CHOCOLATE BARS AND RUBBER BOOTS: THE SMALLWOOD INDUSTRIALIZATION PLAN

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CHOCOLATE BARS AND RUBBER BOOTS:
THE SMALLWOOD INDUSTRIALIZATION PLAN

by

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ABSTRACT

The Confederation of Newfoundland with Canada in 1949 was a mixed blessing. On the plus side, Canada's array of social programs and its strong economy gave much-needed security to Newfoundland and its people. On the minus side however, Newfoundland became, overnight, part of the Canadian common market. This new relationship meant the end for many local manufacturers and the loss of a substantial number of jobs. In addition, Confederation brought down immigration barriers between Newfoundland and Canada, thereby providing a borderless escape route for Newfoundlanders intent on finding improved economic conditions. Stepped-up out-migration was viewed as a serious problem by the new province's first government.

This thesis traces the Smallwood government's first major response to the challenges posed by Confederation. Out of it came an industrialization policy that would lead to the establishment of sixteen-sponsored industries and the expenditure of two-thirds of the cash surplus accumulated during the Commission of Government period.

The industrialization program was poorly planned, both in terms of the business partners it sought and the industries it funded. In the end, most of the new industries failed, without having returned a penny in principal or interest to the Newfoundland government which bankrolled the program with loan guarantees.

Chapter One outlines the environment in which Smallwood created the industrialization program, and introduces his economic czar and confidant, Dr. Alfred Valdmanis.

Chapter Two attempts to capture the deal-making and the political rhetoric through which the program developed. It reveals the first signs of duplicity on the part of the government in its public and private musings about the program.

Chapter Three gets to the heart of the crisis the industries found themselves in, and details the internal management of the crisis both from inside the companies and inside government.

Chapter Four provides a broader perspective of the development dilemma faced by small economies, by focusing on the case of Nova Scotia and its experience with Industrial Estates Limited.

Chapter Five places the failure of the Smallwood program in the context of five distinct economic development efforts in the post-Confederation era. The most recent effort was unveiled in late 1994 by the Liberal government of Clyde Wells.

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The mistakes of course, are mine.

Introduction

The February 9, 1950 memo from Richardson Woods, a Chicago consultant, to economist Stacey May of Nelson Rockerfeller's International Basic Economy Commission's Technical Services Group, provided a snapshot of an impatient Joseph Smallwood, Newfoundland's first premier. Woods' memo noted Smallwood's "great sense of urgency about economic development" and reported "he grudges every week that passes without constructive action".[1]

In the following months, Smallwood had the IBEC Technical Services Group undertake a "survey" of the province's economic prospects. A press release from the IBEC Group described the survey as "a broad investigation of the economic resources of the Province, with special attention to world market analysis."[2] Smallwood though, was already looking beyond the IBEC report, telling Newfoundlanders,

> A mere hundred million dollars invested in the development of our resources would absorb every last bit of our man-power (sic) and create a man-power shortage.[3]

But it was manufacturing, not natural resource development, to which Smallwood would first commit himself. In the 22 months between June 1950 and March 1952, Smallwood's "great sense of urgency" would translate itself into the establishment of, or commitment to, 16 new manufacturing industries, including a cement plant, and chocolate, leather, glove and textile factories.

The Newfoundland Government launched these industries through its Economic Development Department and the Department's Director General, Dr. Alfred Valdmanis. Valdmanis, a former Latvian finance minister, was recruited by Smallwood in Ottawa. As Newfoundland's economic czar, Valdmanis' role was to travel, (mostly to Europe) make contact and reach tentative agreements with companies or individuals interested in establishing enterprises in Newfoundland.

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[1] Memo, Richardson Woods to Stacey May of International Basic Economy Commission's Technical Services Group, February 9, 1950. J.R. Smallwood Collection, Centre for Newfoundland Studies, Memorial University. File 3.08.336 [In subsequent citations, this collection of material will be referred to as JRS Collection.]

[2] Ibid

[3] J.R. Smallwood Speech, 1950 (undated).File 7.02.003. JRS Collection

The agreements were subject to cabinet approval, a near automatic assumption in those days.

Smallwood's public comments exuded near missionary zeal when it came to promoting economic development in Newfoundland. In the 1950 legislature debate on establishing the Department of Economic Development, Smallwood uttered his famous "develop or perish" statement, and he related a story he told a Toronto newspaper reporter in 1948, while negotiating the Terms of Union in Ottawa.

> I used to tell him I'd be Premier of Newfoundland and that there'd be no difficulty of that. And he used to laugh, and I used to say, 'don't laugh'. I said 'whoever is Premier of Newfoundland has to do one thing, he has to develop Newfoundland or be booted out.[4]

Smallwood promised that government policy toward industrialization would be calculated and orderly. Harold Horwood, a Liberal backbencher in the first Assembly after Confederation, and a close ally of Smallwood in the Confederation campaign, wrote years later the plan was to develop the industries one at a time, sell them to the private sector, and use the proceeds to start other industries.[5]

In reality though, the pragmatic, snail's-pace approach appeared to be only for public consumption. The government was actually moving quickly. This was borne out in a memo from Alfred Valdmanis to Smallwood on May 11, 1951, on the eve of Valdmanis' departure for Europe to negotiate six new industries.[6]

The industries themselves were capitalized with 50% government financing through an attractive loan guarantee program. The terms did not require cash investment on the part of the investors as a prerequisite to qualify for the guarantees. The phrase in the loan regulations that allowed this was the "in cash or kind" clause. "In kind" was intended to include everything from "know-how, machinery, or any material, engineering supervision,

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[4] Peter Neary. The Political Economy of Newfoundland, 1929-1972. (Toronto: Copp Clark) 1973. pp. 194-195

[5] Harold Horwood. Joey. (Toronto: McClelland and Stewart) 1990. p. 171

[6] Memo, Alfred Valdmanis to J.R. Smallwood, Department of Economic Development. File 3.08.002. JRS Collection

erection, building, etc." and would be matched dollar for dollar by the Newfoundland Government in the form of guaranteed bank loans.[7]

Soon after getting started, most of the industries became money losers In the early going, most of the money losers were sustained with additional government loans and grants. In 1957, a government-commissioned consultant's report recommended some of the industries be closed and proposed changes in the way others were managed. The gypsum and cement plants, based on locally available resources and geared toward the local construction market, remained going concerns. Those industries however, have long since passed from government to private control. Indeed, a few short years after the program started, the government itself was de-emphasizing the industrialization scheme and focusing instead on fisheries development.[8]

This thesis is not a study on regional development, rather it is an examination of a specific initiative undertaken by the Newfoundland government during its early years as a province of Canada. This policy, which entailed significant public investment, happened in the climate of post-war economic thinking, which both in Britain and Canada, implied a vital role for government in the area of economic planning. During this period, Britain developed a large nationalized industrial sector and had implemented major social welfare reform with the National Health Service.[9] In Canada, the 1945 White Paper on Employment and Income promoted the maintenance of "high and stable levels of employment and income" to be "a primary aim of government policy in the postwar period."[10] This focus on generating high levels of employment was seen as being influenced by developments in Britain, and by the poverty experienced in Canada during the depression. These developments led in Canada to the strengthening of the Department of Finance as an instrument of financial control and of the Department of Health and Welfare in the area of social policy.[11]

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[7] Ibid, File 3.08.002

[8] Memo, Gordon Pushie to J.R. Smallwood, 1957. File 3.08.033. JRS Collection

[9] Shonfield, Andrew. Modern Capitalism [The Changing Balance of Public and Private Power] New York: Oxford University Press. 1976. pp.88-89

[10] Phidd, Richard W. and G. Bruce Doern. The Politics and Management of Canadian Economic Policy. Toronto: Macmillan. 1978. p.159

[11] Ibid

The developments also served to legitimize a larger role for the state in the planning of the economy. While there is little direct evidence Smallwood was influenced by these events, he had to look no farther than Newfoundland's high unemployment and large outmigration numbers to appreciate the need for some type of intervention by his government. Smallwood was philosphically inclined to engage the treasury in the pursuit of industry to ameliorate such conditions. He underlined his resolve in a speech to the legislature in the fall of 1949.

> ...we might take some of the surplus...and put it behind some movement for the development of this province...That is the only permanent solution to the age-old problem that began officially in 1832 and has never ceased except during the First Great War and during the Second Great War.[12]

This thesis will focus on the industrialization program with a view to detailing the activities of the industries and providing an analysis of the way in which it was managed. As a preliminary point, the program, despite an expenditure that amounted to two-thirds of the pre-Confederation surplus[13], has been subjected to limited study. One possible reason is that key documents from that era have only recently become available. This is especially so with respect to the Smallwood Collection in Memorial University's Centre for Newfoundland Studies.

The industrialization program, though enthusiastically supported by Smallwood and others, was poorly planned and too hastily embarked upon. There appeared to be no set of goals and objectives to guide development apart from Smallwood's credo of "develop or perish". While the first three industries were based on local resources and geared toward the local market, Smallwood did not offer a firm explanation why Newfoundland should become involved in industries based on the import of raw materials and geared toward already competitive export markets, especially those in North America. The main weakness in the program however, was the loan guarantee program that provided and

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[12] Proceedings, October 17, 1949. p.413

[13] Proceedings, November 30, 1949. pp.846-848. The pre-Confederation surplus refers to the balance books for the Newfoundland government at the time it joined Canada. There are various references in print to a surplus ranging from $40 million to $49 million. This thesis uses the figure $40,283,147. This number is taken from the first budget speech of the Smallwood government on November 30, 1949. In recounting for the House the details of the new province's financial standing, the Minister of Finance, H.W. Quinton noted that the surplus at Confederation was $47,676,482., minus liabilities of $7,393,335. These liabilities included accounts payable, trustee stock, savings certificates, and both public debt and savings certificate interest.

delivered substantial financial help to industries, based not on rigorous study and analysis, but on the blessing and recommendation of the new Province's economic czar, Alfred Valdmanis. This cannot merely be seen as a technical weakness, but rather, as a political mistake which in six short years, consumed $26 million.[14]

This thesis will place the Newfoundland industrialization plan in the context of what was happening in Nova Scotia at around the same time. The decision to include the Nova Scotia case centres around some of the similarities it has with Newfoundland. Like Newfoundland, Nova Scotia has lagged behind the nation in important indicators of economic growth; it was primarily a resource-based economy; it was outside the industrial centre of Canada and North America, though not as far removed from the centre as Newfoundland; and Nova Scotia and Newfoundland, as provinces of Canada, have identical constitutional powers. These similarities should not be taken to mean that any given business would have an equal chance of surviving in both provinces. Indeed, an argument could be made that Nova Scotia would have a major locational advantage over Newfoundland in terms of getting manufactured goods to market. However, it should be noted the Nova Scotia case also serves to illustrate that Newfoundland was not the only province engaged in directing industrial development.
To take the discussion a step further, the Canadian experience is consistent with the global experience where countries and regions on the periphery of larger trading partners, have adopted similar measures to jump-start development, often with catastrophic consequences for their treasuries.

This thesis will rely on an assortment of primary and secondary materials. The chief primary materials are contained in the Smallwood Collection in the Centre for Newfoundland Studies at Memorial University. These include Department of Economic Development documents, including memoranda to cabinet in support of the establishment of the various industries. The departmental documents also contain correspondence between Alfred Valdmanis and the banking houses, correspondence between Valdmanis and J.R. Smallwood, and internal memoranda on the operation and status of the various industries established under the government plan.

The Smallwood Collection also contains annual reports of the Industrial Development Loan Board, and reports and memoranda involving the International Basic Economy Commission.

Proceedings of the House of Assembly comprise an important record of the 'cut and thrust' of debate on industrialization and other public policy issues.

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[14] This represents in excess of $200 million 1995 dollars.

There was substantial coverage of the Newfoundland development program in the newspapers and journals of the day. The local papers, The Evening Telegram and The Daily News gave extensive coverage of the new industries. The Board of Trade Journal provided a business perspective on the increased competition at the time of Confederation, with much of the space devoted to the transition period for Newfoundland-based manufacturers. This coverage was in sharp contrast to that provided by the Toronto-based Financial Post. The Post detailed the opportunities Confederation presented for Canadian business, and later, as the industrialization program got underway, the paper gave considerable space to detailing the prospects of the new industries. (The Post's coverage appeared to be based on Smallwood's accounts of how the new industries were doing, however, rather than on any independent assessment of the new firms.)

The international experience is amply documented in studies that are a combination of theoretical and anecdotal approaches to development. Dependency theory and theories of underdevelopment are important for understanding the rationale even for what may be considered misguided economic development in places such as Newfoundland.

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Confederation: The Beginnings of an Industrialization Policy

In Newfoundland, the stroke of midnight, March 31, 1949 is best known as the moment Britain's oldest colony became Canada's tenth and youngest province. The union brought Canada's array of social programs - old age pensions, war veteran's pensions, family allowances and unemployment insurance - to the 350,000 people of Newfoundland and Labrador. Union with Canada meant something else as well. It broke down the customs and immigration barrier between Newfoundland and Canada. Soon after, Canadian manufacturers would be successfully competing with Newfoundland manufacturers who had previously enjoyed tariff protection. For Newfoundlanders generally, union with Canada removed immigration barriers and eased migration. Indeed, migration to Canada was a well-worn path for Newfoundlanders looking for better fortunes. In 1947 and 1948, 4900 Newfoundlanders migrated to Canada.[1] The migration factor was an ingredient in several speeches given in the early 1950's by the new Premier, Joseph Smallwood, and it appeared to give impetus to his search for new industry. Returning from a six-week trip to Europe to attract business to Newfoundland, Smallwood told a Newfoundland radio audience,

> We must develop or perish. We must develop or our people will go in the thousands to other parts of Canada. We must create new jobs, or our young men especially will go off to other places to get the jobs they can't get here. Develop, develop, develop --- that's been my slogan and that will remain my slogan.[2]

In a 1951 speech to the House, Smallwood again detailed his fear about out-migration, and how "confederation with Canada contained the dire threat of accelerating vastly and spectacularly that outward flow of people.[3] In the same speech, he outlined the need for the industrialization program his government had already initiated.

> Something had to be done, and done quickly. Our people had to be persuaded that Newfoundland itself, as a result of Confederation, was embarked upon a new

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[1] Neary, p. 185

[2] Speech by Joseph R. Smallwood, October 12, 1952. File 7.02.003. JRS Collection

[3] File 7.02.004. JRS Collection. [Undated]

course ...Newfoundland would go ahead. Opportunities would spring up in this province.[4]

Smallwood may have been merely echoing what business leaders and the newspapers were reporting. The Newfoundland Board of Trade was reported to be so concerned about "almost wholesale migration from Newfoundland", that it asked the government in May 1950 to check on the matter.[5] The Evening Telegram wrote in the autumn of 1950, that "many hundreds of Newfoundlanders have moved out of the Province, if reports from railwaymen and others are to be believed".[6]

Yet others were promoting the idea that Newfoundland was overpopulated. H.B. Mayo, a former Newfoundlander then teaching political science at the University of Alberta, suggested in 1951 that 100,000 people leave Newfoundland - that "it is better to have in Newfoundland 250,000 healthy and prosperous people than twice that number at near-subsistence level."[7] Mayo recommended converting most of the island to a National Park, and he was critical of people mistaking post-Confederation advances for real progress.

