MARITIME PROVINCES AND THE NATIONAL POLICY

(COMMENTS UPON ECONOMIC REGIONALISM IN CANADA)

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IT has long been evident that within the Dominion there is a wide diversity of economic interests and outlook: but with the spate of complaints, protests, and petitions that since 1929 has poured into Ottawa this diversity has taken on distinct regional characteristics. The Maritime Provinces, the Central Provinces, the Prairie Provinces, and British Columbia have had each its peculiar economic difficulties. For the most part, these economic difficulties have been attributed to the policy followed by the Dominion Government: the manner in which taxes have been levied and revenues disbursed, the cost of giving tariff protection to domestic industries, and the encroachments upon the rights and privileges of provincial Governments. The Maritime Provinces have complained that they were not receiving their share of the good things of life which Confederation had brought to the Dominion as a whole; they have asked repeatedly for a larger share of the federal funds with which to carry on those new functions of government that came gradually to be recognized in the western world as natural and legitimate; and they do not appear ever to have felt altogether at home in the new edifice erected by the Fathers of Confederation. Although, in this article, attention will be focussed upon the National Policy with special reference to the Maritime Provinces, and upon the relations between the Maritime Provinces and the rest of the Dominion, the approach has nation-wide application, and it is hoped that the discussion will make some contribution to a better understanding of the general problem of economic regionalism in Canada.

To gain an appreciation of the effects of any economic policy that has been made operative, economic conditions as they exist under that policy must be compared with economic conditions as they would have existed had the policy not been adopted; that is to say, conditions as they are must be compared with conditions as they might have been. This is a difficult procedure even under the simplest of circumstances, but many times more difficult in a social problem where every factor is so dependent upon every other factor. J. B. Clark [1] has emphasized that the marginal increment from an additional unit of one of the factors of production is the difference between the total product from all the factors appropriately organized before the one unit is added and the total product from all the factors appropriately organized after the one unit is added. In a similar way, the increment or decrement resulting from an economic policy is the difference between the total income accruing to the people or the area from the economy appropriately organized with the policy and the total income as it would have accrued to the same people or area from the economy appropriately organized without the policy. This emphasis upon the differences between totals seems necessary, because of the tendency to isolate one feature of an economic policy, and to consider the effects of varying this one feature without taking into account that if this were done as a practical experiment, other features of the policy might also have to be varied. It is such interrelation of economic forces and interdependence of various aspects of state economic policy that lead many students to consider the National Policy as something that goes far beyond the policy of tariff protection. For most purposes, too, it will not suffice to consider only differences in income, but the subjective aspect of income will have to be taken into account to divulge differences in economic welfare.

The range of considerations to be kept in mind when one is examining the effects of the National Policy upon the Maritime Provinces, or upon any other economic region of the Dominion, varies according to the purpose of the enquiry. If the purpose is to establish a case for secession on economic grounds, then the comparisons must be between conditions as they now exist and conditions as they would exist had the Maritime Provinces remained outside Confederation and pursued some specified policy. In view of the time factor, and the number of variables that would enter into such a problem, it is quite obvious that there is plenty of room for wide differences in the conclusions. If, on the other hand, the purpose is that of urging a modification of policy within limits that will not disturb certain desired conditions, such as the maintenance of the existing political system, the range is narrowed and the problem becomes more practical. Again, if political objectives are not questioned, but compensation is sought because the cost of achieving and holding those political objectives bears with disproportionate severity upon one area, it becomes

1 *The Distribution of Wealth.* London, 1925. pp. 250-1.

necessary to attempt a statistical measurement, or to adopt some arbitrary basis of comparison, in order to mete out rough justice. However, if the purpose is to investigate economic regionalism in general, all considerations must be kept in mind.

