

**THE ATLANTIC REGION
OF CANADA
ECONOMIC DEVELOPMENT STRATEGY
FOR THE EIGHTIES**

SUMMARY



Government
of Canada

Gouvernement
du Canada

Atlantic
Development
Council
Canada

Conseil de
développement de la
région de l'Atlantique
Canada

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OF

THE ATLANTIC REGION OF CANADA -
ECONOMIC DEVELOPMENT STRATEGY FOR THE EIGHTIES

A REPORT PREPARED BY

THE ATLANTIC DEVELOPMENT COUNCIL CANADA

FOR

THE HONOURABLE MARCEL LESSARD,
MINISTER OF REGIONAL ECONOMIC EXPANSION

FORWARDED SEPTEMBER 28, 1978



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C O N T E N T S

	<u>PAGE</u>
PREFACE	v
I STRATEGIC THEME	1
II COMPARATIVE STATE OF THE REGION	7
III HISTORICAL PERSPECTIVE	16
IV NEW DIMENSIONS FOR THE REGIONAL ECONOMY	19
V RESOURCES	25
VI ENTERPRISE	32
VII SERVICES	35
VIII SUPPORTING SECTORS - TRANSPORTATION, ENERGY, CONSTRUCTION	39
IX POPULATION PROJECTIONS AND ECONOMIC TARGETS	42
X ATTITUDES AND PERCEPTIONS	44

SELECTED TABLES

<u>No.</u>		<u>Page</u>
S1	Categories of Per Capita Personal Income for the Atlantic Provinces and the Rest of Canada, 1970 and 1976	8
S2	Combined Federal Transfer Payments to Provincial Governments and to Persons as Percent of Gross Provincial Expenditures, 1970-76	9
S3	Federal Transfer Payments to Provincial Governments and to Persons, 1970-76	10
S4	Unemployment Rates for the Atlantic Provinces and the Rest of Canada, 1970-77	12
S5	Changes in Total Atlantic Region Employment by Sector, 1970 to 1977	13

- v -

PREFACE

This is a summary of the Atlantic Development Council's Report on the economic condition of the Atlantic Region and recommendations for an economic development strategy for the Region in the eighties. At the risk of over-simplifying to capture the spirit and essence of the Report, the summary has been prepared as a guide to the main text and, of course, is not intended to supersede the Report itself.

The Council was established by the Parliament of Canada in 1969 to advise the Minister of Regional Economic Expansion. It published its first recommendations for an economic development strategy for the Atlantic Region in 1971. In the light of the experience and events of the seventies, it has attempted now to review the underlying causes of the Region's economic performance and to postulate a more active economic involvement for the Region in a Canada now itself undergoing fundamental re-examination...

I - STRATEGIC THEME

There is no political or other organizational entity solely responsible for the care and nurture of the economy of the Atlantic Region of Canada. Indeed the regional economy itself exists only in the mental exercises of combining the numbers and mix of activities reflecting the economies of the four provinces of Newfoundland, Nova Scotia, Prince Edward Island and New Brunswick, and of considering the sum in the larger context of the economy of the Canadian federation. Viewed in this fashion the Atlantic Region's economy may be compared with those of other regions of Canada and of Canada as a whole.

The measures of economic disparity between the rest of Canada and the Atlantic Region appear on close examination sufficiently striking to warrant the grave concern of the national government, all provincial governments, and the Canadian private sector at large, all of which have particular interests and roles in the Atlantic Region's economy. There is much evidence to indicate that past interactions between these participants, because they are acting in the national and international economies as well as within the regional economy, have a substantial impact on the Atlantic Region.

The Council in its advisory role to a federal Minister has endeavoured to frame an economic development strategy for the Atlantic Region encompassing the interests and roles of all concerned. It not only seeks to enhance the internal wealth-generating capability of the Region's human and material resources, but also to postulate more active participation by the Region on the larger stage of the economy of the Canadian federation. Genuine support in this objective requires a conscious effort to focus attention, periodically at least, solely on the regional stage, so that the players may discipline themselves and one another into a coherent and satisfying performance.

In broad outline, as the Report's Table of Contents indicates, the Council has approached its task in the following fashion:

- (a) by establishing an array of current evidence of the extent and nature of economic disparities between the rest of Canada and the Region;

- (b) by examining historical evidence of the evolution of the Region's current dependent economic condition from self-reliant separate economies of earlier days;
- (c) by assessing generally the effectiveness of the means which the national government has used in the past to supplement the Region's ability to get by on its own resources within the constraints imposed by the national economy;
- (d) by identifying means by which the national government might set other economic processes in motion to reverse the Region's drift into dependency;
- (e) by reminding the Canadian private sector at large that the Atlantic Region is a vital part of the body of Canada, preferring an active role in the national economic endeavour rather than a passive or receiving one;
- (f) by examining the considerable range of opportunity opening to the Region for an entrepreneurial renaissance in the cultivation and use of its resource endowment, geographical position, and membership in the Canadian family;
- (g) by quantifying the net additional job-creation requirement for the Region to 1991 and suggesting desirable corrections for the shape of the industrial structure of the Region;
- (h) by advising on public policy changes appropriate to the economic circumstances of the Region; and
- (i) by seeking to inform the people of the Region of the vulnerability of their collective economic condition, despite steady improvement in their material living standards, and of the challenges and implications for them in the next decade.

The Council has had numerous studies carried out both by its own staff and by contract; it has consulted with a cross-section of business and labour leaders of the Region; it has met numerous times both in committees and in full session; and both Council members and staff members alike have consulted on various issues with government officials and private individuals known to be informed and concerned about the economic state of the Region. The conclusion appears inescapable that, even with enhanced prospects of value to be gained from the Region's resources in the future, the Region cannot look to this source alone to sustain and improve upon its present position. Even less satisfactory as a means of ensuring its economic security for the future would be a continuation of the current rate of growth in the Region's dependence on federal transfer payments. Already the Region is nearly three times as dependent on Canada in percentage terms for its gross provincial expenditures as is the rest of Canada. Since a process of national reassessment is already underway in Canada, the Council considers the timing propitious for the political leaders of the Region to seek a better set of understandings, by no means all contingent on constitutional reform, about the nature of the national purpose in economic affairs.

The Council is not proposing a financial solution for the Region's economic ills. If it were, it would be advocating transfer payments in even greater abundance and variety. It senses clearly that the people of the Region will not be satisfied to be "kept" by fiscal means. What it is proposing is that the national economy be so managed in future that the Atlantic Region will be enabled to share more appropriately in national economic activity itself, and that some of the major economic prospects of the Region be regarded as of national significance and priority.

Much of the Report is therefore concerned with the basic objective of regaining for the Atlantic Region a sure sense of participation in national economic endeavour. Various national economic roles that could be carried out in the Region are suggested, some of which are outlined in subsequent sections of this summary.

The Council does not contend that the Region has been denied national economic roles altogether, but rather that its degree of participation in the past has been insufficient. In the hindsight of history, once the federation was launched, the Maritimes were hardly needed (Newfoundland obviously not at all), as political and economic power concentrated in the Ontario-Quebec partnership to organize and exploit the vast resource reservoir of the West. Now that other political and economic concentrations of power are growing, to challenge the historical pattern, a more mature accommodation of Canada's parts is needed. It is the Council's view that regionally balanced economic activity in the Canadian federation should be elevated to the status of highest national purpose, and that strengthening the regional economies will substantially strengthen the nation.

To the extent that the Region can attain greater self-reliance from its own resource base, the less it will have to depend on federal tax dollars in transfer payments and the less the task will be for the national economy to agree to appropriate economic roles for the Region. The Council is convinced from its survey of all the major resource sectors of the Region that its resource base is capable of sustaining substantially higher levels of employment in primary, secondary and tertiary activity, and that events of the seventies have generally tended to favour an optimistic outlook in the long run for more substantial rewards from the Region's basic industries. For maximum benefit to the Region from its resource base, however, particularly the offshore, a number of major changes in attitude and policy are recommended both at the national and provincial levels of government, as indeed they are needed as well in the redirection of the national economy.

