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THE ECONOMIC PROSPECTS OF THE MARITIME PROVINCES

The phenomenally high rate of economic growth in Canada during the last decade has aroused interest in the general subject of economic growth and particularly in the differences in the rates of growth of different regions and sectors of the economy. As a result, attention has been directed again to the position and economic future of the Maritime Provinces. It has been said that the Maritimes have tended to fit rather uncomfortably into the Canadian economy.¹ Integrated national economic expansion, in the main, began at the St. Lawrence and extended westward to the Pacific, leaving the Maritimes to live a life of their own, although not unaffected by national tariff and transportation policies. Central and Western Canada were not among the more important markets for Maritime products of forest, farm, and sea. The products of the iron and steel and coal industries of Nova Scotia were at times exceptions, it is true; but apart from these, the economy of the Maritimes both before and since Confederation has been an unessential appendage to the economy of the rest of Canada. In the post-Confederation period, there has been a marked tendency for the Maritimes to lag behind other parts of Canada in terms of population growth and level of money incomes. The question arises: will these trends continue?

When the Preliminary Report of the Royal Commission on Canada's Economic Prospects was made public, much controversy arose in the Maritimes, especially over the suggestion that Maritimers in sub-marginal positions and therefore in receipt of low incomes should be assisted in transferring to other occupations or to other regions of Canada. A somewhat milder controversy also developed upon release of a more recent study prepared for the Gordon Commission on some regional aspects of the Canadian economy.² These studies recognize the fact that the Maritimes are old and settled regions with traditions and a way of life that is not in all respects conducive to economic development—in short, that values and attitudes are factors which have a bearing on what can be accomplished. However, the reports do not suggest that it is necessary only to imbue Maritimers with a fervor for economic development in

order to achieve it. Many groups are already working earnestly for economic growth. Governments, individuals, and organizations such as the Atlantic Provinces Economic Council have all made the economic development of the Atlantic region a major objective. But these groups have found, as the Commission's studies have also shown, that forces beyond the control of the Maritimes and even of Canada have influenced the economic history of the Maritime Provinces.

There are different ways of looking at the economic position of the Maritimes if one is to focus upon the extent to which economic growth and level of incomes have lagged behind those of other regions. Certainly, straightforward statistical analysis reveals glaring income differentials which, considered in conjunction with other indices such as population growth and capital accumulation, point to the relatively slow economic growth of the Maritimes.³ But another way to look at the matter is to take into account the progress that is being made. Population is increasing, and incomes are rising on the average. Capital developments, too, are significant, if limited. Yet it may well be that bold and imaginative government policies will provide the most effective solution to many difficulties of the region. Questions of this nature fall within the realm of political economy and should produce lively debate.

An optimistic view of the future of the Maritimes holds that if the population of Canada grows as has been predicted,⁴ the effects of a widening national market will be felt by producers in the Maritimes. In other words, as the larger metropolitan centres draw more heavily on distant areas, there will be a closer relationship between the tempo of economic activity in various branches of the economy of the Maritimes and that in other parts of Canada. Up to the present, the national market has not been large enough to make a deep impression on the Maritimes as a region of supply. If the Maritimes can be drawn more closely into the orbit of Canadian economic development, they will then fit more comfortably into the Canadian economy than they have in the past.

This optimistic view perhaps discounts unduly some of the possible adverse effects of important projects such as the St. Lawrence seaway, for example, upon east-coast harbours and upon some branches of the economy of the Maritimes. Although the ultimate effects of the seaway are uncertain, a study has indicated that in so far as Nova Scotia is concerned, the seaway will probably be of benefit to agriculture, forestry, shipping, and shipbuilding, whereas its effects on the coal and iron and steel industries will probably be adverse.⁵ Moreover, there may be a tendency for the optimists to forget that important supply areas in other parts of Canada and the United States are advantageously situated in

relation to markets in central Canada. Accordingly, the Maritime Provinces may require special assistance as afforded by a reduction in freight rates on key commodities or some form of protection against imports if they are to sell in markets in the St. Lawrence region. Yet despite these problems, it does seem reasonable to expect that the growth of markets in Central Canada will enable the Maritimes to supply larger amounts of both primary and semi-processed products and, possibly, specialized manufactures. Thus, in the long run, the more rapidly the Central Provinces grow, the greater the likelihood that the Maritimes will be caught up in the general expansion.