Owing to the almost insurmountable difficulties of the analytical approach when the time element is an important factor, a problem is usually better understood by treating it as one of historical development and by tracing through the years its emergence and intensification. In this way a better appreciation may often be obtained of the complex forces that have been at work, and, therefore, of the complexity of any remedies that may be applied. It is frequently possible, and sometimes necessary, to combine the analytical with the historical approach, and to test the conclusions by hypothetically varying one or other of the major factors or circumstances. For example, had Confederation not taken place when it did, what would have been the result? Would not American settlers have forced their way into the Prairies and the Pacific area, and have brought those territories into the Union as formerly they had brought Oregon into the Union? Would not American railroads have followed the settlers, making Minneapolis and St. Paul and Duluth, rather than Port Arthur and Fort William and Winnipeg, the natural gateways to this territory? Would not the railway systems of the Central Provinces have terminated in the West at Chicago or Detroit and in the East at Portland, Boston, and New York, and have been dominated by American capital? Would not the absence of a western market have limited the growth of manufactories and have restricted the increase of population in this area? Would not this have meant an absolute decrease in the total amount of commerce for this area, and also a diminished proportion going down the St. Lawrence? To what extent would this have diminished the Quebec market for Nova Scotia coal, and the present Canadian market for Nova Scotia iron and steel? To what extent would this have restricted shipping facilities, both rail and water, now enjoyed by the Maritime Provinces? In brief, to what extent would the failure to consummate Confederation in 1867 have affected the entire economy of the Maritime Provinces? The difficulties of this approach have been already stressed, but by such a speculation the weak and the strong strands of the economic fabric of the Dominion may be more easily seen and distinguished.

After having taken a glance down the road where these suppositious cases might lead, it is necessary to turn to a more realistic examination of the course over which national development has led. Confederation was consummated, the western territories and British Columbia did become part of the Dominion of Canada, and ribbons of steel bind together, no matter how tenuously, the East and the West.

In discussing any fundamental problem of the Canadian economy it is impossible, even if it were desired, to ignore the work and findings of Dr. H. A. Innis. Dr. Innis sees the Canadian economy as arising in the first instance out of the commercial and industrial struggle between France and England, dominated by the physiographical features of the area, and moulded in no small degree by the structure of the earliest industry—the fur trade.[1] The fur trade lent itself to centralized control, whether carried on through the St. Lawrence or through Hudson Bay. After 1821, when the two rival fur companies amalgamated, the export of forest products, and, later, of wheat, dominated the commerce of the St. Lawrence basin and led to a demand for increased shipping facilities. The costliness of these facilities and the sparseness of population, coupled with the tradition of centralized control, made it necessary for the Government to intervene to an unusual extent in the economic life of the country, and, to lighten the financial burden, the Central Provinces extended their influence eastward as well as westward, and finally enveloped the Maritime Provinces both economically and politically. After the middle of the century, when the fur trade was being threatened by the encroachment of settlers, and when pressure from the United States made it necessary that the western areas should be effectively occupied, the tendency towards centralization was increased by the unification of Hudson Bay and St. Lawrence interests. To accomplish the task of nation building, government intervention, which had already gone far in the St. Lawrence area, had to be extended to take care of the new programme of railway construction and settlement. The same forces that led to more government intervention and centralization led also to centralization in many branches of industry, more especially transportation and banking. Financial responsibilities felt by the Government necessitated a search for additional revenue, and a tax on imports was the most accessible and fruitful source available. The commercial and industrial equipment brought into existence by government policy created a problem of overhead costs on a national scale,

1 The thread of this approach is to be found running through all the writings of Dr. Innis. See especially: *An Introduction to the Economic History of Ontario from Outpost to Empire*. Vol. XXX, Papers and Records, Ontario Historical Society.
An Introduction to the Economic History of the Maritimes, including Newfoundland and New England. Annual Report of the Canadian Historical Association, 1931.
Cape Breton and the French Regime. Transactions of the Royal Society of Canada, Third Series, Section II, Vol. XXIX, 1935.

which led to pressure for the adoption or extension by the Government of the principle of protection.

That part of the Maritime Provinces which borders upon the St. Lawrence seems naturally to fall within the orbit of the St. Lawrence valley economy, by virtue of its geographical location and the structure of its commerce and industry, but many features of the economy as a whole are diametrically opposed to the dominant features of the St. Lawrence valley economy. The early history of the Maritime Provinces was the history of the fishing industry, and this industry, with its strong tendency towards decentralization, in contradistinction to the fur trade, has left its mark upon the Maritime Provinces, more especially upon Nova Scotia. Furthermore, the commerce of this area, radiating from a number of natural ports, did not involve the Governments in large expenditure for transportation facilities, as in the Canadas; but, when the railway era began, the Governments of these provinces found themselves in a similar position to the Government of their sister province to the northwest. This change in the circumstances of the Maritime Provinces, coupled with the natural liaison among all parts of the St. Lawrence basin, and possibly the aspirations of the coal industry of Cape Breton Island, furnished the economic basis upon which Confederation was eventually built.