The Council's development targets are derived from two main considerations:

- (a) projected growth in the labour force, and
- (b) present economic disparities between the Region and the rest of Canada.

It is estimated that between 350,000 and 400,000 net additional jobs will be required in the Region by 1991 to employ the projected labour force, to reduce the unemployment rate to 5% or thereabouts, and to bring the labour force participation rates for the Region at least to the level which the nation as a whole has attained at present. Possibly the target of a 5% unemployment rate is unrealistic in view of the present very high unemployment rates in the Region. The Council has chosen a range for the net additional jobs required, because of the variables involved. Thus, if the labour force participation target rate were achieved, but only a 6% unemployment rate, the net additional jobs required would be approximately 390,000. At 7% it would be 380,000, and at 9% 356,000.

The labour force participation rate is one of a family of indicators of the comparative economic condition of the Region which the Council advocates should be approaching by 1991 parity with similar indicators for the rest of Canada. Because the Region's labour force participation rate is significantly below that for the rest of Canada at present, the official unemployment rate for the Region seriously understates the extent of unutilized labour in the Region. There are other reasons for this view as well, as indicated in the Report.

The per capita income indicator must also be noted in this summary. The Council's view is that there should be a significant rise in per capita income in the Atlantic Region above the 1977 level of 72.7% of the average for the rest of Canada. A target of 90% by 1991 may be optimistic, in view of the practical problems of combining massive job creation and reduction of the per capita income gap in the same period. It is also recognized, in the interests of good economic health for the Region, that closing the per capita income gap should not precede building the strong economic base to sustain the gains in income. These considerations notwithstanding, the Council is still convinced from its review of the evidence that present economic disparities between the Region and the rest of Canada do not constitute reasonable tolerances.

The Council considers it important in a time of serious national self-examination to be frank about the place of the Atlantic Region in the Canadian federation. It is concerned not with assigning blame or plaudits for the Region's economic disappointments or progress. The Council's concerns are that an economic development strategy for the Region be identified and recognized not only to give direction, prospect and self-fulfilment to the people of Atlantic Canada but to form a centrepiece in a strong Canada.

II - COMPARATIVE STATE OF THE REGION

Chapters 1 and 2 of the Report provide much of the factual basis for the Council's assertions about what should be done to place the economy of the Region on a sounder footing in the eighties. Chapter 1 examines the extent of current economic disparity between the rest of Canada and the Region by various measurements of economic performance in the seventies, and the means employed by the national government to minimize the disparities. Chapter 2 reviews briefly the historical experience of the Region in the national economic context since Confederation.

It is apparent from the experience of the seventies that the disparities have continued to widen. It is further apparent that the means employed by the national government to minimize them, while notably improving the material standard of living in the Region, for the most part (the 200-mile limit being a dramatic exception) have had the effect of palliatives in their impact upon the basic vulnerability of the regional economy.

There has been a noticeable improvement in the percentage of personal income per capita for the Region, compared to the rest of Canada, from 69.4% in 1970 to 72.7% in 1977. The absolute dollar difference, however, increased from \$986 in 1970 to \$2,064 in 1977, and the divergence is continuing. That some relative improvement occurred appears to have resulted almost entirely from continuing growth in government transfer payments to persons, particularly unemployment insurance benefits. Comparisons between the Region and the rest of Canada by earned income and transfer payments as components of per capita income for 1970 and 1976 are given in Table S1.

Provincial governments of the Region have also become more reliant on federal transfers, although such reliance has been to a lesser degree than individuals. Overall dependence of the Region on federal transfer payments increased from 20.3% of gross regional expenditures in 1970 to 26.4% by 1976, and was at that time nearly three times higher than for the rest of Canada and more than twice as high as for the most dependent province outside the Region, as shown in Table S2. Relatively more dependent on transfer payments as the Region is, however, the dollar amounts paid to some other provinces are substantially larger, as shown in Table S3, because some of the component payments are functions of population.

TABLE S1

Categories^(a) of Per Capita Personal Income for the
Atlantic Provinces and the Rest of Canada,
1970 and 1976

	1970					1976				
	Atlantic Provinces		Rest of Canada		Atlantic Provinces as % of Rest of Canada	Atlantic Provinces		Rest of Canada		Atlantic Provinces as % of Rest of Canada
	\$	% of Total	\$	% of Total		\$	% of Total	\$	% of Total	
Earned Income Category ^(a)	1,877	83.8	2,902	90.0	64.7	4,013	79.4	6,091	88.1	65.9
Transfer Payment Category ^(a)	363	16.2	324	10.0	112.0	1,041	20.6	825	11.9	126.2
	2,240	100.0	3,226	100.0	69.4	5,054	100.0	6,916	100.0	73.1

Source: Statistics Canada 13-201, "National Income and Expenditure Accounts".

(a) Components of each of the two categories are as defined for the purposes of the Statistics Canada document cited (13-201).

TABLE S2

Combined Federal Transfer Payments to Provincial Governments and
Persons as Percent of Gross Provincial Expenditure - 1970 to 1976

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Prov.	Que.	Ont.	Man.	Sask.	Alb.	B.C.	Canada	Canada Less Atlantic Provinces
1970	25.4	30.2	17.2	19.3	20.3	8.7	6.5	10.8	11.3	7.2	8.2	8.5	7.7
1971	28.6	34.2	18.9	22.4	22.9	10.2	6.9	12.3	12.7	7.7	8.9	9.4	8.5
1972	31.4	36.8	20.5	23.1	24.3	10.7	7.3	12.5	15.1	8.0	9.5	9.9	9.0
1973	30.8	31.8	20.4	22.7	23.9	10.3	6.8	11.8	12.8	6.9	8.7	9.3	8.4
1974	34.3	38.2	21.7	24.3	26.0	11.2	7.2	11.9	10.9	7.2	9.1	9.8	8.8
1975	36.3	42.7	24.1	26.2	28.2	12.4	8.3	12.8	10.3	6.4	10.7	10.8	9.7
1976	32.0	41.3	22.8	25.0	26.4	11.8	8.1	12.2	8.9	6.0	10.1	10.3	9.2

Source: Calculated from Statistics Canada - 13-213, "Provincial Economic Accounts",
Table 2, Line 20, and Table 3, Lines 49 and 69.

TABLE S3

Federal Transfer Payments to Provincial Governments and to Persons 1970-76

(in \$ millions)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Prov.	Que.	Ont.	Man.	Sask.	Alb.	B.C., Yuk. & N.W.T.	CANADA
1970	297	72	382	316	1,067	1,917	2,364	392	337	508	773	7,360
1971	364	88	446	398	1,296	2,427	2,739	482	444	593	931	8,914
1972	416	106	553	471	1,546	2,829	3,273	543	548	706	1,139	10,586
1973	480	117	636	542	1,775	3,110	3,550	610	597	764	1,294	11,702
1974	624	146	763	667	2,200	4,014	4,403	725	670	1,101	1,603	14,718
1975	761	191	971	845	2,768	4,958	5,575	889	714	1,152	2,078	18,137
1976	805	220	1,077	920	3,022	5,402	6,091	970	710	1,249	2,295	19,744
% Change	171.0	205.6	181.9	191.1	183.2	181.8	158.1	147.5	110.7	145.9	196.9	168.3

Source: Statistics Canada - 13-213, "Provincial Economic Accounts",
Table 3, Lines 69 and 49.

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The official unemployment rate for the Region rose much faster than the rate for the rest of Canada in the seventies (Table S4), and was 12.7% in 1977 compared to 7.7% for the rest of Canada. Employment from 1970 to 1977 grew at a slower rate, and the Region's share of total Canadian employment fell marginally. New capital investment in the Region grew at half the rate for the nation as a whole in the 1970-77 period, while the Region's share of annual new capital investment in Canada declined from 9.2% in 1970 to 6.4% in 1977.

Undoubtedly the Region would have fared much worse in the seventies without the large federal transfers and regional development programs, but even in combination with internal wealth-generating activity they have not been sufficient to prevent significant slippage in the Region's relative economic position.