> On the one hand, some people see the province growing in population and prosperity, with all the improvements in health, education and other public services, that prosperity can bring. It is a pleasant and rosy picture - but painted from a one-sided view. From another viewpoint may be seen a future in which the population is growing faster than jobs can be found; with thousands of fishermen under-employed and earning less than a decent livelihood.[8]

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[4] Ibid

[5] Bassler, Gerhard P. "Develop or Perish: Joseph R. Smallwood and Newfoundland's Quest for German Industry, 1949-1953". Acadiensis. Volume XV, No.2. Spring 1986, 92-113. p.99

[6] Ibid, p. 98

[7] H.B. Mayo. "The Future of Newfoundland - Is the Island Overpopulated?", in Atlantic Guardian, Vol. VIII, No.3, 14-19. March 1951, p. 19

[8] Ibid, p. 14

Mayo's essay was rebutted a month later in the Atlantic Guardian by none other than Alfred Valdmanis. Valdmanis suggested a five-year national plan of concessions and freight rate reductions to allow Newfoundland to "catch up". He argued under such circumstances, Newfoundland could properly develop its farming industry on the west coast; a new paper mill based on timber from Labrador; hydro projects could be started; and new mines opened.[9] So confident was Valdmanis of his plan, that he predicted "as from the spring of 1952 on, there won't be further unemployment in Newfoundland."[10]

Many thousands of Newfoundlanders had discovered for themselves the lack of opportunity at home. While "the drain was temporarily stopped" between 1951 and 1956, an average of 3,300 Newfoundlanders left the province yearly bet veen 1956 and 1961.[11] The Royal Commission on the Economic State and Prospects lamented in 1967,

> ...those leaving the Province in the past appear to have been mostly the highest skilled and most dynamic, very people, in fact, who have the training and enterprise to generate additional employment for others. Furthermore, those leaving the Province have tended to be the younger members of the work force, which adds to the proportionate number of young and old who have to be cared for by the remaining labour force.[12]

Unemployment was not a new phenomenon to Newfoundland. The situation in 1949 however was exacerbated by a number of factors. There were layoffs in the logging industry brought about by a downturn in the pulp and paper sector, and layoffs on the American bases as the United States cut back its defense spending in Newfoundland. The fishery was a near failure in 1949; the devaluation of the British pound in the summer of that year hurt exports of Bell Island iron ore to the United Kingdom.[13] As if that was not enough to upset the Newfoundland economy, local manufacturing firms faced stiff competition from Canadian manufactured goods that now entered Newfoundland tariff-free.

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[9] Alfred Valdmanis in Atlantic Guardian, April 1951. Vol.VIII, No.4, 11-17. p.16

[10] Ibid, pp.16-17

[11] Report of the Royal Commission on the Economic State and Prospects of Newfoundland and Labrador, St. John's. 1967. p.11

[12] Ibid, p. 22

[13] Bassler, p. 49

The Newfoundland Journal of Commerce - the newspaper of the Newfoundland Board of Trade - described the stiff competition firms were facing from mainland companies in the post-Confederation era. The Board reported "one manufacturer told The Journal that the joining of Newfoundland with the mainland has greatly increased competition for the clothing manufacturers here from Montreal and Toronto firms." The report continued,

> Since union Newfoundland has been overrun at times by clothing agents who visited all or most of the large settlements seeking business and offering goods at a little less than the local prevailing price.[14]

Mainland firms brought competition to other sectors as well. A month later, The Journal reported on the Drug and Toilet Sector trade.

> They have been solicited by travelling agents from various comparatively unknown mainland firms. Like other businessmen, shortly before union and since, they have been the target of intensified selling campaigns organized by mainland firms which have no conception of the limited scope of the Newfoundland market.[15]

Increased competition began to take a toll on Newfoundland manufacturers. While some bravely vowed to "not desist in their efforts to improve their plants and thereby keep abreast of even the keenest competition from the mainland", there was acknowledgement that at least in the footwear trade, some companies were having a tough time.

> One local manufacturer closed his operations a few weeks before union was consummated. The other, the Newfoundland Boot and Shoe Company, Ltd., in Harbour Grace, is continuing production.[16]

Huge mainland firms put on a push in the manufacture of foodstuffs such as biscuits, candy and margarine. "Confederation gave the local biscuit industry a severe wound", the Journal reported in August 1955, adding "one plant, manufacturing English biscuits,

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[14] Newfoundland Journal of Commerce, Vol. XVI, No. 9. September 1949. p. 19

[15] Journal, Vol. XVI, No. 10. October 1949. p. 17

[16] Ibid, p. 19

closed down."[17] The local candy trade was described as being virtually "extinct"[18] and mainland margarine firms "are advertising their product quite extensively here."[19]

The availability of Canadian goods gave Newfoundland consumers something they had not previously experienced - choice. According to the Journal, the availability of new products was exerting a change on consumers, who were now "shopping around".[20] Increased competition from the mainland firms affected manufacturers too. The Journal reported in August 1955, "the biscuit manufacturers realize how important it is to 'dress up' their product. 'Dressing up' was at a minimum before Confederation."[21]

The mainland firms the Newfoundland Board of Trade reported on were filling the Journal's pages with advertisements. Many mainland companies had engaged Newfoundland agents to sell and distribute their products, but many more appeared to be operating out of head office. From Montreal companies selling windows to a Hamilton firm marketing water pumps to the Great West Felt Co. in Elmira, Ontario with its eye-catching message - "it is our responsibility and business to warm your feet with Great West All Wool Felt Footwear", Newfoundland was virgin territory for people who wanted to make a dollar.

It was evident that Canadian businesses viewed Newfoundland as a substantial market in which to do additional business. The Financial Post published several articles detailing the size of the Newfoundland market and its potential for new business. "We Can Double Sales to Island" trumpeted the Post in the days before March 31, 1949, noting the end of tariffs in Newfoundland would mean an additional $30-$45 million worth of business to Canadian firms, chiefly as a result of displacing "one half to one third of the purchases which Newfoundland now makes in United States..."[22] The Post's readers were being told that many of Newfoundland's 75 manufacturing firms and their 3,500 workers "may now find themselves at a disadvantage against Canadian competition" given that the Newfoundland firms were small and were required to use imported "high-cost raw

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[17] Ibid, p. 7

[18] Journal, Vol. XVI, No.5. May 1950. p.21

[19] Ibid, p. 8

[20] Journal, Vol.XV, No.9. September 1949, p. 19

[21] Journal, Vol. XXVI, No. 8. August 1955 p. 7

[22] Financial Post. March 23, 1949. p. 13

materials".[23] Newfoundland would be an important market for "foods, clothing, radios, machinery, automobiles, washing machines" once Confederation removed duties that were as high as 60%."[24]

But what of the impact on Newfoundland firms? How would they adjust in the aftermath of the dismantling of the tariff walls?

Newfoundland firms were promised special assistance to help in the transition to provincehood. After much wrangling, the federal government agreed to a preferential premium of 15-percent on contracts tendered by Newfoundland firms. This would be reduced to 10-percent by March 31, 1951 and eliminated by March 31, 1952.[25] Some local firms did get federal government business, but the Post reported "it will take more than that to aid the firms which are badly hurt by mainland competition."[26]

The Conservative Opposition in the legislature attempted to exploit the concern some Newfoundlanders showed about competition from mainland Canadian firms. Speaking on the unemployment issue in October 1949, Conservative leader John G. Higgins referred to the competition Newfoundland firms were getting from Canadian mail order companies.

> There are clerks and shop-keepers. Will the mail order business put these men out of work? We know well enough that the mail order business contributes very little to this country;...[27]

In the same speech, Higgins attacked the practice of importing produce from Prince Edward Island.

> Now at the present moment, the markets are flooded with Prince Edward Island produce, and this produce undersells our local farmers...for years, Prince Edward Island has been sending stuff into this country and has not

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[23] Ibid, p. 16

[24] Ibid, p. 16

[25] Raymond B. Blake. Canadians at Last: Canada Integrates Newfoundland as a Province. (Toronto: University of Toronto Press) 1994. pp.106-108

[26] Financial Post, July 1949

[27] House of Assembly Proceedings, October 27, 1949. p. 533

> bought a single thing from us. As far as we are concerned, Prince Edward Island is useless to us,...[28]

Smallwood was accustomed to hauling out the train of benefits is describing how Confederation had made Newfoundland better off. Speaking in the legislature on a bill to establish the Department of Economic Development, he talked about "the great system of social security developed in Canada", including "family allowances, old age security, pensions for the blind, unemployment insurance, improved and increased benefits for war veterans, national housing..."[29]

An array of social programs though was seen as a supplement to, not as a substitute for jobs. In the same debate, Smallwood said the social programs "at most...could blunt the sharp edge of extreme poverty in certain classes of our population" and what was needed was development of Newfoundland's natural resources "to yield the basic conditions of a higher standard of living for our people."[30]

Despite that long-term goal, Smallwood was well aware of the immediate role social programs played in augmenting people's income. A report his government commissioned in preparation for its arguments on changing the financial terms of union with Canada, showed Newfoundlanders consistently earning less per capita than other Atlantic Canadians and only slightly more than half of the Canadian average.[31] The same report showed nearly twice as many Newfoundland families in the lowest income categories

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[28] Ibid, p. 533

[29] Proceedings, July 18, 1949. p. 49

[30] Ibid, pp. 49-50

[31] H. Karl Goldenberg. Interim Report on Capacity to Pay and Comparative Tax Burden in Newfoundland and the Maritime Provinces. Presented to the Newfoundland Commission Revision of Financial Terms. St. John's. January 1956. pp. 10-13. [Goldenberg, an economist and labour lawyer, was economic advisor to the Government of Newfoundland during the work of this Commission and during Smallwood's own Commission set up three years earlier in 1953. In his book I Chose Canada, Smallwood stated the Newfoundland Commission was really an effort to prepare the province's case for continuing the transitional grant, intended at Confederation to allow Newfoundland to provide public services at reasonable levels of taxation. This is now referred to as the Term 29 award.]

compared to the Canadian average.[32] Newfoundlanders lagged far behind other Canadians too in terms of educational attainment, and creature comforts, such as furnace-heated homes, hot and cold water, flush toilets, baths or showers and telephones.[33]

That standard of living, and more particularly, the employment situation, came sharply into focus in the first autumn after Confederation. Speaking in the Legislature, Smallwood said "...unemployment, and indeed destitution, have begun to show themselves again in Newfoundland." Citing a near failure in the fishery and problems in the pulp and paper industry that would increase unemployment among loggers, Smallwood predicted it would cost

> ...somewhere between a million and a million and a half dollars to pay welfare to able-bodied Newfoundlanders from October to March.[34]

By the time the numbers were tallied in the next spring, able-bodied relief had cost $3.4-million, more than double Smallwood's estimate.

The plight of Newfoundland's jobless and the prospects for better times, increasingly became the centrepiece of Smallwood's speeches. Addressing the legislature on the necessity of spending some of the $40-million Commission of Government surplus to survey Newfoundland's resource potential, Smallwood implored the Opposition to understand what was at stake for Newfoundlanders.

> A year or two from now, the Opposition may be holding this Government up to ridicule, and we will have to hang our heads for having flung away and wasted $200,000 of the Public's money, but we are going to take a chance if the House is willing....People are not going to wait forever for this development; if we don't give it to them tomorrow, they get more and more out of jobs and pull up their stakes; you can't blame them, and they beg or borrow money to get out of Newfoundland and go where jobs are, you can't blame them. Our job is to back them; go right out, boots and all, make or break. Here, what I mean by "make or break", here is gamble.[35]

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[32] Ibid, p. 14

[33] Ibid, p. 22

[34] Proceedings, October 19, 1949. p. 411

[35] Proceedings, March 30, 1950. p. 489

The Opposition accused Smallwood of acting in haste as he put through legislation to create the Department of Economic Development. Conservative leader Higgins decried the lack of information about the state of the new province's finances.

> I do not think we can find out where we are and whither we are tending unless we know exactly the financial position of this country....I quite agree with Major Cashin that no further discussions should be carried on in connection with Bills already brought before the House, and that no further Bills should be brought here unless we know exactly what the financial position is.[36]

Smallwood actually appeared to be pursuing development with some caution. This was in sharp contrast to how he would proceed later. In announcing legislation in the fall of 1949 to establish a provincial lending agency called the Industrial Development Loan Board to deal with applications for "twenty or thirty or fifty thousand dollars, or maybe more", the government attempted to comfort the opposition and the public by stipulating "that these loans would of course be properly secured." It was clear as well though that the government envisaged some risk, as the loans would "deal with a type of enterprise which the ordinary chartered bank does not..."[37]

At the same time, the government was grappling with how best to use the surplus handed to it by the Commission of Government at Confederation. Smallwood told the legislature the government was leaning toward subdividing two-thirds of the amount (he estimated about $25-million) for "developmental purposes", among various areas of government, including school and hospital construction, "so much for fishery development; so much, perhaps for agricultural development..." (Term 24 of the Terms of Union between Newfoundland and Canada required two-thirds of the surplus be used for "the development of resources and for the establishment or extension of public services"; the other one third was required to be placed on deposit at the Bank of Canada to be spent on current account so as to "facilitate the maintenance and improvement of Newfoundland public services.)"[38] Smallwood saw it necessary to allot the funds "so that the surplus would not be frittered away..."[39] In time however, much of the surplus would be

[36] Proceedings, July 18, 1954. p. 54

[37] Proceedings, October 23, 1949. p. 451

[38] Proceedings, March 31, 1952. p. 24

[39] Proceedings, October 23, 1949. p. 450

exhausted, not on school and hospital construction, or fisheries and agricultural development, but on a highly questionable industrial development plan.

FUNDING INDUSTRIAL DEVELOPMENT

The government's first vehicle to fund local industrial development, the Industrial Development Loan Board (IDLB) never achieved its objectives to provide funding for "both the big and the little man". Nearly a year after it was established, the Board reported it had not disbursed any loans. It seemed most applicants wanted loans to pay off debts or purchase personal items such as motor cars. Adding to the problems, many applicants did not have legal title to the property they offered as collateral. The Board discovered that many of the applicants did not have equity capital, and as a result, those applicants were denied assistance.[40]

Subsequent reports from the Board revealed few people applying for assistance at all - just six applications in 1952-53, compared to 52 in the first two years of the program.[41] The Board reported on "the succession of approaches for assistance pertaining to purposes outside the Board's operations...."[42] Five years into the program, just 20 loans totalling $147,550 dollars had been disbursed. The Board noted that during 1955, lending activity "was again restricted" because of "the relatively limited number of sound approaches which qualified.."[43]

Far from meeting Smallwood's early objectives of providing funding "for the big and little man", the IDLB served to underline a lack of commitment on the part of the government to encouraging Newfoundlanders to begin businesses or expand existing ones. This can be the only conclusion given the repetition of the factors which barred local applicants from securing assistance, and the comparative ease with which Europeans obtained government loans under the government's industrialization program.

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[40] Second Annual Report, Industrial Development Loan Board, March 31, 1952. p. 4

[41] Third Annual Report, Industrial Development Loan Board. March 31, 1953

[42] Ibid

[43] Third Annual Report, March 31, 1950. p. 5.

Smallwood was determined to act against this early post-Confederation backdrop of the slow pace of development.

In the spring of 1950, he made one of the most significant moves of his young government. Smallwood hired Alfred Valdmanis to be his Director of Economic Development. A former Latvian Finance Minister, Valdmanis charmed Smallwood with both his manner and his vision for an industrialized Newfoundland. Prior to his arrival in Newfoundland, Valdmanis had worked for the Nova Scotia Research Foundation, assessing the feasibility of establishing gypsum and cement industries in that province.[44] While those projects did not go ahead in Nova Scotia, they became the first initiatives Valdmanis pursued in Newfoundland. The government approved the cement project first and then the gypsum proposal, both at Corner Brook.