It may be well to break in upon this process of synthesis to deal with another aspect of the problem. This aspect may be thought of as the psychological, or, in the language of Professor Toynbee, as responses to human and physical challenges. A glance at the map will reveal how the fertile and populated areas of Ontario and Quebec are wedged in between the barren parts of the Canadian shield to the north and the United States to the south. In the days of the fur trade, the commerce of this region was threatened by the Hudson Bay route; and, in the days of timber and grain, by the route through American ports. The threats to the region came in the form of military aggression as well as in the form of trade rivalry, with the possibility of economic, if not political, annexation. During the Revolutionary War, as during the War of 1812-1814, it was this region, and not the Maritime Provinces, that was seriously threatened. In 1812, it was the town of York, not Halifax, Fredericton, or Charlottetown, that was sacked. In 1849, the annexation manifesto originated in Montreal, and not in one of the commercial centres of the Maritime Provinces. The Reciprocity Treaty of 1854 was made on the insistence of the Province of Canada, and not on the insistence of the other provinces. When, during the American Civil War, there loomed up the possibility of a conflict between Great Britain and the northern states, again it was the Province of Canada, and not the Maritime Provinces, that was most exercised; and when, towards the close of the Civil War, it seemed likely that the American Government might discontinue the bonding privileges, it was the Province of Canada, and not New Brunswick or Nova Scotia, that stood in danger of commercial strangulation. In the Maine boundary dispute and the Fenian raids, New Brunswick had common grievance with the Province of Canada, but both economically and politically the Maritime Provinces had much less to fear from the United States than had the Province of Canada.

At this time the Maritime Provinces faced seawards rather than landwards, and there was no adjoining Rupert's Land or North West Territories to divert their gaze. Therefore, the extension of American settlement and American railways farther and farther into the territory west of the Mississippi did not bring to them the same consciousness of being hemmed in and isolated as it brought to the Province of Canada. In the Province of Canada there was also the racial problem, which can scarcely be said to have existed in the Maritime Provinces. The Anglo-Saxons, to strengthen their position against the French, began to look westward to Rupert's Land and beyond; whereas the French, to escape political submergence, looked to the Maritimes as a possible counterpoise. Although the ideal of a larger nationality appealed to many in the Maritime Provinces, and others were won over to favour Confederation because of the material gains that seemed likely to flow from political union, it cannot be denied that the spur to nation building was far stronger in the Province of Canada than in any of the Maritime Provinces.

These two parts of the same approach help to make it clear why the drive for expansion originated in the present Central Provinces, and why the development took the form it did.

At the time of Confederation, imports per head into the Maritime Provinces were about twice as great as into the Province of Canada. Duties were then primarily for revenue purposes, and the lower rates prevailing in the Maritime Provinces may be attributed partly to this relatively larger volume of imports. Even to-day, the Maritime Provinces appear to be more dependent upon outside sources of supply than do the Central Provinces, although it is impossible, with present statistical information, to say to what extent this situation has been intensified or modified since 1867. In so far as tariffs provide revenue, and the Maritimes were or are consuming more imported commodities per head, it is legitimate to argue that they have carried a relatively larger part of this burden than have the Provinces of Ontario and Quebec, and a similar statement would hold true for the Western Provinces.

As tariffs were raised and became more protectionist, internal sources of supply were substituted for external sources, and the higher prices paid for domestic commodities increased costs and added to the consumer's burden. The artificially protected and naturally sheltered industries are in the best position to pass on increased costs, but industries producing for outside markets are rarely able to reimburse themselves by raising prices. All parts of the Dominion have been and are, of course, dependent to some extent upon exports, but the regions more largely dependent upon outside markets are the regions that have to shoulder the heavier burden resulting from a policy of protection. The region most favourably situated in this respect is that of the Central Provinces, and its gain may have been only relative or it may have been absolute.

