

# NEWFOUNDLAND: Between Colonial Paternalism and Self-sufficiency

Dr. Rob Greenwood  
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## **The Challenge**

Newfoundland, Britain's oldest colony and Canada's newest province, has survived on fish and paternalism for five hundred years.

The 500th anniversary of the discovery of Newfoundland by John Cabot will be celebrated in 1997. As with most such milestones of colonial accomplishments, consideration of this event is not without mixed emotions. The rich stocks of fish on the Grand Banks around Newfoundland prompted the establishment of the great ship fisheries of England, France, Spain and Portugal. Dominated by the West Country of England, early efforts outlawed settlement to prevent the establishment of land-based competition. Newfoundland was a rocky base from which to exploit natural resources, not a colony to be settled and civilized.

The exploitation of resources has continued for half a millennium. From fish to forests to minerals to hydro power, Newfoundland has been a storehouse of wealth for European, American and Canadian interests to harvest and export for processing and value added elsewhere.

Like other peripheral regions, Newfoundland has had its attempts at capturing linkages and expropriating the wealth generated on its coast and land. However, when Canada's easternmost province joined the Canadian Confederation in 1949, Newfoundland Premier Joey Smallwood argued the benefits of the Canadian welfare state. Other than the wartime influx of Canadian, American and British military spending, Newfoundland had remained an essentially cashless economy. For rural fishing families who seldom balanced the books with the merchant who supplied their staples, the "baby bonus," old age pensions and other transfers offered unheard-of opportunities to pursue the nascent American dream.

With the removal of tariffs, Newfoundland manufacturing all but disappeared, and Newfoundland's business elite became the agents for North American products. Canadian transfers nevertheless induced unprecedented employment and income growth and prosperity. Modern infrastructure, health care and education systems were put in place far beyond the means of the newest province to support based on its own production.

Construction and the fishery became the seasonal employers of thousands, who soon enjoyed the benefits of the generous Canadian Unemployment Insurance (UI) system. With guaranteed

income based upon a minimum number of weeks employment (the “10-42 system” — ten weeks of work qualified for 42 weeks of payments), Newfoundlanders flourished with the highest rate of home ownership in North America based upon self-provisioning and the informal economy.

A sense of entitlement, lack of pressure to enhance productivity, and disincentives to entrepreneurial activity all resulted from this transfer-distorted economy. Perhaps most destructive has been the disincentives to education. Employment in an unproductive fishery or in manual labour in construction did not require high education levels. Half the population never finished high school, diminishing opportunities for productivity gains or diversification. Those who completed higher education or who sought careers outside the resource and construction sectors were forced to move to the urban service centres of the province or join the thousands who moved to mainland Canada, further reinforcing the dependency trap of rural areas.

[>>>top](#)

### **Resource and Fiscal Crisis**

Despite the short-term benefits of UI and other forms of income support, Newfoundland has consistently suffered double the national average unemployment rate and some 60 percent of earned incomes and gross domestic product (GDP). While the fishery remained the mainstay of employment — albeit usually seasonal — of rural communities, in terms of the value of production it was dwarfed by all segments of the services sector, which collectively constituted over 70 percent of provincial GDP. The driving force behind both private and public services, however, were federal and provincial government expenditures, further exacerbating the vulnerability and dependence of the Newfoundland economy.

This vulnerability became ever more apparent in the 1970s and 1980s with the impact of resource industry restructuring and crisis combined with federal and provincial government fiscal restraint.

With increased global competition, Newfoundland's resource industries were being forced to enhance productivity, usually through labour-saving technology. Mining, pulp and paper and forestry all shed workers during this period. The declaration of Canada's 200 mile fishing management limit in 1977 fuelled a government financed expansion of the industry. A short-term boom was soon followed by a resource crisis, as stocks plummeted, culminating in the 1992 moratorium on most of the groundfish industry. Some 30,000 fishers and processing plant workers were laid off, and the interim income support program is shrinking each year, leaving thousands in rural communities facing social assistance or out-migration. As with most Western industrialized countries, Canada is simultaneously experiencing the effects of foreign competition and reduced growth. The vicious circle of increased demands on the welfare state at the same time as it is less able to meet them is driving cuts in social programs and transfers to the provinces. Reliance on the twin pillars of government transfers and resource sector employment has reached the breaking point in Newfoundland. The challenge is to overcome 500 years of dependence and underdevelopment. The question is: are we up to it?

## **Meeting the Challenge**

Since the mid-1980s, successive Newfoundland governments have recognized that significant structural change is required in the Newfoundland economy and society. The development of the education system after Confederation generated a new self-confident professional class in Newfoundland. During the 1980s, Premier Brian Peckford took on the national government over fisheries management, hydro power transmission and offshore oil jurisdiction. Newfoundland's political weakness within Canada was revealed time and again, as federal bureaucrats and politicians catered — of necessity — to the more populous regions of the country which held the most votes. Canada's generosity in sharing the wealth through compensatory programs was not to be confused with sharing the power over development.

