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David Alexander

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DAVID ALEXANDER

Development and Dependence in Newfoundland 1880-1970

Everyone's got to be different. You can't copy anybody and end up with anything. If you copy, it means you're working without any real feeling. And without feeling, whatever you do amounts to nothing.

No two people on earth are alike, and it's got to be that way in music or it isn't music. I never forget this wonderful old Spaniard Pablo Casals, who played the cello once on TV. When he finished some Bach he was interviewed by some American chick. 'Every time you play it, it's different', she gushed.

'It must be different', said Casals. 'How can it be otherwise? Nature is so. And we are nature.'

So there you are. You can't even be like you once were yourself, let alone like somebody else.

Billie Holiday,
Lady Sings the Blues

I*

An American making his first visit to Newfoundland was surprised by the familiarity of the consumer economy and was finally driven to ask, "What does this country produce?" This question would not have arisen in the nineteenth century when there was a considerable volume of domestic manufactures and services, but it was reasonable after a half century of economic development which obliterated in Newfoundland and Canada the end products which reflect the genius or peculiarity of the people. It is the absence of such products, more than statistics on foreign ownership and control, that indicates dependence and underdevelopment. While it is a phenomenon that characterizes all Canada, the Atlantic Provinces suffer added burdens of low per capita income and high unemployment, resulting in part from the ill-grace of American and Canadian firms in locating their plants and offices mainly in the Central Provinces.

* I am indebted to G.K. Goundrey, S.O. Pierson and G M. Story for reading this paper and offering helpful corrections and suggestions. A version was read at a conference on the Metropolis-Hinterland Thesis at Saint Mary's University in Halifax, in March 1974.

1 See T.W. Acheson "The National Policy and the Industrialization of the Maritimes, 1880-1910", *Acadiensis*, I, no. 2.

In the Maritimes underdevelopment seems a sorry descent from those heady days when it possessed one of the world's foremost shipbuilding industries, the third or fourth largest merchant marine, financial institutions which were the core of many of the present Canadian giants, and an industrial structure growing as fast as that of Central Canada.[1] But Mainlanders of all stripes are inclined to unite in the view that Newfoundlanders have no cause to grieve: rather than slipping from greatness, it is thought that the Island has been raised to underdevelopment from a state of barbarity.[2] To argue otherwise is to evoke the skepticism which met the honourable Mr. Ferrier when he assured the Legislative Council of Canada in 1865 that the people of the Lower Provinces were "energetic, active, industrious people, quite equal to ourselves".[3]

Underdevelopment and dependence is an historical problem arising from an accumulation of conditions and events which strengthen some countries and regions relative to others. Three broad and interrelated explanations are generally advanced for its presence: a poor or deteriorating resource endowment; an accumulating relative disadvantage with respect to external economies; and political and economic exploitation which may be as much internally generated as externally imposed. The inclination of the metropolis is to advance the first as a reason for the second, while the periphery argues the third as the cause of the second.

With respect to the first explanation, Ian Weinberg made the obvious point that "some new nations may never industrialize because they lack the basic resources."[4] But this is to equate development and industrialization in a way that is not obvious. Andrew Kamarack avoids this contentious inference simply by arguing that comparative growth rates can be a poor indicator of economic performance since "In some countries, even with the best will in the world, the economy may not be able to grow very rapidly."[5] But in both cases the assumption is that the endowment (in its widest sense) may be the barrier to development, and this has been frequently advanced for the Atlantic Provinces and especially Newfoundland. Both S.A. Saunders and Professor J.M.S. Careless, and H.A. Innis before them, imply that the stagnation of Atlantic Canada was the outcome of inexorable technological changes that left its endowment marginal to the pattern of growth in twentieth century North America.[6] With respect to Newfoundland, MacKay was convinced,

2 Although suggested with great delicacy, this is an inference in Professor J.M.S. Careless, "Aspects of Metropolitanism in Atlantic Canada" (Centennial Seminar, Memorial University of Newfoundland, 1967).

3 *The Confederation Debates in the Province of Canada*, Ed. P.B. Waite (Toronto, 1964), p. 33.

4 "The Concept of Modernization: An Unfinished Chapter in Sociological Theory", *Perspectives on Modernization*, Ed. E. Harvey (Toronto, 1972).

5 "The Appraisal of Country Economic Performance", *Economic Development and Cultural Change* XVIII (1970), p. 160.

6 Careless, op. cit., and S.A. Saunders, *The Economic History of the Maritime Provinces* (Ottawa, 1939) pp. 92-94.

following World War II, that the country could not decently support 300,000 people, and more recently Parzival Copes has argued that it might support that number but certainly not its current half million.[7]

The argument that underdevelopment is a problem of external economies, such as access to large markets and conglomerations of capital structures and skilled labour markets, implies that policy changes might manipulate a more favourable distribution. The modern thesis has its roots in J.S. Mill and was a basis for the 'national policy' which favoured (albeit with ultimate distortions) the growth of Central Canada. Richard Baldwin and Jonathan Levin have shown that the problem can emerge from characteristics of the production functions of export resource industries established in newly settled or 'traditional' economies.[8] Melville Watkins has added that the problem may become entrenched through the withering of domestic entrepreneurship and the growth of an inhibiting export mentality.[9] Historians who identify the weakening endowment of Atlantic Canada as a cause of its relative decline, invariably show how this affected factor costs and access to markets. But an interesting variant on the argument has been developed by Professor George. He finds that neither production nor distribution costs can explain the difference in per capita manufacturing output between Nova Scotia and Ontario/Quebec, and identifies the province's problems as a weakness in the quality of entrepreneurship.[10] In Newfoundland a similar argument on relative costs might be more difficult to advance; but from the advocates of the 'new industrialism' at the end of the nineteenth century to the planners of the Department of Regional Economic Expansion today, there has always been an argument that a dose of 'infrastructure' would create external economies and unleash the development potential of the country.

The exploitative hypothesis of backwardness and dependence has none of the comforting neutrality of the other two, and its pertinence is increasingly well established. Even so cautious an economist as Angus Maddison concludes that the relative and absolute decline of India from the eighteenth century was in good part due to the conscious design and accidental iniquities of the East India Company and Whitehall.[11] S. Sideri calmly and painstakingly has demonstrated how political power, exercised through commercial policy, augmented the wealth of Britain and the stagnation of Portugal.[12]

7 R.A. MacKay, et. al., *Newfoundland: Economic, Diplomatic and Strategic Studies* (Toronto, 1946) and P. Copes, *The Resettlement of Fishing Communities in Newfoundland* (Canadian Council on Rural Development, 1972.)

8 Baldwin, "Patterns of Development in Newly Settled Regions", *The Manchester School*, XXIV, (1956), and Levin, *The Export Economies* (Cambridge, Mass., 1960).

9 Watkins, "A Staple Theory of Economic Growth", *Canadian Journal of Economics and Political Science*, XXIX, (1963), p. 150.

10 *A Leader and a Laggard* (Toronto, 1970), pp. 166-167.