Federal revenues and money borrowed from overseas were used to provide or to improve transportation facilities, to encourage immigration, and to promote, by means of bounties, certain domestic industries. The expenditure of funds in this way affected the primary incidence of the tariff burden, but, more important than the direct redistribution of the tariff burden, were the general effects that these expenditures had upon the economic structure of the country as a whole. The opening of the West enlarged the market for Central Canadian manufactures, and, as the main channel of trade was down the St. Lawrence, helped to concentrate commercial interests along that waterway. Greater industrial activity and greater concentration of population in the Central Provinces opened up new possibilities for the industries of the Maritime Provinces. This was most marked in coal mining and in the production of iron and steel.

The pull of the St. Lawrence region upon the Maritime Provinces since Confederation is most clearly seen in the growth of population in Nova Scotia. From 1871 to 1931 the population of Nova Scotia increased 32.2 per cent., but in the western part of the province the increase was only 7.5 per cent., whereas in the eastern part the increase was 46.7 per cent.[1] Whether the growth of population for the province, or for the eastern part, would have

1 The Counties of Digby, Annapolis, Hants, King's, Queens, Lunenburg, Shelburne, and Yarmouth have been taken as constituting the western part of the province, and the remaining counties as the eastern.

been greater under a policy of free trade, raises anew the entire question of the National Policy. Professor J. H. Jones is inclined to argue that lower costs under a policy of free trade would have enabled the Nova Scotia iron and steel industry to invade foreign markets, and thereby to have expanded more than it did under the National Policy.[1]

Intervention on the part of the federal Government, once the soundness of some of the enterprises—for example, the Canadian Pacific Railway—had been proved, may have resulted in lower interest rates for Canadian borrowers abroad. On the other hand, higher prices for capital equipment increased the amount of financial capital required, and tended to throw an added burden upon primary producers. However, in a country that is developing rapidly, with rich virgin resources being brought into production, there often accrue to investor and operator much larger returns than those for which they would have been willing to undertake the enterprise. In so far as the added burdens fell upon these larger returns, they were not nearly so onerous as if they had fallen entirely upon labour, and, when the larger returns were receivable by persons resident outside of Canada, the decrease in these returns did not lessen the national income. As the rich virgin resources that have been exploited lay for the most part elsewhere than in the Maritime Provinces, it may be argued that the Maritime Provinces shifted much of their burden to other regions. Such an argument can have little more than academic interest, without a great deal of painstaking research, but it helps to bring out the interrelation of the various factors, and to emphasize the impracticability of attempting to reach a final conclusion by considering each of the various factors in isolation.

Economic goods are more mobile than factors of production, and, of the factors of production, capital moves much more easily than labour, while land can scarcely be said to have any degree of mobility. The intervention on the part of the federal Government through immigration and settlement policies aimed directly at increasing the mobility of labour; and, by grants, subsidies, and direct expenditure, the mobility of capital. But aside from settlement policies for Western Canada, labour was left to find its own way to the best market, and this advantaged the labour forces in the Central Provinces. With the growth of industry and commerce in the Central Provinces, labour was rapidly drawn away from sub-marginal occupations, but in the Maritime Provinces this transfer of labour was effected with more difficulty because of the

1 See *Province of Nova Scotia, Report of Royal Commission; Provincial Economic Inquiry*, 1934. p. 46n.

slower rate of development, the degree of specialization already achieved, and the distance that separated them from the Central Canadian market. The deliberate policy of keeping down railway rates on raw materials and export commodities, and of reimbursing the railways by higher rates on manufactured goods, helped to intensify regional specialization. High railway rates on a commodity favoured production close to the market, and, since the largest regional market was in the Central Provinces, and large scale production afforded substantial economies in many industries, an added stimulus was given to the concentration of manufactories in Ontario and Quebec. Relatively lower freight rates in the Maritime Provinces prior to 1912, which were re-established by the Maritime Freight Rates Act, 1927, have had a tendency to keep certain industries located there, either because of nearness to raw materials or because of the cheapness of some or all of the factors of production. The arbitrary use of freight rates in Canada for the purpose of influencing the location of industries is doubtless responsible for the analogy that has occasionally been drawn between statutory rates and regional tariffs. Canada's transportation policy has had still other effects upon the Maritime Provinces: by making Halifax the terminus of the *Canadian National* and Saint John the terminus of the *Canadian Pacific*, by preferences to goods imported through Canadian ports, by mail subsidies, and by the operation of *Canadian National* steamers. Although it is impossible to state the extent, industries in the Maritime Provinces must have received many benefits from lower freight rates, more frequent sailings, improved harbour facilities, and better equipment on both rail and water.

