

# THE JONES REPORT—AN INTERPRETATION

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REVIEWS of the Report of the Jones Commission have been published in leading Canadian periodicals, and have aroused wide-spread interest. The purpose of this article is not to add another summary to the list already available, but rather to estimate the significance of the Report, a much more difficult task. The Report is outlined only in so far as is necessary to indicate the course of reasoning on which the recommendations made are based.

Any attempt to estimate the value of the work of this Commission must keep in mind the purpose for which it was appointed. Occasionally one finds a tendency to dismiss the findings as unimportant since they contain little that is new, an attitude which reflects an entire misunderstanding of the practical objectives sought.

In his introductory remarks to the Commissioners, the Premier emphasized the all-too-familiar fact that "the economic development of Nova Scotia has failed to keep pace with that of other provinces of Canada", and defined their tasks as follows: "It is for this Commission to enquire into the causes of our economic difficulties, wherever they may be found". It, therefore, appears that the chief objective the Government had in mind was to secure an *interpretation* of the *causes* of our economic difficulties which would be accepted as *authoritative* and would, therefore, serve as a basis for remedial action.

The economic retardation of this Province has been going on continuously for over fifty years, and has been the subject of endless discussion. But few of the participants have possessed the qualifications necessary for an accurate interpretation of historical trends, and much of the controversy has been tainted by the exigencies of party politics. A dispassionate study of all the evidence bearing on the problem was necessary to place our situation, and our reasons for demanding special consideration from the Dominion Government, before the people of Canada in convincing form, and in this way to create that strong support in public opinion which is always such an important factor in securing desired legislation. The Commissioners appointed were eminently qualified for the task in ability, training and experience.

Among the circumstances most frequently cited as causative of conditions are: (1) Failure of the Dominion Government to carry out definite obligations assumed at Confederation; (2) Geographical limitations of Nova Scotia; (3) Dominion national policy adverse to Maritime interests; and (4) Inadequate financial support from the Federal Treasury. The significance of each of these is considered in the Report.

A first requisite for accurate interpretation of social phenomena is an adequate historical perspective. The historical approach to the problem under consideration found in the Main Report starts with the contention that "the advocates of Confederation both entered into definite legal obligations, and gave assurances amounting to moral obligations to be accepted by the Dominion Government". The essence of these obligations was that national policy should be so framed as to promote the economic interests of each section as well as of the whole Dominion, and to stimulate the spirit of national unity. It was recognized that "the good of the whole could only be promoted by attending to the good of each part". Whether the Dominion has or has not fulfilled its moral obligations to this Province is, therefore, subject to a direct test. Have Dominion policies promoted these two objectives, or have they not? That is the question to be answered. The two instruments for the accomplishment of national ideals which have been employed with any degree of consistency in Dominion policy are transportation and the tariff policy pursued since 1879. The historical approach, therefore, led directly to an enquiry concerning the manner in which these instruments of national policy have affected the economic interests of the Province, and have influenced the development of the spirit of national unity.

An analysis of present conditions led to a similar conclusion. What has brought about the centralization of industry and finance which has occurred in Canada during the last fifty years? How can the economic retardation of Nova Scotia and the Maritimes in general be accounted for? What are the fundamental forces operative? Is geography a sufficient explanation? These questions were faced squarely by the Commission. They found that it was during the period under review that those far-reaching changes in the whole economic structure of society, commonly referred to as the industrial revolution, had exerted their full force in Canada. One aspect of these revolutionary changes, wherever they have occurred, has been just such centralization as Canada has experienced. By applying the basic forces which have resulted in centralization elsewhere to Canadian conditions, the conclusion

was reached that the centralization of industry and finance in certain areas of Ontario and Quebec is, in the main, a normal economic development. But that does not imply that geography is the full explanation, or that national policies have not exerted a powerful influence on economic trends. Indeed, when the Commission turned their attention to an analysis of the economic system of Nova Scotia, they were forced to the conclusion that public policy has been a major factor in shaping the course of events. Dominion policies have seriously retarded the economic development of this Province by placing a heavy burden on those export industries which are foundational in the provincial economy. Geography is obviously a handicap to Nova Scotia so far as internal trade is concerned, but it is equally obvious that it is an advantage for foreign trade. The economic system of this Province is built on a foundation of foreign trade, just as it always has been. Dominion policies designed to encourage internal trade and discourage foreign trade are a repressive factor in our economic system. So this method of approach again gave the study of the influence of national policies a central place in the enquiry.