Valdmanis charmed Smallwood with his drive and his contacts, leading Smallwood to say he loved Valdmanis as he could never love a brother or sister.

Valdmanis was not impressed with the work Nelson Rockerfeller's IBEC had done for Smallwood. He put his feelings on paper to Smallwood in December 1950, just six months after being named Director General. Valdmanis claimed IBEC's calculations for a proposed $66-million, 500 tons per day paper mill for Bay D'Espoir would result in "a dismal, if not a criminal, failure."[45]

Valdmanis appeared to be setting the groundwork for establishing with Smallwood his own credentials as the economic czar of Newfoundland. Elaborating on the proposed third mill, which would consume wood logged in Labrador, Valdmanis said,

> I may be able to bring into Newfoundland such a mill at, say, 45 million dollars, and such a mill should prove a tremendous success.[46]

Valdmanis poured out his impressions of his perceived substantial abilities in the same note to Smallwood.

> It is something more which leads me to these almost incredible contracts we have already signed or may have in preparation, and this "something" is even hard to

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[44] Bassler, p. 107

[45] Note, contained in letter from Alfred Valdmanis to J.R. Smallwood, December 12, 1950. Note #1. File 6.00.005. JRS Collection

[46] Ibid

define. That is the knowledge, the skilled brain, the skill to master the subject plus a commanding impression plus wide connections with the best firms in the world.

I think I have all this.[47]

A year after that, Smallwood assured the legislature he would take a prudent approach to dealing with the province's surplus, the government was still undecided about how to fund the industrialization drive to which it had become committed. Notwithstanding this indecision, the government had fully financed the cement, gypsum and hardwood industries to the tune of several million dollars.

It is evident from the Valdmanis papers, that some cabinet ministers were cool to the idea of government financing for industry. In some cases, Valdmanis felt there was outright hostility. In a letter from New York, he related to Smallwood a conversation with cabinet minister H.W. Quinton in a corridor at Colonial Building following Valdmanis' submission of a report promoting the development of a 100,000 ton cement mill. He quoted Quinton as saying "I am going to object to any kind of government enterprise. Surely you can build the plant, but how are you going to get rid of it?"[48] Valdmanis noted that Smallwood had done everything he could to help with economic development, but the cabinet did not seem to be as helpful.

"From you, yourself, my Premier, I have the highest regard...there may be a few more Cabinet Ministers who may be mentioned in the same breath. But the Cabinet as such?? I do not dare to guess, I think indirectly, but clearly, an answer has been given to me."[49]

These were the early days of the Smallwood/Valdmanis partnership, and while Valdmanis was unsure of the kind of support he would get from cabinet, he was counting on Smallwood to persuade those same cabinet ministers to vote him a substantial increase in salary. In a series of four notes under cover of the December 12, 1950 letter, Valdmanis detailed his plans for the cement mill, the third paper mill project, "our proposed big development corporation" and other industries that would come after. Valdmanis concluded his plan was the "minimum needed" for the future development of the province. Included in the same note was a salary request that would increase Valdmanis' pay from a "try-out" level of "714 dollars per month" to $2,080 per month.

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[47] Ibid

[48] Ibid, Note #1, p. 1

[49] Ibid, Letter

Furthermore, Valdmanis made a move to consolidate his control over the government's economic development office. He proposed having authority to select, hire and fire employees; putting all employees on contract, therefore taking them outside Civil Service Regulations; to have their salaries determined by Valdmanis; and to return to the government annually out of the profit generated by the industries, the cost of running the Office of the Director General.[50]

To push his point for a substantial salary increase and for total control of the development office, Valdmanis related being "almost heart-broken", since "my personal needs combined with a very advantageous American offer to me ($50,000 a year according to Valdmanis) make my remaining with you in Newfoundland almost impossible."[51]. Valdmanis noted he would be happy to stay with the Newfoundland government for half that amount. He had a positive response from Smallwood within a week and it improved his spirits considerably, as was evident in a subsequent letter to the Premier. Valdmanis wrote he was "happy since you told me that I may count not only upon your own, but also upon your Cabinet's confidence and support".[52] Valdmanis had reason to be happy; he had a new four year contract carrying an annual salary of $25,000.

Much of the internal government debate during this period was devoted to how the new industries would be funded. While the first three industries (cement, gypsum and hardwoods) were funded directly out of the surplus, the government was attempting to find another way of financing the balance of its industrialization scheme. As early as the summer of 1951, Valdmanis was writing financiers and floating the idea of raising private capital to fund the new industries.[53] He similarly suggested to a Swiss financier a few months later, "...I would not reject without careful consideration, even a direct loan to the Province (some 20 million dollars)..."[54] Valdmanis continued this line of inquiry into the next year. In a letter to a German banker in March 1952, he noted it was necessary to "consolidate the Province's financial position, and find some good international bank

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[50] Ibid, Note #1, p. 4

[51] Ibid, Letter

[52] Ibid

[53] Letter, Alfred Valdmanis to Warburg and Company Limited, August 17, 1951, File 6.00.012. JRS Collection

[54] Letter, Alfred Valdmanis to Dr. Paul Hagenbach, December 1, 1951, File 6.00.012. JRS Collection

through which our new industries....will be financed...."[55] Valdmanis wrote further he was contemplating financing the European industries "on the strength of a Newfoundland guarantee and not through a direct cash advance from the Newfoundland treasury".[56] These inquiries may have underlined a basic conflict in the Cabinet, prompted perhaps by a dwindling surplus as the financial commitment to new industries grew. Valdmanis acknowledged as much in one of his letters, noting "Premier Smallwood...insists...the 19,000,000 dollars, [surplus as of August 17, 1951] except, perhaps, for some small reserve, should be used for building roads, schools and hospitals improving the general social welfare of the people."[57]

NATURAL RESOURCE PLANNING

While much of Smallwood's energy during this period was devoted to the industrialization program, the government did not neglect the potential of natural resource development. Labrador was especially seen as a promising source of resource wealth. Smallwood had long viewed resource development as a key to becoming "a self-supporting Province, independent and proud."[58] Recounting to the legislature the potential of mineral development in the province in the early days of Confederation, Smallwood remarked,

> When you look at the iron mines of Bell Island, the fluorspar [sic] mines at St. Lawrence, and above all, at the fantastic iron mines in Labrador, you cannot help wondering if these are all, and whether indeed, the mineral wealth of Newfoundland, including Labrador, may not yet be enough to make us known as the new Alaska of North America.[59]

In late 1950, Valdmanis recalled in a note to Smallwood how they had earlier proposed creating a resource development corporation funded 95% by the Newfoundland government and 5% by private interests in New York. That scheme contemplated giving

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[55] Letter, Alfred Valdmanis to Dr. W. Hinneberg, March 3, 1952, File 6.00.022. JRS Collection

[56] Ibid

[57] Letter, Valdmanis to Warburg and Company, August 17, 1951

[58] Proceedings, July 19, 1949, p. 50

[59] Ibid

"50% or even more, of the company's profits" to the New York concern.[60] The plan had been worked out by Smallwood and Valdmanis on a train ride from St. John's to Corner Brook. Valdmanis claimed in late 1950 the plan had now been "improved", and that "the discrepancy between investment and the right to profits is wiped out."[61] Under the new plan, he stated, the government and the New York people would "participate on equal terms", meaning they would "share the profits, if any, in proportion to the shares owned" and that in any event, the Newfoundland government would own 51% of the shares.[62] Tied in with the development corporation envisaged in the New York discussions were negotiations on financing the cement mill, which would later be built at Corner Brook.

The New York negotiations, which had kept Valdmanis in the United States for at least a month, were to have been concluded with a signing by Smallwood and Attorney General Les Curtis around January 8, 1951. It was clear however from a letter Valdmanis wrote to a friend at the MIAG company in Germany later in January that negotiations were not going as expected. The signing was delayed until the week of February 6 in St. John's. That in turn, delayed a trip Valdmanis had planned to make to Germany. The investors in the proposed Newfoundland and Labrador Corporation would be "Wallstreet bankers, Canadian investment bankers and the Newfoundland Government itself.[63]

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[60] Letter, Valdmanis to Smallwood, December 12, 1950. Note #2, p. 1

[61] Ibid, p. 2

[62] Ibid

[63] Letter, Valdmanis to Smallwood, January 27, 1951, File 6.00.022. JRS Collection

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The Policy Takes Shape

While presenting a cautious and prudent face to the public, the Smallwood cabinet moved quickly to approve new industries for Newfoundland. The March 10, 1952 cabinet meeting exemplifies this. In that meeting, Rudolf Hanhart and Gustav Carl Weis presented their proposal for a new pressboard industry in Newfoundland. Immediately after their presentation, the two industrialists, along with Edward Wyss, a director of the Swiss People's Bank and Newfoundland's Director General of Economic Development, Alfred Valdmanis, left the cabinet meeting. Cabinet accepted the proposal and instructed the Attorney-General, Les Curtis to draft an agreement. This was followed in short order by a decision to enable the Premier and Minister of Economic Development to complete an agreement with Hanhart and Associates "involving assistance by way of a government loan and/or guarantee of bonds, to a value of $575,000...."[1]

Later that meeting, a draft agreement was prepared for Smallwood's signature and Newfoundland had another industry. This was typical of the break-neck speed with which Smallwood and Valdmanis were industrializing Newfoundland.

Harold Horwood (Liberal MHA for Labrador, 1949-51) writes in his biography of Smallwood, that while "many of Joey's friends and closest associates disliked and distrusted Dr. Valdmanis from the moment they first met him", Smallwood himself was unaffected by their opinion.[2] According to Horwood, within months of Valdmanis' hiring in 1950, Smallwood and Valdmanis had become "the real rulers of Newfoundland."[3]

Smallwood and Valdmanis were a dynamic pair, setting off with either the Finance Minister Greg Power or Attorney General Les Curtis in tow. The trips were nearly always to Europe, where Smallwood was fond of saying, he was "fishing in troubled waters". Smallwood explained his strategy in a 1951 speech to a Boston audience that he was courting for capital in order to develop the province's mineral wealth, timber stands and water power.

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[1]Certified Cabinet Minutes, March 10, 1952. Minutes 251-'52; 252-'52; and 253-'52. File 2.03.004. JRS Collection

[2] Horwood, p. 173

[3] Ibid, p, 173

> You need only see once the fantastic devastation of Hamburg, Cologne, Dusseldorf, Frankfurt and Munich and a hundred other industrial cities of Germany to understand why so many industrialists on the continent of Europe are anxious to pull out and establish themselves on this side of the water. They have no dollars, it's true, but the Newfoundland Government happens to have some millions of spare dollars, so I have visited many of these industrialists with my personal invitation to accept loans from the Newfoundland Government if they will bring industrial plants to Newfoundland.[4]

While it may be true that Smallwood had a vision for the development of Newfoundland, he appeared to be without any kind of plan or comprehensive strategy. Apart from the obvious goal of creating jobs, there was no underlying philosophy. This was evident in Smallwood's remarks when he announced a machinery plant for Octagon, near St. John's in July 1951. In what appeared to be a simplistic rationale, he told the crowd "developed countries manufacture machinery" and "any country who [sic] does this is industrial."[5]

Prior to establishing the first industries, Smallwood reported to the press on a trip to the industrial section of West Germany in which he covered 2200 miles by car. "We are working energetically on five new industries that will give about 4,000 full-time and part-time jobs" he said, adding his target was 10,000 new jobs in the coming two or three years.[6]

A more ambitious undertaking was outlined a year later in October 1951, after Smallwood, Curtis and Valdmanis returned to Newfoundland from a six-week trip to Europe. In a province-wide broadcast, Smallwood described his commitment to economic development and then disclosed he had just committed the government to fifteen new industries for Newfoundland.

> The 15 new industries will give at least 3,000 new full-time jobs before the end of next year, and another 2,000 before the end of two years from now. Those fifteen new industries, along with the eight new industries we

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[4] Speech, given at Boston, Massachusetts, October 15, 1951. File 7.02.004. JRS Collection

[5] Evening Telegram, July 14, 1951

[6] Evening Telegram, October 28, 1950

had up to six weeks ago, will give nearly 6,000 new full-time jobs by the end of next year, and about 15,000 jobs before the end of two years.[7]

These 15 industries would continue the program Smallwood had announced the year before, with the establishment of the cement and gypsum plants at Corner Brook and the hardwoods plant at Donovan's, near St. John's.

The cement plant at Corner Brook was designed to produce 100,000 tons a year and expected by the government to create more than one million dollars a year in profit.[8] The plant at Corner Brook had a natural advantage over firms attempting to import cement - it had available, abundant local supplies of limestone and shale, necessary ingredients in the manufacture of portland cement. In addition, Corner Brook had a rail link with the rest of the island, an important consideration given the problems associated with transporting a commodity as heavy as cement. The government and the plant's managers were also counting on being informed about federal housing tenders in the Maritime Region, so they could bid on Central Mortgage and Housing contracts.[9] It was evident early on however, that the cost estimates for constructing the cement plant were badly out of line. Cabinet was asked by the German construction company, MIAG, to add an additional $523,180 (US) to the contract to cover increased labour and material costs "which had increased in the period between the estimates and the delivery of the equipment for the Cement Mill."[10] Cabinet had its own officials undertake an investigation of MIAG's claim and was advised to settle it for half the amount, which it did on December 3, 1951.[11] Twelve days later, a fuller account of the underestimation of the cement plant costs was revealed, when cabinet approved a supplementary cost of

[7] Smallwood Speech broadcast on October 12, 1951. File 7.02.004. JRS Collection.

[8] Letter, Alfred Valdmanis to Warburg and Company, London. August 17, 1951. Valdmanis Memoranda, "Banking Houses" File 6.00.012. JRS Collection

[9] Memo, A.L. Graudins, Nfld. Economic Development Department to Alfred Valdmanis, Director General of Economic Development, October 10, 1952. File 6.00.023. JRS Collection.

[10] Minute in Council, December 3, 1951, Certified Cabinet Minutes. File 2.03.003. JRS Collection.

[11] Ibid

$820,000, bringing the final bill to $3,700,000.[12] That the final cost was significantly higher than the original estimate, should not have come as a surprise, at least not to Smallwood. Valdmanis had written the Premier from Germany six months earlier informing him "MIAG will suffer a net loss of at least 1/2 million dollars."[13]

In the same letter, Valdmanis reported he had met with Benno Schilde, the contractor for the gypsum plant at Corner Brook. They too were running over on their costs. Valdmanis conveyed to Smallwood "their [Benno Schilde's] great worries...where they are afraid they are going to lose a considerable amount of money."[14] (Three years later, Valdmanis would be charged and convicted of extorting bribes of $270,000 from MIAG and $200,000 from Benno Schilde. A bribe of that magnitude from MIAG may partly explain their large claim against the government for increased costs associated with construction of the cement plant at Corner Brook.)

Like the cement plant, the gypsum plant at Corner Brook was also intended to take advantage of local natural resources (gypsum from the Flat Bay area) for the manufacture of plasterboard for the local housing and building industry. The plant was to be financed outright by the government and sold once it was in operation. The cement and hardwoods plants were also financed in this way, and were part of the government's strategy "to build the plants using Newfoundland's surplus, sell them, and then build others with the proceeds of the previous sales, and so on ad infinitum."[15] Valdmanis was of the view that the cement plant might constitute an exception to the general policy.