11 Maddison, *Class Structure and Economic Growth* (London, 1971).

12 Sideri, *Trade and Power* (Rotterdam, 1970).

Keith Griffen has shown that in Spanish America progress has been greatest when contact with the United States and Western Europe have been weakest.[13] For Latin America a thesis of metropolitan domination has been shaped into a radical tool of analysis by scholars like Griffen, Celso Furtado and A.G. Frank.[14] Within Canada, however, application of a metropolitan thesis has tended to stress the neutrality of a changing world technology and market demand, although recently a more radical interpretation has been developed with respect to Canada's external relationships.[15] Newfoundland has been as underdeveloped in its radical intelligentsia as in any other dimension, and no scholarly tradition of exploitation has been established, apart from the liberal hypothesis of retarded settlement. But the argument that Newfoundland's prosperity has been stunted by British malevolence and neglect, Canadian machinations, and wily international corporations can be found in nationalist historians such as Judge Prowse, the debates of the House of Assembly and the daily conversations of Newfoundlanders.[16]

It is fashionable these days to use neoclassical models that assume perfectly operating factor and products markets to show that history unfolds in the only way it can.[17] These exercises are frequently unconvincing because of their circularity: the evidence of what did happen is used in restrictive models to show that only that could happen. Little weight is allowed for the cumulative effect on a country of making the right decisions, maximizing all the opportunities, and, above all, defining economic, social and cultural goals and means independently of modal patterns emanating from metropolitan countries. The purpose of this paper is to suggest, but hardly to prove, that the failure to do these things resulted in Newfoundland being poorer and more dependent than she need have been. Newfoundland's resource base was not poor relative to its population, but it was badly managed. A consequence of this was that income was lower than it could have been, and the country was politically less viable than it might have been. It would be possible to develop an exploitative thesis of Newfoundland's development, but the exploitation exercised from outside is a less convincing explanation of the country's problems than the inability or unwillingness of its elite to mobilize the country to manoeuvre more effectively in the space allowed by a

13 Griffen, *Underdevelopment in Spanish America* (Cambridge, Mass., 1969).

14 These are only some of the better known among a very vigorous school in Latin America and the West Indies. For a thorough review of the historiographical debate see *Social and Economic Studies*, XXII (1973.)

15 Thus Kari Levitt, *Silent Surrender* (Toronto, 1970) who also acknowledges some of the regional implications.

16 A precious manifestation of this was an impassioned statement by a young lady of the St. John's upper classes (whose ancestors were among the early residents) that "those bloody British came over here and killed off our Beothuks".

17 A classic example is Donald N. McCloskey, "Did Victorian Britain Fail?", *Economic History Review*, XXIII (1970).

metropolitan-dominated world. In Newfoundland the chains of metropolitan domination too often appeared golden.

II

A condition of underdevelopment may be indicated by low per capita income and an input-output structure with relatively few domestic inter-industry transactions. Dependence, on the other hand, can subsist with comparatively high per capita income, and is suggested by such things as a high ratio of foreign transactions to domestic product, a high average and marginal propensity to import, a growth rate determined by one or a few trading partners, and a heavy dependence upon external direct investment, management and entrepreneurship.[18] It is useful, although not always customary, to distinguish between underdevelopment and dependence. A peasant economy may be underdeveloped relative to its material and human resources, or some external definition of how much these could produce, but nontheless enjoy a high degree of self-determination. An industrial economy, such as Canada's, may be highly developed in terms of its factor productivity but extremely dependent. In the North American context, Newfoundland is an example of an underdeveloped and a dependent economy in that its productivity is relatively low (as suggested by prevailing wage rates) and its self-determination extremely limited. The roots of this condition lie in the phenomenon of modern economic growth as it confronted Newfoundland's small, pre-industrial economy at the end of the nineteenth century.

Newfoundland's potential for economic growth and development at this time was conditioned by two features: it was a very small economy with a total product not much in excess of the export value of the Canadian cheese industry, and it was a pre-industrial economy with a low level of factor specialization and market activity. The first characteristic — that of size — has been explored by W.G. Demas.[19] He argues that there are only two basic models for transforming underdeveloped economies. Assuming in each case that trade is balanced (there are no net capital movements) and no net payments of profits abroad, then a country may either pursue an import substitution strategy where

$$dY/dt > dX/dt$$

Y = Gross Domestic Product (i.e. gross domestic expenditure)
X = Exports (Imports)

or it may choose an export led growth strategy where

$$dY/dt \leq dX/dt$$

18 No such list can be complete since dependence is to some extent unique in its characteristics to each case. But an excellent analytic framework is given in S. Sideri, *Trade and Power*, pp. 11-12.

19 Demas, *The Economics of Development in Small Countries* (Montreal, 1965) pp. 67-68.

According to Demas, the small country embarking upon modern economic growth (development) has no efficient choice between the two models. The first is directly aimed at escaping from foreign dependence as much as achieving growth of per capita income but is only practical for big countries (or countries with reasonable prospects for developing relatively large domestic markets) with diverse factor endowments. In this environment an infant industry argument may be advanced to stimulate development along a broad front for a growing domestic market. But even then reduced dependence in any meaningful sense is far from guaranteed (as the Canadian case so richly demonstrates) unless capital requirements for growth and diversification are generated domestically or acquired abroad in portfolio form and liquidated during a creditor's crisis, and unless firms in the new sectors are truly indigenous firms.[20] Demas believes that a small country adopting the import substitution model risks impoverishment through loss of export income and lower cost imports. The only way it can modify dependence upon export-led growth is by manipulating demand into nontradeable sectors such as construction. Even if the small country cannot escape foreign trade dependence, it may be able to live with it if there are gains in per capita income and if entrepreneurship, investment and technical innovation are generated or controlled in the domestic economy.[21]

The issue of market size has been an omnipresent element in discussions of Newfoundland's development potential from the nineteenth century to the present. In the last half of the nineteenth century the rapid international movement of production factors into unsettled territories still left it an open question as to which countries had prospects of achieving large market size. In Newfoundland modest hopes were placed on the possibilities for growth and a larger internal market offered by land settlement, the stimulation of manufacturing, and the provision of a railway system which was to lower unit costs and widen markets. The results of this Newfoundland 'National Policy' were disappointing (as they were in Canada until the wheat boom), and hindsight suggests that the prospects were hopeless. Newfoundland's farming land was very costly to develop and remained marginal relative to the agricultural frontiers opening in the western and southern hemispheres. In the absence

20 Iceland, with its centuries of crushing dominion by Denmark, did not have any illusions about foreign ownership and good corporate citizens. Thus in 1918 foreigners were prohibited from establishing businesses in the country unless they were residents. See William Chamberlin, *Economic Development of Iceland Through World War II* (New York, 1968 reprint), p. 35.
21 In other words, Demas sees the possibility of reducing the list of dependent characteristics.
22 For an analysis of the political origin of this strategy see J.K. Hiller, "Whiteway and Progress", *Newfoundland Quarterly*, LXVIII (1971) and for a discussion of some of its economic dimensions, David Alexander, "A New Newfoundland: The Traditional Economy and Development to 1934" (Paper delivered to the Canadian Historical Association, Kingston, 1973), pp. 30-40.

of an export sector which would rapidly build up population, there was little chance (despite revenue tariffs which came to exceed Canadian protective tariffs) of modern secondary industry taking root. Table I, for example, indicates that the domestic market for manufactures amounted to as little as $14 million in 1911.[23] Compounding this obstacle was the absence of any industrial heritage in the labour force and among entrepreneurs upon which innovative manufacturing could be developed for export markets. Despite all these difficulties it is hard to fault an effort to stimulate the growth of industries oriented to the domestic market, for the avenues to export-led growth were dismal in the late nineteenth century. Export prices for salt codfish fell by 32 per cent between 1880/84 and 1895/99 and volumes by 20 per cent, while the terms of trade seem to have moved sharply against the industry from the late 1880's.[24] In other potential export sectors, such as minerals and forest products, there was no clamour from overseas markets for Newfoundland resources.

Development efforts shifted to export-led growth around the turn of the century. This reflected the upswing in international trade arising from the 'new industrialism' of Western Europe and the United States and the resulting demand for foodstuffs and industrial raw materials. The establishment of the Bell Island Iron mines in the 1890's was probably critical in centering political attention on the new export prospects of land resources, and when this was followed by the Harmsworth and Reed pulp and paper developments in Central Newfoundland, the development pattern was fixed until the Dominion's collapse in 1934. This export orientated strategy would have been more fruitful if it had focussed on marine rather than land resources.[25] But in its historical context the error is understandable. Since at least the 1880's the fisheries had failed to provide employment at acceptable levels of income for the rapidly increasing population and it was widely acknowledged in Newfoundland that diversity in the sources of National Income was essential to the country's economic and political stability. Since diversification by import substitution had not been successful, and since Newfoundland had neither the capital, the entrepreneurship nor the access to essential technology to enter export markets in industrial raw materials in its own right, then the international corporation — that beckoning gigolo of the expanding metropolis — became a necessary partner. Gigolos have an excellent eye for the purses of ugly maidens and hopeful widows, and despite the blandishments of Prime Ministers

23 In 1912 when imported rubber boots began to oust locally produced fishermen's boots, St. John's businessmen travelled to the Mainland to investigate the technology of the rubber product. They discovered that the smallest efficient plant could satisfy demand in the domestic market with a month's production. See Alexander, "New Newfoundland", p. 40.

