Of course, it may be that the policy in question does rate a high priority on its economic merits; but if this is the case, there is no question of a conflict of provincial and national interests.) The federal government is bound to yield to some extent, for the sake of national unity, to provincial pressure for policies that would not seem warranted under a unitary political structure. Furthermore, federal policies for as diverse and fragmented an economy as that of Canada should as far as possible take into account the particular economic conditions of the different regions. National fiscal and monetary policies are a case in point. While the overall level of economic activity in the country may be high on some occasion and seem to call for restrictive national fiscal and monetary policies, the application of such policies may not be warranted in particular regions that are experiencing temporary unemployment. If possible (a big "if" in the case of monetary policy), such policies should be made flexible enough to take account of local economic conditions. If the problem of a region is one of chronic unemployment, however, there is the danger that the application of regional public-works projects and an easy money policy to that region will have harmful long-run effects in perpetuating unproductive industry and inhibiting effective adjustment to economic realities.

If one accepts the proposition, even with considerable modification, that it is not only in the national interest but also in the long-run provincial interest to have economic adjustment take place freely within the broader context of the national economy without undue obstruction by federal or provincial policies, and if, at the same time, the resources within each province are put to their best possible use, the argument for transfers through the federal government from the richer provinces to the poorer ones to enable them to provide a minimum level of public services, with no higher burdens on their residents than on those in other provinces, becomes

a very powerful one especially with regard to education, health, and welfare. Similarly situated taxpayers should receive roughly the same fiscal treatment in all provinces in terms of levels of services and burdens of taxation. Without federal transfers, those in the poorer provinces would have lower levels of services or heavier tax burdens, or both, than those in richer provinces and these would put pressure on them to move themselves or their capital, or both, to richer provinces even though they may be more productive in the poorer provinces. Furthermore, it would seem only just that if a province reconciles itself to educating and protecting the health of many young people who will eventually apply their abilities elsewhere in the country, it should be able to do so at good standards without imposing inordinate burdens on its citizens. Such transfers based upon the principle of "fiscal equity", as it is formally called, and has just been outlined, are not handouts or subsidies but are a means of dispensing fiscal justice to residents of low-income provinces whose average income is low not through any fault of theirs but because of the distribution of income in a national economy. Such transfers, as the American economist J. M. Buchanan, who developed the principle of fiscal equity, puts it, "are necessary to coordinate the federal political structure with a national economy and as such are ethically due the citizens of the low income state units."¹ To a considerable extent the federal government in its tax-sharing arrangements and in its special Atlantic Provinces Adjustment Grants has implicitly recognized the validity of the principle of fiscal equity.

Briefly then, while it would be uneconomical, in the sense of being wasteful of productive resources, unduly to hinder economic adjustment on a national level, strong economic and ethical arguments can be advanced for equalizing by federal transfers the levels of certain public services and the burdens imposed upon taxpayers to support them; moreover, a provincial government should concentrate on making the best use of the resources available in the province, at the same time recognizing that economic adjustments will and should be continually taking place both within the province and in relation with the rest of the country. It is in the long-run interests of a province that its economy should adapt to changes in the rest of the country. This would be so in a socialist economy in which there was rational economic planning, as well as in a free enterprise economy, for the objective would still be to make the best use of the nation's resources.

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Next it must be decided how the matters just discussed bear upon the economic development of the Atlantic Provinces. Although these provinces are often

regarded as making up a single region, they are not a homogeneous economic unit. There are important differences as well as similarities in the economies of the four provinces. A few examples will illustrate the differences. The economies of Nova Scotia and New Brunswick are quite similar in farming, fishing, and logging (although by no means identical even in these industries); but Nova Scotia has its iron and steel and coal industries with their peculiar problems, while New Brunswick has its base-metals industry. The economy of Prince Edward Island is dominated by agriculture. Newfoundland has practically no agriculture and is rather isolated from the three Maritime Provinces, even to the extent that it can be supplied with some goods more cheaply from Central Canada than from the Maritime Provinces. Newfoundland is unique in that it has a hinterland, Labrador, with a considerable hydro-electric power potential and with iron and other mineral deposits. Transportation within the region is hampered by the fact that two of the provinces are islands and by the tortuous configuration of the coastline of Nova Scotia and New Brunswick.

The total population of the region is 1,859,000, about 10.6 per cent of the population of Canada. This is not a very large population to begin with, and it is widely scattered over the region. The lack of a large metropolitan area to serve as a marketing base is a severe handicap in developing secondary manufacturing industry. When, from the viewpoint of Nova Scotia, one considers the "regional market", it must be remembered that Newfoundland and the eastern and northern parts of New Brunswick, which are near Quebec, cannot always be considered parts of this market.