> As the cement mill is vital to every future industrial development plan of Mr. Smallwood's Government, he may make an exception in this case, and, in deviation from his strict general policy of sticking to private enterprise, he may decide to establish a crown company to keep and operate the mill.[16]

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[12] Minute in Council, 1072-'51, Department of Economic Development 31-'51 and 34-'51, December 15, 1951. File 2.03.003. JRS Collection.

[13] Letter, Valdmais to Smallwood, May 16, 1951. File 6.00.006. JRS Collection.

[14] Ibid

[15] Horwood, p. 171

[16] Letter, Valdmanis to Warburg and Company, London. August 17, 1951

The cement and gypsum plants would supplement jobs in the west coast pulp and paper industry. Smallwood predicted the cement plant would create 200 jobs while the gypsum plant would provide employment for 300 people.

Jobs were also a significant factor in the third industry that was launched in 1951 - the hardwoods or birch veneer and plywood plant at Donovan's. The plant, expected to cost $1,300,000, ended up costing the government $2 million. 250 people were expected to be employed at the plant and hundreds more in the woods.

The plant was designed to produce products from Newfoundland birch and from imported woods, such as mahogany from the Ivory Coast. Its main products would be birch veneer, doors, flooring and plywood.[17] The build-up to the opening of the mill was typical of the approach with all the industries Smallwood started under the industrialization program. The program boasted jobs, implied a fixed cost, foresaw no problems and predicted profits from operation. Newfoundland Hardwoods was handed over to businessman Chester Dawe to operate. To secure a woods supply, the company was given control over all the birch stands on Crown Lands and was extended permission to cut birch on lands owned by the two paper companies. The mood surrounding the establishment of the company was euphoric. The Financial Post concluded in June 1951:

> No difficulty is anticipated in selling the product, rather the expected trouble is keeping up with orders.[18]

Valdmanis predicted the company would return a half million dollars a year in profit to the government.[19]

Despite all the assurances of success for Newfoundland Hardwoods, there was sufficient concern about the company from inside government in the first year of operation, for the establishment of a sub-committee of cabinet (consisting of the Premier, the Attorney-General, and the Ministers of Public Works, Health, Supply and Finance) "to examine into the administration of Newfoundland Hardwoods Limited and report to the Executive Council as to what, if any measures should be taken to improve the efficiency and

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[17] Financial Post, June 2, 1951. Volume 45, p. 49

[18] Ibid

[19] Letter, Valdmanis to Warburg and Company. August 17, 1951

economy of its operations."[20] The plant got off to an inauspicious start, experiencing a strike in its first year and the replacement of its technical manager.[21]

In late May 1952, three months after the cabinet sub-committee was formed, the government again took a special interest in Newfoundland Hardwoods. The cabinet authorized the acting Minister of Economic Development (the Minister of Public Works) "to implement any decision with regard to temporary financing required by Newfoundland Hardwoods Ltd."[22]

During the period when cabinet appeared to be preoccupied with the problems at Newfoundland Hardwoods, it authorized a $575,000 loan for a related company to manufacture pressboard. Atlantic Hardboard Industries Limited would be built adjacent to the Newfoundland Hardwoods Plant at Donovan's, using waste wood from the birch plant. Atlantic Hardboard contemplated 100 jobs in the manufacture of a wall and underlay pressboard comprised of wood shavings and glue.

From its earliest days however, the plant had problems with the high moisture content of its wood supply, compelling the Board of Directors in early 1955 to consider asking government for more money so it could stockpile wood. The only other option was to add more drying capacity to the plant. Either decision would require capital Atlantic Hardboard did not have.[23]

Atlantic Hardboard is illustrative of the speed with which the new industries were considered and committed to by the government. In an August 1951 letter to a London banking house, Valdmanis outlined in detail the government's plans for future industrial development. There was no mention of the pressboard plant, yet fewer than seven months later, cabinet had given approval to finance the plant.

It is also apparent from Valdmanis' letter on that occasion, that the government remained uncertain about how to raise funds for the new industries. Valdmanis pointed out that while government would put up 50% of the capital required for industries after the first three (cement, gypsum and hardwoods plants), there was no decision on whether this

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[20] Minute in Council 175-'52, February 2, 1952. File 2.03.004. JRS Collection.

[21] Memo, Graudins to Valdmanis, October 10, 1952

[22] Minute in Council 541-'52, May 31, 1952. File 2.03.004. JRS Collection.

[23] Minutes, Board of Directors Meetings, Atlantic Hardboards Industries Limited, February 9, 1955. File 3.08.139. JRS Collection.

should be in the form of a guarantee or a direct cash loan from the government.[24] Valdmanis went on to chart several other industries that would be put in place over the next year, including a leather tannery, a fine leather goods company, a fur dressing and dyeing plant and cotton mills. The fur dressing and dyeing factory did not get built, but the others did, at an initial cost of about $5 million to the government. Between them, the new plants were expected to result in more than 1000 direct jobs.[25]

The construction of these industries and the Atlantic Hardboard plant represented a departure in policy from the manner in which the first three industries were financed. Instead of financing industries outright, the government's policy now was to finance half the capital requirements of new industry. While the government's half would be in cash, private investment could be in the form of "know-how, machinery, any other material, engineering supervision, erection, building, etc."[26]

One of the first plants to be built under the new financing scheme was a tannery at Carbonear. The private investor involved in this project was Wilhelm Dorn, a Czechoslovkian-born, German citizen, whose family went back three generations in the tannery business. The initial promise was for 150 jobs with an increase to 200. However, nearly four years after the plant opened, only 21 people were employed. The plant was tanning only 100 hides a day, far short of its objective of 150. An important signal of the problems faced by the company was evident in a report Dorn gave the Board in February 1956. He reported an order for Maxine Footwear Limited (the government had provided a $58,000 loan eight months earlier to acquire raw materials to fill the order) was cancelled "due to delays in delivery of both raw materials and the finished product,..."[27]

The summer of 1951 brought one of the biggest commitments yet of government capital to the industrial development program. In July, Smallwood announced a $5 million machine factory to be known as Canadian Machinery and Industry Construction Limited. The plant was constructed at Octagon by MIAG, the same firm that built the cement plant at Corner Brook. The Evening Telegram gave an account of the announcement.

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[24] Letter, Valdmanis to Warburg and Company

[25] Letter, Gordon Pushie, Department of Economic Development, to Canadian Machinery and Maunufacturing News, November 18, 1952. File 6.00.023. JRS Collection.

[26] Letter, Valdmanis to Smallwood, May 11, 1951. File 3.08.004. JRS Collection

[27] Minutes, Board of Directors Meeting of Newfoundland Tanneries (Wm. Dorn) Ltd., February 15, 1956. File 3.08.001, JRS Collection.

> They will manufacture all kinds of machinery...Plans are to proceed by several stages. They will start with the construction of a very sizeable manufacturing plant to be enlarged in several steps in a short period of time...Milling, grinding, crushing and drilling machines will be made. As the factory expands, bigger machines will be included in the produce of the factory.[28]

The paper reported "initial employment for the factory will be 500 men", with the promise of more to be added as the factory was enlarged. The government was even more boastful in the Speech from the Throne in October 1951, a month before Smallwood called a snap election. The speech bragged the machinery plant "seems likely to become perhaps the biggest labour-giving enterprise in Newfoundland, apart from the fisheries."[29]

The promise in July 1951 of lots of jobs from the machinery plant was followed a month later by an announcement that a textile plant - United Cotton Mills - would be built at St. John's. Predicting work for 800 people, Smallwood said the government would put up a $2 million, 10-year loan toward the $4 million dollar cost of the project. The plans called for raw material to be imported from Turkey, Iran, Haiti and the United States, woven into cotton cloth and then made into products such as "skirts, dresses, table cloths, service uniforms and such."[30] Six years later, the promise of 800 jobs seemed like a cruel joke, as fewer than 100 people were employed at the textile plant.[31]

The government's investment in the new industries was now over $13 million, greater than half of the pre-Confederation surplus that was available for economic development, including school and road construction. Despite Smallwood's public statements from as early as March 1951, that the government would no longer help finance new industries,[32] the $4.5 million invested in the machinery plant and the two textile mills, was proof the government-sponsored industrialization program was still in high gear.

JOBS

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[28] Evening Telegram, July 14, 1951 p.3

[29] Speech from the Throne, October 25, 1951. Proceedings of the House of Assembly. p.55

[30] Evening Telegram, August 10, 1951, p. 3

[31] Michael F. Harrington, "New and Old Industries in an Old Colony - A Review of Newfoundland's Industrial Revolution", Atlantic Advocate, September 1957, Vol. 48(1), p. 19

[32] Evening Telegram, March 10, 1951, "Government Backs $1,000,000 Plant to Manufacture Pressboard" and Letter, Valdmanis to Warburg, August 17, 1951.

There appears to have been some confusion during this period about the potential for jobs as a result of the new industries. Smallwood was predicting in late 1951 the entire industrial development program would bring "15,000 new jobs before the end of two years from now."[33] A senior civil servant was writing a year later, "the goal with this program is 10,000 new jobs."[34] (The difference may be explained by Smallwood's inclusion of the promise of 5,000 jobs at the machinery plant at Octagon.) Clearly, neither the job estimates nor the talked-about embargo on government financing of new industries was particularly relevant.

Smallwood and Valdmanis were an impressive tag-team, travelling throughout Europe in an effort to diversify an economy that was over-reliant on the resource sector. They were neither deterred by criticism from the floor of the House of Assembly nor by admonishments from the editorial page of The Evening Telegram, which reminded the government "the finances of Newfoundland are by no means inexhaustible" and "apart from Mr. Smallwood himself, no one has the slightest conception...where the markets are, or what may be the cost of transporting to these markets."[35] That was a relevant point, considering that many of the industries were premised on strong export sales. But Smallwood was unconcerned about criticism and his march toward industrialization seemed unstoppable.

The late fall of 1951 brought a general election and the first test for Smallwood and his government's policies. The Evening Telegram's editor might have found fault, but voters apparently found little to reprimand the government about, returning Smallwood with twenty-three seats to five for the Conservatives.

During 1952, the government continued to support new manufacturing ventures. It put $325,000 toward the construction of the Hanning Electric Limited battery plant at Topsail, promising 100 jobs in the bargain. By mid-1954, with six months production under its belt, the battery plant employed only 17 people. Although the company expected the payroll to soon climb to 30, it anticipated problems reaching peak production of 60,000 automobile batteries, given that Newfoundland used only 12,000 batteries a year.[36] The company appeared to believe the problem reaching peak battery production was a long-

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[33] Evening Telegram, October 13, 1951, p. 3

[34] Letter, Gordon Pushie, Economic Development Department to Kent Strong, Canadian Dow Jones Limited. File 6.00.023, JRS Collection.

[35] Evening Telegram Editorial, "Give Newfoundland the Facts", October 16, 1951

[36] Financial Post, July 3, 1954. Vol. 48. pp.20-26

term one, indicating it planned to use some of its capacity to turn out plastic products such as drinking cups and brushes.[37].

On the day the government concluded the agreement to build the battery plant, it put up $1 million for construction of a rubber products manufacturing plant at Holyrood. Premised on what was believed to be a ready market for rubber clothes and boots in the Newfoundland fishing industry, the plant was expected to employ 400 people. Undercapitalized, and operating with machinery that some claimed was part of United States aid to Germany under the Marshall Plan, Superior Rubber, as the company was known, lurched from crisis to crisis. In an obvious clampdown on the German managers of the firm, the company's Board decided in late September 1954 that "...no monies were to be advanced for payment of salaries to persons not resident in Newfoundland and not actively engaged in the operation of the plant."[38] A further clampdown was imposed in May 1955, when the Board ordered that no one in the plant had authority to hire staff or sign documents without prior board approval.[39] In the same meeting, all the German employees at the plant, including the manager, were fired.

Three years after St. John's got its first textile plant under the industrialization program, it got a second one, Terra Nova Textiles. The announcement was made on July 19, 1954. This plant was to produce mainly work clothes, especially coveralls. Expected to employ about 120 people, the company was one of the few begun under the government plan to come close to meeting its employment target.

More industries were soon to make an appearance, centred on the north shore of Conception Bay. Atlantic Gloves Limited was built at Carbonear with the assistance of a $350,000 government loan and Gold Sail Leather Goods was established at Harbour Grace. Both plants were examples of downstream processing, utilizing leather produced at the Carbonear tannery operated by Wilhelm Dorn.

Atlantic Gloves represented a departure from the government's standard policy of providing half the start-up capital for the new industries in the form of a guaranteed loan. In the case of Atlantic Gloves, the government put up nearly 65-percent. Smallwood said that decision came after the owner could not come up with half the start-up cost, and rather than lose the industry, the government "came to the conclusion that this industry

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[37] Ibid

[38] Minutes, Board of Directors Meeting, Superior Rubber Company Limited, September 27, 1954. File 3.08.184. JRS Collection

[39] Minutes, Superior Rubber, May 12, 1955

was so sound in its prospects, so promising in its prospects....we ought to stretch our formula to the extent shown in the agreement now before the House."[40] The company produced what was described as an excellent quality ballet slipper, as well as gloves made of both gazelle skin and sheepskin. The company was hampered, though, by high production costs and stiff competition from external producers.

Gold Sail Leather Goods produced women's handbags, wallets and other leather accessories. Like many of the industries, Gold Sail's market potential in Newfoundland was limited, forcing the company to export if it was to even have a chance at making money. This constituted a problem however, given the stiff competition in those markets and the fact that its products were considered to be "high-priced".[41] Gold Sail though, like Atlantic Gloves, came on the highest recommendation from Smallwood. On one of his earliest efforts to explain to the House why the government had guaranteed extra capital to the new industries (including Gold Sail), Smallwood said "they are making leather goods beyond comparison in North America."[42] Smallwood explained how on a visit to a trade fair in Germany he met the man he had chosen to head up Gold Sail - Anton Schaefers. Smallwood told the House "there was no question about who was boss of that fair. It was the same man Schaefers." Despite being impressed with Schaefers, Smallwood gave the impression the government had driven a hard bargain, saying "it was not until last year that they were able to meet our conditions..."[43]

The northern part of Conception Bay was a favoured location for three more of the new industries - Koch Shoes Limited, established in May 1954 at Harbour Grace with a $750,000 government guarantee; A. Adler Company at Bay Roberts in 1956 with a $550,000 guarantee; and Eckhardt Knitting Mills Limited at Brigus in 1957 with a $387,400 guarantee.

Smallwood produced glowing reports of the products that emerged from the new industries. About Koch Shoes, he told the legislature "they are turning out footwear over there that is going to be a good seller...."[44]. Smallwood predicted Eckhardt Mills would sell its lower-priced products "in every nook and cranny of Newfoundland", while "I

[40] Proceedings, March 19, 1953, p.80

[41] Financial Post, July 3, 1954. Vol.48, p. 26

[42] Proceedings, June 7, 1954, p. 1471

[43] Ibid, p. 1472

[44] Proceedings, June 7, 1954, p. 1471

prophesy that their high-class products will sell all across Canada and the United States."[45] The Premier was equally proud of the fact he had persuaded the English chocolate maker, A. Adler, to disassemble its chocolate factory in Britain and ship it to Newfoundland. In a 1956 debate on Conservative William Browne's motion for a Royal Commission into the government's industrial policy, Smallwood had the page deliver an Adler's bar to opposition leader Malcolm Hollett and invited him to sample "the flavour and goodness" of a bar "made by one of England's greatest firms, now in Bay Roberts."[46]

Yet, all those glowing reports from Smallwood could not solve a basic problem faced by the three plants. They all had difficulty competing outside Newfoundland. While Koch Shoes was assisted by several contracts to supply footwear to the Canadian military, the chocolate and knitwear companies were left to fend for themselves in a crowded and distant North American marketplace.