24 See Alexander, *Ibid.*, pp. 23-24 and Table 5.

25 This is explored later in this paper.

TABLE 1

ESTIMATE OF THE DOMESTIC MARKET FOR MANUFACTURES, CIRCA 1911

Dutiable Imports		
Home Consumption	$ 8,131,440	
Duties Collected	2,768,527	
Less Natural Products and items for further processing and duties collected thereon	10,899,967 773,332	$10,126,635
Free Articles		
Home Consumption	5,228,721	
Less Intermediate Goods, materials etc. for enclave industried, natural products (including flour) and free imports for government and religious bodies	4,765,212	463,509
		10,590,144
Domestic Manufactures*	3,652,064	
Less Exports of Domestic Manufactures	127,128	3,524,936
		$14,115,080

*Includes sawmill production, but excludes pulp and paper. For some sectors, the Gross Value of Production is estimated by doubling reported wage bills. The estimate is undervalued because of non-reporting by some major firms.

Source: *Census of Newfoundland and Labrador*, 1911 and Customs Returns published in the *Journal of the House of Assembly*, 1911.

Morris and Squires, the corporations found more attractive partners elsewhere. The Corner Brook paper mill and the Buchans mines were the only important additions to primary manufacturing and resource development before the collapse of the international economy, and Newfoundland, in the 1930s.

During these years, Newfoundland lurched into many of the development problems confronting any small country. The attempt to expand production for domestic markets in the nineteenth century did not have a direct impact, in terms of lost export income and high priced substitutes for imported goods, simply because so little labour and capital was diverted from the export sectors. But the railway development which was linked to the strategy imposed heavy and inflexible overseas debt charges which depressed the growth of domestic incomes and diverted government revenues from areas offering more fruitful economic and social returns. The re-orientation of development efforts to export-led growth did have the effect of diversifying the sources of national income, but only to the extent of replacing a domestically owned and controlled one-product export economy with a largely foreign owned and controlled three-product economy. By concentrating its development efforts on sectors which could only be developed by overseas corporations, and by its failure or inability to negotiate a Newfoundland participation in these ventures, income was lost to overseas, there was a minimal development of industrial linkages, and opportunities for nurturing domestic management skills and entrepreneurship were neglected.

A central issue in Newfoundland's development efforts was a second characteristic of the economy — its overall low level of labor and capital specialization and market activity. This presumably restricted the growth of employment and per capita income and contributed to the substantial net emigration dating from the mid-1880s. The problem of 'modernizing' such an economy has been explored by Hymer and Resnick in the case of an agrarian economy with non-agricultural activities.[26] Reality is simplified by assuming that the rural economy produces two goods, 'F' (food) which is traded for 'M' (imports), and 'Z', a heterogeneous collection of goods and services which is produced and consumed but not traded. Accordingly, the production possibilities curve is,

$$F = F(Z)$$

with imports acquired according to the exchange equation,

$$M = P(F - \bar{F})$$

where 'P' is the exchange rate between 'F' and 'M', and '$\bar{F}$' is the amount of food consumed in the domestic economy. Utility in the economy is maximized by the function,

$$U = U(Z,F,M)$$

which is subject to both the production and trading constraint. The model traces out the impact on the agrarian economy of an increase in 'P'. The

26 Stephen Hymer and Stephen Resnick, "A model of an Agrarian Economy with Nonagricultural Activities", *American Economic Review,* LIX (1969).

response is specialization into 'F' production, the disappearance of 'Z' and a higher level of income rising from the productivity gains possible in 'F' production but not in 'Z' production. The two crucial assumption lying behind this model are that factor substitution is possible between 'F' and 'Z', and that 'Z' goods are 'inferior goods'. The model stresses the benefits of income growth (total and per capita) over any intangible losses from a narrowing of the range of domestically produced end products.[27]

Superficially the rural Newfoundland economy shared these characteristics and should have responded similarily to a price stimulus in the market sector. But a number of difficulties limit the model's usefulness in the Newfoundland case. To begin with, there is the hoary issue of the 'open access' fishery and whether an increase in demand would not simply yield an expansion of the traditional economy rather than the emergence of a smaller, more specialized and more heavily capitalized fishing labor force. In the period under study this is probably not a major issue. Despite the distortions in the use of labour and capital that can emerge under open access conditions, and which could be serious in an economy so massively dominated by fishing as was Newfoundland's,[28] there is no evidence that, at the time, the resource was over-exploited. A second difficulty is the assumption of factor substitution (mainly labour) between 'F' and 'Z' production. In Newfoundland, an all-year fishery was not possible except along the South Coast, and the logical way to maximize personal incomes was through occupational pluralism rather than specialization. That is, given the seasonality of the resource the basic question is whether in Newfoundland's circumstances modernization of the rural economy and maximization of output and income could best have been achieved through a drive for specialization of labour and capital or through occupational pluralism and non-market production. It was this issue, as will be seen, that tantalized planners in the 1930s and 40s and which continues to be raised to this day. But it was not an alternative which has met ready acceptance in government (for perfectly honourable reasons) and from the late nineteenth century, development and modernization has implied specialization and industrialization of the labour force along the lines suggested by the Hymer-Resnick model.

The major conundrum of the Newfoundland economy in the early twentieth century is why the re-orientation towards export-led growth did not con-

27 Consideration of this is ruled out by the assumption that 'Z' goods are inferior goods. But the problem is complex, for there is an issue of 'indivisibilities'. That is, as a *group* 'Z' goods may be inferior goods, but *not all* 'Z' goods may be considered so by their producers/consumers. But if factor substitution between 'Z' and 'F' is a discontinuous rather than a continuous function, a great deal which is desirable will be given up for a marginal aggregate gain. In the process future development prospects may be weakened by the narrowing of skills and imagination.

28 See Richard C. Bishop, "Limitation of Entry in the United States Fishing Industry: An Economics Appraisal of a Proposed Policy", *Land Economics*, XLIX (1973).

centrate more effectively on the fishing industry. The accepted view at the time, and since, is that there was no alternative other than a development of land-based primary industries to absorb surplus labour from the rural economy. But to demonstrate that the fishing industry did not provide sufficient employment at satisfactory income levels is far from proving that it could not, either alone or in conjunction with other economic activities. A significant increment in fishing income might have floated the country over its railway, war and other development-debt burdens, and introduced a dynamic into the well-being, self-confidence and initiative of the country. The fact that Iceland, a staggeringly impoverished and exploited country in the nineteenth century, with no significant commercial fishery before 1890, and with fewer alternative resources than Newfoundland, was nontheless able to establish itself during this century as an independent and prosperous country on the basis of the North Atlantic fishery, invites a fresh examination of the opportunities that existed in Newfoundland.