With the province's official unemployment rate near 25 percent and his battles with the federal government showing little sign of success, Peckford appointed a Royal Commission on Employment and Unemployment in 1985 to investigate the underlying causes of persistent underdevelopment. Chaired by Dr. Doug House, a Memorial University Sociologist, the Royal Commission looked beyond the traditional sectors and neo-classical explanations of underdevelopment and called for an integrated approach to economic development. While the mega projects of oil and hydro should not be abandoned, and the fishery, mining and forest products industries needed to be revitalized, the House Commission said these needed to be balanced with more entrepreneurial and small business development, and diversification into new growth sectors. These economic activities, moreover, could not succeed unless they were integrated with reform of government institutions and programs, the education system and the income security system.

It took a change of government and the release of a provincial strategic economic plan in 1992 before the directions indicated by the House Commission were developed further and adopted as government policy. The Liberal Government of Premier Clyde Wells has taken on major restructuring initiatives in the health and educational sectors. Dr. House now chairs the Economic Recovery Commission (ERC), which has expanded on the Royal Commission's work in developing sector strategies in cooperation with industry, government and community representatives. The ERC has also developed a comprehensive income security reform program, which the Provincial Government has adopted as policy and for which it is working to gain federal support.

A new Department of Industry, Trade and Technology is leading efforts to develop new growth sectors, such as innovative technologies, export services and small-scale manufacturing. This department recently introduced a new program of tax incentives, start-up assistance and other supports to enhance the attractiveness of the province for inward investment. This initiative differs from traditional smokestack chasing, in that it is complemented by another major departure by the provincial government to base government support on strategic economic plans developed in 19 economic zones throughout the island and Labrador. Community-based, democratically elected boards will coordinate development activities within each zone and negotiate performance contracts with a federal-provincial management committee.

These efforts are being reinforced by the realities of restructuring. High-school graduation rates have climbed from 50 percent to 85 percent in just a few years, as students realize that opportunities in the fishery or construction, combined with UI, are diminishing rapidly.

Investors are responding to increased awareness of the opportunities created by new production and information technologies, global sourcing and government out-sourcing. According to 1994 statistics, if the fishing industry is removed from total employment, the strength of the rest of the Newfoundland economy is indicated by the fact that this province recorded employment growth of 2.9 percent, well above the national average. Offshore oil development is proceeding, and the construction activity for the Hibernia platform peaked in 1994, with expenditures of \$1.3 billion and employment close to 5,000. Increased demand has enhanced production in the forestry and mining sectors, and new sectors such as dimension stone, aquaculture, adventure tourism, innovative technologies and manufacturing are growing annually.

The problems of the fishing industry cannot be ignored, however. The fact remains that hundreds of fishing communities are desperately holding onto diminishing income supports in the hope that the fish will return. Rural communities lost between 5 and 20 percent of their population between 1986 and 1991, and anecdotal evidence indicates the out-flow is increasing. For those with little education and who own their own homes, the chances of finding adequate employment in urban centres — in Newfoundland or elsewhere — are rare. Yet, the same people are less likely to benefit from the new opportunities for growth which require educated, flexible workforces. Only a combination of income security reform, improved education levels, and regionally based strategic planning which matches local strengths with external opportunities are likely to make a significant contribution to successful adjustment. Five hundred years of resource dependence and reliance on outside paternalism are not insurmountable, but the challenge is daunting.

[>>>top](#)

### **Changing Attitudes?**

It is ironic that 1995 has seen some measure of optimism injected in the Newfoundland psyche, not because of awareness of new opportunities or confidence in government's restructuring efforts. Rather, the confidence comes from the latest versions of salvation through resource extraction. With Hibernia construction winding down, the oil industry and the Newfoundland unemployed are looking to the next round of oil field development — offshore and onshore. Several oil fields remain to be developed on the Grand Banks off Newfoundland, and, most recently, rumours of a Hibernia-sized find are emanating from an on-shore site on the west coast of Newfoundland. Most spectacular of all is the confirmed find of massive nickel, copper and cobalt deposits at Voisey's Bay in northern Labrador. Newfoundland communities are now competing to become the site of the smelter considered necessary to process the "mineral find of the century."

A balanced approach to economic development recognizes that such oil and mineral finds are essential elements of long-term development, but they cannot be allowed to displace the less dramatic but more sustainable forging of competitive advantage in dynamic sectors which drive

the creation of economic linkages. If Newfoundland and Labrador is to escape a history of vulnerability and dependence, the economic and institutional gains of the last ten years cannot be allowed to be sidetracked by hopes for the return of the fish or rejoicing over the latest resource bonanza. The groundwork has been laid for economic and institutional restructuring. If attitudes follow, “the new found land” may enter the second millennium as a leader amongst successful North Atlantic societies. The anniversary of the Viking settlement of Newfoundland in the year 1000 may offer more to celebrate “ with our Nordic partners ” than 500 years of colonialism.

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[>>>top](#)

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