The industries were encouraged through a government loan guarantee program that was flexible, generous and forgiving. These characteristics of the loan guarantee program were obvious in the cabinet decision to extend better than 50-50 terms "in exceptional cases, where circumstances justify a departure from established practice."[47] This flexibility accommodated the establishment of Atlantic Gloves in Carbonear. The generous and forgiving nature of the program would be proven many times over, as will be demonstrated in the next chapter.

There is no evidence during his tenure as Director General of Economic Development from 1950-1953, that anyone other than Valdmanis and his cadre of employees, had a role in overseeing the new industries. Typically, Valdmanis studied proposals and negotiated general terms for the new industries, to be followed by a visit with the principals from Smallwood and one or two senior ministers. Subsequent to these encounters, the investors were typically invited back to Newfoundland to make their pitch to the entire cabinet. Shortly after, sometimes in the same cabinet meeting, approval and financial support would be given to a new industry. The available evidence is mute on what, if any independent studies were undertaken to support these decisions. Indeed, the only references to studies come in mid-1956. With many of the industries in trouble, the government contracted the Arthur D. Little Company from Boston to assess 13 of the 16 industries, in Smallwood's words, to "take stock of these new industries". He told the House some were in "a very healthy position", while others "need nothing more than an

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[45] Ibid, p. 1473

[46] Proceedings, March 28, 1955, p. 97

[47] Minute in Council 117-'52, February 2, 1952. File 2.03.004. JRS Collection

improvement in management" and still others "whose position and prospects upon careful analysis may prove to be discouraging."[48]

Prior to this time, the government shed little light on the new industries. Smallwood generally did the talking and that was usually reserved for the annual trip to the House to approve loans and loan guarantees approved by the cabinet in the previous year. Any doubt Smallwood raised about the new industries was immediately followed by a story of a miraculous recovery. Speaking about the tannery at Carboncar in a 1956 speech, the Premier said for the previous two or three years, it was the industry "I thought had the least chance of succeeding..." Then he continued, "...out of the clear sky, not one, but several miracles occurred." Those miracles, Smallwood told the House, were from hockey skate makers and "great boot and shoe manufacturers" for more than one million square feet of leather. He concluded Wilhelm Dorn "has hit pay dirt, gold".[49]

Smallwood did the same kind of rhetorical dance about Atlantic Hardboard, which, while "formed...with typical German thoroughness" was "shot to pieces with one little factor which they had never taken into account, namely that wood in Newfoundland...contained a high degree of moisture."[50] Smallwood made the case for a loan to cover the cost of an additional wood dryer for the plant, as well as the need for a warehouse and some chipping machines. When asked a sticky question by the Opposition if any of the $300,000 loans would cover running expenses for the plant, Smallwood replied "not at all" and moved on to talk about the cement plant, saying "we have no concerns with the running expenses of North Star Cement."[51]

Only rarely did Smallwood lapse into anything resembling an admission of failure or near-failure with respect to the new industries. One such occasion was a speech in the late winter of 1953 when Smallwood said in relation to the estimate of 150 jobs at Atlantic Gloves: "I have had enough experience with these new industries to suggest that the number to be employed had better be given with some restraint."[52]

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[48] Financial Post, June 29, 1957. Vol.51. pp. 59-60

[49] Proceedings, March 28, 1956. p. 105

[50] Proceedings, June 7, 1954, p. 1474

[51] Ibid, p. 1475

[52] Speech to House of Assembly, 1951. File 7.02.004. JRS Collection

By the mid-1950's, four years after the industrialization program began, questions were being asked in many quarters about the status of the new industries. The annual request to the House to approve supplementary funding for the industries made it increasingly difficult to hide the real goings-on and the reasons for the loans. William Browne wrote in his book: "In 1955, the general feeling in St. John's was that the policy was a failure."[53] Yet Smallwood was unwilling to concede his plan was not working. In rejecting Browne's request for a Royal Commission, he replied, "I see no reason..." and concluded about the industries, "most of them are doing very well indeed."[54]

Smallwood's comments were set against newspaper reports that painted a gloomy picture for several of the industries (the Financial Post in particular wrote several articles spelling out problems the industries faced) and against allegations that some of the plants were poorly run. Available information suggests the government withheld the true status of many of the industries for several years, arguing in public everything was fine, while in private, there was outright acknowledgement that many of the industries were encountering serious problems.

A Financial Post survey of the industries in July 1954 revealed the firms faced a bevy of serious problems. Its findings ran counter to Smallwood's earlier rhetoric that "...these industries...[will] manufacture things for sale in Newfoundland, and all parts of Canada, in the United States, and in all parts of the world."[55] By 1954, the new firms were facing the reality of competing with companies already well established in Canada and the United States. The newspaper outlined several problems: high transportation costs; the cost of importing raw materials; and a shortage of skilled labour. The Canadian Machinery and Industry Construction Limited (CMIC) at Octagon was to have become a major Canadian producer of heavy industrial machinery, but it discovered "bringing in raw materials and shipping out finished products to distant points is a costly procedure."[56] The company was also finding that even in the local Newfoundland market, "mainland firms with large-scale production could undersell a local producer in many lines."[57] The

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[53] William J. Browne. <u>Eight-Four Years a Newfoundlander</u> (St. John's: Dicks and Company, Limited) 1981 p.130

[54] Proceedings, March 28, 1956. p. 97

[55] Smallwood Speech, October 12, 1951. File 7.02.004. JRS Collection

[56] Financial Post, July 3, 1954. Vol.48. pp.20-26

[57] Ibid

paper reported the same kinds of problems were being experienced at the cement, gypsum and rubber plants.

The rubber products plant in particular came in for a lot of critical attention. Conservative MHA William Browne reported being told the product manufactured by the plant was "inferior". Browne had a copy of an affidavit from Frank Pronold, a senior member of Superior's management, who made several allegations. Pronold claimed the company was steadily losing money; that the rubber footwear produced by the plant was defective; that the plant was badly constructed; and that it was using second-hand machinery, some of it stamped "Marshall Plan". Pronold's recipe for righting the plant's problems was to close the plant "at once for a period of four weeks for a complete re-organization from the top down."[58] Browne wrote that Smallwood's response to the allegations was "it is not worth the paper it is written on." He concluded Smallwood was going "to brazen it out."[59] Three months after these events, the Board of Superior Rubber had obviously decided there was enough concern about the operation of the company that it fired the German management team.

The Conservative leader, John Higgins, likened the government's spending on the new industries to the pied piper: "Our pied pipers did not pipe away the children of Newfoundland, but in excellent order, they have managed to pipe many dollars down the drain in a good many instances."[60] Three years later, Conservative leader Malcolm Hollett in debate on more loans for the new industries, told the government the opposition was "a bit concerned about bringing in a loan bill every year practically for the last four or five years" and that with the pre-Confederation surplus gone, "we must know that there is a limit to the borrowing capacity of this Province."[61]

While the government carried on bravely in public about the industries, privately, there were signs of trouble. A memo from Smallwood to the Deputy Minister of Economic Development just before Christmas 1953 had a tone of desperation. Upset that government agencies were not buying enough products from the new industries, the Premier wrote bluntly that willingness to buy "shall be regarded as co-operation with the

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58 Browne, p. 128

59 Browne, p. 129

60 Proceedings, March 19, 1953, p. 81

61 Proceedings, May 4, 1956, p.987

government" and failure to do so would be seen as "non-cooperation." Smallwood termed the existing situation "inexcusable" and "is not to be tolerated."[62]

This general state of concern was set against a backdrop where events were not turning out as planned. While the public statements proclaimed the CMIC plant at Octagon would turn out heavy machinery, memoranda from the company to the cabinet indicated it was not heavy machinery at all that would carry the plant in its early years, but substantial orders from the Defense Department for the manufacture of shells. When the Defence Department rejected that suggestion and the orders failed to materialize, CMIC found itself unable to pay either the principal or interest on its $2.5 million government loan guarantee.[63]

By late 1953, the job of Director General had passed to Gordon Pushie, a Newfoundlander. Valdmanis had moved to Montreal to become chairman of Newfoundland and Labrador Corporation. Pushie not only inherited Valdmanis' old job; he also inherited the problems the industrialization program was beginning to hatch. He cabled Smallwood on the Premier's Christmas vacation in Jamaica in January 1954 about "the desperate financial situation of Newfoundland Hardwoods".[64] A month later, Pushie was writing that he was "concerned" about the financial position of Superior Rubber Company Limited.[65]

Enough seeds of doubt had been planted in the public's mind about the new industries to temper Smallwood's exaggerated claims about their impact on Newfoundland.

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[62] Letter, Smallwood to Norman Short, December 17, 1953. File 3.08.004. JRS Collection

[63] Letter, CMIC to Smallwood, March 28, 1955. File 3.08.058. JRS Collection

[64] Cable, Gordon Pushie to Smallwood, January 11, 1954. File 3.08.004. JRS Collection)

[65] Letter, Pushie to D.W.K. Dawe, February 8, 1954. File 3.08.004. JRS Collection

3

Problems Aplenty: The Industries Run Into Trouble

The March 31, 1953 letter from the National Gypsum Company in Buffalo, New York, must have put a chill in Smallwood's bones. Here was a company that eleven days earlier had given every indication it would make one of Smallwood's most fervent wishes come true - National had set out a tentative offer to buy the gypsum plant at Corner Brook. A sale would have given credibility to the government's strategy of selling the first three industries. Instead of finalizing the deal though, National was writing to say it had changed its mind. The reasons, arrived at during "careful study" by National Gypsum's management, amounted to a polite but firm indictment of the Corner Brook plant. While the company considered the plant to be "of good design and construction", it underlined several weaknesses, including the mill's low operating speed - "45 feet per minute" - which "is customary in Europe", but far below speeds obtained in the United States where "our machines average three times that speed."[1] The low operating speed was just one of the reasons National Gypsum enumerated in the letter to Smallwood. It saw additional weaknesses in the limited year-round market in Newfoundland, which necessitated selling into the mainland market. National viewed this as fraught with problems because of high transportation and warehousing costs. Although it did not mention the Newfoundland government's asking price for the mill, National Gypsum concluded "our people do not feel that it is advisable.... at the original price that you have suggested for the plant". It said the Corner Brook mill would produce at 40% of what the company could get out of a new $6 million plant.[2]

Rejected by National Gypsum, the government continued to look for a "satisfactory purchaser".[3] But Atlantic Gypsum looked anything like a prime candidate for privatization, a point that was made clear when the company's board of directors was informed of Atlantic's operations. Dependent on the mainland market for close to 90-percent of its sales, the board was told of the "almost complete collapse of our sales on

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[1] Letter, National Gypsum Company, Buffalo, NY to Joseph Smallwood, March 31, 1953. File 3.08.285. JRS Collection

[2] Ibid

[3] Proceedings, May 31, 1954

the mainland" resulting "in unreasonably high 'frozen in' stocks in our warehouses and in financial losses amounting to hundreds of thousands of dollars."[4]

Atlantic Gypsum's problems on the Canadian mainland began in mid-1954 when mainland competitors increased their production. The competition built new capacity, and as a result, the battle for marketshare became "increasingly fierce". Atlantic's sole sales agent on the mainland - International Building Products (IBP) of Montreal - advised Corner Brook that despite the increased competition, it did not expect a reduction in the price for gypsum wallboard. Atlantic's executives were therefore taken by surprise on August 13 when mainland gypsum makers dropped their prices by $5 a thousand square feet.[5] Atlantic's sales plunged immediately, leading to "an all time high" stockpile of 12 million square feet, worth about $450,000. Atlantic Gypsum placed the blame for the main share of its problem at the feet of IBP which it complained "have only one man as a sales force in the field and even that one man...is serving not Atlantic Gypsum Limited only...", but also had to sell other lines "which IBP carries".[6] The problems in the mainland market forced Atlantic to close its Corner Brook plant for three weeks at the end of August 1954. When it reopened, operations were reduced from two shifts to one.

The importance of the Canadian market could not be overstated. Atlantic Gypsum had arrived at the conclusion it was the only logical export market after a survey of the United States a year-and-a-half earlier. The February 1953 survey concluded "there is no chance of selling our boards in the United States at a price satisfactory to us."[7]

The crisis caused by the price drop in the mainland market left Atlantic in a cash crunch. Without the working capital to meet its losses, Atlantic turned to its 100% owner, the Newfoundland government. Cabinet gave approval in early December 1954 for $135,000 "as prepayment...in respect of aggregate losses of $250,000 for the current year."[8]

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[4] Atlantic Gypsum Limited. "Report on the Status of Our Present Mainland Sales Representation", November 15, 1954. File 3.08.024. JRS Collection

[5] Ibid

[6] Ibid

[7] Letter, Ernst Leja, Managing Director of Atlantic Gypsum Company Limited, to Gordon Pushie, Director General of Economic Development, January 26, 1954. File 3.08.024. JRS Collection.

[8] Minute-in-Council, December 3, 1954. P.25-'54. File 2.03.006. JRS Collection.

The position in which Atlantic Gypsum found itself - with costs exceeding income - would become a familiar refrain for most of the companies financed under the government's industrialization program. The picture painted in "official" documents however, differs considerably from the public statements of the government during this period. The stated immediate goal of the industrialization program was jobs, with the added advantage of a diversified economy where "cement, gypsum, plasterboard, fibreboard....these are the new commodities that must now be added to the fish and the newsprint paper and the minerals that have constituted the mainstay of Newfoundland's industrial production."[9] While the government, and especially Smallwood proclaimed the new program was working, by virtue of the jobs it created and the wages it paid, the industries were destructing one by one.

THE CEMENT PLANT

The cement plant was touted by Valdmanis as a certain profit-maker, even before it had been built. This belief, along with the government's stated intention to sell the first three plants as early as possible, led to a flurry of activity during the early years of the program. The first set of negotiations took place with the so-called "New York Group". Valdmanis spent six weeks in New York trying to put together a deal that would net the government \$1.5 million (US) and an additional \$1.2 to \$1.5 million Canadian. The negotiations were to build on a memorandum of agreement signed July 19, 1950.[10] That deal fell through however, and for the next several years, the government tried to play matchmaker for a plant that became mired in red ink.