Growing dependence of the Region on federal transfer payments appears to have had the effect of changing the structure of the regional economy in a way which increases its vulnerability in the event that transfer payments are curtailed and new economic opportunities are not found to compensate for the loss. The mix of total employment in the Region among primary, secondary and tertiary sectors has developed in recent years, in the Council's view, an excessive degree of dependence on tertiary employment. Table S5 shows the change in the sectoral pattern between 1970 and 1977. In the primary industries employment in the Region declined by 12.5% over the 1970-77 period, although the impact of the 200-mile limit on primary sector employment may not be fully reflected up to date by these figures. There was also a decline in the relative importance of manufacturing. Although the number of employed people in manufacturing in the Region has shown a small gain overall, a decline in numbers began to appear in 1977. In the service industries, on the other hand, there has been a notable increase in its share of total regional employment, from 55.5% in 1970 to 60.6% in 1977. To some degree this pattern parallels the Canadian experience as a whole, although the nation is somewhat less dependent on service industries and is showing a gain in primary sector employment while the Region is showing a loss.

TABLE S4

Unemployment Rates for the Atlantic Provinces
And the Rest of Canada
1970-77^(a)

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Rest of Canada
1970	7.3	6.7	5.4	6.3	6.2	5.7
1971	8.5	7.2	7.0	6.1	7.1	6.2
1972	9.2	11.1	7.1	7.0	7.8	6.1
1973	10.1	7.2	6.7	7.8	8.0	5.4
1974	13.3	7.4	6.8	7.3	8.5	5.1
1975	14.2	7.7	7.8	9.9	9.9	6.7
1976	13.6	9.8	9.6	11.1	11.0	6.8
1977	15.9	10.0	10.7	13.4	12.7	7.7

Source: Statistics Canada 71-001, "Labour Force Survey".

(a) Rates shown for 1970-75 have been converted to the new labour force surveys base introduced by Statistics Canada in 1976.

TABLE S5

Changes in Total Atlantic Region
Employment by Sector,
1970 to 1977

(in thousands)

Sector	1970	1977	% Change	% Net Relative Change (a)
Primary	64	56	-12.5	-35.9
Manufacturing	95	98	+ 3.2	-20.0
Support	113	136	+20.4	- 2.7
Service	340	446	+31.2	+ 7.9
TOTAL	612	736	+20.3	- 2.9

Source: Statistics Canada "Labour Force Survey",
 December, 1977, and unpublished Statistics
 Canada data for 1970.

(a) Percentage net relative change is the change in employment
 in the Region relative to the Canadian employment growth rate.

The Council's concern from a regional viewpoint is that too little of the growth in service employment is related to the generation of goods production in the Region and too much is artificially induced by transfer payments. In addition, much of the impact of service industry growth leaks quickly from the Region in the form of consumer spending to help sustain goods production elsewhere.

Whether through oversight or the need to find funds for the increasing flow of individual (e.g., unemployment insurance) federal transfer payments to the Region to maintain its standard of living, funds provided annually to the Region for special regional development measures by the Department of Regional Economic Expansion (DREE) have been declining in real terms during the seventies. The decline has also been evident in the annual budgets for DREE as a whole, which fell from 2.1% of gross general federal expenditures in 1970-71 to 1.2% in 1977-78.

The Council has been puzzled to note that the decline in real terms in overall DREE expenditure has been applied generally to the Atlantic Region rather than to the rest of Canada, despite the adverse trends in economic disparities. This finding is not significantly altered when annual funding for the Cape Breton Development Corporation (DEVCO) is added to DREE expenditures, although the Council has preferred to treat DEVCO as a unique commitment from the sixties, in large measure concerned with the maintenance and rehabilitation of a coal-mining operation under public ownership.

As noted in the Preface to the Council's Report, it would appear that there was no deliberate attempt to allocate DREE funding by province, since the Department, at least from 1974 onwards, would be responding to good initiatives for lagging geographic areas across the country. Clearly the Atlantic Region has received a substantial share of the total funding made available to DREE (about 44% of the total from 1969-70 to 1977-78), but the proportion to the Atlantic Region has declined from a high of about 53% in 1970-71 to about 38% in 1977-78. There may be questions

whether the Atlantic Provinces have been tardy in bringing forward good initiatives and whether reviews of provincial proposals by federal departments other than DREE have slowed down the flow of funds. These figures are also undoubtedly influenced by the fact that the DREE effort started in the early seventies with major expenditures in the Atlantic Region and thus the early base for the percentage calculation is large. Nonetheless, the figures do suggest that a DREE program widely diversified in Canada is not going to enable the Atlantic Region to close the economic disparity gap significantly. The effort afforded for DREE's special measures in the Atlantic Region, moreover, does not appear from the evidence to have been governed in scale and nature by objective performance measurements related to the progressive reduction of economic disparities between the rest of Canada and the Region.

The Council believes that a unique and fundamental approach is required by the national government to the economic malaise of the Atlantic Provinces, and that the historical origins of the malaise as well as its current symptoms must be taken into account, if an adequate understanding is to be applied to its treatment.

III - HISTORICAL PERSPECTIVE

All of the Atlantic Provinces experienced serious misgivings before deciding to join the Canadian federation, but each in its own set of circumstances was persuaded, two at the very beginning and two later, that Confederation could only mean accelerated economic development for its people.

With the promise of the Intercolonial Railway, the Maritimes were convinced of a wider market for their emerging manufacturing enterprises, which with well established primary industries and a world presence in shipping constituted viable, self-reliant economies built up over a century by hard-working, outward-looking people. In 1871 the Maritimes had 20% of Canada's population and produced a quarter of the country's mining output. By 1880 manufacturing accounted for a respectable 37% of Maritime output, and a multiplicity of small to medium-sized firms competed for markets both within the Region and further afield. Although technological change was displacing excellence in wooden sailing ships, the Maritimes shared expectantly in the preoccupation of the new nation with the opening up of the West and embraced the national policy of protective tariffs, railway-building and immigration for the prairies that would sustain the Region's industrial growth. Textiles, railway track, clothing, lumber and assorted hardware and foodstuffs were made and sold from the Region. Freight rates on the Intercolonial were controlled in the Region. There was also a cultural burst of creative energy in poetry, song and invention.

Early optimism in the Maritimes proved illusory in the second half century of Confederation. As Canada expanded westward and major metropolitan centres grew in Montreal and Toronto with a western extension in Winnipeg and a national capital in Ottawa to orchestrate the process, the industrial enclaves in the Maritimes found themselves much farther removed from the centre of gravity of the domestic market than their competitors, and their political influence in the union diminished as their population became less and less significant in the national picture. Financial institutions drifted away and industries closed, sometimes after merging with entrepreneurs from the regions of Canada they were designed to serve. Although the Intercolonial Railway had shown a modest operating surplus between 1897 and 1917, it was included in the collection of railways

formed into the Canadian National Railways system in 1918 because of financial difficulties from railway over-building in the West. Drastic freight rate increases, accompanied by equally oppressive railway operating losses, were now imposed on the Maritimes from Montreal, and between 1920 and 1926 the number of manufacturing jobs in the principal Maritime industrial centres (e.g., Halifax, Moncton, Truro, Amherst, Saint John and Sydney) fell by 44% and 150,000 Maritimers left the Region.

A sustained protest movement in the Maritimes during the twenties was eventually successful in obtaining compensation in the form of freight subsidies on westbound goods on the eve of the depression of the thirties, but Maritime industry never did recover as a factor in the national market. Concentration of financial, industrial and political power in Central Canada continued, much of its industry in the form of branch plant subsidiaries of U.S. firms. In a state of arrested development, the Maritimes were left to get by on their own resources in what was to become a Canadian backwater, useful to the nation as a source of manpower and as a captive market for Central Canadian industry, but no longer in the main channel.

