party organization, its major participants, and the tone and content of its electoral appeals may, in the final analysis, be the real key to a fuller comprehension of its fate.

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## THREE BOOKS ON NOVA SCOTIA'S ECONOMY

Three volumes make up the "Atlantic Provinces Studies" series, which the Social Science Research Council of Canada devised in 1959.[1] The Atlantic Provinces Economic Council had asked the SSRCC to do something about research on their domain and funds came from the Canada Council and from other government bodies. Why only three Studies in thirteen years? Were there no funds for more? Were Atlantic social scientists so involved in contract research that they had little time for "fundamental studies of their own choosing" (Graham, p. ix)? Or, as other Canadians sometimes suspect, do the conditions in Atlantic universities simply discourage serious research? The reviewer can only record his puzzlement, and his regret that more work has not appeared.

Time has done strange things to the three books. All three authors draw their material from the fifties and very early sixties. George's observations cover the period 1946-62. Graham's account of fiscal arrangements really ends in 1963, and its emphasis is on the 1950's, when Nova Scotia was experimenting with "foundation programmes" in education and with other devices for financing roads and health. Sears, perhaps, has suffered most. Though his work was published in 1972, it is based on field research which ended in 1961. Only the authors, or their graduate students, can tell us whether the descriptions of a distant reality still apply. This question is important, because to prescribe for Nova Scotia's economic ills we must correctly perceive its present economic and social reality.

Graham's work is the most varied and ambitious. Besides describing and appraising the fiscal relations between Nova Scotia and its municipalities, he offers a sketch of Nova Scotia's economic development and an explanation of its poverty. With respect to growth and poverty various waves of opinion have passed over professional economists in the past decade, waves which have undermined the foundations of Graham's edifice, though they have not yet destroyed them. Graham thinks that Nova Scotia is poor because it has poor natural resources and because it uses all inputs rather badly. No one

1 John F. Graham, *Fiscal Adjustment and Economic Development: a Case Study of Nova Scotia* (Toronto, University of Toronto Press, 1963); Roy E. George, *A Leader and a Laggard: Manufacturing Industry in Nova Scotia, Quebec and Ontario* (Toronto, University of Toronto Press, 1970); John T. Sears, *Institutional Financing of Small Business in Nova Scotia* (Toronto, University of Toronto Press, 1972).

would quarrel with the latter statement. The former is more disputable. In the "sources-of-growth" analyses which were so fashionable in the 1960's, natural resources never made much of a contribution.[2] These analyses are now somewhat discredited, for it has become more fashionable to stress produced means of production — plant, equipment, and inventories. The extraordinary economic performance of Japan has also cast a good deal of doubt upon the general proposition that a region must be poor because it is deficient in natural resources. Finally, "cliometric" work never seems to succeed in crediting much growth or prosperity to the natural resource base. After all, resources do move in international and interregional trade; why, then, should a local deficiency be so serious?

Strictly speaking, the source-of-growth analyses are not relevant to the explanation of interregional income levels. But if aggregate or per-capita growth is not closely linked to natural resource endowments, one might think that a resource-deficient area could, by concentrating on the things which do raise output and output per capita, catch up with the better-endowed regions. The sources-of-growth studies have directed our attention to education, and to the rates at which technical changes are produced and introduced. We now know that if the costs of extra education are compared with the productivity of this education, much educational outlay is found to be a bad social investment. We also know that to benefit from technical change we must build new plant and equipment which "embodies" the new, lower-cost techniques. Hence most of us are nervous about the "sources-of-growth" exercises, and we are increasingly interested in physical investment — the accumulation of new plant and equipment. In really backward countries, matters may be different. But in Western-style societies which are fairly well-schooled and not really very retarded, it is hard to avoid two impressions. First, high investment causes a rapid growth not only of output but also of productivity and therefore of income per capita and of competitiveness. Second, such investment can quickly swamp the disadvantage of a bad resource base, so long as raw materials are traded between regions on reasonably favourable terms. However, if the investment is wrongly directed or if the new plants are ill-staffed and ill-managed, high investment will not do as much as it otherwise might.

