

ECONOMIC DEVELOPMENT IN THE ATLANTIC PROVINCES

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It is a pleasure for me to have this opportunity to speak to a group of New Englanders. Our two areas have a long tradition of neighbourly relations and mutual interest. I grew up in Moncton, a small city about 150 miles north of here in New Brunswick whose main industry is the Canadian National Railways. In the summer when the CNR shops closed for the annual vacation, I suppose half the workers used to leave for Boston and elsewhere in New England, to visit sons and daughters and other relatives who had migrated there. This pattern is still evident, and serves to illustrate the ties of kinship which bind New England and the the Atlantic Provinces. On such a base it should be possible to build even closer economic and trade relationships than we now enjoy.

The general topic we have been asked to discuss this morning is "Economic Development in the Atlantic Provinces". I have decided upon a sketchy outline of the region's economic history as a beginning. Next I shall comment on the relative lack of manufacturing development and consider the possibilities for manufacturing expansion. Finally, I propose to consider the role which urbanization should play in the region's future development. Within this context, I shall submit two or three suggestions which bear upon matters of public policy.

I

The cod fisheries were the resource base for the initial European settlement and economic development of this part of North America, in the sixteenth and seventeenth centuries.

Timber was next, and from the last quarter of the eighteenth century until roughly one hundred years ago, the Maritimes enjoyed their economic hey-day, the so-called "Golden Age". This was the era of wood, wind and water which still evokes misty-eyed memories of a prosperous long ago on the part of many Maritimers. Under the mantle of a protective British mercantile policy, Maritime Provinces cod were sold in the British West Indies, and Maritimes timber found ready markets in Britain. The goods involved in this "triangular trade" were carried in wooden bottoms and with accessible timber resources, it was not long before an extensive shipbuilding industry developed. The Maritimes soon also assumed a major role in the carrying trade, and by the middle of the nineteenth century had become a major commercial

maritime power, standing fourth in the world in registered tonnage. A feature of the regional economy during the "Golden Age" was its integration in a pattern of international trade conducted under British sponsorship and with British protection, which assured the opportunity for exploitation of the region's available resources. It is noteworthy that foodstuffs were largely imported at this time to meet the needs of a population whose working members were mainly engaged in non-agricultural lines.

The institutional arrangements behind this Maritime prosperity began to be undermined in 1830, when American ships were admitted to trade with the British West Indies. In 1850 Britain adopted complete free trade and Maritimes timber lost its former tariff preference--a fundamental alteration of the trading system into which the Maritimes had been so well integrated.

Technical change was a more telling factor, however, in removing the basis of the region's prosperity. The wood, wind and water basis of ocean transportation was to be replaced by steel and steam as a result of the Industrial Revolution. There were then much fewer natural advantages for the Maritimes, and the region was no longer able to maintain its importance in shipbuilding and the carrying trade. Ironically, in 1867 the Cunard Lines removed Halifax, its original home base, from its listed ports of call because cargo volumes were not sufficient to justify bringing the larger, more expensive steel vessels there to load.

The same year Nova Scotia and New Brunswick joined Ontario and Quebec in the new Confederation of Canada. Prince Edward Island became a province of Canada in 1873. Newfoundland, the newest province, was not to join Confederation until 1949. Within Confederation, the three Maritime Provinces suffered further economic setbacks. The then accessible forest resources became depleted. Meat canning and refrigeration developments cut into the traditional markets for fish and, more particularly, the West Indies market for dried fish became depressed as other sources of sugar began to be exploited in competition with the West Indies. Coal, which had been shipped to the United States during the Civil War, was no longer in great demand when the War ended and new, more economic coal mines could be opened in the U.S.

The great hope which the pro-Confederation spokesmen had held out--access for Maritimes manufacturers to the markets of Ontario and Quebec--failed to materialize because distance prevented Maritimes producers from serving these large central markets as effectively as their competitors in Ontario. In 1878 Canada adopted the National Policy, consisting of three means of providing the new nation with an economic identity. First, a transcontinental railway would be built to connect the west to the east. Secondly, the west would be settled by immigration,

not only to strengthen the Dominion's claim to the west, but also to provide freight for the railways. Finally, protective tariffs would be imposed on manufactured goods to encourage the development of secondary manufacturing and strengthen the east-west flow of trade, and in the process utilize the excess capacity of the railroads.

