

## PROBLEMS OF UNDERDEVELOPMENT IN ATLANTIC CANADA

WITH SPECIAL REFERENCE TO NOVA SCOTIA

by

A.M. SINCLAIR

Department of Economics, Dalhousie University

Halifax, N.S.

In this brief statement, I wish to undertake three tasks: (1) to look briefly at the various types of models which economists have used to characterize and describe the Atlantic Provinces in the past, (2) to focus on some of the crucial differences in the assumptions underlying these various models with respect to the cause of and remedies for underdevelopment, and (3) to look at some recent economic trends in the area, with particular focus on migration.

A. Models used in relation to the economies of the Atlantic Provinces. In this discussion the term "model" is not used in any rigorous and formalistic sense but simply to indicate that the general nature of various approaches can differ. Nor is an exhaustive or definitive listing of all models or of all contributions to each model attempted, far from it. Rather, the purpose is to illustrate the number of approaches that have in fact been applied to the question of explaining the economic development pattern of the Atlantic Provinces. None of these approaches is, in its conception, original to this area, and indeed they can all be identified by more or less familiar names or schools of thought, i.e.

1. the staple approach attributed to Harold Innis,
2. the neo-classical economic approach,
3. the Myrdal "vicious cumulative causation" approach,
4. the Schumpeter-Hagan entrepreneurial input approach, and
5. the Frank satellite colonial-status approach.

Let me attempt a short precis of each of these.

1. The staple approach says that the economic growth of a region is dependent upon its exports, and that the nature of the economic growth that ensues is related to the particular production and marketing characteristics of a given staple. The theory as applied today would be unrecognizable to Harold Innis, since it is much more deterministic and much less subtle in the hands of modern exponents than in Innis' own, whether these modern exponents believe in it, which usually means promoting the production of primary products, or whether they see an emphasis on primary product exports as a colonialist trap to be avoided at all costs. The staple approach has been used by economic historians in Canada to explain Canadian and regional growth patterns, with

some success.<sup>1</sup> But Kenneth Buckley<sup>2</sup> has argued that the staple thesis ceased to be an adequate theory to explain Canadian growth as early as 1820, and one should have some doubts about its present day relevance to explain general regional growth patterns when the role of primary producers in the economy is as low as it is today. However, I am certain that the thesis has a powerful hold both on practical men and on academics: why else would over a third of all economic research projects on the Atlantic Provinces in process in the mid 1960's, projects financed in large part by governments and undertaken by academics, be concerned with primary industries, which employ 6% of the labour force in Nova Scotia, and less than one-twentieth concerned with the entire service or tertiary sector, which employs over 65% of the labour force.<sup>3</sup>

2. The strict neo-classical economic approach to development in the Atlantic Provinces places emphasis on the comparative advantage of the region in providing goods and services over a broad range, and tends to find the region lacking in the size of markets, the access to markets and the resource base, and consequently in the productivity of labour. The result is little economic opportunity, low income, high levels of unemployment, and in general excess labour in relation to demand, given that money wage rates tend to be linked to Canadian levels.

3. Myrdal's theory of cumulative causation is opposed to the idea that the equilibrium mechanism implicit in the neo-classical approach will work: i.e. that if enough people leave, the productivity of those remaining will increase. Myrdal argues that outmigration of factors of production, especially labour, causes things to get worse rather than better: markets shrink in size, the fixed costs of government services have to be paid by a smaller labour force and the skilled persons leave, leaving the less productive behind.<sup>4</sup> Myrdal's theory has been espoused by L.J. Walinsky with reference to the Atlantic Provinces, and has also been strongly advocated by the Atlantic Provinces Economic Council on occasion, especially in the mid and late 1960's when outmigration levels were high.<sup>5, 6, 7</sup>