These ideas have little place in Graham's scheme. He does emphasise that it is important to use all inputs effectively. But this discussion, like most of the book, is coloured by his use of the "marginal productivity theory" as a normative principle with which one can discover a correct static allocation of all inputs — land, labour, raw materials, and capital. If all businessmen have perfect knowledge of all production possibilities and if all inputs are free to move from place to place and from use to use, then an economy is

2 See, for example, among many others, N.H. Lithwick, *Economic Growth in Canada: a Quantitative Analysis* (Toronto, 1967) or E.F. Denison, *Why Growth Rates Differ* (Washington, 1967).

producing the maximum output when it has so allocated each input that the last unit of each input in each use produces the same output value as in any other use. Thus from such a position one cannot re-allocate inputs without reducing output; it seems to follow that inputs are "optimally" allocated, and that output is also "optimal" — that is, among other things, it is as large as possible. Hence poverty must reflect ignorance, misallocation, and/or a bad endowment of one or more inputs. And the policy maker should concentrate upon removing the ignorance and reallocating the inputs; almost by definition, he cannot affect their quantities. Taxes, outlays, and government grants then have a logical place: one can assess and prescribe on the basis of the marginal productivity principle. Although Graham also follows other lines of enquiry, this is largely what he does. Public finance is "good" in so far as it helps to produce an optimal allocation of inputs, and "bad" in so far as it does not. Graham does not ignore "fairness" or "ability to pay", but it is this "efficiency" with which he is most concerned.

The marginal productivity principle looks attractive. Unfortunately, it is flawed by logical difficulties which are so profound as to disable it. More regrettably, it directs our attention to the wrong things. For it is a normative approach to the correct allocating of *given* inputs. Yet neither kind of change is consistent with the "efficient" static equilibrium with which marginal productivity theory deals, and the theory does not tell us how to plan these changes. This is not to criticise Graham's assessment of Nova Scotia's fiscal system. If a rather poor province is trying to maintain a rather high level of public service on a very restricted tax base, it must carefully scrutinise its spending and its grants. Graham's scrutiny is thoughtful, sensible, and extremely helpful. The point is that such scrutiny has a small growth-payoff. It is often believed that by providing "infrastructure" — roads, ports, utilities — a government could create conditions in which private investment would flourish. But Graham is not concerned with the level of such spending; he is interested in the means by which province and municipalities can share it. And George shows that in Nova Scotia no amount of infrastructure-building or subsidisation could offset the province's higher production costs. Hence with respect to the traditional services that Graham considers — roads, education, public health, welfare, and local services — the only sensible course is to control the input-cost of a given quality-level, so as to release inputs for consumption and accumulation. Graham's comments on grant-formulae are helpful to this end. But administrative changes might help as much, or more.

The real task is to encourage higher investment in the activities where, for thirty years or more, technical change has been most rapid. All three of our authors assume that such investment must occur chiefly in manufacturing, and that much of it must come from small and/or new businesses. Neither assumption need be true. For example, I really cannot see why the

Maritimes should not own and man a steel, seagoing merchant marine, even if they cannot competitively build the necessary ships. The Norwegians made the transition from sail to steam, and the Japanese, with no prior tradition of long voyages, became a major mercantile power. Why can Nova Scotians not do likewise? But shipowning requires money, and so does a new factory. Hence the importance of Sears' work.

Sears tells us that he began by studying the small businesses themselves, but that he was obliged to concentrate instead upon the financial institutions — the Industrial Development Bank, Industrial Estates Ltd., the Industrial Loan Fund, industrial finance firms, credit unions, factors, insurance companies, and especially the chartered banks, to which half his book is devoted. He estimates that between 75 and 100 small Nova Scotia firms had "unsatisfied credit needs". But with the banks he encountered a problem both serious and symptomatic: because so few managers had ever made a loan to a new or small business, he was obliged to ask, "What would you do if . . ."? The interviews convinced him that new businesses would have trouble getting bank credit, and that local managers were ill-informed, conservative, and incompetent in their appraisal of risk and payoff. However, he believed that Roynat and Industrial Estates go far to fill the "gap" with respect to medium-term credit that bankers' habits would otherwise create. But of course it is one thing to offer funds, and another to take them up. Maritime banks are net creditors of their head offices; small Maritime businesses are reluctant to borrow, "not well versed in financial management, and . . . not aggressive" (p. 221).

Both Sears and George rely heavily upon interview material. George marshals this information with the most varied statistical material to answer this question: could a Nova Scotia factory supply Upper Canada less expensively than an Ontario or Quebec one? To answer this question, George considers all the several elements of production and transport costs. He works systematically through the elements in total delivered costs, considering labour, materials and fuel, electricity, capital, product transportation, and local taxation. He concludes (p. 98) that in 1962, on the average, the cost of supplying an Upper Canada market would have been some 4% higher if the factory was in Nova Scotia than if it had been in Quebec or Ontario. However, he then shows that if as much as 9% of Nova Scotia output is sold in the Atlantic region, and if labour were as efficient in Nova Scotia as in Quebec and Ontario, the costs would be almost exactly the same. Since Nova Scotia industry does market 9% of its output in the Atlantic region, and since multiplant firms find that Nova Scotia labour is as productive as Ontario or Quebec labour, he argues that the inefficiency of local Nova Scotia owners and managers causes the province's cost-disadvantage, and therefore its industrial retardation vis-a-vis Upper Canada.