Newfoundland joined late, notwithstanding the experience of the Maritimes, and has benefitted substantially from the federal transfer payment system which was evolving in response to perceived national obligations to distressed persons and provinces. Its economic development had proceeded more slowly than the Maritimes'. Having weathered a series of political and economic afflictions, however, Newfoundland did not come into the union empty-handed. It had a substantial resource base, was out of debt, had a strong entrepreneurial tradition, a self-reliant population, active mines and paper-mills, 150,000 square miles of land, first claim to a half million square miles of continental shelf, a thorough knowledge of the offerings of Canadian mail-order houses, and a sense of identity possibly matched only by Quebec in the Canadian family and as deeply rooted in folklore and linguistic adaptation.

Newfoundland's fishery revival prospects dissipated during the fifties and sixties, as the relatively strong indigenous business community, long resistant to Confederation, shifted rather quickly from traditional fishery exports, local trade, and small manufacturing to warehousing and distribution for national and multi-national firms. A low batting average in implanting new industry as a substitute for fishery employment led to much out-migration in the fifties and sixties and to very high unemployment rates by the mid-seventies. The value of the Newfoundland fishing grounds in world food supply was not ignored by foreign fleets, as fishing stocks were depleted through over-fishing. Newfoundlanders meanwhile were becoming accustomed in increasing numbers to a demoralizing dependency on federal transfer payments both to supplement personal income and to sustain the provincial economy. Undoubtedly the personal security of Newfoundlanders was improved by the decision of 1949, but it was at the price of becoming with Maritimers a colony of the "empire of the St. Lawrence".

The colonial analogy is hardly new nor its connotations all valid. People of the Region were willing accomplices in much of the process, which can hardly be described as an imperial design, though the effect lingers. Collectively the Region has been less imaginative, enterprising and resourceful than its advantages warranted.

An economic development strategy for the Region over the next decade should be concerned as much with identifying national economic roles for the Region, in anticipation of the kind of new Canadian arrangement that would be acceptable to it, as with postulating workable initiatives for an entrepreneurial renaissance based on the Region's resources. The Council is not advocating that historic grievances be made the basis for bargaining, only that the historic experience be kept in mind, particularly by the Region's negotiators. The Council does recommend that an in-depth but popularly readable economic history of the Atlantic Region be produced as a major starting point for intelligent mapping out of future economic policies.

IV - NEW DIMENSIONS FOR THE REGIONAL ECONOMY

Much as the Atlantic Region may have to depend in the immediate future on a continuing flow of federal transfers to provincial governments and individuals, the Council feels that massive reliance on these financial instruments by both levels of government is in the long run counter-productive as a means of revitalizing the regional economy. The Council advocates a gradual shift in government policy away from a largely financial response to the Region's economic difficulties toward a redistribution of some elements of national economic activity itself. Such a move, in the Council's view, is essential if the Atlantic Region is to supplement the mix and volume of its internally generated economic activity on a scale which offers hope for the Region to catch up with the rest of Canada in a reasonable period.

The Council has a number of roles to suggest, but what it wishes to emphasize most is that conscious decision-making is required. It does not subscribe to the view that the raising of the freight rates by the CNR after 1918 was a deliberate decision to undermine the competitiveness of Maritime industry: only that such decisions often lack regional sensitivity.

Since the whole population of the Region only approximates that of Metropolitan Toronto, the volume of "national economic activity" to be channelled to the Region need not be considered an insuperable barrier, in view of the substantial potential of the Region's resource base. Great care should be taken, moreover, in ensuring that the mix of new activity complements the Region's natural assets and helps to fill gaps in the skills and technology required in the Region. Otherwise, in the Council's view, the volume of national economic activity to be taken on by the Region would have to be much larger, or the drain on the federal Treasury for transfer payments correspondingly prolonged.

The Council looks to the national government, because of its responsibility for the national economy, for leadership in the implementation of this major facet of an Atlantic Region development strategy. Among the means available to induce additional economic activity to locate in the Atlantic Region are:

- (a) relocation of additional federal government operations to the Region (just one example: administration of the national lottery);
- (b) special regional incentives for, and moral suasion of, national corporations and other national organizations;
- (c) certain regionally differentiated tax inducements and fiscal policies;
- (d) redefining the concept of what benefits Canada, and making regional economic development a major part of that redefinition;
- (e) using the federal declaratory power to make the Atlantic Region the locus of national projects such as an Eastern Canada power grid or a complex for extraction and delivery of Arctic oil and gas;
- (f) giving the Atlantic Region high priority in the national need to create a number of world-scale centres of excellence in technological endeavour consistent with the Region's resources; and
- (g) tariff negotiations and efforts by consulates abroad to identify and promote trading opportunities for the Region.

Provincial governments and the private sector both within the Region and elsewhere in Canada are by no means to be regarded as indifferent bystanders in a process in which the national government is expected to show leadership. Continuing consultations between both levels of government and the private sector would be essential. Provincial governments would be expected to be active seekers of new economic roles for the Region, to indicate preferences, and to use their own powers to create situations to which the national government and the private sector might constructively respond. The private sector within the Region might do likewise and cultivate in their own businesses the seed-beds

of new or expanded economic activity oriented to the possibilities for new roles for the regional economy. The private sector in the rest of Canada, particularly national and multi-national corporations which have long ignored the Atlantic Region except as an outlet for their goods and services, need special reminders to consider Atlantic Canada in their plans for investment and expansion. A thoughtful reminder has already been delivered by Premier William Davis of Ontario in his brief to the Task Force on National Unity in 1977.

Examples of new and expanded economic roles which the Council suggests might be considered for the Region are the following:

- (a) a world-scale competence for Canada in a wide range of ocean-based economic activity, including offshore resource development, cold water research, etc.;
- (b) receiving terminal and supply base for development of the resources of the Arctic Islands;
- (c) creation of a strategic complex of energy-intensive industries in Labrador, where hydro potential is large and transmission costs to distant metropolitan centres is high;
- (d) production and assembly plants for export to Atlantic Rim countries;
- (e) service centres for national needs in some of the family of federal government administrative operations (e.g., printing, statistics, data processing, laboratory testing, supply management, staff training);
- (f) research and development centre for unconventional means of energy generation;
- (g) specialized services for national corporations;
- (h) continental gateway transportation, both for import and export; and

- (i) managing the extended Atlantic fishing limits of Canada to create in the Region a much expanded and diversified fishing industry complex.

The Council appreciates that a somewhat different view of good corporate citizenship may be needed in Canada, from the present tendency to centralize as many head office and production operations as possible, but has been heartened by the example recently shown by Northern Telecom Canada Limited. This company has established a number of manufacturing operations in the Atlantic Region, producing high-value, low-bulk components for its national operations and employing some 500 people. A company spokesman has described the move not as an altruistic gesture but as a sound business undertaking, in view of the extensive usage of the company's products in the Region. Not only might such decisions be welcomed in the Region, but public attention might also be drawn to those national corporations which make no effort to create employment in the Region beyond the minimum required to market their products.

In advocating a more active leadership role for the national government in regional economic balancing, the Council has noted the diffusion of responsibilities for this function among several departments and considers that it would be more appropriate in a federation to have them combined into one department of at least equal status with such major national functions as defence, external affairs and finance. The responsibilities at present go beyond the major programs of equalization grants, transportation subsidies and special measures (DREE) to include make-work programs, regionally differentiated provisions in taxation and unemployment insurance, ad hoc decisions on locational options for all departments' capital expenditure and operational deployment, and policies for particular industries largely confined to a single region. It is true that there is a focus of orchestration in the Prime Minister's office for all major federal decision-making, but otherwise no minister has undivided responsibility for the regional economic balancing role, either in the application of existing instruments or in their evaluation and modification as required. In the Council's view the role is of sufficient current relevance to Canada's future as to warrant consolidating the responsibility and legal status in a department of regional economic affairs to be headed at the Deputy Prime Minister level to minimize organizational friction and conflicting policies.