A less favourable view of the future of the Maritimes emphasizes that scientific, technological, and other advances will alter and mould the economic landscape, thereby postponing indefinitely the need of the larger metropolitan centres of Canada to draw heavily on the resources of the Maritimes. Under these conditions, the Maritime Provinces could become increasingly isolated, economically, from the rest of Canada. The fortune or fate of the Maritimes would then depend upon the achievement of economic growth within the region itself or on the development of an increasing flow of exports to markets outside of Canada. This more pessimistic view takes into account the many obstacles to be overcome. These include limitations imposed by natural resources, limited local markets, and uncertainties associated with dependence upon the commercial policies of foreign countries as evidenced by recent problems of selling salt fish in Jamaica. The pessimists may be correct in their appraisal of the future.

The future of the Maritime Provinces will depend on whether their economic development stems primarily from an expansion of exports or from the growth of industries supplying local markets.⁶ In order to increase appreciably the flow of exports, large developments will be necessary. An expansion of exports leading to a threefold or fourfold increase in the population, and at the same time to an improvement in living standards, can result only from the impetus afforded by major projects such as the discovery and exploitation of new mineral resources or the expansion of heavy industry. One example of the kind of change that would give a real stimulus to the regional economy is the harnessing of the tides of Passamaquoddy Bay or even of the Bay of Fundy for the generation of large quantities of electrical energy for a wide range of industries supplying domestic and foreign markets and perhaps dependent, like the aluminum industry of Canada, upon the importation of raw materials. Developments of this nature would, of course, be gigantic, and their feasibility, assuming that costs are reasonable, would depend on the availability of large markets.

In the absence of such developments, the increase in the flow of exports from the Maritimes would be smaller and less likely to lead to extensive urban growth in the area.

If the growth of industries supplying local markets should prove to be the chief road to economic development in the Maritimes, each sign of progress, the founding of each small plant, would be viewed with dismay and alarm. It is improbable that developments based on local markets will lead to changes as spectacular as those which would result from the establishment of large plants supplying markets outside the Maritimes also. But economic growth in response to local markets need not be restricted to essentially small enterprises. This can be seen by reference to recent and proposed expansion of petroleum refining facilities in the region. Moreover, it is possible for internal or locally-based economic growth to gain momentum. As population grows and the supplying of a wider range of products and services becomes profitable, national and international firms no doubt will more commonly establish or expand their regional offices for the distribution of their goods; and the establishment of branch plants for the manufacturing, fabricating, processing, and assembling of materials will also extend the list of purely local industries. These changes will improve the competitive position of the region and facilitate the cumulative growth of industry.⁷

The optimistic and pessimistic points of view have been presented in general terms. Whether any specific development takes place depends upon its expected profitableness or its social necessity. In order to hasten investment or the accumulation of capital in the Maritimes, federal assistance may be necessary. The question arises, of course, whether part of the nation's resources should be directed through the federal treasury to economic development in the Maritimes if the expenditures could be used more productively elsewhere. The study of economic history shows, however, that government has often supported and participated in economic development. The history of Canadian expansion on a trans-continental scale is in large measure the story of the close relationship between the state and private enterprise. Some ventures were from the beginning, or became, state enterprises. In other countries also, programmes of economic growth have been heavily supported by the state. The objective of publicly-supported economic development is generally not only to raise the real *per capita* income of the population but to do so in a much shorter time than would be possible under the free market system. The fact that the government may have a large part to play diminishes the degree of reliance on the price system.⁸ In other words, it is believed that economic welfare can be increased more effectively by

engaging in the task of nation-building in a co-ordinated way than by leaving the selection and timing of each project solely to the market and the functioning of the price system. Thus, the nature and extent of government intervention will vary according to circumstances and the prevailing philosophy respecting the proper rôle of government.⁹