That the Newfoundland fishing industry did not perform to its potential during the first decade of the century was widely accepted at the time. For example, the 1910 Annual Report of the Department of Marine and Fisheries summed up almost a decade and a half of critical review. It noted the growing presence of foreign fishing vessels in Newfoundland waters and speculated on its implications for the country. The heavy dependence of the industry on salted cod was a matter of concern, for fish products moving into the American market were increasingly diverse and "the time will not be far distant when salt cod . . . will be for the few markets who cannot possibly do without it . . ." Several English and American firms had approached the Department with plans for establishing processing plants, and it wondered why "Newfoundlanders should not be the pioneers in their own country, and in a business they should know well how to conduct with success". The state of the herring fishery raised the exasperated comment that "There seems to be no adequate reason . . . why this very valuable adjunct to the products of our seas has been so neglected and allowed to lapse . . . ." The Report wondered why Newfoundlanders had ignored the halibut fishery "considering the importance of this fishery in other countries, and the remunerative returns received from its prosecution, the largeness of the demand, and the increase of the distributing centres for the United States and Canada . . . ." The same question was raised about turbot. In the refined cod liver oil industry, comparative Norwegian and Newfoundland statistics generated the caustic comment, "It will be readily seen that we are not in the business at all . . . ." Even though the heart of the Newfoundland industry was salted cod, the Report speculated whether the country could even hold its present markets since "competitors are beating the Newfoundland article by their improved methods, better handling, intelligent and intimate business relations with the purchasers, and their anxiety to please the customer in every way". While all this had been said before, and would be said again, the 1910 Report was redolent with the frustration aroused by too many lost opportunities: "Matters in connection with the fishery exports and products have reached such a condition that it is a case of 'Wake up, Newfoundland'."[29]

The charge that the Newfoundland industry was sluggish in responding to improving opportunities appears to be true even of the salt cod sector where its competitive position should have been strong. Between 1867 and 1913 the F.O.B. value of world exports priced in current $US grew by 133 per cent,[30] while salt cod exports from the three great world producers (Newfoundland, Norway and Canada) priced in current $Canadian grew by slightly over 128 per cent. This was hardly an insignificant performance for a long established and traditional food industry that was supposed to be in decline.[31] But following recovery from the disastrous 1890s, Newfoundland's performance in the industry did not show the vigour of its European competitors. Over the period 1898-1913 exports of salted fish by Iceland, Norway, Newfoundland and Canada grew from some $12.7 million to $27.7 million or at a compound annual rate of about 5 per cent. Newfoundland's exports grew at 3.27 per cent, the lowest among the producers, with Canada's at 3.45 per cent, Norway at 4.75 per cent and the fledgeling Icelandic industry at 10.58 per cent.[32] Between 1898 and 1909 Newfoundland was the largest exporter in terms of volume, accounting for between 40-45 per cent of total volume to 30-35 per cent for Norway and 20-25 per cent for Canada; but in the four years prior to outbreak of war the Norwegian and Newfoundland positions were reversed with the Canadian share slipping to under 20 per cent of market volume. In addition

29 *Journal of the House of Assembly*, 1911, Appendix. The quotations are from, respectively, pp. 414, 414, 419, 414, 427, 437 and 436.

30 Calculated from W.S. and W.E. Woytinsky, *World Commerce and Governments* (New York, 1955) p. 38, Table 13.

31 This and subsequent calculations, unless otherwise indicated, are preliminary results based upon calculations from the Trade and Commerce Reports published in the *Canada Sessional Papers* between 1891 and 1914. For the Icelandic data I am greatly indebted to Mr. Jens Havgaard Jensen of Aarhus, Denmark.

32 The fitted trend equations ($Y_t = ab^{X_t}$) are:

'World' exports	$Y_t = (18{,}785{,}000)\,(1.0507)^{X_t}$
Newfoundland Exports	$Y_t = (\ 6{,}584{,}600)\,(1.0327)^{X_t}$
Canadian Exports	$Y_t = (\ 3{,}286{,}400)\,(1.0345)^{X_t}$
Norwegian Exports	$Y_t = (\ 7{,}478{,}000)\,(1.0475)^{X_t}$
Icelandic Exports	$Y_t = (\ 1{,}240{,}100)\,(1.1058)^{X_t}$

Volumes are measured in pounds.

to this relative decline in production, Newfoundland suffered from the lower prices which its fish earned in international markets. Table 2 indicates that if Newfoundland salt cod had commanded the Norwegian price in the markets, the gross returns to the fishing economy would have been 25-50 per cent higher in most years than those actually realised, and National Income might have been as much as 10 per cent higher.[33] Moreover, the complaint of the Department of Marine and Fisheries that Newfoundland was neither diversifying her industry nor exploiting the demand for new fishery products, seems to be true. Table 3 shows that in 1913, the Newfoundland fishery was much more dependent upon salt cod than was Norway or even the newly formed Icelandic industry.

The expansion of output that was achieved in Newfoundland during these years was more a function of increased labour effort than quantitative and qualitative increments in capital inputs — that is, a simple expansion of the traditional fishing economy rather than its transformation. The intercensal mean labour force, for example, expanded from 38,960 in the depressed 1890's to 42,500 in 1900-11, but there was no statistically significant increase in average physical output per worker in salt cod production.[34] Between 1901 and 1911 the number of sailing vessels over 60 tons expanded only from 228 to 292; the number of boats of 4 to 30 quintal capacity fell from 25,078 to 24,720; and boats over 30 quintal capacity fell from 1,376 to 1,120.[35] An index of investment in gear (constructed from customs returns of 17 items entering directly into catching and gear manufacturing and including gasoline engines)[36] rose in current prices from $285,436 in 1898/9 - 1899/1900 to some $706,467 in 1912/13 - 1913/14. But this 147 per cent increase is not, on further analysis, terribly impressive quite apart from the issue of rapidly rising prices in this period. It means that investment per male fisherman for items on the index rose in current dollars from around $7 to about $16 with the increment heavily weighted at the end of the period by imported gasoline engines. Moreover, a simple regression of changes in output in the salt cod industry on changes in investment (by first differences) between 1892 and 1913/14 indicates a high standard error and a low coefficient of determin-

33 See table 4 for estimates of Newfoundland National Income.

34 See Alexander, "New Newfoundland", Table 3, p. 19.

35 *Census of Newfoundland*, 1911, Vol. I, Table XX.

36 The index was completed by the author not so much to attempt an estimate of capital stock and the *actual level* of investments but to identify *trends* in investment. The 17 items included in the index should capture such trends because many, if not all, of the items are correlated with items that are excluded, such as boats and vessels.

TABLE 2

HYPOTHETICAL EXPORT VALUES OF NEWFOUNDLAND SALT COD AT NORWEGIAN REALISED PRICE LEVELS

Year	(1) Reported Newfoundland Receipts	(2) Hypothetical Receipts if Norwegian Prices Obtained	(3) Difference	(3) as % of (2)
	$	$	$	%
1898/1899	4,445,033	5,809,889	1,364,856	31
1899/1900	5,453,538	8,172,068	2,718,530	50
1900/1901	5,171,910	7,941,207	2,769,297	54
1901/1902	5,509,728	7,434,692	1,924,964	35
1902/1903	5,633,072	8,884,376	3,251,295	58
1903/1904	5,943,063	9,537,847	3,594,784	60
1904/1905	6,108,618	8,471,528	2,362,910	39
1905/1906	7,864,719	11,296,074	3,431,355	44
1906/1907	7,873,172	11,215,694	3,342,522	42
1907/1908	7,820,387	11,545,304	3,724,917	48
1908/1909	7,398,536	11,680,446	4,281,910	58
1909/1910	7,307,778	9,001,596	1,693,818	23
1910/1911	6,544,604	8,663,187	2,118,583	32
1911/1912	8,001,703	9,810,531	1,808,828	23
1912/1913	7,097,839	8,850,40s	862,563	11
1913/1914	8,071,889	9,890,701	1,818,812	22

Source: *Canadian Sessional Papers,* Trade and Commerce 'Reports'

ation.[37] Multiple regression might bring out the impact of investment on

37 X_1 = Changes in output, in dollars

X_2 = Changes in investment, in dollars

$X_1 = 48.299 + 4.74X_2$

$s_{X_1X_2} = 859.432$

$r = 0.482$ ($t = 2.362$, significant at 97%)

$b = 4.74$ ($t = 2.46$, significant at 97%)

TABLE 3

DISTRIBUTION OF FISH EXPORTS IN 1913

NORWAY	
Salted Cod	$13,108,604
Salted Herring	3,215,089
Other Salted	2,424,328
Fresh	2,421,407
Lobsters	363,113
Roe	339,261
	$21,871,802
ICELAND	
Salted Cod	$ 2,480,588
Salted Herring	1,063,055
Fresh	137,162
Roe	20,213
Salmon & Pickled	5,665
	$ 3,706,683
NEWFOUNDLAND	
Salted Cod	$ 8,071,889
Pickled Fish	425,703
Lobster	347,941
Pickled Herring	319,532
Pickled Salmon	101,498
Frozen Herring	86,113
Bulk Herring	63,901
Haddock	26,246
Fresh Salmon	21,794
	$ 9,706,683

Sources: For Newfoundland and Norway, Canada *Sessional Papers*: Trade and Commerce 'Reports'. For Iceland, data from published sources provided by Mr. Jens Hargaard Jenson of Aarhus, Denmark.

rising output, but failing the attempt it is a reasonable guess that the growth of inputs in these years was principally a function of increased labour inputs.