North Star Cement went into production in the spring of 1952 with the government as its sole shareholder. In its first seven months of operation, it ran up a loss of \$326,536.[11] The loss was substantially less in the next year, but by 1954, losses were up again, to more

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[9] Proceedings, May 31, 1954. p. 1149

[10] Memorandum of Agreement between Alfred Valdmanis, Director General of Economic Development and "The New York Group", dated July 19, 1950. This memorandum set out the price and terms with respect to the cement plant and was intended not to be a contract but the basis on which a contract would be negotiated. File 3.08.250. JRS Collection

[11] North Star Cement Financial Statements 1952, File 3.08.266. JRS Collection

than $433,000. North Star had also run up interest charges of $422,000 on its $4.74 million, 4-percent government loan.[12]

Undeterred by the failure of their first attempt to sell the cement plant to the New York Group, the government pursued other buyers, including a Texas oil millionaire and a Belgian Baron. The dealings with Baron Kronacher began on the heels of the failure of the New York talks. The Baron had diverse holdings - among them, two cement plants in Belgium and a sugar beet factory in Manitoba. He was a friend of powerful Canadian cabinet minister C.D. Howe, and was a member of the Belgian Senate. The Baron was offered the Corner Brook mill for $3 million cash in Canadian dollars up front and another $600,000 to be paid over five years. While the Baron conducted negotiations with the Newfoundland government, Valdmanis was approached by a Newark, New Jersey attorney on behalf of a Texas oil millionaire, identified as Mr. Rogers. In a memo to Smallwood, Valdmanis appeared ready to determine how much the American was willing to pay, noting he had told the Americans "...the Government would not consider selling the mill at anything less than Four million dollars (U.S. currency)".[13]

The real negotiating was taking place with the Baron however, with the government apparently believing the deal was nearly done. There is evidence of this in a letter from Valdmanis to the lawyer for the Texas firm in early July 1951. Valdmanis said he could sell the plant to the Baron and as a result, could not "preserve the mill for you any longer."[14] The Baron, it seemed, knew how to preserve the option on the mill for himself without making a commitment to purchase the company. He did this by carrying out extensive drilling to determine the purity of limestone deposits at the Corner Brook site. The Texas company meanwhile, now identified as the Lone Star Cement Company was not put off by the earlier rejection letter from Valdmanis and asked that "...this deal be held for a few months" since there was "reluctance on the part of the Board to increase its current borrowings."[15] Lone Star added a sweetener to its request, saying it would be worth the government's while to wait as "I am sure that they [the government] would be amply compensated by an increase in the price three or four months hence."[16]

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[12] Ibid

[13] Memo, Valdmanis to Smallwood, May 10, 1951. File 3.08.250. JRS Collection

[14] Letter, Valdmanis to Arthur Slavitt, Newark, N.J., July 4, 1951. File 3.08.250. JRS Collection

[15] Letter, Slavitt to Valdmanis, August 3, 1951. File 3.08.250. JRS Collection

[16] Ibid

What the Newfoundland government did not know was that while the Baron was negotiating with Valdmanis, he had been trying to entice Lone Star to help finance the deal for the cement plant. This was revealed in a letter from Lone Star to Valdmanis in August 1951. Lone Star let the government know that it was felt "...Konacher did not have the money to swing the deal alone."[17] A month later, the Baron, apparently unaware of the communication between Lone Star and the government, notified Smallwood he was bailing out of talks to land the cement mill as there were too many risks associated with taking on the project. Lone Star meanwhile, did not re-enter the picture. For now, the government had given up on selling the plant and had begun looking for a company to operate the facility. In June 1952, it handed over technical and commercial management to Canadian Machinery Holding Trust.

During this same period, the government attempted to sell the second of the original three industries - Atlantic Gypsum Limited, but that bid failed too. It made no effort to put Newfoundland Hardwoods on the market, choosing instead to lease the plant to Newfoundland businessman Chester Dawe.

The ordeal with the first three industries proved to be an unpromising debut for the strategy of building the plants one at a time, selling them, and using the proceeds to start other industries. That state of affairs however, did not stop Smallwood from trumpeting the new industries' "distinguished and valuable contribution" to the Newfoundland economy. But no level of optimism could counter the disastrous results that started showing on the balance sheets of most of the companies. A look inside the operations of the various industries raises serious questions about what, if any contribution, they were making to Newfoundland.

THE RUBBER PLANT

The rubber products plant built at Holyrood was a case in point. Smallwood promoted the plant as an import substitution industry. He foresaw workers at Holyrood producing rubber clothes and boots that would take a significant part of what he estimated was a $2 million dollar-a-year Newfoundland market.[18] And not only that, an exuberant Smallwood told the House one early spring day in 1953, but he believed "...with the latest machinery, with lots of skilled management behind it...we see no reason, as a Government, why such

[17] Letter, Slavitt to Valdmanis, August 8, 1951. File 3.08.250. JRS Collection

[18] Proceedings, March 27, 1953. p. 272

a plant should not succeed..."[19] By succeed, Smallwood explained, he meant the plant would pay back to the government all the principal and interest on its loan, as well as a profit for the owners of the company.[20]

The firm was given the name Superior Rubber Company Limited, a name that would prove to be a touch ironic given some of the later complaints about its products. Superior ran into trouble soon after it opened. One of its first problems was with the long established St. John's shoe merchants - Parker and Monroe. At issue was the sale to Parker and Monroe of some of the company's test-run rubbers at a price Superior's lawyer later claimed was $1.40 a pair. The company accused Parker and Monroe of employing the test-run rubbers as a poor comparison to its regular lines. The lawyer claimed "...we can only assume that your comparison was carried out with the malicious intent of keeping our client's products off the market..."[21] The shoe store conceded one of its salesmen did make a comparison and was now under orders "...such comparisons were not to be made in future."[22] But the company rejected one of Superior's charges - Parker and Monroe claimed it bought the rubbers for $7.40 a pair, more than five times the amount claimed by Superior.

The Parker and Monroe incident was insignificant against what was happening in early 1954 at the futuristic-looking plant at Holyrood. The German managing director of the plant - Max Braun-Wogau - had been ill and away from the plant for several months. The president, Karl Grube, had been detained in Germany because of problems with currency control authorities. "A very critical situation exists..." was how Pushie summed it up in a memo to Smallwood.[23] Smallwood was informed that the plant "was without active control for four months", was producing only 60 pairs of rubber footwear a day and needed another $400,000 of government money.[24]

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[19] Ibid

[20] Ibid

[21] Letter, Donald Dawe [Lawyer, Superior Rubber Company Limited] to Parker and Monroe, August 3, 1954. File 3.08.177. JRS Collection

[22] Letter, Parker and Monroe to Donald Dawe, August 11, 1954. File 3.08.177. JRS Collection

[23] Memo, Gordon Pushie to Smallwood, May 7, 1954. File 2.08.085. JRS Collection

[24] Ibid

The German management placed much of the blame for the plant's production problems on the local female workers. On one occasion, Braun-Wogau wrote this unflattering assessment:

> The unreliability and lack of initiative and interest on the part of the female labourers are a great handicap. The girls employed in the Plant come and go continuously. We had to trail through the plant 950 persons in order to build up a team of 80 persons.[25]

In that same memo, Braun-Wogau revealed the picture of a company that was bleeding red ink fast, adding that their operations were "hampered by the shortage of funds."[26] In order to add to its working capital, Superior was diverting the $10,000 the government had loaned for a railway siding connection with the CNR track and it was taking $32,149.44 from its capital account (money intended to be the last instalment on a $70,000 machine to be used in the manufacture of non-slip bath mats, insoles and other rubber goods).[27] The money was needed not to pay invoices for some incoming raw materials, rather it was needed "to take care of the backlog of accounts payable."[28]

Superior was sinking deeper into trouble from which it would be difficult to recover. A German architect who was engaged early on to help design the factory wrote to the government to say that he resigned from the position "...rather than be blamed with the architectonic responsibility for what was being planned against my own convictions..."[29]

Concern about the design and condition of the building was at the centre of a complaint from a Canadian worker at the plant, who wrote Smallwood to explain why he was quitting and heading home to Montreal.

> I am embittered over the appealing [sic] condition of the building itself, its equipment, the senseless waste and destruction of material, the

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[25] Memo, Max Braun-Wogau to Gordon Pushie, November 11, 1954, File 3.08.171. JRS Collection

[26] Ibid

[27] Ibid

[28] Ibid

[29] Letter, Dr. Ing Thormohlen to Gordon Pushie, January 5, 1955. File 3.08.177. JRS Collection

> hopelessness of a native ever getting a higher job with better pay although their performance is in most cases better than the performance of the so-called experts.[30]

The politics and the management style at Superior might have been tolerable for the government had the plant produced the quality and quantity of rubber goods Smallwood had predicted just two years before. But with up to 40-percent of its production of the key knee and thigh rubber production being sold as seconds, the company was on shaky ground.[31] It was not helped either by reports like the one relayed to Norman Short, the Deputy Minister of Supply, regarding rubber boots that had been shipped to North Labrador Trading Posts.

> These rubbers thigh and knee, are of very poor quality...The 'Superior' rubbers last the fishermen about two weeks...I have had numerous complaints...they are unglued at the soles, the rubber is peeling off and the men must condemn them...The children's rubbers are the same...We have about three dozen pairs on hand...the people know the quality and won't buy.[32]

By the late winter of 1955, with the company still in a tailspin, Max Braun-Wogau made notes of a conversation in which he informed Gordon Pushie that the government loan of $1.4 million would soon be exhausted. Braun-Wogau wrote that Pushie "took note of this information and said it was premature to discuss further steps..."[33]

Pushie appeared to be playing for time. He began a search for another company to run the plant, or if the government was especially lucky, a company to buy it outright. He contacted several large rubber concerns, including Dunlop Canada (April 19, 1955); Greengate and Irwell Rubber Company Limited, London (May 16, 1955); and British

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[30] Letter, Frank Pronold to Smallwood, February 20, 1955. File 3.08.177. JRS Collection.

[31] Memo, Braun-Wogau to Pushie, February 23, 1955. File 3.08.177. JRS Collection

[32] Letter, Deputy Minister of Supply to Pushie, January 11, 1955. File 3.08.177. JRS Collection.

[33] Memo, Braun-Wogau of conversation with Gordon Pushie, February 23, 1955. File 3.08.177. JRS Collection. [Braun-Wogau made extensive notes of conversations with Pushie and sent them in memo form to Pushie, presumably as a record of their conversations.]

Tyre and Rubber Company (May 20, 1955). In less than two months, all three companies ruled out any possibility of their setting up in Newfoundland. Pushie then approached the London plastics and rubber manufacturer - P.P. Cow and Company Limited - and asked them to undertake a study of the Superior operation.

Cow's 20-page report showed Superior with $1.4 million in government loans, a $120,000 bank overdraft, and $72,850 owing in interest to the government. The most damning evidence though was the sales figures for 1955. The company managed to go over $5000 in sales for just two months, and in one month, sales plummeted to $203.[34] P.P. Cow cited the "lack of commercial experience" of the general manager and emphatically recommended the Works Manager must "...go at the earliest possible moment."[35] They judged much of the plant to be second-hand and claimed the Germans used the government loan to repay themselves for the machinery. The report said the Germans "...showed a complete lack of expertise or interest in developing the Company..." and it stated the obvious, "the Newfoundland Government now find themselves with a large, inadequately equipped factory, running at a loss..."[36]

The plant, which had run up a deficit of $622,337 by late 1955, was on borrowed time. In February 1956, two months after the P.P. Cow report, the government pulled the plug. Smallwood told the House the plant had "...been disastrously bad and has failed."[37]

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[34] Report on Superior Rubber Company by P.P. Cow and Company Limited, November 30, 1955. File 3.08.177. JRS Collection

[35] Ibid

[36] Ibid

[37] Proceedings, March 28, 1956. p. 106

THE CONCEPTION BAY PLANTS

Nearly · !! the new industries turned out to be crisis waiting to happen. The leather-based industries in Harbour Grace and Carbonear were prime examples of this. Intended to manufacture products from leather produced at the tannery in Carbonear, Atlantic Gloves Limited, Koch Shoes and Gold Sail Leather Goods Limited, were seen as complementary to each other. It did not take long however, for this special relationship to deteriorate, and seriously set back the very reason the plants were established.

The early days of the leather industries though, were characterized by good relations all around. A kind of "all for one and one for all" ethos prevailed. This was demonstrated when Gold Sail caught wind of rumours that "a definite possibility exists that the Tannery at Carbonear will cease operations because of insufficient financial assistance...." Gold Sail rushed to the rescue of its commercial cousin, underscoring several reasons for the government to continue financing the nearby tannery, including the fact it could deliver raw material in mere hours, that its prices were lower than competitors and that it was supplying the exact type of leather Gold Sail wanted.[38]

"The tannery is now in a position to fill major orders...", wrote the owner, Wilhelm Dorn, to Smallwood in February 1953, providing it received $25,000 in working capital.[39] This was the beginning of several such requests. Three months later, Dorn reported two big shoe companies wanted to place orders for leather, thereby necessitating "larger lots of hides, more chemicals and perhaps more workers." He also required an additional $50,000 in working capital.[40] In the summer of 1953, Dorn was again beating a well-worn path to the door of the Newfoundland Treasury, asking Smallwood for bridge financing of $50,000 until the Tannery could begin selling hides to Koch Shoes.[41] The government was not prepared to advance the money to Dorn, and instead made a quiet proposal to Koch at the shoe factory that it would lend "at once $30-$40,000" to buy leather from the tannery. To sweeten the deal, the government was prepared to make the loan interest free

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[38] Letter, Gold Sail Leather Goods Limited to Pushie, March 24, 1954. File 3.08.084. JRS Collection

[39] Letter, ilhlem Dorn to Smallwood, February 9, 1953. File 3.08.098. JRS Collection

[40] Letter, Dorn to Smallwood, May 9, 1953. 3.08.098. JRS Collection

[41] Letter, Dorn to Smallwood, August 13, 1953. File 3.08.098. JRS Collection

"until such time as your plant would be ready to buy leather and go into the production of shoes."[42]

That fall, the government accepted the inevitable with respect to the new industries. Knowing most, if not all, were incapable of meeting the interest or the principal on their loans, the government announced that interest payments due in the first and second years could be postponed until the thirteenth and fourteenth years, and that interest only need be paid in the third and fourth years. The principal could be delayed until after the fourth year.[43]

This generous treatment did not seem to help with production at the tannery. Dorn was getting complaints from his Montreal agent who had placed a "substantial order" on December 2, 1954 for sole leather. Four weeks later, the panicked agent wrote that if the leather did not arrive in a few days, "I am afraid we will get in trouble". Ten days after that, and nearly six weeks after placing the order, the agent wrote Dorn "the customer informed me today he can't wait and will buy from another tannery." Word obviously travelled fast in the leather industry, as the same Montreal agent wrote Dorn in late February 1955, relating comments from a shoe manufacturer who "wouldn't believe me" on hearing the tannery could promise two weeks delivery.

Dorn meanwhile, was attributing his problems to the railway, high power rates and the great distances between Newfoundland and mainland markets.[44] He informed the government the only way to correct the problem was to buy a modern warehouse in Montreal with its own personnel and office and to fill the warehouse with three months' supply of leather. Dorn said the cost would be $100,000 and he hoped to get that amount through a government loan guarantee.[45] This request was set against a record of poor performance - for the six months leading up to March 31, 1954, the tannery was showing a loss of $17,971.47 on sales of $14,728.47.

Smallwood's patience with Dorn was wearing thin. Writing Pushie at the Royal York Hotel in Toronto, Smallwood reported Dorn's request. He asked Pushie to investigate the

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[42] Letter, Pushie to Horst Koch, undated. File 3.08.090. JRS Collection.

[43] Letter, Smallwood to Dorn. October 13, 1953. File 3.08.098. JRS Collection

[44] Letter, Dorn to Pushie, March 29, 1954. File 3.08.098. JRS Collection

[45] Ibid

possibility of renting warehouse space in Montreal and stated emphatically, "I certainly have no intention of advancing any hundred thousand dollars to him."[46]

Major orders did come into the tannery, some of which it filled and others which were filled unsatisfactorily. One of the unsatisfactory ones was an order for hockey shoe leather from the Eagle Shoe Company Limited. It was found that in the two week interval between when Eagle cut the leather for the skate lining and the skate's assembly, "...the lining was two sizes smaller than the corresponding upper." The company claimed independent studies had shown "the leather delivered was still wet and subject to shrinkage at the time of cutting." Eagle demanded $1,282.38 from the tannery if the contract was renewed, and double that if it was not renewed.[47]

Not only did the tannery have a difficult time securing business on the mainland, but at home, the early good relations with Gold Sail had come to a crashing end. Less than nine months after its intervention to have the government protect the tannery, Gold Sail was asked to respond to complaints about the handbags it was producing. Gordon Pushie informed the company there were complaints the clasps were not holding, "parts coming unglued" and "handles cutting away from the bags." Wrote Pushie,

> It should be realized that prompt action should be taken by the company to settle such complaints. Nothing could damage your operations more than to have raised around St. John's that your product wasn't standing up well.[48]

Gold Sail responded to the complaints with unrestrained vigour and anger, all of it directed at the tannery, the firm it had so eagerly supported less than nine months before. Of the problem with its handbags, Gold Sail wrote, "...they stem not from poor workmanship but from inferior raw material from the tannery in Carbonear."[49]

Gold Sail's letter continued,

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[46] Letter, Smallwood to Pushie, May 28, 1954. File 3.08.098. JRS Collection

[47] Letter, Eagle Shoe Company Limited to Donald Dawe, lawyer for Newfoundland Tannery (Wm. Dorn) Limited, January 27, 1958. 3.08.099. JRS Collection.