4. What I have labelled the Schumpeter-Hagan entrepreneurial input approach is simply the idea that since innovation is a key to economic growth, successful innovators must be developed or brought in if growth is to occur. Professor Larry Levine of the University of New Brunswick<sup>8</sup> was an early and forceful exponent of the view that absence of entrepreneurial talent is the key to the underdeveloped status of the Atlantic Provinces, and the idea has recently been revived by a colleague at Dalhousie, Professor Bradfield.<sup>9</sup> The entrepreneurial explanation for underdevelopment is not simply a subset of the neo-classical view, which traces the absence of comparative advantage to the absence of markets and resources, since what has to be explained is why entrepreneurial ability, if indeed it is absent, does not

migrate into the region. Neo-classical theory gives no explanation of this, other than that profit potentials are not attractive enough, but the Levine thesis is that the environment, for cultural and other reasons, is opposed to innovation and change, and hence discourages the emergence of sufficient entrepreneurial talent.

5. The Frank approach to underdevelopment as I am interpreting it here stresses the metropolitan-satellite links and argues that the satellite inevitably is forced into an inferior colonial-type economic position vis-a-vis the metropolitan area.<sup>10</sup> The economic hierarchy of areas is such that any given area can be both metropolitan and satellite at the same time - i.e. Toronto in its role vis-a-vis the rest of Canada on the one hand and the United States on the other. In this manner the Frank thesis merges into the dualism theories of economic development as applied most forcibly in the Atlantic Provinces to Newfoundland, and thus we have a situation where the Atlantic Provinces as a whole are viewed as a satellite to Central Canadian interests, and where within each of the Atlantic Provinces the rural areas or outposts are subservient to the urban areas within the province.<sup>11 12</sup>

B. The causes of and remedies for underdevelopment: the models compared. In the foregoing I have attempted a thumbnail sketch of five contrasting models of development or underdevelopment, undoubtedly with considerable distortion of the more subtle aspects of the models. I want now to turn to consider the underlying assumptions and implications of the various models. While it is true that a particular government policy such as credit facilities for small fish processing plants might in a sense be compatible with all five models (it would encourage staple production, it need not violate any neo-classical efficiency criteria, it would prevent labour outflow, it might encourage local entrepreneurial talent, and it would assist the hinterland regions to be self-sufficient), it is nevertheless true that the models have very different interpretations of the causes of and cures for underdevelopment.

Let me begin with a broad interpretation of the view on underdevelopment that have formed the "conventional wisdom" on the question in the Atlantic Provinces in different time periods. From 1867 to the Second World War, the view seems to have been that "we were strong but they made us weak," by trapping us into Confederation and ruining our primary exports with high tariffs and high freight rates. From the end of the Second World War, the cry seems to have changed to one that says "we are weak and they should make us strong," especially by supporting, encouraging and, yes, subsidizing, manufacturing industry. More recently, one can faintly detect a trio of different voices, one saying "we are weak and they are making us weaker" (the metropolitan-satellite view), another saying "we are weak and

they should make us strong, but preferably not in ways that change our style of living," and even one saying "we are strong but unfortunately no one seems to know it" (Professor Roy George's view that industrialists are unaware of the real competitive advantages available in the region, or at least in Nova Scotia.<sup>13</sup>)

The staple model, broadly conceived, regards shifts in demand and supply factors for primary products as key factors in determining the timing and pattern of economic development. In the Atlantic Provinces, and particularly the Maritime Provinces, Confederation has often been charged with causing unfavourable shifts on the supply side for primary exports from the Atlantic Provinces by raising production costs through a tariff designed to protect Central Canadian manufacturers, and through high freight rates. These themes permeate all discussion of underdevelopment in the region to this day, even if the emphasis varies from period to period. Despite the discussion, there are still large gaps in our knowledge concerning the impact of the Confederation union on this area (recent theoretical work on custom unions, engendered largely by the formation of the European Common Market, could usefully be applied to the Canadian federation), and in our knowledge concerning the regional impact of tariffs, and of our various transportation policies. The hunches of many people, however, are that these factors in themselves do not suffice to explain the level and timing of development in the area.