The major employment and income effects of the National Policy were conferred on the central provinces. Although the Maritimes participated in the railway boom and enjoyed the attendant benefits of the development of Nova Scotia's coal, and iron and steel industries, these effects were much less pronounced and much less cumulating than those in central Canada. In part, this was because the process of nation-building gave the Maritimes an even more remote and peripheral status within Canada: in manufacturing, for example, location in Ontario became logical not only because the largest concentrations of population were there, but also because Ontario was, for many lines, the most economic location from which to supply a relatively small and geographically scattered national market. It was not long therefore, before Maritimers found their new status as Canadians somewhat unwelcome and many longed for the return of the prosperous, sea-oriented economy they had enjoyed during the "Golden Age". It is a discouraging fact that a few still do.

In the 1920's a comprehensive national attempt to examine the economic position of the Maritime Provinces within Confederation was undertaken, The Royal Commission on Maritime Claims. Representations had been made by various legislatures, Boards of Trade and other public bodies that "the interests of the Maritime Provinces have suffered as a result of certain legislative and administrative measures adopted from time to time by the successive Parliaments and Governments of Canada", and this Royal Commission was asked to look into these claims and submit recommendations which would result in affording relief from the conditions which prompted the complaints. The Commission considered a whole range of subjects including transportation and railway freight rates, port development and export trade, trade policy, the coal and steel industries, agriculture and migration, the fisheries, a geological survey, tourist traffic, and statistics. On the overriding issue, the economic position of the Maritimes within the young nation, the Report concluded that Confederation was not of itself responsible for the slower economic development of the Maritimes. Changes in the area's economic structure were unrelated to the fact of Confederation and would have taken place even if the Maritimes had remained independent units, being the result of such other factors as the abrogation of the Reciprocity Treaty with the U.S., the conclusion of the Civil War, and other changes over sixty years in commerce, industry and economics.

The Commission reported that the potential of the Maritimes was greater then, in 1926, than it had been in 1867. Economic

development in both Canada and the Maritimes has proceeded since, and the interval has been marked by substantial economic growth; nevertheless, the relative difference in economic well-being has remained surprisingly stable as between the nation and the region. In 1926 per capita income in the Maritimes was 65 per cent of per capita income in Canada as a whole, and it has remained at or near this level ever since.

There have been other royal commissions since 1926 which have examined Maritimes economic problems. Most have been concerned with particular industries of particular subjects including, for example, coal, financial and tax-sharing arrangements between the federal and provincial governments, transportation and freight rates. A few concerned themselves with the broad aspects of economic policy related to the Maritimes, the most recent being the Royal Commission on Canada's Economic Prospects, in 1957.

Perhaps I have said enough about past inquiries to indicate that the economic problems of the Atlantic Provinces have perplexed policy makers for a long time. Rather than attempt to bring you up to date on such researches, and the institutional arrangements for development they have engendered since 1957, I should like to turn now to a more fundamental matter and consider the nature of the regional economy and several particular aspects of its lagging relationship with the national economy.

II

The dynamism in the Atlantic Provinces economy tends to be concentrated in primary, resource-based activities. On such activities--forestry, mining, the fisheries, and agriculture to a lesser extent--the Atlantic Provinces mainly depend. As you are aware, Canada has a natural resource-based economy: the Atlantic Provinces, with primary sectors accounting for 30 per cent of all goods output, are even more so. This is not to say, however, that the Atlantic Provinces are better endowed with natural resources or that resource industries are more efficient here than in Canada generally.

The distinguishing characteristic of the Atlantic Provinces economy consists in the under-development of manufacturing. Per capita output of manufacturing was \$218 in 1960 in the Atlantic region, compared with \$589 per capita for Canada as a whole. In 1961 the Atlantic Provinces had 61,000 persons employed in manufacturing, or only five per cent of all manufacturing jobs in Canada, a figure which may be compared with the region's ten per cent share of the Canadian population. Of these 61,000 manufacturing jobs, 40 per cent were in fish products, pulp and paper, sawmills and sash, door and planing mills--industries based directly upon forest and fisheries resources.