Strong demand and prices persisted through the war years, but given the less favourable trends in the 1920s and 1930s it might be argued that the weakness of innovative investment in catching, processing and marketing was thereby justified. But it is an odd argument which awards prescience to a country for permitting its most important source of employment and income to develop into a dinosaur. The failure to expand the industry and, more important, to transform it in terms of the diversity of output and the technologies of catching, processing, packaging and organized marketing, simply left Newfoundland fishermen less competitive than their rivals.[38]

If there was an opportunity in the first two decades of the century for modernizing and expanding the industry — an industry where most of the returns went to Newfoundland production factors and which had better linkage prospects than the foreign controlled enclave industries — why was the response so inadequate? The answer must surely rest in a weakness in entrepreneurship and capital supply. Ronald McKinnon has argued that missed opportunities of this kind are common in underdeveloped economies because of fragmented capital markets:

> The scope for intertemporal decision making, within which the entrepreneur maximizes his utility, can usefully be reduced to three components: (1) his endowment or owned deployable capital; (2) his own peculiar productive or investment opportunity; and (3) his market opportunities for external lending or borrowing over time outside his own enterprise. At a very general level, a fragmented capital market, which is characteristic of underdevelopment, is one where the three components are badly correlated. That is, entrepreneurs with potential production opportunities lack resources of their own, as well as access to external financing. Those with substantial endowments may lack 'internal' production opportunities (unless such opportunities are artificially generated by public intervention) and have no 'external' investment outlets at rates of return that accurately reflect the prevailing scarcity of capital. The resulting dispersion in real rates of return reflects the misallocation of existing capital and depresses new accumulation.[39]

38 For a detailed analysis of the inter-war salt cod industry, see G.M. Gerhardsen, *Salted Cod and Related Species* (Washington, 1949). The point here is that even if demand for a product is inelastic, the situation facing any one producer might be highly elastic — it expands at the expense of competitors. It was Newfoundland's misfortune to be on the wrong side of this competitive relationship.

39 Ronald I. McKinnon, *Money and Capital in Economic Development* (Washington, 1973) pp. 10-11.

In these circumstances it becomes attractive for governments to turn to foreign entrepreneurship and direct investment with the consequent dangers that "Learning-by-doing becomes learning-by-watching" and a colonial economy develops "where expatriates operate with relatively freer access to an external capital market in such a way as to emasculate domestic entrepreneurial development." [40]

McKinnon's analysis offers an insight into why the rural Newfoundland economy, when confronted with an expanding market in an industry where its experience and skill was immense, did not respond in the fashion which Hymer and Resnick would predict. The original migratory fishery from the West Country was an industry of vertically integrated firms, extending through production and processing to marketing. The settled fishery of the nineteenth century saw the dissolution of this integration, with the marketing firms (which is where capital was accumulated and profits concentrated) gradually withdrawing into St. John's, leaving production and processing in the hands of family units. This may have been efficient for the extensive growth of a labour intensive and technically stagnant industry; but it did not serve either the industry or the country when, at the end of the century, extensive growth reached a ceiling and rising world demand and per capita incomes called for more output, more diversified output, and better quality. Newfoundland producers were ill equipped to respond to these opportunities — and remained so well into this century — because their knowledge of distant market opportunities and requirements was very imperfect and because in any case, they had no access to the capital for investment that was necessary for a response. The withdrawal of the merchant houses from the outports and their direct involvement in production together with the absence of any rural banking structures, meant that the countryside was denuded of capital other than the short term financing provided to fishing families by the agents or dependents of the St. John's firms to pursue the traditional fishery.[41] The St. John firms, after almost a century of withdrawal from direct involvement in production, and with a generally jaundiced view of the industry's prospects relative to the returns in wholesale and retail trade and safe overseas securities, were unlikely to supply capital either as direct or portfolio investors. The only remaining agency was government. The Department of Marine and Fisheries expanded technical services to the industry, but otherwise its role was limited to exhortation. When one of its Ministers, William Coaker, attempted to legislate national quality standards and a national approach to the salt cod markets, his effort was broken by powerful opposition within the trade. Hence in Newfoundland there was no government initiative in the fisheries

40 *Ibid.*, p. 29.

41 A similar hypothesis has been developed in Cato Wadel, "The Peasant Economy of the Newfoundland Inshore Fisherman" (Paper delivered to the Association of North Eastern Anthropologists, Dartmouth College, March 1968).

equivalent to that in Iceland and Norway. The explanation for this lies in the fact that members of government were not clearly distinguishable from the mercantile class which dominated the economy; that leading politicians did not see the industry as a growth pole for the future; and finally, whatever the politics of the matter, government revenues that might have been ploughed into the industry were already heavily committed to servicing an imposing external debt. In these circumstances the Newfoundland fishing industry began to slip from first rank in the world, and perhaps for that reason Newfoundland began a steady march towards stagnation and dependence.

The penalty of neglect began to be exacted in the 1920s. In a much more competitive market, and with the return to Newfoundland waters after several centuries absence of southern European fishing fleets, the country's share of cod landings off North America and Greenland fell from 49 per cent in 1920 to 41 per cent in 1930 and 37 per cent in 1938.[42] The slide continued after the War when, to the competition from southern Europe, was added the more massive invasion of the eastern European fleets. The Newfoundland share of fish landings in the ICNAF convention area fell from 18 per cent in 1954 to 14 per cent in 1969, and in sub-areas 2, 3 and 4, which are the waters proximate to Newfoundland, the share of landings fell from 30 per cent in 1954 to 20 per cent in 1969.[43] The country had failed to establish economic control over the resource and accordingly gave up its exploitation to consuming countries.

Economic stagnation was highly visible in rural Newfoundland from the 1920s. In 1911 there were some 43,800 fishermen and in 1935 around 35,000 representing 53 per cent and 40 per cent of the labour force. The value of fish exports stagnated in the 1920s and fell drastically in the 1930s, but the terms of trade also deteriorated relative to that of the first two decades of the century.[44] Stagnation was also characteristic of the subsistence farming sector. In 1911 there was 112,600 improved acres, but this fell to 89,800 in 1921 and 71,700 in 1935, with a corresponding decline in improved acreage/cultivator from 2.9 to 2.3 and to 1.8 acres.[45] While the volume of root crops (the principal field production) rose modestly in the hard 1930s, it was still pitifully low at 59 bushels of potatoes per fisherman in 1935 and 2.7 barrels of turnips.[46] Livestock ratios were stagnant over the entire first half of this century and by 1935 the country had only 0.41 milk cows per

42 Gerharsen, *Salted Cod*, Table A-3.
43 Copes, *Resettlement*, Table 25.
44 Alexander, "New Newfoundland", Table 3.
45 Calculated from *Tenth Census of Newfoundland and Labrador*, Part III, Vol II, Sec. II, Tables 2, 4, and 5.
46 Calculated from *Eleventh Census of Newfoundland and Labrador*, Vol. II, Tables 2 and 6.