Of the economic roles postulated for the Atlantic Region, none in the Council's view is of greater long-term significance for both the regional and national economies than the family of present and potential activities linked to the sea and the Arctic. They include offshore oil and gas, oceanographic and biological research, shipping, fishing, Arctic resources and transportation, and the refinement of all the related technologies. In all of these the Atlantic Region has the natural advantages of immediate access, a sea-faring background, and the nucleus for a large composite industry. For Canada the continental shelf and the Arctic Islands constitute a frontier territory of comparable challenge to that of the West a century ago.

The Region is critically dependent on national decision-making in all marine fields. It has welcomed the national decision extending jurisdiction over a 200-mile fishing zone in 1977 as one designed to give the Region a tremendous opportunity and a national economic role. A more recent decision to establish a large laboratory for ice studies in St. John's rather than in Ottawa reinforces the confidence felt in the Region that its potential is being recognized and reflected in locational decisions.

Jurisdictional disputes over fishing and offshore resources to some degree have been inhibiting investment in the Region, in the opinion of some businessmen at the chief executive officer level with whom Council has consulted. Provincial management of land resources has long been regarded in Canada as the cornerstone of provincial capability to provide employment. The Atlantic Provinces, territorially small by Canadian standards, have an interest in offshore resources comparable to the interests of other provinces in their lands. Whether through national preoccupation with a great land mass or through a lack of cohesion in the Atlantic Region, only in recent years has the potential been recognized for a strong regional economy based on the offshore.

In view of provincial realities, the Council is not advocating that the Atlantic Provinces adopt political union as a means of playing a more active role in national life. Acting jointly in their many common interests to a much greater degree, however, should prove to have substantial economic benefit. The Council has suggested among other

things that regional positions be determined on national issues to the extent provincial positions will permit; that the lack of a major metropolitan centre in the Region be remedied to some extent by complementary specialization between cities; that the four provinces develop their universities to a common plan providing for a regional network of professional training in major resource fields; and that consideration be given to adopting a regional economic strategy that best accords with the strategy and aspirations of each of the provinces.

V - RESOURCES

Although the known resource base of the Region is unlikely in the period projected to yield the means of sustaining and improving the material standard of living now enjoyed, the potential for diversification of employment is considerable and the resource endowment itself has been much enhanced by new prospects in the fishery and in renewable and non-renewable energy. If all else failed, the resource base would remain the Region's mainstay, and accordingly warrants high priority in a development strategy.

The Council has reviewed the potential and recent performance of the Region's major resource sectors and details of its findings are given in Chapter 5 of the Report. All sectors appear capable of increased output both in volume and variety, some more limited than others and all subject to the quality of entrepreneurial initiative, to world trading conditions, and to the imperatives of annual or finite yields from the resources themselves. Generally the additional employment potential exists in the ability of the Region and national tariff negotiators to improve performance in value added prior to export, since most of the Region's current resource output is sold outside in raw or semi-processed form. Canada's current Minister of Fisheries has estimated, for example, that the Atlantic fishery can deliver possibly 20,000 more jobs in processing and 15,000 more in associated industries. The Council has not attempted to quantify job potential by resource sector, but recommends adoption of resource development policies which encourage investment interest in such potential, particularly in sophistication of effort.

A Council committee visited three Scandinavian countries in early 1978 and were astonished to learn at first-hand how people obliged to rely on intelligent use of a resource endowment and geographical orientation similar to Atlantic Canada's have been able to attain world prominence in standard of living and creative achievement. Forests in Sweden are cultivated, and technology in forest-based industries is exported to many countries of the world. Swedish mines have not had a case of silicosis in 20 years. Quality fish products in Norway are a matter of national pride. Regional development policies in Norway are deliberately structured to provide living conditions of equal value for all residents, regardless of location, even in the Arctic. Minimum qualifications in agricultural education are applied in Denmark for eligibility for financial assistance in farming. The Danes have been selling canned mussels and frozen cod tongues in Newfoundland.

FISHERIES

Canada's declaration on January 1, 1977, of a 200-mile fishing zone opened an exciting new era for the Atlantic fishery and related industries, long in a troubled and subsidized state and subject to the pillage of fishing stocks by foreign fleets. The zone represents a major national commitment toward restoring the Atlantic Region to economic health. The move is accompanied by an apparent determination to manage the stocks in Canada's best interests, which in large measure constitute the interests of the Atlantic Region.

Fishery prospects for the Region include an increasing harvest of most staple species; expansion into species hitherto largely ignored or left to others; national consciousness of the fishery as an important industry and source of good food; assembly in the Region of a large family of scientific, professional and industrial skills; extensive support industries in equipment manufacture and repair; expansion and sophistication of fish processing; strengthening of the settlement pattern of coastal communities into inter-locking groups; and expansion of fishery products into large new markets. A strategy for optimum economic benefit to the Region should embrace all such prospects and include at least these major elements:

Consolidation of Zone Boundaries - Outstanding questions include the need to reach an amicable settlement, based on the equidistant principle and historic fishing practices, between the United States and Canada off the mouth of the Bay of Fundy; extension where necessary to the equidistant line between Canada and Greenland to protect the migratory range of Atlantic salmon; rejection of French claims to all but an inshore fishing zone around St. Pierre and Miquelon; and extension of the Canadian zone, and indeed ownership, to all of the Continental Shelf, including the Flemish Cap.

Stock Controls and Quota Allocations - A regime of strict controls; based on adequate scientific knowledge and foreign nation quota allocations which do not impede orderly growth of the Canadian fishery, must be maintained indefinitely.

Federal-Provincial Relationships - Domestic accord on fishery issues is vital to systematic development. While the strong national commitment of recent years has placed the industry on a new footing in dramatic fashion, the provinces cannot be excluded from the on-going management in the interests of their own communities. The Council recommends that all federal directorates concerned with the Atlantic fishery be located in the Region, particularly its management of scientific effort and that a federal-provincial commission (including Quebec) be established to oversee the management of the whole Atlantic fishery. Investment in the long-term prospects of the fishery is reportedly being inhibited by jurisdictional disputes and uncertainty in some management issues.

Income Stabilization - Special unemployment insurance measures for fishermen, designed for an earlier era, appear incompatible with a steadily strengthening fishery and should be phased out in favour of a contributory catch insurance and price support system.

Technological Adaptation - Growth potential in the fishing and associated industries warrants encouragement of technological excellence in biological surveys; ship, gear and plant design and construction; catching methods; aquaculture; storage and handling; processing; marketing; transportation; and industrial engineering. Traditional and borrowed technology have their place, but indigenous capability is needed to solve problems characteristic to the Region in multi-disciplinary fashion (e.g., how to process and market squid for maximum return to the Region). Industrial assistance measures discussed in the next chapter have wide application to the fishery and related industries; joint ventures with foreign nations under strict conditions can accelerate adoption of innovative technology in the Atlantic fishery; and a net worth of training institutions and professional specialties at university level designed for regional needs is recommended.

FORESTS

The forests have long provided stable and rewarding employment in the Atlantic Region, and both current and long-term market prospects are encouraging. Much of the Region's

forests are capable of increased volume of output only with more intensive forest management practices, but Labrador forests are virtually untouched with an annual allowable cut sufficient to sustain at least two major mills.

Over 900 businesses were engaged in logging and manufacture of wood products in the Region in 1975, directly employing some 27,000 people. With 5.7% of the standing merchantable timber in Canada, the Region's harvest was 11.3% of the national total in 1975. A professional forestry school already exists in the Region, at the University of New Brunswick.

As in other renewable resource-based industries of the Region, a development strategy must include provision for improved resource management, diversification of processing operations in the Region, aggressive marketing and tariff negotiations, and improved technological competence in the application of raw and semi-processed material to new uses. Specifically in the case of forestry, the following strategic direction is recommended:

Resource Management - Since intensive forest management practices have a substantial labour component, Canada and the provinces might consider joint financing of Crown corporations to cultivate selected forests on Crown lands and on private lands for a service fee. National participation would be warranted on regional development grounds and as a productive alternative to unemployment insurance and make-work projects for many people. Provincial efforts should be complemented by land use planning and taxation policies favouring intensive forest land management by private owners and multiple uses wherever practicable, including recreation.