"Secondary" manufacturing provides employment for between 30,000 and 35,000 persons in the Atlantic Region. This number

may be roughly divided into three groups:

1. The food-processing group, including a large number of small bakeries and soft drink bottlers, which cater mainly to a residentiary demand and which cannot be expected to grow in future more rapidly than the region's population. There are also a number of fruit and vegetable processing firms included here, which supply "other Canadian" and export markets to a modest extent, but whose capacity for employment growth is limited by the supply of their raw materials, which in turn is somewhat limited by the nature and quality of the region's agricultural resources.
2. The DOSCO group of primary iron and steel, railroad rolling stock, and associated heavy engineering enterprises, in which employment has not increased for some time.
3. A miscellaneous group comprised of textiles, oil-refining, confectionery, printing, and a number of other industries, each relatively small.

The lack of manufacturing development reflects, essentially, the disadvantages the Atlantic Provinces face in producing goods for the Canadian market. Canada's population is less than 20 million, and is spread across a very extensive geographic area: manufacturers planning to serve the scattered national market naturally locate near its centre, where the greatest population concentrations also happen to be. It is therefore not surprising that most of the successful manufacturing enterprises in the Maritimes either cater to a regional demand with products, like bread and soda pop, for which distance from central Canada affords a degree of "natural" protection, or supply a specialty (often resource-based) product, such as sardines or brushes, for international demand.

In the past the structure of United States tariffs has operated as a hindrance to the development of specialized secondary products of the Atlantic Provinces' primary resource industries. For example, newsprint, on which there is no U.S. tariff, has tended to be the most finished paper product the region can produce.

Atlantic Provinces' manufacturing thus faces a real dilemma. On the one hand regional firms cannot hope to compete, on any substantial scale, with Ontario-based manufacturers in serving the national market in Canada. Except in a few cases, no amount of human initiative, effort, entrepreneurship, or what you will, is going to overcome the disadvantages of location at the periphery of the Canadian economy. On the other hand the rich, expanding market in which we do have reasonable prospects of

success because of our proximity, New England and the rest of the northeastern United States, is not open to us because of the American tariff on manufactured goods, which increases progressively with the degree of manufacture. It should be noted, by way of qualification, that attempts to manufacture here for the U.S. market have been noteworthy for their scarcity, and it may be that profitable penetration of the American market only awaits a more serious and persistent effort by Atlantic Provinces manufacturers.

Industrial development has become the clarion cry of every provincial government in this region. The efforts of public development agencies have been rewarded by the location of several new plants in each province. Just last week Ottawa announced a new scheme of federal grants to new manufacturing industries, which will apply to most areas in the Atlantic region, and an expanded program of manpower analysis and training to be undertaken jointly with the provinces. As yet, however, no overall policy has been worked out by the provincial governments, together with the federal government, for the attraction and development of manufacturing industries to and in the Atlantic Provinces. Such a policy would be helpful, it seems to me, for many reasons, among which are the following:

1. The small size of markets in individual provinces severely restricts the range of opportunities open to provincial government agencies in inducing firms to establish plants to serve a residentiary demand;
2. The lack of an overall, co-ordinated policy results in the provinces competing with one another, which tends to prevent them from co-operating effectively in the development of regional facilities to serve the four-province market of almost two million persons, in which the opportunities are likely to be more significant than in individual provinces;
3. A concerted, comprehensive approach on a broad regional basis requires participation and, initially at least, leadership by the federal government, especially if manufacturing for export is to be encouraged, since trade policy and commercial policy are federal government responsibilities.

Perhaps, however, the main reason why an increased degree of inter- and federal-provincial co-operation in industrial development planning is desirable, is that the scope of the challenge, and the extent of the need, together demand a serious, concentrated and vigorous approach which cannot be successfully undertaken by any one of these five governments alone.