In considering the influence of transportation policies, this Commission endorsed the conclusions reached in 1926 by the Commission on Maritime Claims. The purposes for which the I. C. R. was originally constructed were, in large part, national and non-economic in character. Consequently the Maritime Division of the C. N. R. cannot be regarded as entirely an economic enterprise. A considerable portion of the operating costs must remain permanently as a national charge. This well-established principle in Canadian railway policy was neglected in changes in rate structure made during the war, the intent of which was to increase the burden of transportation costs borne by the people of the Maritimes. The Duncan Commission found these increases unsound and unjust, and recommended a material reduction in rates. Their recommendation was implemented by the Maritime Freight Rates Act of 1927. But the advantages thus secured have been in large part nullified by rate reductions operative in other parts of Canada, but not applicable to the Maritimes, with the result that the rate structure is again discriminating against Maritime enterprises.

The effect of the second instrument of national policy—the protective tariff system—on the economic development of Nova Scotia was placed first in the terms of reference, and claimed a large share of the attention of the Commission throughout the investigation. The Report states emphatically that no consider-

ation was given to the larger question, namely, the effects of protection on the Dominion as a whole. They point out that the system might be sound national policy and, at the same time, be injurious to particular classes or particular sections. In such cases those injuriously affected obviously would have a legitimate claim to special consideration.

A scholarly study of the effects of the tariff system on this Province, which included valuable statistical data laboriously collected, was presented by Professor Rogers on behalf of the Government of Nova Scotia. Much additional evidence was also laid before the Commission by representatives of various interests in the different sections of the Province.

Two different methods of interpreting the evidence and arriving at an estimate of the incidence of protection were followed. The Main Report, signed by Professor Jones and Dr. Johnson, adopted the method of general reasoning, and interpreted the facts in the light of basic economic principles. In the Complementary Report, Professor Innis traced the development of the leading industries historically in such a way as to throw light on the practical effects of the tariff system in each case. As the Commissioners state, "it is not without significance that two methods of examination lead to the same general conclusions and recommendations". It was found that protection has seriously retarded the economic development of this Province in two ways. First, it has materially increased the cost of production in the basic export industries, without any corresponding increase in the prices received for the products of those industries. Secondly, it has added greatly to the cost of living, but has had no corresponding influence on incomes.

Another matter the Commission was requested to investigate was "the adequacy of the present financial arrangements between the Dominion of Canada and the Province of Nova Scotia". While these financial arrangements are not a phase of national policy in the sense of having been established by the Dominion Government for the purpose of promoting economic progress and the spirit of national solidarity, they have, in fact, exerted a powerful retarding influence in both respects so far as the Province of Nova Scotia is concerned, and, therefore, deserve careful consideration in any attempt to estimate the influence of Dominion policy on the welfare of this Province. Nova Scotia never regarded its allotment under the British North America Act as fair or adequate, and dissatisfaction has increased as expenditures have become larger and larger. The Royal Commission on Maritime Claims

recommended a substantial increase pending further study of the whole problem by another Commission to be appointed for that express purpose. The White Commission, whose Report has just been made public, was appointed to complete the work of the Duncan Commission on this important matter.