fisherman, 0.28 cattle, 0.24 pigs, 2..50 sheep and 11.0 poultry.[47] The political price of this condition was the loss of self-government, but the economic and social costs were hardly less severe. Between 1884-1945 Newfoundland lost between 65,000 and 100,000 people through net migration.[48] For those who stayed in the country, there was an infant mortality rate which deteriorated steadily from 17 per cent in excess of the Canadian level in 1922 to 55 per cent in 1931/35, and to 65 per cent in 1941/45.[49] In Newfoundland in 1931 some 36 per cent of all deaths were young people under age 14, compared with 28 per cent in Canada, and by 1946 it was 33 per cent compared with 18 per cent. In 1941 cause specific death rates in Newfoundland were skewed towards those associated with poverty: tuberculosis 171/100,000 (53 in Canada); congenital malformations 112 (71) and influenza, bronchitis and pneumonia 164 (76).[50] Table 4 draws together various estimates of National Income. It suggests that the difference in the relative size of the Newfoundland and Canadian economies widened from the late nineteenth century. The indication that per capita incomes also widened in the twentieth century over the nineteenth is subject to all the limitations of the accuracy and meaningfulness of the estimates. But even if *relative* per capita income was unchanged this represented growing *absolute* disparities. More useful than a Newfoundland-Canadian comparison, however, is one between Newfoundland and Iceland. Compared with the latter before it staked its prosperityon the fishery Newfoundland was a locus of prosperity and economic power. But by 1938 the National Income of Iceland in $US was some $27 million and the per capita income around $220 — that is, Newfoundland's per capita income was at best only some 70 per cent of Iceland's, and the distribution of its income was undoubtedly more unequal.[51]

The Commission Government which assumed control of the country in 1934 was dominated by the United Kingdom members and operated in the shadow of the Amulree Commission's reflections on the unwisdom of a small and poor country attempting to become anything else. It fixed its sights on reorganizing the public services and the fisheries. Long run development issues received little attention, and perhaps the magnitude of the immediate problems excused the Commission's myopia.[52] In two documents concerned

47 loc. cit.

48 Estimated in Alexander, "Newfoundland", Table 6, p. 28.

49 These and the following social indicators are calculated from D.B.S., *Province of Newfoundland Statistical Background*, Tables 24 and 26.

50 Canadians, of course, excelled in the deaths of affluence: cancer, heart disease and violence.

51 Calculated from Chamberlain, *Economic Development of Iceland*, Appendix, p. 134. at official Kronar-Dollar exchange rates as in Appendix, p. 125.

52 Not, however, in the view of one of its members, Thomas Lodge, who upon resignation wrote one of the most interesting books on Newfoundland, *Dictatorship in Newfoundland* (London, 1929). The best analysis of the Commission is in S.J.R. Noel, *Politics in Newfoundland* (Toronto, 1971). A useful collection of documents and linking commentary is Peter Neary, *The Political Economy of Newfoundland* (Toronto, 1973).

TABLE 4
ESTIMATES OF NATIONAL INCOME:
NEWFOUNDLAND AND CANADA

	Newfoundland		*Canada*		
	*NI**	*NI/Capita*	*NI*	*NI/Capita*	*Nfld NI/Capita as % of Canada*
	($M)	*($)*	*($M)*	*($)*	%
1884	15	75	481	135	55
1911	27	110	2,085	290	38
1938	47	150	4,001	360	42
1948	120	350	12,000	936	37

Note: The detail for the 1911 Newfoundland estimate is provided in Appendix A, and for other years as indicated in the note on sources. The meaningfullness of National Income estimates as an index of economic well-being, and especially as a base for intertemporal and international comparisons, is too obvious to require elaboration. The comparisons in this table are on the basis of approaches as conceptually similar as possible. Obviously, the Newfoundland estimates represent extremely crude indicators, but even if the estimate for 1911 was out by as much as 25% — which is unlikely — the gross comparative position would not be significantly different.

*NATIONAL INCOME

Sources: For 1884 estimate for Newfoundland see, David Alexander, "New Newfoundland", Table 4; for Canada see, Urquhart and Buckley, *Canadian Historical Statistics*, Series E214-244. For 1911 Newfoundland estimate see Appendix A; for Canada see, Urquhart and Buckley, Series E202-213. For 1938 Newfoundland see, MacKay, *Newfoundland*, Appendix B; for Canada see, Urquhart and Buckley, Series E1-12. For 1948 Newfoundland see, D.B.S., *Province of Newfoundland Statistical Background*, Table 105; for Canada see, Urquhart and Buckley, Series E1-12.

with long-run reconstruction, however, the classic issues of development in a small country emerge once again.

J.H. Gorvin was a Principal in the British Ministry of Agriculture and Fisheries seconded to the Commission at the end of the 1930s to report on development prospects.[53] The task, he suggested, could be "approached with some optimism because the country's resources have been by no means fully exploited". But it required, in his view, a "co-ordination of effort" and an attack

53 Papers relating to a Long Range Reconstruction Policy in Newfoundland: Interim Report (Newfoundland Government, 1938), quotations from pp. 14-17.

"over a wide front by a combination of the best brains the trade and industry of the country and the Departments of Government can produce". He stressed the need for a higher level of general education among the population and the deepening of technical skills. For the short run Gorvin emphasized agricultural development, a road system to facilitate commercial production, national marketing boards and local co-operatives, and light industries in food processing. With respect to more grandiose schemes he was sufficiently acute to note that in Newfoundland "when a general state of hopelessness has been reached, the question of the establishment of new industries is brought forward". But if such projects were to be considered, he thought the hydro based export industries of Norway an appropriate model:, but he warned that the "attraction of capital to handle any one of these major operations is . . . closely bound up with long term stable Government and a change of mind on the part of the commercial interests in Newfoundland itself". The emphasis of Gorvins findings, however, was on the development potential lying within Newfoundland, in terms of productive resources and internal-market development. There was nothing like a world Depression to focus attention on the modest potential at home.

In 1944 the Hon. P.D.H. Dunn, Commissioner for Natural Resources, made a radio address wherein he sketched the outlook for the country. According to Dunn, the "one certain thing in the economic life of Newfoundland" was that "the dried codfish industry (would) not . . . provide a reasonable standard of comfort for the number of men who depended upon it in the past". The economic salvation of the country, however, lay "in a wise development of both the fisheries and agriculture". He hinted that the agricultural prospects were limited in scale and variety of product, and that the real dynamic lay in fisheries development. He argued that while "the salt codfish industry is carried on as vigorously as possible a new industry must be created around it so that we can revitalise the whole of our economic life. We believe that this new industry must be based on the production of frozen fish . . . ." Foreshadowed in Dunn's address was the now famous resettlement programme:

> It should be possible to concentrate the new industry in about fifteen centres and by this means we will ensure a reasonable prospect of prosperity to a larger part of the Island and spread the benefit among a greater number of people than if we concentrated on one centre only. By making each selected centre as prosperous as possible we shall provide a strong inducement to people from less favoured communities to abandon localities in which they cannot hope to obtain a reasonable living.[54]

54. Subsequently printed as *Fisheries Re-Organization in Newfoundland*, (St. John's, 1944), pp. 5-6.

The reorganization scheme was "essentially one for private enterprize" assisted by government. Dunn thought it would cost some $15 million, raised domestically and abroad, although it "is our view also that in all of the new ventures the majority of the capital employed should be in Newfoundland hands so that control of the companies may rest here. Only by doing so shall we be certain that the future policy of the companies is determined by the needs of Newfoundland and not by the success or failure of operations in other countries." In conclusion, Dunn predicted that should the scheme fail, then "all else can be forgotten, and save for a few isolated centres, Newfoundland will have to be abandoned". If it succeeded it would give the country a sure foundation wherein agriculture and other industries could be usefully and successfully developed. Dunn's prediction proved wrong in substance if not in spirit. But it is interesting because in contrast to the fortress mentality of the 1930s he shifted the emphasis back to export-led growth. Unlike the emphasis of the first three decades of the century, however, the key export sector was at last identified as a fishery under the ownership and control of Newfoundlanders.