The neo-classical model tends to emphasize the resource base and location factors, along with shifts in demand patterns and technology, in explaining the relative underdevelopment of the area, and tends to regard natural economic forces, including outmigration, as being sufficient to bring about an equilibrium between and among regions. (One concession usually offered by strict neo-classicals is that public funds can be spent on education in slow growth regions in order to enlarge the opportunities available to younger persons, and, in effect, to make them more mobile.)

In contrast to the neo-classical position, the Myrdal approach regards outmigration as a cause of underdevelopment, not a cure for underdevelopment. The possible remedies to prevent the initiation or continuation of a cumulative downward spiral are numerous, ranging I suppose all the way from a "Berlin wall" approach to learning patriotic songs, but the remedy most often favoured in the Atlantic Provinces is to subsidize manufacturing industry. (A neo-classical approach does indeed allow subsidies where external benefits are sufficiently large - the infant industry case - but little if any of the actual discussion and analysis of manufacturing subsidies in the Atlantic Provinces even pretends to meet the stringent neo-classical test). The dollar impact of this urge to promote manufacturing in-

dustry has of course been very large, what with I.E.L., DREE, the old A.D.B., the IDB, and so on. In Nova Scotia the net impact on jobs in manufacturing has been slight, an increase from 37,000 in 1951 to 41,000 in 1971, and as a per cent of all industry employment, employment in manufacturing has fallen from 17% in 1951 to 14% in 1971.<sup>14</sup> (To see the effect of these numbers on outmigration it is perhaps sufficient to note that in the peak year of outmigration in the 1960's a total of 11,000 persons left Nova Scotia on a net basis.)<sup>15</sup> A rationale for assistance to manufacturing favoured in Nova Scotia is to encourage growth centres which will capture certain economies of agglomeration through so called linkage effects, an approach favoured for example by Voluntary Economic Planning in the mid-1960's;<sup>16</sup> unfortunately experience has shown that the linkages are more likely to occur over economic space than over geographic space.<sup>17</sup> A concentrated effort to develop linkages, such as in the Multiplex operation in New Brunswick, may be necessary to exploit the linkage idea at all successfully. Alternatively, a new rationale for growth centres may be needed, and one suggested by Nils Hansen has a certain attractiveness:

*If it can be shown that large numbers of potentially mobile persons in lagging areas would prefer to move to intermediate-size growth centres rather than stay at home or move to large metropolitan areas, the case for settlement pattern strategies oriented toward the development of intermediate-size cities would be reinforced.*<sup>18</sup>

The development approach which focuses on entrepreneurial talent has an obvious explanation for the absence of development, but it has no clear basis for explaining the absence of entrepreneurial talent itself. Hagan and others have concluded that the origins of entrepreneurial ability are culturally determined, and Levine in his analysis of the Atlantic Provinces has emphasized a "socio-economic climate unreceptive to innovation," as well as other factors, (see <sup>19</sup>), including the outmigration of talent. Simon Kuznets has in this latter connection emphasized the reverse flow, by suggesting that in-migrants to an area have an element of "detachment" from the environment which makes them, other things being equal, more likely to introduce growth-inducing but establishment-upsetting change than non-migrants.<sup>20</sup>

Finally, the approach which emphasizes the satellite relationship of underdeveloped areas tends to view underdevelopment as in some sense deliberately caused in the interests of the metropolitan area, with the remedy therefore lying in the establishment of an independent development policy within the satellite itself. Suspicion of the aims and objectives of the multinational or outside firm, suspicion that monopolistic and monopsonistic powers are being deployed against the satellite, and a tendency to favour government action are some of the hallmarks of this approach in practice.