[48] Letter, Pushie to Gold Sail, December 16, 1954. File 3.08.084. JRS Collection

[49] Letter, Gold Sail to Pushie, December 23, 1954. File 3.08.084. JRS Collection

> We have tried...to work in close co-operation with the tannery using their leather. The result has been loss of prestige for our product and a shift in purchasing from Carbonear to other suppliers...You have, we believe, copies of letters from our firm to the tannery, presently in your possession on this subject of inferior leathers, and belated deliveries.[50]

The balance sheets of both Gold Sail and the tannery were taking a battering. Both companies lost money in all the years they operated. By the time the tannery was closed in 1957, it had run up a deficit of well over $120,000.[51] Gold Sail's deficit had reached more than $203,000 by the time it went out of business in 1960.[52]

The Conception Bay plants, as they were referred to by Gordon Pushie,[53] were part of a government strategy to industrialize the Conception Bay North area. This was made clear to the German interests behind the proposal for the shoe factory (which became Koch Shoes at Harbour Grace). Notifying the principals that government had approved a loan for the shoe factory, the Assistant Director General of Economic Development, A.L. Graudins, underlined that the approval was contingent on the factory being constructed in Carbonear, "instead of St. John's". The letter stated it was government's intention for "the Harbour Grace-Carbonear area to become a new centre of industries..."[54] The government planned to round out its program in the area with a marine oil hardening plant, a margarine and shortening plant and a soap factory.[55]

None of those plants made it to fruition, but a knitting mill did figure in the plans for one of Conception Bay North's longest established communities. .

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50 Ibid

51 File 3.08.100. JRS Collection. [The final figure is not available in the records. $121,439.17 represents losses for the period to September 30, 1955.]

52 Annual Financial Statements. File 3.08.085. JRS Collection. The exact amount was $203,867.33 to December 31, 1960.

53 Memo, Pushie to Executive Council, September 11, 1957. File 2.08.008. JRS Collection.

54 Letter, A.L. Graudins to Mr. R. Rieher, Tuttlingen, Germany, February 9, 1952. File 3.08.097. JRS Collection

55 Ibid

Eckhardt Knitting Mills was established at Brigus in 1953 on the former premises of Riverside Knitting Mills. Started with a $387,400 loan from the government, the mill was to produce fine knitwear. The plant was started by Alfons Bernhard Eckhardt, a veteran in the Austrian knitwear business. The company's brochures boasted Italian styling and Austrian know-how, a combination that the government hoped would launch the company toward large profits.

Smallwood declared employment at the mill would reach 300 to 400 when full production was reached. At first, it appeared the Eckhardt mill was more forward-looking than the industries already established, most of which had "jumped into production without paying too much attention to market possibilities and outlets."[56] Eckhardt proposed to overcome that pitfall by establishing outlets in the central Canadian fashion centres of Montreal and Toronto. The local market would be serviced from an outlet on Water Street in St. John's. Eckhardt chose the name Irene Knitwear Limited.

A year-and-a-half after the mill began operating, Eckhardt started looking to the government for a substantial amount of working capital - $160,000. In recommending cabinet approve the application, Pushie advised the government to attach stringent conditions to the loan and to insist on the appointment of a government director to the board. (These appointments became a pattern for most of the industries that requested and were given additional funds.) By accepting the additional assistance, Eckhardt lost some of its independence, as the government-appointed director (Gordon Pushie) had "power to control expenditures" and authority to ensure "that no salaries be paid to non-residents of Newfoundland" without his written approval.[57]

Government was not pleased with the way the mill was run, as was evident in a letter Pushie sent to a New York man who was scouting for potential buyers for the mill. Calling it "one of the best individual enterprises to be set up under the Newfoundland Government's development program", Pushie said the plant was nonetheless on the market, as "we regard it [the present operators] as a purely temporary setup until such time as the plant will be taken over by an experienced company which has the organization to handle both the design and the styling of the garments as well as the sales staff to handle the output."[58]

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[56] Financial Post, July 2, 1955, Vol. 49. p. 26.

[57] Memo, Pushie to Cyril Greene, Attorney General Department. December 28, 1954. File 3.08.102. JRS Collection

[58] Letter, Pushie to Abner Goldstone, New York. December 15, 1955. File 3.08.102. JRS Collection

Some of the problems with the mill were explained to the board of directors in letters from the manager of the St. John's store. While sales for 1956 had improved 100-percent over 1955 ($128,467.33 compared to $61,517.66), the store manager complained they "could have sold $10,000 more if we had not been handicapped by not having the popular wool colours."[59] The manager noted that for "two days alone in Christmas week", the store lost sales for 100 jackets at $25 each. The Montreal office was reporting similar problems.

> ...we are still having insufficient supply of a variety of best-selling articles which were ordered long ago and on several occasions.[60]

The shortage of products in the popular colours continued through the late 1950's. But why? Some of the answers were given in a 1957 analysis of Eckhardt Mills by Arthur D. Little, Inc., in its survey of the new industries for the government. The survey dealt a blow to the credo of a company dedicated to selling fashionable women's knitwear. "...Eckhardt has not kept up with styling" the report charged, noting "there has been no change in the style of the Eckhardt lines since it [sic] was first introduced in 1955."[61] The report presented an unflattering image of the factory's general manager who "indicated that production for inventory is made according to what he considers will sell rather than according to lines which have proven themselves in the marketplace."[62] Sportswear buyers critiqued the company's line with unreserved bluntness, using phrases such as "too germanic...Very Teutonic...finish antiquated...old hat English".[63]

Smallwood put his interpretation of Eckhardt's problems in a memo to cabinet on the day the Little draft report was presented to the government. He explained how Eckhardt, through its retail outlet, Irene Knitwear, was also the selling agent for the shoe, handbag and glove factories. This arrangement created a problem for Eckhardt, as the company

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[59] Letter, Mary Ann Shaw to Board of Eckhardt Knitting Mills, January 6, 1957. File 3.08.102. JRS Collection

[60] Letter, Irene Knitwear, Montreal to Pushie. January 23, 1956. File 3.08.102. JRS Collection

[61] Draft Report to the Province of Newfoundland, "Analysis of Eckhardt Mills Limited" by Arthur D. Little, Inc. September 11, 1957. File 3.08.104. JRS Collection

[62] Ibid

[63] Ibid

was required to use its own meagre working capital for prepayment of goods from the other factories. Smallwood indicated the strategy was a necessary one as only in this fashion had it "been possible to meet emergencies in these other plants."[64] He acknowledged the pressure this placed on Eckhardt's working capital, causing it problems "meeting drafts for wool."[65] Smallwood urged the cabinet to increase the mill's working capital with a $40,000 loan guarantee.[66] Eckhardt continued to operate, but with financial difficulties, until it was forced to close in the early 1960's.

The Conception Bay plants were not alone in their failure to perform well. In the St. John's area, several industries were also battling a sea of red ink.

THE MACHINERY PLANT

The machinery plant at Topsail was expected to put Newfoundland on the map in heavy industrial manufacturing. But the plant that was launched with so much fanfare just before the 1951 general election, proved early on to be a big money loser. Unable to attract the large defense contracts contemplated in the early days, CMIC was reduced to becoming "just a fairly large machine shop".[67]

CMIC gained from the government's decision in the fall of 1953 to postpone interest payments on guaranteed loans for all the new industries, but this clearly was not enough. Writing to Smallwood in the early spring of 1955, CMIC's vice-president, Dr. E. Roethe, disclosed financial statements so poor that he felt it was "practically impossible for our company to obtain any. short-term credits from a bank."[68] Roethe complained that promised price advantages of 10-15% for Newfoundland firms competing with mainland firms for defense orders "did not materialize." This, he went on, combined with "a very

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[64] Memo, Smallwood to Cabinet, September 11, 1957. File 2.08.008. JRS Collection

[65] Ibid

[66] Ibid

[67] Horwood, p.181

[68] Letter, Dr. E. Roethe, CMIC to Smallwood, March 28, 1953. pp.5-6. File 3.08.058. JRS Collection

limited amount of private orders", resulted both in lower levels of employment than expected and in the company's inability to earn interest and depreciation."[69]

Citing an accumulated debt of $460,380.72, Roethe told Smallwood the only solution to the company's problems was a change in the existing agreement that would relieve CMIC from paying interest on its loan until it made a profit.[70] Such a scenario however, seemed an unlikely one for a heavy industrial plant that was coming to rely primarily on making spare parts for equipment in the other new industries, a few construction jobs and the occasional United States Air Force contract.

The government did not yield to Roethe's request, as doing so would unquestionably have created a precedent other industries would ask to have extended to their operations. Such a move would also have admitted failure of the program, a step Smallwood was unwilling to take in the early 1950's. This reluctance to concede the poor performance of most of the industries did little though to slow the momentum that was exerting overwhelming pressure on the financial statements of most of the new industries. The machinery plant would eventually be sold to the private sector, before closing in the 1980's. (By the early 1990's, the property had been converted to a vinyl window manufacturing plant.)

THE OTHER INDUSTRIES

After the machinery, cement and hardwoods plants, United Cotton Mills carried the next largest public investment. The rhetoric surrounding the announcement of this St. John's-based plant confirmed the part fact - part fantasy approach of Smallwood toward selling his program to the public. He boasted of 800 jobs at United Cotton Mills, a figure in line with what its German principals were estimating. What Smallwood did not say publicly, but what the Germans clearly said in their private proposals before construction started, was that the plant would get started with 50 Newfoundland workers, to be increased to "250 people and more later."[71] The plant was to include spinning, weaving and fabricating mills. The impression given in public was that while the entire mill would not be up and running at once, it would be operational and the 800 jobs in place in short order. It was clear from information the Germans sent to Smallwood prior to the public announcement, that the future shape of the plant was far from finalized. The Germans made the

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[71] Letter, Wilhelm Offen to A.L. Graudins, January 10, 1952. File 3.08.117. JRS Collection

information available to the government in order that Smallwood might answer questions in the House "and in justifying the commitment of public funds..."[72] Insofar as the weaving plant was concerned, the Germans said it seemed a little early "to give exact details about the proposed manufacturing program and this also refers to the spinning."[73]

The Germans predicted a profit of $322,375 from the operation. They envisioned selling men's shirts and pyjamas and woman's pyjamas, aprons and house dresses through their own sales agents in every big town in every province. Transportation costs, which would come to haunt most of the new industries, were described by the Germans as "relatively low", and while they foresaw competition from both Canadian and US firms, they concluded there was "plenty of room for other textile mills in Canada."[74]

There were however, troubling signs in the North American textile industry, ones the government seemed unwilling or unable to appreciate. An Industrial Intelligence Bulletin on the textile industry from the federal Department of Trade and Commerce noted that since April 1950, "activity in the clothing industry slipped considerably."[75] A major part of the change was being brought about by the manufacture of synthetic fibres. Per capita purchases of synthetic fibre clothing had increased from 12-percent in 1939 to 21-percent just ten years later. The Trade and Commerce Department wrote that the trend to synthetic clothing "...may achieve even greater significance in the future."[76] A notation on the bulletin by Smallwood urged his then-Director of Economic Development, Alfred Valdmanis, to read part of the document that reported the "real per capita expenditure on clothing of disposable income has been below the long-term trend during the past three years."[77] Smallwood appeared to ignore the section that warned of the significant move to synthetic fibre in the clothing industry.

United Cotton Mills steadily lost money during the 1950's. By October 1961, its accumulated deficit stood at more than $569,000. During that year, the government came

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[72] Letter, Graudins to Offen, December 18, 1951. File 3.08.117. JRS Collection

[73] Letter, Offen to Graudins, January 10, 1952. File 3.08.117. JRS Collection

[74] Ibid

[75] Paper, "The Clothing and Textile Industries", Economics Division, Industrial Intelligence Division #2, Department of Trade and Commerce, Ottawa. (Undated) p.6

[76] Ibid, p. 9

[77] Ibid, p. 11

to the mill's rescue, and liquidated about two-thirds of the deficit, made up chiefly of operating losses and unpaid interest on the government loan. The loan itself was still outstanding. This plant too, would eventually close.

It became increasingly difficult for Smallwood to maintain that the industries were "breaking even and having their own working capital" (as he claimed in the case of money-losing Eckhardt Mills, Koch Shoes, Atlantic Gloves and Newfoundland Tanneries in 1956), when soon after, the government would be asking the legislature to approve additional guarantees for those plants. By June 1957, the government had seen enough. With about $20 million outstanding in loans to the industries and none of the accumulated $2 million in interest having been paid back to the Treasury, Smallwood announced he had enlisted the help of Arthur D. Little, Inc. of the Massachusetts Institute of Technology to assess the new industries. "The time has come to take stock" was how Smallwood explained his actions.[78] He attempted to prepare the public for the verdict, by placing the industries in various categories of financial health. Some, he said, were "in a very good healthy condition" while others "may need nothing more than an improvement of management" and still others "may prove to be discouraging".[79]

Reporting on the appointment of Arthur D. Little, Inc., the Newfoundland Journal of Commerce remarked that 1957 was a "year of decision for the new industries." The Journal appeared to have the inside track on what was happening, noting the program "will undoubtedly have to be cut back because it [the government] can no longer pump money, like blood, into the veins of industries..."[80] Strikebound Newfoundland Tanneries, the Journal wrote, was not paying its way, and the paper predicted "the strike may be the excuse the government needs at this time to wipe out the industry."[81] The era of plant construction was at an end, with even the German technical help at most of the plants having left Newfoundland.

