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NOVA SCOTIA: LAGGARD OR HAVEN

In spite of a rather awesome subject, Roy E. George's *A Leader and a Laggard: Manufacturing Industry in Nova Scotia, Quebec and Ontario** has received a good deal of public attention—a surprising amount in view of the technical nature of its contents. Much of the text is devoted to detailed cost comparisons of manufacturing in Nova Scotia and Quebec and Ontario (which are treated as a unit) in the period 1946 to 1962. The purpose is to determine why there have been different rates of growth in the past and to assess future possibilities. The policy implications for economic development, on which most Nova Scotians have views, are of wide general interest.

A Leader and a Laggard is the second in the series of Atlantic Provinces Studies, sponsored by the Social Science Research Council of Canada and published with financial assistance from the Canada Council. The series is edited by John F. Graham who also was author of the first study, *Fiscal Adjustment and Economic Development,* with its focus on public finance in Nova Scotia. In contrast, Dr. George concentrates on the private sector, making a comprehensive examination of manufacturing based on published statistics. He also draws upon three separate surveys that he himself has conducted, by interview and questionnaire. This direct exposure has given him a basis for speaking with authority, not only on the statistical results but also in making qualitative judgments.

In a broad review of various other sectors of the economy, the author dismisses the resource industries as a source of growth in employment. Perhaps his evaluation should be qualified, especially with regard to the fisheries and forestry which he seems to dismiss somewhat perfunctorily. Nevertheless, it is true that however much the technology is improved, and plants and equipment are modernized, the known resource base is unlikely to support large increases in employment in the primary production phase. The trend should be to higher incomes in the primary sector with some increase of employment in processing.

To some degree, his choice of manufacturing as the "engine of growth" is as a last resort. Some types of manufacturing are generally considered foot-loose and thus susceptible of attraction to an area like Nova Scotia. The real question, however, for the validity of the policy implications, is whether the desired level of development of manufacturing, closing the gap with Ontario-Quebec, is possible at an acceptable cost, in terms of dollars as well as real standard of life.

Before we comment on the findings, it is necessary to say a word about the method of analysis. It is first assumed that the only market for manufactured goods produced in Nova Scotia and in Quebec-Ontario is in the region comprising the last two provinces. While this can be accepted as a basis for the purpose in

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hand (comparison of costs of manufacturing in Nova Scotia with Quebec-Ontario), it cannot be considered as more than the essential aspect of survival. It holds out little hope for dynamic growth without significant changes in the whole context of national and international trade.

The second assumption is that a new manufacturer has the choice of building his plant in an average location in Nova Scotia or on an average site in Quebec-Ontario. To make a comparison of costs in these two locations, the technique used was to assess the relative cost in the two locations of a unit of each factor such as labour, materials, power, capital and transportation, and then by using Nova Scotia factor weights, calculate the overall costs of manufacturing in each location.

Although not the largest element of cost, labour, the human factor, is of fundamental importance in the analysis. "Labour" is considered to include the whole working group, both salaried employees and wage earners, management and blue-collar workers. Both cost and quality are considered.

The analysis shows that average wages and salaries in Nova Scotia were about twenty per cent lower than in Quebec-Ontario throughout the period. Productivity, an important element in the cost of labour, was taken into account with the value-added per employee used as a measure. Value added for Nova Scotia fluctuated between 68 and 74 per cent of the Quebec-Ontario average during the period. When these figures were adjusted by statistical techniques for differences as to size, industry mix and other factors, the percentage at the end of the period was eighty-two. In short the gap in productivity was roughly equal to the difference in average earnings per employee, and the cost of a unit of labour was deemed about equal in the two areas.

The proportions can be accepted here in spite of the limitations of the statistics, which are freely acknowledged. There is a very real question though about the validity of the conclusion drawn about the cause of the productivity gap. The author concludes that the key factor is the poor quality of entrepreneurship in Nova Scotia. Since in many situations the entrepreneurial and management functions are performed by the same persons, both are included in this appraisal. The quality of management is judged on admittedly subjective grounds.

In support of this view, surveys in the United States and Britain are cited as well as comments from those familiar with industry in Nova Scotia. It is certainly true that the view is being frequently expressed. One could go even further and say that it has almost become the "conventional wisdom". This very fact prompts some cricital examination.