The challenge derives from the fact that manufacturing employment has not demonstrated much capacity for long-term growth in the past. The increase of 5,000 in manufacturing jobs which has occurred since 1959 is hardly sufficient basis for becoming complacent.

The extent of the need is bound to increase in the period immediately ahead. The 1950's saw relatively slow labour force growth in the Atlantic Provinces, and this tendency has continued into the early 1960's. Very soon, however, the rate of labour force growth can be expected to accelerate substantially as the products of the postwar "baby boom" complete their schooling and enter the labour market. Because this acceleration in labour force growth will be felt throughout Canada, it is quite conceivable that the region's safety valve of emigration to expanding regions will not be available to the same extent as it has been in the past. In such circumstances it will be more necessary to provide jobs here. The Economic Council of Canada has estimated that 1,500,000 new jobs would be required nationally between 1963 and 1970 to achieve a 3 per cent level of unemployment by the latter year. What percentage of these should be created in the Atlantic Provinces is difficult to say definitely. It seems clear, however, that the annual rate of employment growth of 12,000 experienced since 1958 will have to be improved significantly. Also, the achievement of a 3 per cent unemployment rate in Canada as a whole by 1970 is likely to require substantial reduction of unemployment and underemployment in lagging regions like the Atlantic Provinces, which had an unemployment rate of 7.8 per cent in 1964, the lowest rate since 1956.

III

Total employment in the Atlantic Provinces was 566,000 in 1964, an increase of 88,000 over the eleven year period since 1953. We have seen that manufacturing growth has contributed only a small fraction of this total increase. In the resource industries, which Dr. Morse will discuss in more detail, employment has tended to decline, in some sectors despite rising output, as a result of a continuing displacement of labour with capital. The main generator of employment increases during the past decade or so has been the service industries. Growth of jobs in services has been on a large enough scale to more than offset both the decline of primary industry jobs and the sluggishness of manufacturing employment.

Among the service industries, the largest increases were experienced in defence, health services and education. Defence services, including both members of the armed forces and civilian employees, grew 102 per cent between 1951 and 1961 to 41,000 persons, or two-thirds as many as in all of regional manufacturing. These changes were the result mainly of the expansion of the Royal Canadian Navy, particularly in the Halifax area, and of the establishment of Camp Gagetown, new Army training facilities, in New Brunswick. Nova Scotia especially has become extremely dependent, economically, on defence expenditures; in 1951, almost 12 per cent of her Census labour force was in defence services, the largest percentage of any Canadian province.

In health services the increase was 81 per cent, to 28,000 persons. The biggest single factor here was the implementation

in the late 1950's of the federal-provincial hospital insurance program, which provides in-patient care to virtually all Canadians and which has stimulated very rapid growth of hospital facilities throughout the country.

The progress of the postwar babies through the school system has caused a significant expansion of educational facilities and personnel in both Canada and the United States. In the Atlantic Provinces, the education services labour force grew 38 per cent, to a total of 25,000.

Employment in other branches of the region's service industries also increased rapidly between 1951 and 1961. Yet in all cases except defence services, regional rates of growth were less than the comparable national rates. For the service industries in total, the Atlantic Provinces increase of 38 per cent fell short of the 49 per cent growth experienced in Canada generally.

Stigler¹ has examined historical employment trends in the service industries of the United States. He suggests that five factors have influenced employment changes in most branches of the services sector, in greater or less degree, and concludes that they are, therefore, general factors influencing employment trends in the sector as a whole. The five factors are:

1. Technology, including both mechanization and organization;
2. Specialization;
3. Income;
4. Population characteristics, including the degree of urbanization;
5. The supply of labour.

It is in urbanization, however, that Stigler finds the most generally applicable explanation for the growth of services jobs. Urbanization "...can be an appreciable force even within periods as short as a generation," he suggests.² Clearly, urbanization is in part dependent upon income, increasing often in consequence of rising productivity in agriculture, transportation, and other industries. But without urbanization, much services growth sometimes ascribed to increases in income levels, would not have taken

1. Stigler, George J., Trends in Employment in the Service Industries, National Bureau of Economic Research, Princeton University Press, 1956.

2. Ibid., p. 162.