In splitting up the discussion in this way I have exaggerated the differences and omitted the overlapping that occurs among the five development models under consideration, and this should be borne in mind. However, I think the classification, rough as it is, points up at least two fundamental questions, the answers to which in some sense will determine one's approach to the question of regional underdevelopment: (1) What are the constraints, if any, that should be placed on the operation of free market principles in the interests of regional development? (2) Is outmigration from a region per se a matter of legitimate public concern to the extent that efforts should be made to lessen or stop (or increase) the flow?

I cannot begin to answer these questions, but let me make a few observations. The question relating to the operation of the principles of free markets has a number of dimensions, to which different people give different answers. The "control" of prices, the degree of non-resident ownership of resources, and the extent of intergovernmental transfers are three aspects of the question. Public interference with free market prices in the interest of regional development is wide ranging: subsidies on freight rates, low-interest loans to industry, government purchasing policies (federal and provincial), agricultural marketing boards, and selling policies of government agencies are all examples of market interference in this regard in operation in Nova Scotia. While I noted earlier that few if any of these programmes would pass the strict neo-classical test of efficiency, it is still probably true that economists as a group are less willing to interfere with market prices than, say, sociologists as a group. This predisposition of economists is a strong one, whatever one's training, but non-economists are often unaware of it, since economists so often in public are arguing for interference in this or that particular area. Public interference with the non-resident ownership of resources raises difficult and fundamental questions with which economists in Canada are beginning to grapple, and to which it would be difficult to ascribe a consensus. Intergovernmental transfers of funds from the federal level to the provincial level, yet another type of interference with free markets, receive general support among economists, on the other hand, at least in principle. In brief, the various dimensions of the question of market interference make it difficult to give a simple answer, and in particular many different approaches to a regional development strategy are possible depending upon the strength of one's view as to the sanctity of free markets.

The question on migration is no more susceptible to an easy answer. There is little doubt that politicians know the answer, at least in their public utterances: outmigration to them is a matter of concern (so, it seems, is immigration, at least on occasion). As I noted earlier, economists have tended to view outmigration alternatively

as a blessing or a curse, depending upon one's model of the way the system operates. Recent research on the question of migration flows has been of interest, not so much in resolving the dispute between the neo-classical position and the Myrdal position (though there are important investigations that favour the neo-classical position,<sup>21</sup>), as in showing the complexity of the question from a public policy viewpoint. Does a poor area gain by investing expensive educational resources in a person who migrates from the area after being trained? Is an individual who leaves an area in search of work elsewhere, and who fails to adapt successfully, necessarily worse off on his return home? What effect does the well established fact that gross migration flows are many times larger than net migration estimates have on one's interpretation of an estimated net outflow figure? Can cities like Toronto become too large, in some sense? Does Halifax gain migrants from other parts of Nova Scotia, or do rural Nova Scotians go to Toronto and well educated Ontario residents move to Halifax? Does it matter? (The quote from Nils Hansen suggests that it might.) And so on. The really difficult question seems to me to be this: in what sense and to what degree does a society have an obligation to an individual to allow or enable that individual to live where he (or she) wishes? To the extent that an individual obtains so-called "psychic income" from living in an area, his measured income may well be less than a counterpart living elsewhere without his being in any sense worse off, but this simply means that money income may fail to measure economic welfare. But should an individual receive money income from society in order to allow him to enjoy this psychic income, if he cannot make a go of it by himself without this subsidy? My own view is that this question cannot be separated from the general question of the relation of an individual to a society, and that if we had in Canada, for example, a guaranteed annual income at an "acceptable" level, then no additional assistance on "location grounds" would be necessary. (This does not preclude some regional cost of living adjustments if such could ever be agreed to.) In the absence of a guaranteed annual income, I would be reluctant to deny society's obligation to allow an individual, even at some cost to society, to choose his place of residence. Technically, if the psychic income gain exceeds the cost of the subsidy, the society, other things being equal, will be better off, but the problems of implementation are obviously difficult. A general point is that the whole area of tastes or preferences warrants considerable attention in the regional development field: the models considered earlier tend to emphasize supply factors (natural resources, costs of production, entrepreneurial ability, market size), yet the demand side of the location decision on the individual's part is also relevant. Clearly there are limits - one cannot demand public services in the middle of Baffin Island - but equally clearly a person should be able to choose his place of residence if the costs are not "too high".<sup>22</sup>

C. Some Recent Economic Trends in Nova Scotia. I will not discuss in any detail the economic position of Nova Scotia, but will simply indicate a few features which seem of interest in connection with "underdevelopment."