Meanwhile, the Jones Commission was studying the same problem as part of its assignment. They found that the subsidies granted this Province "have been and continue to be seriously inadequate". The functions of the Provincial Government have expanded in ways that could not have been foreseen at Confederation, and this expansion of services is likely to continue. Indeed, in both the Main and Complementary Reports, measures are suggested which call for material increases in expenditures. On the other hand, revenue possibilities have no such elasticity. So it is that, in spite of the fact that expenditures "have been kept within reasonable and prudent limits", present revenues are entirely inadequate for present needs. Much less will they suffice to finance desirable expansions. For these reasons the Jones Commission concludes that the present subsidy should be materially increased, that the amount should be subject to periodic revisions, and that fiscal needs should always have an important bearing on the amount apportioned to the several Provinces. The differences between these views and those found in the White Report are so fundamental as to make fuller comparison necessary. We shall return to this subject below.

What is the practical value of the Jones Report? It may be said, in passing, that viewed merely as an intensive study of the problems of Confederation in Canada, particularly the problems of the sectional incidence of the protective system, it has been welcomed by economists and political scientists as a most valuable contribution to research in these subjects. This estimate would include with the Report all the material presented as evidence, particularly the comprehensive brief prepared by Professor Rogers, the importance of which was commented on by the Commission in their Report.

The work of this Commission, however, was intended primarily to influence public opinion and public policy in ways that would promote the welfare of Nova Scotia. To what extent and in what manner is that objective likely to result? It is not to be expected that the Report will receive unanimous approval, or that its full significance will be manifest immediately. Many will fear that somehow personal or party interests are involved. Some may regard it as an attack on traditional ideas or cherished beliefs.

The mere fact that material modifications of some aspects of public policy are involved will suffice to scare off certain admirable citizens of conservative temperament who are persistently chasing the illusory phantom of stability in this dynamic world. All such may be prevented from even attempting an intelligent appraisal of the Report. Doubtless some will even go so far as to attempt to becloud the issue in the minds of the public by means of those effective devices so well known to the propagandist. In the long run, however, the influence of the Report will depend on the soundness of its reasoning, and on the clarity and directness of its appeal.

As was indicated above, the Commission found that, in addition to the moulding influence of nature's endowment, three aspects of Dominion policy had exerted a powerful force in shaping the course of events in this Province since Confederation. It was further suggested that two tests could be applied to determine the direction in which these policies had influenced trends. The first was their effect on the spirit of national unity, and the second their influence on economic development. An attempt to apply these two tests to the policies mentioned should prove most instructive.

The tremendous importance of a feeling of national pride in one's country, of a sense of solidarity binding all its citizens together in a great unity, of devotion to the common interests, is recognized by all. Those who guided the new Confederation in its early days were deeply conscious of the fact that the development of a Canadian outlook, and of deep loyalty to the newly created Dominion, was the first great task in nation building, for without that spiritual foundation no real Canada would exist. They were also conscious of the obstacles in the way—the wide expanse of territory, the sparsity of population, the diversity of economic interests, and differences in racial and cultural heritage. So it is that among the arguments in support of a transportation system to develop traffic east and west, and a protective tariff to preserve the home market for the home producer, the psychological argument that these policies would develop the spirit of national unity, and, indeed, were essential for that purpose, was always prominent. It is strange, therefore, that this has not been more frequently used as a test of the effects of these policies on the Maritime Provinces.

When attention is directed to this psychological factor, what a flood of light it throws on the whole problem. We are at once reminded that the fears and animosities of Confederation days and the years immediately following centred around such issues as