One of the most striking comparisons that can be made of the economy of this region with that of Canada or of other regions is of personal income per capita. In 1958, the personal income per capita of all of Canada was \$1,431, of Ontario \$1,696, of Nova Scotia \$1,072, of New Brunswick \$919, of Prince Edward Island \$860, of Newfoundland \$808, and of the Atlantic Provinces as a whole \$950. In percentages, personal income per capita in the Atlantic Provinces was 34 per cent less than that of Canada and 44 per cent less than that of Ontario.²

These comparisons, though useful, are subject to misinterpretation in that there is the implication in making them that the per capita income of one province should necessarily be as high as that of another. This, of course, is ridiculous as long as it is accepted that payment for labour and capital should be commensurate with their contributions to production. It would make just as little sense as to say that the average income of the people in the fishing village of Indian Harbour should be as

high as the average income of those in Halifax; or that a grocery clerk should get as much as a doctor, or an unskilled worker as much as a master carpenter. It makes more sense to say that a doctor, or a grocery clerk, or an unskilled worker, or a master carpenter should get as much in Halifax as in London, Ontario, but even this is not necessarily true if people consider themselves as well off in Halifax with a lower money income than they could get in London.

If the economy of a province is such that its industry is heavily weighted by low-income occupations compared with another province, of course its average income will be lower, even though the labour and capital employed in the low-income province are earning as much as they would if employed in the other, high-income province. Put in another way, the average level of income in a province will depend upon how well it is endowed with economically exploitable natural resources, upon the size, skills, and age distribution of its population, and on its location in relation to markets. Since regions are never identical in these respects, per capita incomes are never identical. Such differences account to a considerable extent for lower average incomes in the Atlantic region.

It is still of interest to observe provincial differences in per capita personal income and to ask why they are as great as they are and if they need to be as great as they are. The Gordon Commission, in examining these questions, noted that although the per capita incomes of the Maritime Provinces are much lower than in the rest of the country, "in 1955, average family incomes of people living in metropolitan centres in the three Maritime provinces were only about 15 per cent below those of average family incomes of city dwellers in the rest of Canada. (The corresponding figure for Newfoundland was 25 per cent.)"³ The four metropolitan areas in the Atlantic Provinces — Halifax, Sydney, Saint John, and St. John's— together accounted for only about 16 per cent of the population of the region in the 1951 census; but still, the comparison does suggest that it is unproductive use of resources in rural areas that mainly accounts for the large discrepancies in average incomes. The Gordon Commission draws this conclusion: "People with low incomes who are engaged in subsistence farming combined with part-time fishing and logging exist in every province but they are found more commonly in the Atlantic region. This is one of the main reasons for the continued lag in average incomes per capita in that area as compared with other parts of Canada."

Reference has already been made to the desirability of reorganization of the primary industries (fishing, forestry, and agriculture) and of an accompanying movement of the unemployed or underemployed rural labour force to other occupa-

tions within the region or elsewhere. If they are to move to other occupations within the region, the question arises: "What other occupations?" As improvements are gradually made in the primary industries, increased incomes of those in the primary and primary processing industries will widen the base for the rest of the regional economy, so that a part of the population that moves out of the primary industries could find employment in secondary manufacturing dependent upon the regional market, in distributing the larger volume of primary products, in retailing, in construction, and in the other service industries. The regional market, however, is too small to support some types of secondary manufacturing. To the extent that secondary manufacturing industry geared to supply markets in Central and Western Canada and in other countries develops, it too will provide an alternative source of employment. It would appear offhand that the types of secondary manufacturing this region might expect to develop, apart from industries based on the regional market, are those of a specialized sort for which raw materials are obtainable cheaply and whose products are high in value in proportion to bulk—so that transportation costs would not be too great a hindrance to competing in the Central Canadian market and perhaps even in foreign markets. An intensive program of technical training to provide a highly skilled labour force might also be appropriate.

Firms of the type just described should certainly be encouraged, as they are being, to locate in this region if they have profitable prospects. Possibly at some time in the future a sufficient number of such firms will locate here to generate external economies of production which will make the region more attractive to this kind of industry. Unfortunately, conditions are not at present propitious for extensive developments even of the most appropriate type of secondary industry just described.⁵ Such industry based upon foreign markets faces tariffs as well as keen competition from many countries that have the advantage of large, compact domestic markets—large enough in themselves to enable local producers to enjoy the economies of large-scale production. Such industry based upon Central and Western Canadian markets has not only the handicap of higher transportation charges intensified by the introduction of a series of horizontal freight rate increases in the post-war period, but also, and this is perhaps even more important, it faces the competition from producers in Central Canada who have the advantages of a large local market and of being near to their customers, so that they can give better service, such as quick delivery and quick replacement of goods damaged in transit. They also have the advantage of a good labour supply, and of being in close touch with new technological developments in their lines of production. In other words, the kind of industry in question,

unfortunately for the Atlantic Provinces, is economically best located near its major markets.