Diversification - Since employment potential per unit of wood volume is higher when processed into lumber and related uses than into pulp and paper, it is important to the Region to improve its usage of sawlog stock and to encourage integration of lumber production and pulp and paper operations. At increasing energy costs wooden articles and components may replace metal usage in some applications, and local wood supplies may replace imported lumber for many purposes. The Region is at present largely confined to production of low grade paper (newsprint and linerboard), and markets and tariff concessions should be sought to permit production of fine papers. Surplus and weeded forest biomass may also have significant potential to supplement energy generation in the Region, already highest-priced in Canada.

MINING

Mining in the Atlantic Region has had net growth in both production and employment in the seventies and further growth is likely. Dominated by iron ore production in Labrador, the industry is a large employer in all provinces but Prince Edward Island and both levels of government have combined efforts to facilitate new exploration. Immediate new production prospects include expansion of coal mining in Nova Scotia, base metal mining and potash in New Brunswick, and uranium in Labrador. If fuels are excluded, the mineral production of the Region has shown a gain on the national total from 12.5% in 1971 to 15% in 1976.

With its extensive mining operations carried out over many years, the Region has not been without its share of mine closures, community disruptions, and health and safety hazards. With the exception of Nova Scotia, where the output is largely of non-metallic minerals and structural materials for local use, the Region exports most of its mining output in raw or minimally processed form. Although Canada's Export Development Corporation has underwritten part of the cost of establishing a zinc smelter in Peru and a lead-zinc mine in Ireland, the Province of New Brunswick has so far been unsuccessful in its efforts to establish a zinc smelter in its zinc-producing Bathurst area, one of high unemployment and under-employment.

The general mining strategy recommended by the Council has three main elements: continuing government activity in mapping and geological surveys to build and maintain a regional capability and to facilitate exploration for new mineral finds; refinement of public policy respecting health and safety hazards, and the social costs of mine closures; and careful scrutiny of relevant federal policies and new production plans of mining companies in the Region to encourage local processing of mineral assets wherever possible.

AGRICULTURE

While there are many examples of highly successful adaptation to technological and market changes in the Region's agriculture, generally the sector has been marked by declines

in total acreage farmed, in the number of active farms, and in the interest of younger people. A myriad of assistance programs has not altogether reversed these trends, although the value of farm cash receipts has been keeping pace with inflation and in 1976 exceeded \$100 million in each of the Maritime Provinces and \$20 million in Newfoundland. It is estimated that there are 14.1 million acres of soils suitable for general arable use in the Region, of which only 2.7 million were in use as farms in 1976, compared with about 3.1 million acres in 1966. While the possibilities for expanding production are great, the Council does not wish to minimize the difficulties of generating adequate farm incomes in the face of ever-increasing production costs, particularly for energy. Yet there are substantial imports of agricultural products which could be grown in the Region and which are also subject to high energy costs as well as the cost of transportation. The Region has also demonstrated over many years a noteworthy capacity to export processed food products of agricultural origin, as well as a number of crops of high quality produce.

The Council has noted a number of specific problems and opportunities to be addressed in a development strategy for agriculture in the Region:

Technological Adaptation - Because of the split jurisdiction and the myriad of assistance programs, agricultural representatives (agreps) are generally too preoccupied with delivery of assistance to be able to concentrate on their prime function of technical advice to the farmer. The serious gap between agricultural research and its application to the particular circumstances of the farmer of the Region should be remedied by transferring both the research and extension roles to the provincial universities, one of which should offer degrees in agriculture with the others affiliated. Delivery of assistance programs should be the responsibility of government departments. Although there has been a trend to farms of larger size, what matters is whether the mix of size and intensity of operation constitutes a viable economic unit.

Land Management - Improved agricultural land is a valuable resource capable of annual economic returns indefinitely. Loss to other uses or misuses, whether through

urban encroachment or abandonment of uneconomic farm units, is of sufficient public concern to warrant zoning and taxation policies to keep good agricultural land in production.

Income Stabilization and Marketing - Although marketing boards help to provide security to the farmer and reasonably stable prices to the consumer, there are penalties to be paid in efficiency and initiative which might be minimized by returning some features of a free market combined with income stabilization and crop insurance programs.

VI - ENTERPRISE

The Council considers the need to revitalize enterprise in the Region to be all-pervasive. Its separate chapter on business (Chapter 6) is meant to have some degree of application not only to manufacturing, wholesaling, retailing and the like, but also to resource extraction, tourism, construction, and a host of general and professional services.

A major common factor is entrepreneurship, to be fostered at the fisherman, farmer, student, small business and professional levels as well as by captains of industry. Other common factors include managerial and technological talent, access to capital, favourable public policies, business intelligence, the profit motive, and the personal satisfaction in achievement.

Business performance in the Region appears to have suffered not only from the general slowdown of the seventies, but from a lack of confidence more marked than in the rest of Canada. Investment in the Region grew at less than 5.8% annually in the 1973-76 period, compared to the national rate of 8.0%. The inverse correlation of the unemployment rates is all too apparent.

Because of the marked differences in general economic attainment between the Region and the rest of Canada, and the evidence that the Region's comparative failure to thrive is linked with historical oversights in national economic policies, the Council advocates a special package of stimulative measures for private sector attention to the Atlantic Region. That the principle of regional differentiation has now been recognized by the Government of Canada is noted in such measures as investment tax credits and regional development incentives, but the scale of such recognition to date is considered not large enough in relation to both the problems and opportunities facing the regional economy, as clearly indicated by comparative statistics presented in the Report.

The mix of business assistance measures recommended by the Council is designed to help combat the following specific problems and opportunities perceived from the regional viewpoint in consultation with the business community:

- (a) the vulnerability of the Region in attracting capital investment in a period of high borrowing costs;
- (b) shortage of venture capital availability in the Region;
- (c) the investment indifference to the Region of the national corporate sector, exemplified even by the Canada Development Corporation, of which the Government of Canada is still majority shareholder;
- (d) tariff and non-tariff barriers to the export of more highly processed resource-based products from the Region;
- (e) limited degree of regional differentiation in the Regional Development Incentives Act, and the need to improve access to it;
- (f) the need to cultivate technological competence oriented to industrial opportunities of the Region and to outside competition;
- (g) upgrading entrepreneurial and managerial quality in the Region's business community;
- (h) promotion of the Region's output and its advantages for attracting outside investment; and
- (i) revitalizing historic trade links with and via New England.

Among the measures recommended for a special package of business inducements for the Atlantic Region are an inverse tax system for manufacturing, to increase value added; tax-free debt instruments; tax incentives for stimulation of private venture capital; freer trade for selected products exportable from the Region; amendment of the Regional Development Incentives program; further regional differentiation provisions for investment tax credits, including investments in research and development undertakings; tax write-off provisions for selected growth industries of the

Region similar to those for the Canadian film and frontier petroleum industries; and establishment of an Atlantic Region Marketing and Development Association, to market regional products abroad and to attract outside investment to the Region. The Council has noted that the Canada Development Corporation, in which the Government of Canada still has about 68% ownership, has no direct investment in the Atlantic Region, and recommends that the Corporation make a conscientious effort to participate in the Region's economic development. The various recommendations made in the Report are based on the assumption that it is one of the principles of the Canadian federation that economic opportunity be reasonably distributed across the land. The proposals will cost money, but in the Council's view they represent an economic rather than a financial approach to a serious national problem.

For the medium and long term, as the Economic Council of Canada has noted in its 1977 Report "Living Together", the Region should move to correct a lag in productivity. The most glaring examples of low productivity in the Region are perhaps reflections of scale of operation, of outmoded plant, and of short entrepreneurial horizons. Defining the Region's economic problem as one of low productivity, however convenient a term, is to ignore the problem's historical origins. The aggregate view thus created, moreover, tends to malign unfairly the Atlantic Region worker and to inhibit investment on account of a reputation by no means entirely of the Region's own making. The Atlantic Development Council is aware of numerous examples of plants in the Region in which productivity levels are on a par with, or better than, those of plants elsewhere in the country or the world virtually identical in scale and managerial method. Until a richer mix of economic activity (including especially more extensive practical use of new research and technology) is cultivated in the Region, to eliminate present high unemployment and underemployment and to enlarge regional output, regional productivity overall is bound to remain low and to appear to reflect unfavourably on the Region's economic potential.