1. Personal income per capita in Nova Scotia as a per cent of personal income per capita in Canada has held fairly close to 78% over the period from 1961 to 1973, with a slight upward trend apparent in the ~~1950's.~~ Nova Scotia's relative income position is the highest among the Atlantic Provinces, but upward trends can be observed in the rates for the other three provinces over the whole period from 1951.<sup>2 3</sup>

2. Labour force participation rates for males in Nova Scotia have been very close to the national average going back to 1901, but for females the gap has tended to widen, and in 1971 the labour force participation rate for females in Nova Scotia was only 85% of that for females in Canada as a whole. Moreover, labour force participation rates for both males and females show wide variability within Nova Scotia, ranging, for example, from 62% for males in Cumberland to 80% for males in Metropolitan Halifax, and from 26% for females in Cumberland to 44% for females in Metropolitan Halifax.<sup>2 4</sup>

3. Unemployment rates have tended to be higher in Nova Scotia than in Canada over the period from 1966 for which such figures are available, the latest figure for March of 1975 being 8.0% for Nova Scotia and 7.2% for Canada (both seasonally adjusted). As unemployment rates have drifted upwards since 1966 both the absolute and the relative differences between unemployment rates in Nova Scotia and in Canada have tended to narrow.<sup>2 5</sup>

4. Migration patterns have been of particular interest since the long-standing pattern of outmigration has reversed itself in the last few years. This has been true of all three Maritime Provinces, and in Newfoundland there was, until just recently, a reduction in the rate of outflow. A recent paper by Jarmila Horna of the Department of Sociology of Alberta is of interest in presenting some data which are suggestive of factors at work.<sup>2 6</sup> Using family allowance data she presents estimates of net and gross movements of families among the various provinces for the period 1956 to 1974. The method does not capture all migrants, of course, since not all have children eligible for family allowance, and in fact the net estimates are surprisingly small, given other estimates that are available. (The peak figure for a net outflow from Nova Scotia is 1277 families, or about 5000 persons at 4 persons per family, in a period in which other estimates show 9000 persons leaving the province.) The timing and general pattern of flows tends to agree with other estimates, however.<sup>2 7</sup>

The Horna data reveal two features of interest.

(1) Gross flows in both directions (in and out) are usually



at least 3 to 4 and often as much as 9 to 10 times as large as the net flows, indicating a fairly substantial two way interchange of population. Applying these minimum figures to the estimated total outflow in the mid 1960's suggests an outflow of about 30,000 to 40,000 persons may have occurred in 1965 alone, a sizeable number in a population of less than 800,000. The large gross flows in relation to the net flow means that the net flow is sensitive to a small shift in the gross flow.

(2) Typically, about one-half of the migrants to Nova Scotia come from Ontario, one-quarter from the other Atlantic Provinces and one-quarter from Quebec and the Western Provinces, and a similar pattern holds for migrants leaving Nova Scotia. If we concentrate on Ontario as the main origin and destination of Nova Scotia migrant families, a sharp fall in the outflow from Nova Scotia to Ontario in the years 1971-72 and 1972-73 seems the main factor causing a change in the direction of net migration for Nova Scotia, since the inflow to Nova Scotia from Ontario held roughly constant. The underlying factor, it seems to me, is the sharp upward movement in Ontario's unemployment rate, a movement which began in 1970 but reached 5.2% in 1971 and 4.8% in 1972, high rates by Ontario standards.<sup>28</sup> Unemployment rates jumped even more in Nova Scotia, but the actual Ontario rates are more significant than the Nova Scotia - Ontario differential.