Better management would not necessarily close the *earnings* gap. It would

simply bring local productivity in line with local earnings, thus encouraging the growth of local manufacturing. But this growth ought to generate the cumulative process which we sketched above; hence in time Nova Scotia earnings ought to rise relative to those elsewhere in Canada. The management problem cannot be treated by doses of education, since the province already exports many of its university graduates. Indeed all three of our authors attribute some of the local managerial backwardness to this drain of the young and the bright. Recalling Max Aitken or R. B. Bennett, one can only agree. Both Sears and George do think education can do something. Sears is the more optimistic, and the more demanding. The chartered banks must upgrade their staffs by making more interregional transfers, providing more inservice training, and recruiting more university men and women. Though equally interested in education, George is more pessimistic about its payoff: social attitudes, he tells us, are so slow to change that for a generation or more the payoff will be small.

Nova Scotia costs are nearly competitive, but Nova Scotia entrepreneurs are inept or unimaginative. George's prescription is reasonable: deliberate and heavy cost-subsidisation, especially through Industrial Estates. George shows that "foreign" entrepreneurs are very ignorant of Nova Scotia. Presumably, therefore, most of them would ignore any new subsidies, and both he and Sears agree that local entrepreneurs are no more likely to respond. Probably one should try the subsidies, and the re-education, but one will not get any rapid results unless the government itself actually builds and operates some new manufacturing plant. I am not thinking of rescue operations, needful though they may be, but of novelty.

Governments can hire the technicians and managers. They need not try to create entrepreneurs. They need not demand any profit, though they should probably try to cover costs and to earn interest on the capital funds which the projects would absorb. Nor need they worry about the source of these funds. Ever since 1935 the Bank of Canada has had the power to buy provincial bonds. Might the Atlantic governments not convince the Dominion that, as part of an industrialisation programme, the Bank should at last begin to do so? What might government build? Any projects should be labour-using, either directly or indirectly. George explains how important this is for a labour-rich, capital-poor area. In addition, they might well fit into one of two categories. First, governments might produce standardised, homogeneous products for external markets. The obvious choice would be pulp and paper, where market prospects are now very good. Surely there are others. For instance, is it utterly impossible to build ships at competitive prices for export, and, if so, why? The point about such goods is that they slide neatly and impersonally into the existing channels of interregional and international trade. They are not technically risky, nor must they create a new demand among consumers; they can sell on price and technical char-

acter, not on design or advertising. Second, governments might try to produce more of the things which they themselves use. Such "import-replacement" is attractive. The external "supply price" serves as an objective which local production must match, or better. So do the technical standards of the "imports". Yet the local market can be assured.

Perhaps such a plan is politically unrealistic. If so, Atlantic notables will quickly tell us. Certainly the plan has risks — high-cost production, duplication, featherbedding, undue influence, and simple graft. But so do the many schemes by which Maritime manufacturers are already aided. And if the new plants could be inter-governmental, their markets would be larger and their uncertainties somewhat fewer. Whether or not the plan is worth investigating, it is interesting that though George, Sears, and Graham do not make any such suggestion their evidence leads one to do so, and their analyses make it look attractive.

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## NEW AND OLD HISTORY IN ONTARIO

"Ontario historians have never had a problem", the editor of *Acadiensis* has written, "for research into an Ontario topic is considered of national importance while similar research into the peripheral areas of Confederation is not".[1] What may appear not to be a problem at the periphery is in fact a major pitfall for historians of Ontario. Undeniably, Ontario, imperial in bearing and ubiquitous in influence, looms above the other provinces in Canadian history texts, which are so often written by Ontario natives or residents. But in the historian's concentration upon Ontario as an actor in the national system, we have learned remarkably little about Ontario itself. The historian's vision of Ontario, like the province itself, has shunned introspection.

Thus, while British Columbia is the subject of two recent provincial histories, Ontario is the subject of none.[2] Nor has the curious fascination with aberrant behaviour on the part of Canadian historians, a rather conformist lot themselves, led to a thorough and coherent investigation of Ontario's political, administrative, and socio-economic structure as has occurred with Alberta, thanks to Social Credit, and, to a lesser extent, with Saskatche-

1 P.A. Buckner, "Acadiensis II", *Acadiensis*, I (Autumn, 1971), p. 4.

2 Margaret Ormsby, *British Columbia* (Toronto, 1958) and Martin Robin, *The Rush for Spoils: The Company Province, 1871-1933* (Toronto, 1972); *Pillars of Profit: The Company Province, 1934-1972* (Toronto, 1973). The text normally assigned in Ontario History courses is *Profiles of a Province* (Toronto, 1967), a collection of essays.