VII - SERVICES

The service industries now employ more than three-fifths of all employment in the Region, outstripping in this proportion both the rest of Canada and the New England States. Welcome as the growth in service employment has been, the Council is concerned that the apparent maturity of the regional economy is highly misleading, since the growth has resulted largely from the force-feeding of the regional economy by transfer payments. Had a comparable growth occurred in the Region's primary and secondary sectors to support the growth in the tertiary sector, the Council would be focussing far less emphasis on the national responsibility in an economic development strategy for the Region in the eighties. Much of the strategy proposed, therefore, seeks a transformation of the Region's service sector to rely on wealth-generating activities rooted in the Region.

Not all services are directly dependent on genuine growth in the local economy. Some have a wealth-generating capacity of their own. Examples include the repair and servicing of foreign ships, head office operations of national or multi-national corporations, national operations of government, tourism, and specialist consultant services competitive outside the local economy. Opportunities for the Region to enhance its capability in such fields are crucial to the development strategy proposed.

The Council is not suggesting that the mix of service employment generated in the Region by increased transfer payments is unneeded. That many new service skills are now available is a strength on which a healthier regional economy may be built. They depend heavily now, however, on the generosity rather than the needs of other Canadians and the needs of other potential customers of the Region. Such a climate, in the Council's view, is not conducive to service efficiency, and enterprise within the Region tends to be sapped of initiative and deluded about the realities of competition in the world outside.

TOURISM

Tourism is a service industry of major importance to all four Atlantic Provinces. To varying degrees it depends on the recreational attractiveness of the Region but in its wider connotation as the travel industry it reflects the general tempo of business activity and the disposable incomes of both residents and visitors. The Council has been encouraged to note that the annual number of visitors to the Region has remained modestly on the increase, despite rising costs, particularly for transportation. All four provinces are being assisted in their tourist development programs by the Department of Regional Economic Expansion. National Parks, National Historic Sites and Properties, and the Department of Industry, Trade and Commerce are also active forces in the growth of the Region's tourist industry.

From the regional perspective, in the Council's view, a development strategy for a healthy tourist industry requires further concerted action by the various jurisdictions to strengthen consumer confidence in the Region as an attractive place to visit and holiday; to maintain competitiveness without excessive subsidy in the face of rising costs; and to enhance the quality of tourist services consistent with the growing sophistication of demand. The Council has noted that the four provinces have already collaborated in tourist advertising for the Region and recommends that further joint action be taken in such fields as reservations systems, off-season activities and events, reliable and unbiased rating of accommodation, marketing, distinctive cuisine, and training. As in major resource fields, the Council considers tourism of sufficient economic importance to the Region to warrant in one of the universities of the Region a capability for professional training in hotel and resort management and related design skills, to which Canada (on regional development grounds) and the other three provinces would contribute. Representations received by the Council also indicate that a number of prevailing policies, at all levels of government and including those of utility companies, do not adequately discriminate for the needs of the tourist industry. Multiple taxation of

alcoholic beverages (for example, on wines with restaurant meals) seem to the Council to be particularly onerous, given other difficulties of remaining competitive, say, with New England as a tourist destination area. The Council recommends that all levels of government collaborate in an analysis of the impact of their policies on the tourist industry and in correcting policy anomalies, where necessary, to stimulate private sector interest in the industry.

DIRECTIONAL USE OF FEDERAL HOUSEKEEPING
EXPENDITURES

The value to the Region of being chosen for location of certain national operations of major companies and the federal government has been cited earlier in this summary. The case of the national government is a special one in this context because it is the largest single employer and purchaser in the country, and has a direct responsibility for the Atlantic Region as for all others.

Approximately 27% of the Canadian federal public service, some units on the scale of major industries, is concentrated in the National Capital Region as compared with approximately 12% for the United States in the Washington, D.C., area. The 1977-78 Canadian federal budget provided a pool of \$5.5 billion for the purchase of goods and services, including capital formation. In the Council's view, federal housekeeping expenditures alone constitute a powerful instrument for regional economic balance.

Already the Government of Canada has begun to consider and decide on the relocation of certain housekeeping operations from the National Capital Region to other regions of Canada. The Atlantic Region is to share in the relocation decisions recently announced, and the implementation will take several years.

The Council appreciates that not all federal operations are moveable, that some are location-specific, and that all are important to local economies in their present locations. Decisions to move established units will never be easy. The choice is easier when new units are formed; they may be initially located to help achieve regional economic balance or, if they must be located in Ottawa, may provide substitute employment to offset other operations that can be moved out. The Council recommends that possibilities for relocation of federal housekeeping units, not only from Ottawa, be kept under continuing review; that moves to the Atlantic Region be chosen to serve economic development purposes and not merely economic growth (relocations already announced for the Region have generally been mass clerical operations - the Region needs boosting in the management, scientific and technological bands of the work force spectrum); and that the administrative responsibility for locational decisions be placed in the proposed department of regional economic affairs under the responsibility of the Deputy Prime Minister.

The Council is less convinced that a serious federal commitment has been made to use ordinary federal purchasing operations to help develop the regional economy, and recommends some imaginative federal policy - making and action on this point.

VIII - SUPPORTING SECTORS - TRANSPORTATION, ENERGY, CONSTRUCTION

CONSTRUCTION

The Council has not attempted to catalogue desirable infrastructural improvements for the Region, and the development strategy it is proposing would enhance capability to meet local needs from a more active regional economy. Significant federal assistance to local infrastructure has been provided by the Department of Regional Economic Expansion and through various other measures. As noted earlier, however, the rate of capital investment in the Region has fallen seriously behind the average for the rest of Canada, and early reversal of the trend is required if the employment targets postulated for the Region's labour force to 1991 are to be realized, particularly in construction trades. Not since the ultimately abortive undertaking of the Intercolonial Railway has the Region been the beneficiary of a great national project designed solely for the long-term underpinning of the regional economy and its integration into the national economy as a contributor.

TRANSPORTATION

From a review of transportation policy and systems, the Council is convinced that the Region remains critically sensitive to the use and misuse of transportation as an instrument of economic development. Political leaders of the Region have expressed the grave apprehensions felt about the proposed application of the 'user pay' principle where transportation facilities are provided at public expense. As noted earlier, the Council is recommending that the formulation of national transportation policy to accommodate regional economic needs be brought under the responsibility of the proposed department of regional economic affairs.

Since much of the economy of the Atlantic Region is now based on an extensive system of transportation subsidies in place for many years, it would be helpful neither to the Region nor to Canada to phase them out until warranted by recovery of the regional economy. It may be helpful to modify them or even to extend them to aid recovery, as the Council recommended in 1971 and does again in the current Report.

In its review of present transportation systems serving the Region and major needs of the future, the Council has recommended improved rail freight service for movement of certain resource outputs in bulk; rigorous monitoring of the quality of transportation service, particularly where constitutional obligations are involved; improvement of road links to and via New England in the interests of north-south trade; and strong federal commitment to the transportation elements required to make the Atlantic Region the principal supply base and receiving centre for development of Arctic, marine and Labrador resources.

ENERGY

The energy crisis has been particularly severe in the Atlantic Region despite a massive federal government program to cushion the worst effects of dramatic increases in world oil prices. National energy policy has afforded a number of measures specifically to assist the Atlantic Region in conservation of energy, organization to tap new energy sources within the Region, a nuclear power plant in New Brunswick, a survey of Nova Scotia coal reserves, and linking Prince Edward Island to New Brunswick energy sources by submarine cable.