The downturn of the business cycle has usually served as an opportune time for increasing the tariff. During a period of reviving trade, larger revenues have encouraged Governments to be over-generous in their expenditures, as seen in the first decade of the twentieth century when railway construction and Government commitments were carried far beyond all the requirements of the near future, and laid a foundation for the Canadian National Railways system with its excess capitalization. Provincial Governments, partly because of emulation and partly because they were subject to the same forces, followed a policy similar to that of the federal Government, until the burden upon the taxpayer has become very onerous. It is not meant to insinuate that the general policy of interventionism as followed in Canada has been wrong, for the history of the country makes it clear that it was virtually inescapable; but, where it has led to the mis-direction of resources, it has restricted the national income and compromised the economy as a whole. With every new crisis the federal Government has reached out for more taxes, which has left fewer sources of revenue available to provincial Governments. With each new crisis, too, provincial Governments have found themselves compromised, and have called increasingly upon the federal Government for financial aid. Every time that this aid has been invoked, the influence and power of the federal Government has been automatically extended; and resentment against these encroachments upon provincial powers and functions is amply manifest in petitions to Ottawa for a clearer recognition of provincial rights.

The Maritime Provinces have been foremost in these demands and petitions, because of the greater difficulty that they have experienced in finding adequate funds with which to carry on the functions of government, because of the strong local patriotism that is bound to exist in provinces that have had practically no immigration over a span of several generations, and because the Maritime Provinces have felt themselves declining relatively in both economic power and political influence. But this feeling of resentment in the Maritime Provinces is more deeply rooted than even the preceding remarks indicate. During the past three-quarters of a century, technical changes in both industry and trade have meant painful readjustments for the Maritimes as compared with rapid development in other provinces. The importance of power machinery and large scale operations has worked to the disadvantage of small industries, a decentralized economy, and a population thinly scattered or clustered in many small agglomerations. The difference between the basic features of the regional economy and that of Canada as a whole, or perhaps, more specifically, that of the Central Provinces, makes plausible the assumption that Confederation, or, better, the policy followed since Confederation, is responsible for the conflict of forces now operating in the region, but it is more difficult to ascertain how much truth there is in the assumption.

During the present depression the unfavourable features of the national economy have stood out very prominently. The decline in prices for export commodities has not been paralleled by a corresponding decline in the prices of protected commodities, and added protection has tended to increase the "spread." As a result, the regions largely dependent upon export industries have borne most of the burden of the depression, although the resultant diminution of buying power has been reflected in unemployment in the protected home industries. This has left little opportunity for the transference of labour, and with the regional concentration of both types of industries the entire problem has become intensified. If the difficulties are to be long-continued, when the barriers to the movement of labour are taken into account, there may result still greater differences in the economic welfare of the various economic regions of the Dominion, and the process of levelling may be long drawn out. Such considerations point to the need for greater flexibility in the internal price structure, for greater mobility of labour, and for a policy of social services designed especially to break the severity of the impact of industrial fluctuations upon the weaker regions of the Dominion.

The present depression may mark a turning point in Canada's economic history. Perhaps international mobility of capital and labour as it existed in the period prior to the war, and even up to 1929, is gone forever, and the growth of economic nationalism is a long-run tendency. Dr. Innis maintains that, aside from the external situation, the unlikelihood of the discovery of any new resources that will lend themselves to rapid and extensive exploitation points to the necessity of a change in policy from one designed to encourage expansion to one designed to encourage integration and consolidation.[1] The Canadian economy as a whole is built on the unitary principle, and a large amount of centralization is inescapable. The federal Government is still in the best position to collect taxes, and, so far as administrative efficiency is concerned, to disburse them. For certain purposes, however, regional differences make centralized control difficult and perhaps inadvisable; yet provincial boundaries do not coincide with economic regions, and provincial administration throughout the Dominion seems very deficient. It would appear, therefore, that the future National Policy will have to be framed with three major objectives in mind:

(1)—The maximizing of the national income and economic welfare,

(2)—The equitable distribution of the national income among the various economic regions,

(3)—The reconcilement of national objectives with regional requirements.

1 *Economic Conditions in Canada*, 1931-1932, in The Economic Journal, Vol. XLII, March, 1932.