Both Gorvin and Dunn brought to Newfoundland's economic problems and prospects a very European point of view about societies which lay outside Industrial Revolution concentrations like the Ruhr and Black Country. For them there was nothing contradictory, odd, inferior or ignoble about economies which were small, that relied for stability and well-being as much upon non-market as market production, wherein a man might, in one part of the day, earn income by operating the most complex of modern technology while in another uproot potatoes with a spade. They assumed, moreover, that economic development was development indigenous to its location in respect to resources. entrepreneurship, labour and, for the most part, capital. In this respect they were deaf to the voice of the true British North American — as well represented in Newfoundland as the Mainland — who saw the easiest road to 'development' as primary resource exploitation under the aegis of international corporations.

It was 'British North America' that shaped Newfoundland's postwar history. Conforming to the traditional role of peripheral provinces, Confederation inevitably directed the economy's development into those sectors where it might have a comparative advantage — land resources and primary manufacturing. The Province's first Premier, moreover, held few illusions that the Island's economic elite could generate any alternative:

> It would not be so much a matter for public concern if our millionaires today, making their money and living with their families in a capital-hungry province, instead of investing their money only in the wholesale and retail trade, in amusement centres, in high-rise buildings and countless other high- and quick-return enterprises, in and out of

> our province, were to put large proportions of it into basic productive industries to strengthen the fundamental economy of the province by creating jobs. Even our great basic industry, the fishery, has not attracted locally the capital that was needed. My administration had to pour many millions of dollars of public money into the fisheries, largely as loans, to make up for the failure of local millionaires, near-millionaires, and other wealthy individuals and companies to do so.[55]

In a colourful passage, Smallwood advances the weakness of domestic entrepreneurship as the reason for his quest for foreign direct investment:

> It was useless to turn to the businessmen of Newfoundland. Most of them were scrambling around, like henhawks eyeing a chicken coop, for their share of the millions of family allowances and other cash pouring in from Ottawa. Wholesale, jobbing, retail shops, they were stocking up to the bursting point, telegraphing and telephoning urgently to the mainland for more supplies, and scouring Canada for new agencies. I didn't dare venture my life in that mob of single-minded traders. It would be useless to talk to them about investing money in new industries, so I would have to search outside, and I did.[56]

The economist would argue that Smallwood's strictures are unfair because, realistically, business opportunities for Newfoundlanders were confined to construction and the service sector by the magnitude and complexity of the developments in resource production.[57] Such a response, however, identifies investment opportunities as entirely exogenous to the imagination, originality and skill of people in small countries. The reconstruction visions of Gorvin and Dunn for a 'European Newfoundland' admitted no such constraint, but these were made irrelevant by the post-war drive for rapid growth of personal, cash incomes.[58] In the context of a decayed fishing industry, an in-

55 J.R. Smallwood, *I Choose Canada* (Toronto, 1973), p. 282.

56 *Ibid.*, p. 346.

57 Such a conclusion is implied in G.N. Yannopoulos, *The Development of the Newfoundland Economy Since Confederation* (Unpublished Ph. D Thesis, University of London, 1965). Viewed as a customs union, Confederation had trade creating effects which reduced existing investments in Newfoundland secondary manufacturing and induced further concentration of investment in resource production. Since Newfoundland firms were small and inexperienced in resource production, other than fish, their capital naturally flowed into construction and services in response to the growth of personal incomes in the 1950s and 1960s. Such an explanation, however, is less convincing when attention shifts to the demise of the fishing industry.

58 Mr. Smallwood pleads that this constraint left him no choice: his famous slogan, 'develop or perish', did not mean "that the people would die in the streets and Newfoundland cease to be. It didn't mean some catastrophic blow that would annihilate the province. What it meant was that Newfoundlanders, especially the young ones, would never be willing to stay in a province that didn't give them a chance to work for a good living, a chance to rear families in independence, a chance for those families to enjoy a good life in Newfoundland." Smallwood, p. 345.

different industry, an indifferent entrepreneurship and the economic and cultural impact of Confederation, it is possible to regret the choice but difficult to fault it on pragmatic grounds even if its logic was the transformation of Newfoundland into an eastern extremity of mid-Canada resource camps.

III

The history traced in this essay is of a small country emerging from the nineteenth century with a large and reasonably prosperous peasant economy linked to the world by its single commercial city. It confronted towards the end of the century, however, the classic Malthusian problem of pre-industrial economies which reach a ceiling of extensive growth. In an earlier era the issue would have been resolved simply, if brutally: population would have adjusted to the resource base and the state of technology by swinging fluctuations. But by the end of the nineteenth century there were the alternatives of migration to relieve immediate pressure and of long run development to build Jerusalem in the 'green and pleasant land'. Of course development then, as much as now, was far from a clear issue and was especially intractable for a small country, the leader's of which, in their realistic moments, recognized its material and human limitations. But the fundamental choice that faced such countries in the burgeoning and metropolitan dominated international economy was who could best generate development? Eric Kierans has rightly said that among the classical economists the idea was "that growth is a long and laborious process" which comes "from below, each man trying his best, with large numbers constantly entering and leaving the system".[59] But for Newfoundland at this time there was an alternative, what Mr. Kierans calls "The instant development, supposedly the promise of cosmocorp investment and transfer of technology . . . ."[60] Cosmocorps and their metropolitan homelands rarely made any overt promises, but the blandishments were there in the shape of an 'encouraging response' when a Prime Minister, like Morris, addressed leading investors in London, and in the scores of development agreements that came to nothing. As Newfoundland's relative position in the world deteriorated, so did the ability of the population to reverse the trend. As Sir William Petty noted several centuries ago, men "who are in a decaying condition, or who have but an ill opinion of their own Concernments, instead of being . . . the more industrious to resist the Evils they apprehend, do contrariwise become the more languid and ineffectual in all their Endeavours . . ."[61]

59 Kierans, "An Unsympathetic View", *Nationalism and the Multi-National Enterprise*, Ed. H.R. Hahlo, et al. (Leiden, 1973), p. 176.

60 *loc. cit.*

61 Sir William Petty, *Political Arithmetick* (London, 1690). Preface, n.p.

There is still little development theory to support alternative and more creative directions for countries like Newfoundland,[62] and the desperate realities at a provincial, family and personal level inhibit the formulation of risky abberations.[63] Development theory, the policies of federal agencies, and the global intimacy of ways of life imposed through modern communications,[64] have reinforced for small countries an inclination to try to replicate the modal patterns of development which proved successful in the metropolis. The backward country or region is seen to be progressing not simply when absolute and relative income differences narrow between it and the metropolis but as well, when demographic patterns, industrial structure, and the distribution of product and income approach more closely to the structures of the model.[65] Creativity, in this view, is limited to seizing opportunities more closely to replicate the economic and non-economic structures of developed coutries.[66] Wassily Leontief, in a discussion of input-output analysis puts this bluntly when he says "that the more developed the economy, the more its internal structure resembles that of other developed economies".[67] He dismisses Furtado and others who argue that differing resource endowments, differing wants and styles of life, call for a multiplicity of technologies and a multiplicity of modernities, for,

> . . . the fact is that the choice of alternative technology hardly exists. The process of development consists essentially in the installation and building of an approximation of the system embodied in the advanced economies of the Unites States and western Europe and, more recently, of the USSR . . .[68]

If it could be realised, such a conception of development would lead to a world of pervasive sameness in patterns of consumption if not exactly (because of size and endowment) in patterns of national production. Development then becomes a process of approaching Platonic Forms embodied in the

62 But see Norman Girvan, "The Development of Dependency Economics in the Caribbean and Latin America", *Social and Economic Studies*, XXII (1973).

63 Hence, when St. John's looks for a development plan it reaches into the sagging bottom drawer of a Montreal planning firm rather than mobilizing the skills and views of its own citizens.