The Region is a net exporter of electric power because of long-term contractual commitments to sell the large Churchill Falls output to Quebec at extremely low rates set some years prior to the energy crisis. Labrador has abundant reserves of hydro power undeveloped, but geographical barriers and political uncertainties have so far inhibited financial feasibility. Other major possibilities for future energy supply include Fundy tides, coal reserves, and oil and

gas from the Continental Shelf and the Arctic Islands. Small rivers, peat and unconventional energy sources add to the picture of long-term security of energy supply, while in the short to medium term the energy crisis poses a serious barrier to economic development.

Short of early accommodation between Newfoundland and Quebec and use of the federal declaratory power, both of which appear doubtful, the Council considers it prudent for the Region to base its energy strategy options on:

- (a) conservation and readily available sources such as Nova Scotia coal and untapped rivers on the Island of Newfoundland;
- (b) the recall provisions in the Churchill Falls agreement to initiate heavy industrial development in Labrador, leading to further recalls;
- (c) Fundy tides, if feasible; and
- (d) national interest in
 - (i) reducing dependence on imported oil,
 - (ii) developing offshore and Arctic oil and gas supply as well as Labrador and Fundy hydro, for which agreements with the provinces concerned are in place or pending, and
 - (iii) overall regional development.

The combined fields of Arctic and other marine-linked transport systems and large new energy sources potentially available to the Region, which may be tied together in a massive development scheme, offer the basis of a great national project focussed on the Atlantic Provinces, with far-reaching economic benefits for both the Region and Canada.

IX - POPULATION PROJECTIONS AND ECONOMIC TARGETS

A development strategy for the coming decade must take account of the number of young citizens of the Region already born who will enter the labour force during the period. Accordingly, the Council commissioned a professional study of demographic projections for the Region to 1991, which fortunately was able to take into account recently processed data from the 1976 census.

The 0-14 age group is expected to continue to decline as a proportion of total population, while the 15-64 age group, from which the bulk of the labour force is drawn, will increase its share of the population because of high birth rates in the past. Those aged 65 and over will show only a slight increase. The dependency ratio (those in the two dependent age groups in relation to those in the 15-64 age group) will decline, indicating an easing of the burden on the working age group in the forecast period.

By five-year intervals, the total population of the Region and the population of labour force age are projected to increase as follows:

	<u>Total Population</u>	<u>15-64 Age Group</u>
1976	2,181,800	1,544,100
1981	2,299,000	1,699,200
1986	2,421,600	1,820,000
1991	2,538,300	1,929,500

If current labour participation rates, reflecting the difficulty of entering the labour force because of the shortage of jobs in recent years, are projected to 1991, the Region will need about 304,000 net additional jobs between 1976 and 1991 to attain a 5% unemployment rate as calculated by Statistics Canada, and about 400,000 jobs on the same basis if the Region is to reach current national labour participation rates by 1991. The Council has set its development strategy target in the upper half of this range, to allow for both a substantial improvement in the participation rate and a substantial reduction in the unemployment rate. Although the national

labour force participation rate may be expected to have improved on current rates by 1991, 400,000 net additional jobs in the Atlantic Region between 1976 and 1991 would likely satisfy the Council's general objective of attaining parity in employment rates with the rest of the nation within reasonable tolerances. (If a 5% unemployment rate is viewed as overly optimistic, it is to be noted that, at the present labour force participation rate of Canada as a whole, a 6% unemployment rate for the Region would still require 390,000 net additional jobs by 1991, and even a 9% rate would require 356,000).

A provincial breakdown of the 400,000 net additional jobs, reflecting a 1976 starting point in each case, is as follows:

Newfoundland	125,000
Prince Edward Island	16,000
Nova Scotia	133,000
New Brunswick	129,000

The Council's development strategy is based on the need to find rewarding employment within the Region to support its population, and it regards a national policy based on attracting surplus labour from the Region to economic hotspots elsewhere in Canada as an outdated view of Canadian federalism which should be discredited. The targets specified and implied in its strategy will likely be attainable only with an unprecedented federal commitment to the Region and extraordinary endeavour within the Region. The one is considered not too much to bargain for in the circumstances; the other is then a matter of converting the costly, frustrating idleness of high unemployment into productive effort.

X - ATTITUDES AND PERCEPTIONS

It is the Council's view that economic development occurs first in the minds of people, and that more efficient production and changes in economic structure to produce more sophisticated output are but reflections of a people's heightened perceptions of their condition and opportunity. Numerous peoples (e.g., in Holland, Japan, Israel, Switzerland) have shown that a rich endowment of physical resources is not the most basic requirement for the cultivation of human potential. It has been characteristic of Atlantic Canada that such structural economic changes as have occurred have been largely imposed from without rather than generated from within. In their state of dependence on the Canadian taxpayer at large and their heavy reliance for earnings on a relatively bountiful but poorly cultivated resource base, the people of the Atlantic Region are unlikely to experience acceleration in economic development unless they exercise the will and learn the skills to find a better combination of the political and economic factors at their disposal.

PROBLEM-SOLVING

In Atlantic Canada Community "A" lobster fishermen required storage facilities. By usual procedure a spokesman approached a community leader, clearly well educated and supposedly with connections, to request that government provide a storage pound as a matter of urgency, since the lobster season had already started. Rather new in the role, the person approached asked for details of what was required. The spokesman for the fishermen, unsure of specifications that would satisfy them, said that he did not know but that surely someone in government could figure it out. Distressed that the problem itself was not understood, though undoubtedly it existed, the new "leader" asked for a meeting with the fishermen. There it became apparent that the problem was not one of obtaining government assistance but one of defining size, materials and location for the lobster pound. Once they had defined the problem in these terms, the fishermen decided they could build the lobster pound themselves - quickly, as the season had already started.

COMMUNITIES

Developments of recent years in transportation, communications, rural electrification, health services and educational opportunity have virtually nullified isolation in most rural areas. The important community unit of the Region today, in the Council's view, is the area community, a cluster of small communities and rural settlements focussed on an urban centre within commuting distance of its supportive hinterland. With units varying in size, this settlement pattern is now well established in the Region, geared to local resources and opportunity. The Council feels it would be better to reinforce and build on the natural pattern rather than to disrupt it and force it into another mould.

The problems and aspirations of predominantly French-speaking area communities are common to those of other area communities all over the Region, except that language and cultural differences are an added complication, particularly in labour mobility. Strong efforts are needed to make the francophone population feel at home in the Region as a whole, so that the preferred options for francophone people wishing to move from rural areas or to advance in their careers lie within the Region itself. Of immediate relevance are efforts to provide bilingual services in regional centres where a significant number of people are, or become, francophone; and to attract to the urban centres firms which may wish to take advantage of the francophone presence in the area, particularly decentralization of federal government operations, in which francophone people of the Region clearly have an important national role.

OURSELVES

Of all the provinces of Canada, with the possible exception of Quebec, the Atlantic Provinces have evolved with the least dilution of the basic population mix which they had a hundred or more years ago. The various stocks have for the most part been thinned repeatedly by emigration but never overwhelmed nor even slightly jostled by immigration, as all but few scattered individuals of the millions of immigrants to Canada have passed the Region by to seek opportunities as advertised in the larger provinces. Attitudes about what was still British North America a hundred years ago understandably die harder in Atlantic Canada than elsewhere in the country. The people who stayed and propagated in the Region have had difficulty coming to terms with the Canadian reality at all stages of Canadian history since the opening up of the prairies, and they are perhaps least conscious as a regional group of the modern Canadian reality.

It appears to the Council that the disturbing questions being raised about the nature and future of Canada have a perplexity for people of the Atlantic Region that differs markedly from the perplexities of other Canadians, as theirs undoubtedly differ among themselves. Some of the people of Quebec appear to have resolved their perplexity by rejecting the Canadian reality. In Western Canada, it seems, there is a resolve to transform it. In Atlantic Canada there is curiously an apparent fear of losing what perhaps never was, or what has been lost for a long time. The Council suggests to the people of the Region that we come to terms first with our own reality, set our own priorities, and seek with other Canadians to create a new Canadian reality in which all may be more at ease.

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