the financial support received from the Dominion, the basic significance of foreign trade in the economy of this Province, and the danger of our interests being overlooked by the Dominion Government engaged in the strenuous task of nation building, remote as we were from the centre of control. We recall how persistent have been the demands for larger subsidy appropriations from the Federal Treasury and for greater adaptation of trade policy to the needs of Nova Scotia, how unsympathetic was the attitude with which these demands were generally received, and how bitter the resentment aroused. We are reminded, too, that during the "gloomy eighties" the divisive influence which all this had created was so strong that a powerful movement for the repeal of the union developed, and annexation to the United States was openly flirted with. The persistent refusal to consider our financial and trade demands, and to shape national policies more in accord with the needs of Nova Scotia, was specifically stated as the reason for this occurrence. While repeal ceased to be a political issue in this Province with the Dominion election of 1887, the sentiment it expressed (it probably never was more than a vigorous protest against neglect of our rights) was by no means completely dispersed. There have always been some keen, alert students of affairs, who have been pessimistic regarding the chances of this Province realizing its possibilities under present national policies. The people of Canada were forcefully reminded of that fact only a few years ago, when the demand for "redress or repeal" was once again voiced in the Provincial Legislature, with the economic handicaps of Dominion policies again branded as the chief cause of our difficulties. In view of all this, there can be no doubt but that, so far as Nova Scotia is concerned, these Dominion policies rendered more difficult the development of the national outlook. The undoubted loyalty of the people of this Province has come in spite of the influence of these policies, not because of them. The Commission on Maritime Claims was right when it declared in 1926 that "the result has been to prevent the healing which time and sympathetic understanding might well have achieved, to leave on the minds of Nova Scotia a sense of continuing injustice, and a feeling that, had her numbers and influence been greater, better treatment would have been accorded to her". This test gives an emphatic and unequivocal answer to our query.

In applying the second test, the influence of national policy on the economic interests of Nova Scotia, it will be necessary to consider the effects of each policy separately. We are to enquire whether the feeling which, as we have seen, has been prevalent in

Nova Scotia continuously since Confederation, has or has not a firm foundation in fact. What does the report of the Jones Commission show?

Consider first the transportation policy. While there has been more or less criticism of the heavy expenditures in railway and canal construction in other parts of Canada, and a feeling that these have only a remote connection with our interests, this attitude can be dismissed as of little moment. As was noted above, it is the matter of freight charges on the Maritime Division of the C. N. R. that has aroused so much adverse criticism. Both the Duncan Commission and the Jones Commission support the contention of the Maritimes. The difficulty is to discover the remedy for the situation. The Jones Report suggests some extension of the machinery for rate adjustment, and more emphasis on the spirit rather than on the letter of the 1926 recommendations. Those who know the situation best believe that much can be done through negotiation. The Jones Report calls attention to the peculiar fact that in the rate reductions provided by the Maritime Freight Rates Act of 1927 the interest of the people of the Maritimes, as consumers, was entirely neglected, but they failed to make any recommendations concerning the matter. Are there not valuable possibilities in this direction?

Next we enquire as to the value of the findings of the Jones Report concerning Dominion tariff policy. The first requisite for a sound conclusion was an adequate knowledge of the situation. To this end each industry was requested to present the facts bearing on its particular enterprise, and many of them took advantage of this opportunity. In addition, the research of Professor Rogers made available for the first time a large amount of most valuable evidence. Accordingly, this Commission approached the question with a more complete and accurate factual background than had ever before been at the disposal of any investigator of this particular problem. In the Main Report these facts are interpreted in the light of two basic economic principles, the validity of which is beyond question. These principles show how protection is related to cost of production on the one hand, and to prices on the other hand, and indicate the manner in which the system operates to the serious detriment of those producers the price of whose product is determined by world market influences. In the Complementary Report the effects of the operation of the system are traced historically for each industry.

The peculiar significance of this argument for Nova Scotia lies in the fact that the standard of living of more than three-quarters



of the people of the Province depends directly or indirectly on the success of those foundational export industries whose interests are adversely affected in the manner described, and that there is so little to be credited to protection to counterbalance it. Even in such industries as coal and steel, the advantages claimed for protection are dubious. The protection afforded has been far from ample, and in some respects has been harmful rather than helpful.

The argument which the Report presents is clear, logical and convincing. While it may be anticipated that efforts will emanate from certain quarters to undermine its influence, largely because of mistaken ideas as to what is really involved, few will undertake to meet the argument squarely. The favorable impression it has already made throughout Canada is likely to grow rather than to diminish.

What remedial measures are proposed? Certainly not free trade. Like all other intelligent students of affairs, the Commissioners realize that the only immediate prospect for Canada, as for the world at large, is freer trade, not free trade. Their argument is that since protection has been continuously maintained as Canadian policy for national purposes since 1879, irrespective of the party in power, and since this policy has been seriously detrimental to the economic interests of this part of the Dominion, and has been a constant source of irritation and discontent, therefore common justice and far-sighted statesmanship alike demand that the injury so imposed shall be made up in some way or other.