64 As Hymer point out, however, this is not simply a matter of technology, for new technology increases interaction and interdependence, "but — not necessarily a hierachical structure". S. Hymer, "The Multi-national Corporation and the Law of Uneven Development", *Economics and World Order*, Ed. J.N. Bhagwati (London, 1972), p. 126.

65 Apart from its frustrations, the conception of the periphery held in the centre is illustrated by the habit of Statistics Canada in aggregating its series by Atlantic, Quebec, Ontario, Prairies and B.C. Provincial breakdowns for 'Atlantic' and 'Prairies' are, of course, available upon request.

66 S. Kuznets, *Modern Economic Growth* (New Haven, 1966) especially stresses this view.

67 Leontif, "The Structure of Development", *Technology and Economic Development*, Ed. by 'Scientific American' (Baltimore, Penguin, 1965), p. 130.

68 *Ibid.*, p. 139.

real world of the metropolis and the fastest route to its achievement will be the corporate agents of that metropolis. To question such a course of replication is to run the risk of being not only silly but inhumane. In the Canada-U.S.A. case, Professor Lithwick has noted that "The growing homogeneity of the economies has appeared to some Canadians to be a threat to the 'national identity' ", but "given the similarities in tastes and technology, and the high degree of factor mobility" it is useless to resist, for an "integrated North American economy will maximize income in both countries and our reading of the past suggests that attempts to delay it have but one result; that is, to impose a fruitless burden on Canadians."[69] In other words, imitation to the point of absorption is without answer.

Only the misanthrope questions the benefits of a prosperous and growing economy, though not only he enquires about definitions. Not even a twentieth century William Morris queries the value of a vigorous interregional and international exchange of goods, services and production factors, for it can be argued that only in such exchanges is to be found the economic justification for regions within countries and nations within the world.[70] But what This is especially true when the exchange is between a small and a large country. Imitation can be unfruitful because the resource endowment will not support it (except by sharply reduced population and a truncated distribution of output) because external economies do not allow it, or because it is not in the interests of other regions or countries. To accept the modal definition of successful development can be to accept perpetual backwardness along all dimensions: at best the periphery might achieve a shabby dignity or a shabby replica of what exists in the heartland.

Obeisance to the accomplishments of the modal society and to it as the source of all creativity, leads via replication of structures to the destruction of non-economic correlates. The result is a loss of social and cultural variety in the world, and hence of examples of alternative ways of living for all to consider. This can have material consequences[71] since it implies the elimin-

69 Lithwick, *Economic Growth in Canada: A Quantitative Analysis* (Toronto, 1970), p. 4. The same conclusion is reached in Ronald J. and Paul Wonnacott, *Free Trade Between the United States and Canada* (Cambridge, Mass., 1967).

70 But this must not be a simple obeisance to classical doctrine without careful examination of institutions, for "the important point is to note that the general presumption of international trade economists in favor of free trade and free factor movements . . . does not apply to direct foreign investment because of the anticompetitive effect inherently associated with it." S. Hymer "The Efficiency (Contradictions) of Multinational Corporations", *International Business - 1971*. Ed. E. Cracco et. al. (East Lansing, Michigan, 1971), pp. 3-4.

71 This point, of course, is hardly original for it has even made an appearance in the *Canadian Journal of Economics*. Clarence Barber has argued that technological knowledge could easily lose its scarcity and countries like Canada and the U.S.A. find themselves at a growing competitive disadvantage. "In such a world there could well be a major premium to developing your own distinctive specialties." Barber, "A Sense of Proportion", *Canadian Journal of Economics*. VI, (1973), p. 480.

ation of the production of commodities and services which have their roots in cultural distinctiveness, a view eloquently stated by Osvaldo Sunkel:

> A nation must use its traditions, culture, values, institutions and history to create and achieve its own process of development and national realization. To substitute imported ingredients for these elements is to destroy the essence of the nation and to convert its inhabitants into outcasts, both from their own history and from that of the advanced societies. What is required is a process of modernization which is at once imitative and creative, based on a deliberate and conscious selection of what is authentically universal in modern civilization and culture, and based on an imagination which, can construct with these elements the politics, institutions, ideologies and other instruments of national development.[72]

The historical record suggests that Newfoundland borrowed injudiciously and lacked confidence in the potential of its indigenous resources, culture and skills. But Newfoundland was not unique among the Atlantic Provinces in these characteristics.

The resource endowment of the Atlantic provinces could become more favourable in years to come, if it does, important external economies could emerge providing cost support to more diversified economic structures; and the centrality of national policy-making could shift more in the interests of these provinces. But if all this happened, would the sense of dependence and stunted development be any less acute than it is now in Ontario or Alberta? Is it necessarily so, as Demas implied, that a dependent country or region can only tinker with the production of non-tradeable goods? If a distinctive regional culture exists which is more than sentimental aggressiveness about a past long dead, then import substitution and eventual export growth can take place, not on inefficient replication of the output and demand patterns of other regions and countries, but on the basis of a distinctive demand for goods and services of the region which, because it originates here, will be uniquely efficient in its production. If this is so, then an aim of governments and people in the Atlantic region should be a very cautious appraisal of resource development by metropolitan firms for metropolitan markets. But pursuit of an economic provincialism which simply replicates the patterns of the metropole offers a bleak future, for, "Imported technology and ideas do not create new comparative advantages, and tariff protection does not force the pace of specialization."[73]

72 Osvaldo Sunkel, "Latin American Underdevelopment in the Year 2000", *Economics and World Order*, p. 220.

73 Eric Kierans, "Towards a New National Policy", *An Industrial Strategy for Canada*, Ed. Abraham Rotstein (Toronto, 1972), p. 88.

APPENDIX A

NATIONAL INCOME 1910/11
Population 1911 — 242,619

Goods Production (Exports)[1]		
Fishery	8,798,932	
Agriculture	7,577	
Forestry	1,461,331	
Minerals	1,565,979	
Other (excld. re-exports)	29,790	11,863,609
Goods Production (Domestic Market)		
Agricultural[2]	5,388,559	
Manufacturing[3]	3,000,000	
Sawmills[4]	717,717	
Construction & Repair[5]	3,000,000	12,106,276
Service Production		
Government Expenditure[6]	2,054,390	
Transportation[7]	626,305	
Other Services[8]	600,000	3,280,695
Less estimated payments abroad of enclave industries in Forestry and Minerals (say a third of export values)		1,000,000
National Income		$26,850,580
National Income/Head		$110

1 Customs Returns.

2 Estimates, Department of Agriculture and Mines, less experts.

3 Wages and Salaries estimated from incomplete returns of 1911 census.

4 Returns of the Crown Lands Department, net of pulpwood.

5 Approximately 4,000 houses were built or under construction or repair by estimate of the 1911 census, say at an income to builders (whether commercial or not) of $800 per house. In Canada in 1911 the average value of new housing units completed was about $2,000 (Urquhart and Buckley, R149-150).

Confederation shielded the Maritimes from the brutal economic and political collapse which devastated Newfoundland but it did not shelter it from becoming a consuming backwater of the metropolis. If there are lessons from the more courageous, if foolhardy, history of Newfoundland, it is to concentrate on export sectors which can be dominated by domestic production factors; to stimulate local deviations in patterns of consumption in the hope they might spawn firms and products with unique services and goods to offer the world; and above all, to frankly acknowledge that there is no easy road to development. In the long run a country or a province must have faith that its residents can do more than provide semi-skilled labour and middle-management for international corporations.

6 Estimates for 1910/11 less debt servicing and transfers.

7 Earnings given in the Annual Report of The Reid Newfoundland Company only — an obvious understatement.

8 At most only the income produced of some 6,132 people — doctors, lawyers, merchants and traders and employees in offices and shops (some 10% of the labour force) is in question here. Most of this income produced is already accounted for under other lines. Arbitrarily $100 per service employee is included to compensate for underestimation.

Sources: *Journal of the House of Assembly* (Appendices) 1911 and 1912. *Census of Newfoundland and Labrador*, 1911.