

Foreword

This study will change the way we all think about the economy of Atlantic Canada.

Economic development is usually discussed in terms that leave out human beings. We talk grandly about Gross Domestic Product, about investment, efficiency and productivity growth. Abstract unemployment and interest rates appear to be powerful agents for good or ill.

But at the end of the day, these abstractions are only a way of describing the sum of the actions of the people in the economy. People matter, not only because the economy exists to satisfy their needs, but also because people's beliefs influence what the economy will do. If people feel insecure in their jobs, for example, they will be careful with their money, no matter what the "leading indicators" tell them about the rosy economic future that awaits them. Lower sales, fewer jobs and leaner profits become a self-fulfilling prophecy. Something similar happens when people see that inflation has been unleashed in the economy and they believe that prices will continue to rise. They try to increase their own prices (whether for goods or services or for their own labour) so as to beat the next round of increases, thus stoking inflation even more.

Public opinion about how the economy works is thus a powerful force. It can be a force for economic progress, when people believe economic prospects are bright and that they will be rewarded for their efforts. On the other hand, when enough people believe that our economic future will be bleaker than it could be, that can needlessly hinder our attempts to grow. That is why we must not accept public opinion as a given, as beyond influence. Where searching study can show our traditional way of understanding how the economy works to be wrongheaded, tradition must be called to account, challenged, replaced.

Here in Atlantic Canada, traditional economic thinking says government intervention, and particularly massive net transfers from the federal government, is all that stands between us and economic devastation. Recent cutbacks in these transfers have been portrayed as an attack on our vital interests. There is widespread apprehension that deficit-driven cutbacks yet to come will sound the death knell of the region's economy because, when all is said and done, take government spending out of the region, and there is hardly anything left.

The behaviour that these beliefs provoke is perfectly understandable. People lobby government not to cut unemployment insurance or the Atlantic Groundfish Strategy (TAGS) payments. Provincial governments call for new infrastructure programmes to bring in fresh federal dollars, while lamenting that their economies are buckling under the latest cuts. But suppose, just for a moment, that the facts pointed in a quite different direction? Suppose, for example, they showed, as classical economic theory would predict, that massive government spending in the region has actually depressed our economic growth? Suppose, again as economic theory holds, the withdrawal of that money would remove distortions in our economy and stimulate local economic effort and growth — that withdrawal of the subsidies would put us on a path of growing self-reliance and increased

wealth? People's behaviour would likely change in a different direction: they would encourage a measured reduction in transfers and taxes and look to their own efforts, not government programmes, to improve their lives and those of their children.

Fred McMahon's paper makes precisely this case. And what is most exhilarating about the study is not the fact that it confirms what both classical and Keynesian economics have long affirmed about the deep workings of the economy. It is not the fact that it gives a whole new meaning to the shifting role of government imposed on us by our past fiscal excesses. No, what every Atlantic Canadian should read and remember here is that the evidence shows clearly and undeniably that when well-meaning transfers do not obstruct our efforts, we are every bit as capable of building our economy as people in any part of this country. The myth of our inevitable place as the poor relations of Canada is exploded. In its place we must project an image closer to reality — an image of ourselves as capable, dynamic and entrepreneurial.

McMahon's argument is not a Pollyannish call for positive thinking. It is a sober look at the harvest we have reaped from our own mythmaking about dependence and regional weakness and inferiority. Not only does it show that we can do better than this, it shows that we already have been doing better than this, and didn't know it. If true healing starts with true self-knowledge, this study is a powerful remedy against some of this region's worst economic ills.

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