An obvious example is in the area of transportation. This makes up more than half of the five per cent higher cost of manufacture in Nova Scotia. This is so in spite of the fact that firms to which distance is vital, in terms of shipping costs as well as related distribution factors, ought to have been largely "selected out" of the Nova Scotia picture. Likewise, firms in which power is a significant element of costs have probably been deterred from locating in Nova Scotia by the cost of electricity, even though other favorable factors such as access to raw materials and deep harbours are present. There is no way to measure these inhibiting effects in this comparison.

After examination of all the measurable factors, it was determined that costs in Nova Scotia were between four and seven percent higher than in Quebec-Ontario. Such a differential represents a real economic handicap, especially when you consider the limitations of the data that have been pointed out. In addition, the difficulties, apart from marketing, that management faces simply because of the small size of the economy and the narrow industrial base are not taken into account.

Regarding the dearth of entrepreneurship in Nova Scotia, is it not more likely that the state of enterprise or managment is in large measure a result as well as a cause in the total economic situation? It is true that some business attitudes as well as those of many other people lie deep in the social fabric of the region. The behavior of both labour and management in some quarters in the past few years surely demonstrates that we are living with a legacy from difficult economic and social conditions going far back into the past. It is also obvious that much has to be done to enable all groups in society to adjust to change.

What are the policy implications? Dr. George concludes that direct measures to correct the shortage of entrepreneurs, that is by clearing away ignorance of opportunities and developing a more enterprising state of mind are slow processes, requiring perhaps a generation. Thus action must be taken so that entrepreneurs within and without the province are shown that Nova Scotia is no less attractive for manufacturing than is Ontario-Quebec. In short, substantial incentives, amounting to a suggested five per cent or so of costs over a sufficiently long period of time are advocated. Such a policy could equally well be aimed at closing an economic gap, and the measures proposed are not unlike the existing combination of federal and provincial policies in scale.

After examination of a variety of possible subsidies—on labour, materials, product transportation, capital loans or grants—the author selects the provision of rent-free factory buildings in industrial parks (industrial estates). He advocates speculative building in advance of demand in order to provide the advantage of facilities being available when a firm is ready to proceed.

The policy would be aimed both at increasing the local pool of entrepreneurs as well as to bring others from outside. To attract outside investment, the incentives must be complemented by a substantial and effective promotion campaign.

Federal grants now available are similar in amount to those suggested by the author, subject to certain maxima, though somewhat different in kind. Added to provincial programs they constitute a substantial package. (The need for coordination and exacting guide lines is pointed out.) It is perhaps too early to say how far they will go toward closing the manufacturing gap; past results have not been that encouraging.

But is it really necessary to set sights so high that the incentives keep increasing in the hope of closing the gap in manufacturing development with Central Canada, or are we missing other important priorities? Is it sensible to assume that every part of the country will industrialize in the same manner and to the same degree? Can we not seek a more moderate advance, attempting to attract the additional manufacturing facilities that are feasible here and that we can digest? Is it progress to destroy the character of attractive small communities? Is it not possible to get at the roots of poverty and backwardness and at the same time preserve the attractive features of Nova Scotia?

Meanwhile, there are positive factors in being or in the offing. There is a strong possibility that the resource base will be widened by the discovery of offshore oil. Developments in transportation, both container and bulk shipping, are restoring Nova Scotia ports to the trade routes of the world. These together with advances in internal transportation—improvements in motor, rail, and air transport—mean easier access to other parts of Canada and the United States. It should be possible to narrow the income gap and increase capacity to deal with pressing social problems.

A Leader and a Laggard is a substantial addition to the series of Atlantic Provinces Studies. The treatment of existing information and published statistics is exhaustive and the presentation meticulous. While his conclusion that there is no real economic handicap will not be universally accepted, turning the spotlight on the role of people is a good thing. No doubt local attitudes are a contributing factor as well as an effect of Nova Scotia's being out of the main stream of development. At the same time, a case has not been made for singling out management as the main cause of retardation.

The author's message to look to the quality of enterprise is a challenge not just to management in manufacturing but throughout all walks of life in Nova Scotia, indeed in the Maritimes. If economic advance can be achieved at an acceptable cost, Nova Scotia may be looked to as a haven rather than a laggard, even though the Province does not stand at the top of the growth league.