Three modifications of tariff policy are suggested in the Report as partial solutions of the tariff problem. First, a general revision of the tariff downwards. Secondly, an extension of the principle of drawbacks on items of particular importance to the exporting industries. Thirdly, complete elimination of certain "nuisance items", such as the duty on farm implements, fertilizer, etc. Certainly there is nothing radical in these proposals, and they deserve serious consideration. While the Commission itself did not expect too much from these proposals, yet if they were carried out just as far as is possible without doing injustice to anyone, much could be accomplished. But modifications of the tariff alone will not suffice, for, at best, modifications merely reduce the injustice, they do not remove it. Something more is demanded.

The third aspect of Dominion policy to be evaluated is the financial relations between the Dominion and the Province of Nova Scotia. The recommendations of the Jones Report were stated above. It was also noted that the recommendations of the White Commission differ in practically every particular from those

of the Jones Report. A brief summary of the history of these subsidies will be helpful in interpreting these contrasted recommendations.

From the first, two different interpretations of the Dominion obligations under the British North America Act have existed. The official view of the Dominion Government emphasized the definiteness and finality of the subsidy. The Nova Scotia spokesmen, on the other hand, have from the first stood for an appropriation which would be sufficiently elastic to take changing circumstances into account. Accordingly, repeated demands for subsidy increases were made by the successive Governments of Nova Scotia, on the ground of fiscal needs, and these demands were just as regularly refused.

Whatever may have been the intent of the authors of Confederation, the Province, on strictly logical grounds, would seem to have decidedly the better of the argument. That a grant specifically made for the support of government should bear no relation to the changing functions of that government is a logical absurdity, particularly in view of the fact that those responsible for the original arrangement could not possibly have foreseen the extension of functions, and consequently the extension of expenditures, that have occurred.

Another fact of importance is that, in the course of time, the official interpretation took a decided shift towards the provincial contentions. The continued importunity of the Province led, in 1907, to a revision of rates. This revision is important for the present discussion because it marks the abandonment of the finality contention, it accepts fiscal need as an important factor in determining the amount of the subsidy, and it makes more emphatic the principle that the awards to the several Provinces should vary according to relative needs. It is also important to note that in connection with this debate and on other similar occasions such leading Canadian statesmen as Honorable W. S. Fielding, Sir George E. Foster, Sir Robert Borden, and Sir Wilfred Laurier gave support to the above principles. Sir Robert more than twenty years ago suggested the desirability of periodic revision which, as was noted, is one of the recommendations of the Jones Commission. Finally, the Royal Commission on Maritime Claims, to whom the whole matter was referred, reported in favour both of the principle of fiscal need and the principle of varying amounts based on differences in need.

In view of all these facts, the Majority Report of the White Commission must come as a distinct disappointment to the people

of this Province. If their interpretation were accepted, most of what has been achieved by such persistent endeavour would be lost. The rejection of fiscal need as a basis of adjustment, the re-introduction of the finality concept, if that is what is really meant by their reference to a final adjustment, and the veiled suggestion that any extra apportionment to the Maritimes because of greater fiscal need would be in the nature of a gift granted rather than of a right recognized, all suggest the outlook of seventy years ago. It is just such a view as might have been urged by Blake concerning the "better terms" adjustment.

The White Report is made all the more prejudicial to the interests of this Province by virtue of the fact that it accepts the contention that fiscal need has been dominant in determining past readjustments. Although it purports to reject fiscal need only as a basic principle of adjustment and not as one of several factors influencing awards, it is significant that no weight whatever is attached to that factor in determining their award in spite of the obvious urgency of present conditions.