No doubt some entrepreneurs of unusual abilities, partly for non-monetary reasons, will operate in this region successful manufacturing establishments geared to national markets, as some of course already do and have done for many years. Even though conditions are not generally favourable to the development of this kind of industry, there will no doubt be some exceptions.

The offering of powerful inducements by the federal government to secondary manufacturing industries to locate in this region could change this picture. Whether or not such inducements are in the national interest, or even in the long-run regional interest, is a question that would have to be debated in terms of the cost of the inducements and the alternatives. While this debate will not be entered into here, it seems clear that, in general, public policy should be directed to facilitating those types of economic development for which underlying economic conditions are favourable, or at least marginally so, and that the forcing of types of economic development for which conditions are not favourable is likely to result in considerable waste of resources over long periods of time.

It is not always easy to predict how effective public policies will be in achieving their aim. It can be said, however, that the development of new industry will be more likely the more favourable the economic environment. It may be that while no one policy will have much effect in inducing new development, a combination of policies will be effective. For example, it is unlikely that lower freight rates on products of the Atlantic region moving to Central Canada, important as they may be, would be sufficient in themselves to induce a great industrial expansion of this region. However, lower freight rates combined with temporary tax incentives, more flexible monetary and fiscal policies, and development of a well-trained and hard-working adaptable labour force might offset to a considerable extent the locational disadvantages of this region, great though they seem to be, and stimulate appreciable industrial expansion. This is not to say, it must be emphasized, that all of these particular policies will inevitably be economically wise or administratively feasible. How, for example, in the case of a temporary tax concession, is the period of the concession to be decided?

There is certainly no point in saying, as is often said in the Atlantic Provinces, that there is no reason why this region should not produce nearly all the manufactured goods presently imported from outside. To say this is to deny the advantages to be gained from specialization of regions as well as persons in those activities in

which they are most efficient. It is to propose a return to the economic dark ages. It would be almost as ridiculous as to say that Central Canada should produce its own fish rather than import it from the Atlantic Provinces. No more time should be wasted in this sterile kind of talk, for it is long on emotion and short on reason. Attention should rather be focused on exploring those lines of development to which the region's resources are best suited.

Although personal income per capita, and also gross production per capita, are considerably lower in the Atlantic Provinces compared with the country as a whole, they do not differ more in relation to the rest of the country than they did thirty years ago.⁶ This amount of growth is quite remarkable in view of the spectacular industrial developments that have taken place in the post-war period in the rest of the country. It indicates that this region has shared in the general economic expansion of the country to a greater extent than is often realized. Such a high rate of improvement is probably largely the result of movements of population away from subsistence operations in the primary industries, and these, no doubt, have been facilitated by the economic growth of other parts of the country. If so, this is an indication that some benefits accrue to this region, apart from federal transfer payments, as a result of its being a part of a larger, generally prosperous country — that the Atlantic provinces are better off than if they were a separate nation unto themselves.

The purpose of this discussion has not been to encourage a laissez-faire attitude towards economic development. The aim has been rather to emphasize that development should be considered in terms of making the best possible use of the resources available and to urge that public policy should be directed towards this end and not to enticing industries to locate in areas to which they are not suited. Where a region is well endowed with natural resources and where there is a strong demand at profitable prices for the goods which can be produced from these resources, the direction of development is obvious. Where such conditions are generally lacking, as they are in the Atlantic Provinces, the direction of development is not nearly so obvious. Greater ingenuity is required to use most effectively what resources there are. At the same time, failure to make the most effective use of resources in a low-income region is more serious than it would be in a high-income region. It is to be hoped that the resurgence of optimism and confidence in the economic future of this area, about which one now hears a good deal, is accompanied by clear understanding of these circumstances and by determination to exercise the necessary ingenuity. A

buoyant psychological state can be a very important factor in economic development, but it can only be sustained if it is in tune with economic reality.

NOTES

1. J. M. Buchanan, "Federalism and Fiscal Equity", *American Economic Review*, XL (September, 1950), p. 598.
2. Dominion Bureau of Statistics, *National Accounts Income and Expenditure, 1958* (Ottawa, Queen's Printer, 1959), computed from table 29 and table I of the Appendix.
3. Government of Canada, *Report of the Royal Commission on Canada's Economic Prospects* (Ottawa: Queen's Printer, 1958), p. 403.
4. *Ibid.*, pp. 403-404.
5. An editorial in the *Daily Gleaner* of Fredericton, on November 3, 1959, charged that this statement (made by the writer in the same context on another occasion) reflected a defeatist attitude towards economic development of the Atlantic Region. This charge is an emotional reaction to an unpalatable truth. The validity of the statement is easily demonstrated. If it were not true, there would be no point in talking about special inducements to attract secondary manufacturing industry—it would be coming in of its own accord.
6. See, for example, Arthur C. Parks, *The Economy of the Atlantic Provinces, 1940-1957* (Halifax: Atlantic Provinces Economic Council, 1959), p. 91.