D. Conclusion. This paper has been concerned simply in outlining, within the general framework of the problem of development in Atlantic Canada, some of the theoretical and empirical background to the problem. Other papers presented at this symposium, hopefully, will be more specific as to causes and, in particular, "cures".

#### FOOTNOTES

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2. K.A.H. Buckley, "The Role of Staple Industries in Canada's Economic Development," Journal of Economic History, XVIII (1958.)
3. Research figures from L. J. Walinsky, Evaluation of Economic Research Relating to the Atlantic Region, APRB, June, 1967. Labour force figures from 1971 Census of Canada.
4. Gunnar Myrdal, Economic Theory and Under-developed Regions. (London: Gerald Duckworth and Co. Ltd., 1957.)
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10. Andrew Gunder Frank, Capitalism and Underdevelopment in Latin America. (New York: Monthly Review Press, 1967.)
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12. Ottar Brox, Newfoundland Fishermen in the Age of Industry: A sociology of Economic Dualism (second edition), St. John's, Newfoundland: Institute of Social and Economic Research, Memorial University of Newfoundland, 1972.
13. Roy E. George, A Leader and a Laggard. (Toronto: University of Toronto Press, 1970.)
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15. A.M. Sinclair, "The Meaning of and Criteria for Development in the Maritime Provinces," a paper prepared for the Maritime Regional Seminar, Institute of Public Administration. (Charlottetown, P.E.I., June 14, 1973.)
16. Voluntary Economic Planning. First Plan for Economic Development to 1968, Nova Scotia Voluntary Planning Board, February, 1966.
17. N.M. Hansen, "Growth Centre Theory, Policy and Practice: The State of the Art," mimeograph, no date. (A paper presented at Government Studies Programme seminar on Growth Centres, Halifax, April, 1975.)

18. N.M. Hansen, op. cit.
19. See L.J. Walinsky, Evaluation of Economic Research Relating to the Atlantic Region.
20. E.S. Lee, et al. Population Redistribution and Economic Growth, United States, 1870-1950, Volume III Demographic Analyses and Interrelations, Memoir, American Philosophical Society. (1964.)
21. E.S. Lee, op. cit.
22. A hypothetical illustration may help. Assume a man in Shelburne can earn \$50 per week in fishing, but his "psychic" income is such that he is as well off as he would be in Halifax earning \$100 per week. Assume his psychic income is non-transferable - i.e. it comes from being close to friends and relatives, not because he has free access to a beach. Now assume that this man requires \$75 per week to live, and that he can earn \$75 in Halifax. However, moving to Halifax costs society as a whole (and this individual) \$50 in psychic income and gains only \$25 in additional output, so there is a net gain of \$25 if the individual gets a grant to live in Shelburne (ignoring distributional considerations, and any disincentive effects of raising taxes to pay the \$25, total income including psychic income is higher with the grant of \$25). The example points up the problems, however: some individuals are taxed for the benefit of others, and the grant makes the individual better off than his counterpart in Halifax not in receipt of the grant. Thus the suggestion in the text that an all round guaranteed annual income would seem to be more equitable: give an individual a basic income and let him act to maximize psychic plus earned income as he chooses.
23. Minister of Finance. Economic Review, April 1974. (Information Canada, Ottawa, 1974.)
24. Royal Commission on Education, Public Service and Provincial-Municipal Relations, op. cit.
25. Minister of Finance, op. cit.
26. J. Horna, "Patterns of Family Migration Between the Provinces in Canada, 1956-1974," Discussion Paper Number 12, Population Research Laboratory, Department of Sociology, University of Alberta, no date.
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28. Minister of Finance, op. cit.