In view of its far-reaching significance, the argument by which the White Commission supports its conclusion demands attention. It contends that to accept fiscal need as a principle of adjustment would be "harmful and dangerous in extreme", because it would then be necessary for the Dominion Government to determine the reality of the need. If that were done, partisan feeling would inevitably lead to favoritism to some of the Provinces and consequently to discontent among the others. That a real danger of the nature indicated would exist, no one can doubt. But to contend that it cannot be guarded against, or that democratic governments must, on that account, refuse to adjust serious injustice, or refrain from attempting constructive measures of great importance, is to assert that democracy is a dismal failure. The Minority Report makes the pertinent rejoinder that they, as a Commission, were appointed to deal with just such a difficulty as that suggested by the Majority Report. It is also pertinent to recall the resolution passed unanimously at a conference of representatives of provincial governments only a few years ago, which urged the federal government to give particular attention to those provinces which had not progressed as had others, and to take such measures as were necessary to ameliorate conditions.

It may be assumed with confidence that, ultimately, public policy will conform more closely to the recommendations of the Jones Commission than to those of the Majority Report of the White Commission. The mere fact that the former is in line with

the clear trend of history would argue strongly in favour of that conclusion. Another weighty reason for that belief is found in the more comprehensive and, therefore, more adequate background from which the Jones Report approaches the problem of financial arrangements. As they view it, the problem is not primarily one of the adjustment of certain financial claims under dispute. The financial responsibility of the Dominion Government can be accurately appraised only in the light of all that has happened in the past history of Confederation, and all that can be accomplished for Nova Scotia in the future by well-directed public policy. The problem of finance is the connecting link joining their analysis of causation and their constructive proposals.

In their analysis of the causes of the economic retardation of Nova Scotia, the Jones Commission concluded that this was due in part to geography and in part to Dominion policies. The fundamental changes in the economic structure of society which have occurred in Canada since Confederation have, on the whole, advanced the interests of other sections of Canada to a greater extent than they have the interests of the Maritimes. If that were the entire explanation, it would still be a challenge to far-sighted, constructive statesmanship, because, under our system of government, the good of each part is just as much an obligation of the whole as is loyal devotion to the good of the whole an obligation of each part. But there is more than geography to consider. The policies adopted by the Dominion have greatly intensified the difficulties of economic readjustment here, and so have seriously retarded the growth of population and wealth. From this point of view, the obligation of the Dominion to Nova Scotia becomes one of finding a remedy for positive injustice. Surely no subsidy adjustment which disregards the fact that Dominion policies have materially decreased the possibilities of raising adequate revenue within the Province can be considered equitable.

In what way can the Dominion best fulfil its obligation to Nova Scotia? First, by removal of causes through the modification of national policies in so far as practicable. Secondly, compensation. This does not mean that exporters and others injured by Dominion policy shall render an account to the Dominion Government to be paid in full. It does mean that the subsidy shall cover pressing revenue needs. It would also include such arrangements in the interests of Maritime industry as those provided for under the Maritime Freight Rates Act. "But compensation is not enough". The cumulative effects of more than half a century of national policies which seriously retard economic development

cannot be dealt with on a basis of compensation. So, thirdly, the Dominion Government should give its full support to a comprehensive policy of development along the lines suggested in the Jones Report. There are many promising opportunities for economic expansion, and public policy can do much to aid development of those opportunities, through education, experimentation, research, marketing aids, etc. But all this would involve additions to expenditures on the part of the Province greater than is possible on the basis of present revenues. Surely this, too, is a fact which cannot be neglected in any adequate and equitable financial adjustment of Dominion-Provincial relations. If the Dominion Government should forget legal technicalities and questions of constitutional jurisdiction, and should view the economic rehabilitation and expansion of the Maritimes as a national enterprise, what could not be accomplished? And how abundantly the result would repay the nation in the long run!

The Jones Report is the result of the most complete official study yet made of the causes of the economic retardation of Nova Scotia. The recommendations made appear to have been well considered. They are, however, to be regarded as suggestive of what can be done, rather than as a complete programme of public policy. Their interpretation of the problem of financial arrangements calls attention most emphatically to the first requirement for any broad, constructive plan for the economic rehabilitation of Nova Scotia and the Maritimes in general. The extent to which public policy will be affected immediately or ultimately remains to be seen.