That there are difficulties to be overcome in improving the economy of the Maritimes cannot be denied. The Maritime Provinces are not a compact and continuous land mass easily served by transportation facilities but are separated from one another by bodies of water which for internal commerce are economic barriers rather than benefits. The Maritimes possess no vast hinterland either to draw upon or to supply, and their economies in many respects are competitive rather than complementary. A wide range of similar products is produced in each of the three provinces. The competitive features of the regional economy can be seen also in the rivalry of the larger cities. In New Brunswick, the capital, Fredericton, is overshadowed by Saint John, a port city and the eastern freight terminus of the Canadian Pacific Railway. Moncton, on the other hand, is primarily a railway and distribution center on the main line of the Canadian National Railways. In Nova Scotia, the industrial area in Cape Breton is removed from Halifax, the capital of the province and the ocean terminus of the C.N.R. Moreover, Halifax and Saint John are rivals not only because of their harbour facilities but also because they are served primarily by different railway systems. Even Charlottetown, the capital of Prince Edward Island, and Summerside, the second largest centre, are competitive with one another and to a lesser extent with other Maritime centres. The economy of the Maritimes is by no means as compact or unified as it may on the surface appear to be.

Whatever the future may bring, the economic growth of the Maritimes will be affected by developments elsewhere. The Maritime Provinces must be regarded as an open economy because of their trade relations with other parts of Canada and with other countries. But the Maritimes are not a politically autonomous area. As a region of Canada, they do not have their own monetary system nor can they pursue their own commercial policy. In these circumstances, the theory of inter-regional trade teaches that industries in the Maritimes must sell in the national market in competition with industries in other parts of Canada. If there are disadvantages owing, for example, to geographical location or less suitable resources, incomes will be lowered, unless compensatory measures are put into effect by government. Similar conclusions pertain also to the trade of the Maritimes with other countries. If incomes in the Maritimes fall in comparison with those of other places, persons affected will tend

to shift to the higher income regions. In large measure, the exodus of people from the Maritimes to other parts of Canada and the United States can be explained in these terms. The greater the mobility of labour and capital, the greater the difficulty of achieving economic growth in the less favourable areas. No doubt higher levels of productivity in other parts of Canada and the United States contributed to the high rate of growth of those regions and to the slower growth of the Maritimes. But it is difficult to visualize what the economic condition of the Maritimes would be had not North American transcontinental development occurred. Nor does it follow that a reduction in productivity and in the rate of growth elsewhere on this continent, especially in Canada, would be likely to produce a higher rate of growth in the Maritimes than is now taking place.

The question remains: what course will the economy of the Maritimes follow in the future? A decline in the relative importance of the Maritimes in the Canadian economy has been predicted. There will, no doubt, be adjustment within the regional economy. Population will grow and incomes will increase. Some tendency toward economic growth will undoubtedly be generated within the region, and as the Canadian economy grows, so probably will that of the Maritimes, if not at so great a pace. A solution to the problems of the Maritimes may eventually lie in some large developments perhaps based on the importation of raw materials for manufacture and re-export to large markets in other places; but nothing so spectacular as this is yet in sight. Until it appears, the Maritimes may have to be content with a modest rate of economic growth.

NOTES

1. W. T. Easterbrook, "Long Period Comparative Study: Some Historical Cases," *Journal of Economic History*, Vol. XVII (1957), p. 577.
2. R. D. Howland, *Some Regional Aspects of Canada's Economic Development* (Ottawa: Queen's Printer, 1958).
3. See, for example, *The Maritime Provinces in their Relation to the National Economy of Canada* (Ottawa: Dominion Bureau of Statistics, 1948).
4. W. C. Hood and Anthony Scott, *Output, Labor, and Capital in the Canadian Economy* (Ottawa: Queen's Printer, 1957), ch. 4.
5. R. S. Cumming, "The Seaway in Nova Scotia's Economy," *The Dalhousie Review*, Vol. 36 (1956), pp. 213-214.
6. See, for example, W. A. Lewis, *The Theory of Economic Growth* (Homewood, Ill., Richard D. Irwin, Inc., 1955), p. 275; and R. Nurkse, *Problems of Capital Formation in Under-Developed Countries* (Oxford: Basil Blackwell, 1953), pp. 30 ff.
7. Cf. B. S. Keirstead, *The Theory of Economic Change* (Toronto: Macmillan, 1948), Part V.
8. S. E. Harris, *International and Interregional Economics* (New York: McGraw-Hill, 1957), pp. 288-289.
9. Harris, *loc. cit.*