In the early fall of 1957, Smallwood began releasing the Little findings in dribs and drabs. The reports prepared by the Little company gave detailed accounts of how the various industries were faring. But Smallwood did not release the actual accounts. Instead, he took carefully selected parts of the surveys and made those public with his own

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[78] Financial Post, June 29, 1957. Vol.51, pp. 59-60

[79] Ibid

[80] Newfoundland Journal of Commerce. "1957 - Year of Decision for 'New Industries'". Vol.XXIV, No.8. August 1957. p.22

[81] Ibid

commentary. Smallwood reported that overall, the survey pointed toward a "bright future for some; others not so rosy and may need more financial aid."[82]

It is instructive to differentiate between Smallwood's account of the Little survey and the survey itself. On the Hanning Electric Company battery plant on Topsail Road, the Evening Telegram quoted Smallwood as saying the report gave the plant "a very good reference".[83] The Financial Post wrote:

> Economic production would be 20,000 batteries annually, which the company has not yet reached. The financial success lies in reaching this output. In the meantime, it may be necessary for the government to advance a modest amount of working capital to keep the concern going until a more permanent arrangement is made.[84]

The report itself was more to the point: it urged that the plant be leased to a major Canadian battery manufacturer "for a minimum of five years at a rental that could be as low as $1 per year if necessary..."[85] A draft report to the government six months earlier (this predated Smallwood's announcement that the government had engaged the Little firm) was even more blunt:

> Hanning Electric Company Limited is in default in its obligation to the Newfoundland Government...Although the plant with minor equipment modifications has a productive capacity of 50,000 batteries per year, total unit sales in 1956 were only 3,312. The low sales are due to the limited replacement battery market in Newfoundland and the severe competition in that market.[86]

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[82] Financial Post, November 30, 1957, Vol.51. p.25

[83] Evening Telegram, November 2, 1957. p.3

[84] Financial Post, November 30, 1957, Vol.51. p.25

[85] "Conclusions", Arthur D. Little, Inc. Survey of Hanning Electric Company Limited, 1957. p.1

[86] Draft Report on Hanning Electric, Arthur D. Little, Inc. March 31, 1957

The draft report also said the plant was overmanned for its production level and that production below 20,000 batteries a year "is not economically justifiable".[87]

The same pattern of interpretation followed with Little's assessment of other industries. The Financial Post, relying on Smallwood's comments about North Star Cement in Corner Brook, wrote,

> Technical experts from the US who examined the plant report it is a fine enterprise with an excellent future.[88]

The Little survey was more brutal in its assessment, stating the plant "is not adequately protected by known proven deposits of limestone...the plant is too small to produce cement at costs competitive to those of larger plants...the plant is generally overmanned..." And the report carried a warning for the government on the security of its overall investment, noting "the current level of profitability of North Star should permit at least part of the interest payments due the province."[89]

Little recommended three of the plants be closed: Newfoundland Tanneries; Gold Sail Leather Goods; and Atlantic Gloves. In addition, it recommended the hardwoods division of Newfoundland Hardwoods be closed and that Koch Shoes be closed unless the government could find a company to lease the operation. The survey recommended the two textile mills in St. John's be merged.

The survey was especially hard on the Conception Bay leather industries, calling their practices severely into question and in the process, threatening the government's goal of establishing the area as an industrial centre. "The major product of the tannery has been ungraded hockey boot leather" the Little survey reported, noting that transportation costs for raw materials and finished product represented the equivalent of a 25-40% penalty in selling price when compared to mainland tanneries.[90] The report concluded "out-of-pocket losses" for 1956 were estimated at more than $100,000, not including depreciation interest or repayment of government loans.

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[87] Ibid, p.2

[88] Financial Post, November 30, 1957, p.2

[89] "Conclusions", Little Survey on North Star Cement, 1957 p.1.

[90] "Conclusions", Little Survey on Newfoundland Tanneries, 1957 p.1

The story was equally gloomy on Atlantic Gloves. In 1956, gloves were sold for one-third of the manufacturing cost, the survey found. The company was "restricted to the production of sport gloves", a small part of the glove market. Little reported the trend was toward fabric gloves, and that even if the company captured 100% of the sport-glove market in Canada (the report estimated the company "may supply as much as 18%..."), it would still operate at only half capacity. According to Little, three factors would preclude the company from becoming profitable or merely breaking even, including the high cost of raw materials, management's weakness in both production and marketing, and "the inflexibility of an uneconomic tannery."[91]

The survey was no more kind to the glove factory's commercial neighbour, Gold Sail Leather Goods. Gold Sail produced an $8 handbag, but Little concluded that with most of the Newfoundland market dominated by the sale of imitation leather and plastic bags retailing for under $6, Gold Sail would be forced to market outside the province where it "cannot compete effectively..." An additional handicap was the lack of original designs, a major shortcoming in the "lucrative, high-fashion, exclusive-shop business." According to the survey, Gold Sail's inability to produce original designs would relegate the company to copying other designs featured in popular magazines. Forecasting continuing losses, Little recommended the plant be closed and the equipment sold.[92]

Gold Sail was operated by Erwin Koch, the operator of a second leather-based industry in Harbour Grace, Koch Shoes. The shoe factory fared slightly better than the other leather industries: the survey concluded it could operate economically if it increased production to 70,000 pairs, limited itself to 10 different styles (the company at one time featured 67 different styles), and lowered its prices. Newfoundland, the survey argued, could only take a small portion of the company's production. The company's survival therefore, would depend on substantial exports. The survey concluded however, such a strategy would impose a major challenge, as even in exporting to the low end of the Maritimes shoe market, transportation costs would make it difficult for Koch Shoes to compete with low-priced English imports. The survey recommended the plant be leased to a new operator and that the company's wholly-owned subsidiary in Toronto - a retail outlet named Ariston Shoes Limited - be sold.[93]

The survey came down hard on the construction division of Newfoundland Hardwoods, which it claimed was losing $1000 a day, equivalent to an annual loss of $2000 for each

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[91] "Conclusions", Little Survey on Atlantic Gloves, 1957 p.1.

[92] "Conclusions", Little Survey on Gold Sail Leather Goods, 1957 p.1

[93] "Conclusions", Little Survey on Koch Shoes, 1957 pp.1-2.

worker. It said neither the door, plywood, nor flooring plants had any profit potential. The plywood plant for example, manufactured plywood from imported mahogany. Little noted the North American mills were moving away from this kind of product. That, combined with stiff competition from foreign companies with access to cheaper raw materials, precluded continued production.[94] The bright spots in Newfoundland Hardwoods were two unrelated concerns - the asphalt and creosote divisions. Both divisions would later show substantial profits - the creosoting division owing much to the heavy demand for wooden poles as the electrification program gained momentum in the 1960's, and the asphalt division because of demand emanating from the paving of the Trans Canada Highway.

The Little reports concluded there was no need for two textile mills in St. John's. It called for the mills to be consolidated, with resulting "important savings" in overhead. In addition to high overhead, Little determined both Terra Nova Textiles and United Cotton Mills suffered from low productivity and small sales volume. The survey said overhead expenses at United Cotton Mills "as a percentage of direct-labour costs are approximately twice those of profitable US firms."[95]

Arthur D. Little, Inc. was not asked to comment on or evaluate the entire industrialization program, but its report amounted to a stinging rebuke for the thrust of the program. The industries that Smallwood claimed would sell to "all parts of Canada, in the United States, and in all parts of the world" were, according to the Little survey, barely able to compete in Newfoundland. Smallwood had to put on his bravest political face to proclaim in the wake of the survey that some of the industries would have a "bright" future. Some of them (North Star Cement, Atlantic Gypsum and Koch Shoes) went through various transformations and remain in business as private concerns. It would take an indepth economic study however, to determine whether the public investment in those concerns resulted in gains or losses to the Treasury.

Smallwood was not anxious to release the Little survey to the public. Several months after he addressed the results of the first surveys in public, a Conservative MHA, Augustine Duffy asked that the surveys be tabled in the legislature. Smallwood's reply was an emphatic no.

> Does he think sincerely that the full and intimate details of all costs and all other business secrets, contracts, prices, commissions of the North Star

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[94] "Conclusions", Little Survey on Newfoundland Hardwoods, 1957 p.1

[95] "Conclusions", Little Surveys of United Cotton Mills and Terra Nova Textiles, 1957 p.1

> Cement Company should be handed over to other Cement Companies across Canada....[96]

Duffy had his own suspicions why the reports were being kept under wraps, accusing Smallwood of picking out "what he wants to make public". Duffy charged that if the reports were made public, "there would be considerable flattening out of the extravagant loans that were going on."[97] Indeed, Table 1 outlines the seriously deficient position of all the companies relative to their loan repayments.

Table 1 does not take into account the interest that was forgiven on loans in the first two years of the program. Neither do these figures take into account interest written off by the government during this period, nor interest payments delayed until the thirteenth and fourteenth years as a result of the October 1953 decision by the government.

As Table 2 shows, by the early 1960's, most of the plants had been closed or come under new management. Newfoundland's post-Confederation experiment with government-financed manufacturing firms had come to an end. Smallwood was now focusing on natural resource development. Much of this attention was directed toward Labrador where huge deposits of iron ore would give rise to the towns of Labrador City and Wabush. Smallwood also went in search of capital to develop Labrador's hydro potential. Around the coastline of Newfoundland and Labrador, the fishery continued to be the lifeblood that sustained hundreds of small and medium-sized communities and towns.

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[96] Proceedings, January 24, 1958, p.65

[97] Proceedings, January 24, 1958. p.66

TABLE 1
Principal and Interest Owing on Newfoundland Government-Guaranteed Loans on March 31, 1958

COMPANY	Principal Owing on March 31, 1958	Principal/Interest Owing on March 31, 1958
A. Adler of Canada Ltd.	$ 820,000.00	$ 891,875.72
Atlantic Films and Electronics Ltd.	$ 200,000.00	$ 248,301.36
Atlantic Gloves Ltd.	$ 845,352.00	$ 967,780.97
Atlantic Gypsum Ltd.	$ 1,613,062.59	$ 1,613,062.59
Atlantic Hardboards Ltd.	$ 1,545,600.00	$ 1,830,705.79
Canadian Machinery and Industry Construction	$ 2,500,000.00	$ 3,094,013.65
Eckhardt Knitting Mills	$ 987,600.00	$ 1,103,399.72
Gold Sail Leather Goods	$ 220,000.00	$ 256,352.17
Hanning Electric Co. Ltd.	$ 645,000.00	$ 760,358.90
Koch Shoes Ltd.	$ 1,414,075.38	$ 1,613,401.61
Newfoundland Hardwoods	$ 4,367,217.13	$ 4,367,217.13
Newfoundland Tanneries	$ 752,208.00	$ 879,618.39
North Star Cement Ltd.	$ 4,740,000.00	$ 5,508,156.26
Superior Rubber Co. Ltd.	$ 1,600,000.00	$ 1,931,393.73
Terra Nova Textiles	$ 533,840.00	$ 595,379.62
United Cotton Mills	$ 581,699.71	$ 681,415.59
	$23,365,654.81	$26,442,433.20

SOURCE: Documents in File 3.08.064. JRS Collection.

TABLE 2
Companies Started Under Industrialization Plan and Status

COMPANY	OPENED	STATUS
A. Adler of Canada Ltd.	1956	Closed 1960
Atlantic Films and Electronics Ltd.	1953	Closed 1980's
Atlantic Gloves Ltd.	1954	Closed 1957
Atlantic Gypsum Ltd.	1952	Still in operation. Privately owned.
Atlantic Hardboards Ltd.	1952	Closed
Canadian Machinery and Industry Construction Ltd.	1952	Closed 1980's after being operated for several years by private company
Eckhardt Knitting Mills Ltd.	1955	Closed early 1960's
Gold Sail Leather Goods	1957	Closed 1960
Hanning Electric Co.	1953	Closed 1958
Koch Shoes Ltd.	1953	Still in operation as Terra Nova Shoes. Privately owned
Newfoundland Hardwoods Ltd.	1952	Closed 1980's
North Star Cement Co.	1952	Still in operation. Privately owned.
Superior Rubber Co.	1953	Closed 1956
Terra Nova Textiles	1954	Sold to private interests in early 1960's. Closed 1986
United Cotton Mills	1952	Same as Terra Nova Textiles
Newfoundland Tanneries	1952	Closed 1957

SOURCE: Royal Commission on Employment and Unemployment (1986) Chapter 2, p.8 and JRS Collection.

CONCLUSION

In its report to the Peckford Conservative government in the mid-1980's, the Royal Commission on Employment and Unemployment likened the 1950's program to the development drive of the late 19th century, with the same disastrous results. It conceded that while the 1950's program "succeeded to a limited degree", it demonstrated "the mainland model with its urban-industrial thrust was adopted as the only desirable development mode", leaving the traditional economy "neglected."[98]

Political leaders of Smallwood's stature often get the chance to explain their actions in their memoirs. In his account of the program, Smallwood appeared struck by the criticism of his attempt at industrialization. "We put a total of about $50 million altogether in those plants..." he wrote in 1973, and while from "...a narrow, orthodox, private enterprise, balance-sheet point of view, over half of them have been losers...the fact is...they have, taken as a whole, been a profit-maker."[99] Smallwood claimed the industries put more than $50 million back into the economy in the form of wages and other disbursements, thus sparing government the cost of providing benefits to people who would otherwise have been unemployed.

Harold Horwood concluded in Joey, "not all the money was wasted." He pointed to the four plants that "survived after a fashion, returning nothing to the government, but giving jobs to a few hundred people."[100] Horwood referred to the program as "the Valdmanis phase of economic development". Despite his thinly-veiled disdain for Valdmanis, Horwood does credit him with proposing a moratorium on factory construction in 1952, advice which Smallwood refused.[101]

The real proof of the value of such a massive investment in secondary manufacturing is whether it changed the lot of Newfoundland's population by opening up areas of new, sustained economic activity. The Smallwood government's own economist, in a 1967 report in which Smallwood wrote the forward, concluded not much had changed. "There can be little doubt that under-employment and unemployment have persisted with

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[98] Royal Commission on Employment and Unemployment. Chapter 2 - "In Search of Development: An Historical Perspective". St. John's. 1985 p.7

[99] Joseph R. Smallwood. I Chose Canada. Toronto:Macmillan. 1973. p.352

[100] Horwood, p. 183

[101] Horwood, p. 184

infuriating tenacity" he wrote, "despite heavy public and private investments in industry and infrastructure."[102]

The popular legacy of the industrialization drive of the late 1950's is one of failure and ineptitude. What young Newfoundlander or Labradorian has not heard with appropriate sarcasm, some variation of "that's another chocolate factory". (The current version of this line is "that's another Sprung greenhouse". Sprung was a hydroponics greenhouse financed under the Peckford Conservatives in 1987. But the time it closed in 1989, the facility had cost the Newfoundland government more than $20 million in loans and grants, plus interest.)

In the insular world of Newfoundland politics, it is often said that of all the people in the world, Newfoundlanders alone were imprudent enough to give up self-government (as they did in 1933), or that Newfoundlanders alone were gullible enough to go along with Smallwood's plan for industrialization, wasting a fortune in public funds along the way. The reality though is that there are many examples in Canada and elsewhere, of small political entities spending massive amounts of scarce public funds to try and solve the problems of underdevelopment.

[102] R.I. McAllister. Newfoundland and Labrador: The First Fifteen Years of Confederation. St. John's: Dicks and Company Limited, 1967. p.82

4

The Case of Nova Scotia's Industrial Estates Limited

In September 1957, the newly elected Conservative government of Nova Scotia under Premier Robert Stanfield, set out "...to encourage the promotion, expansion, diversification and development of economic activity..." in the province.[1] To achieve this goal, Stanfield established Industrial Estates Limited, a provincial crown corporation modelled on the British system of industrial estates.[2] Over the next fifteen years, IEL pursued manufacturing firms around the world with the full backing of the Nova Scotia government and the provincial treasury.

The early years of IEL's activity brought dozens of new industries to the province. Protected from political barbs by Stanfield and his government, IEL spent tens of millions of dollars luring industry to all regions of the province. IEL's first President, Frank Sobey of supermarket fame, operated with a small staff and with utmost secrecy. For 10 years, the public of Nova Scotia seemed impressed with the results of IEL's work. They returned Stanfield with a 40-6 seat majority in the 1967 general election. But soon after that, IEL's massive investments in a high-fidelity stereo manufacturing company (Clairtone) and a heavy water plant (Deuterium) started going bad. These investments resulted in a public debate about IEL (one the political opposition revelled in) that went to the heart of the way it did business.

The incentives Nova Scotia offered business were substantial. Like Newfoundland, a high level of secrecy surrounded the Nova Scotia program. And similarly, there was little pre- or post-project assessment. Despite those similarities, the Nova Scotia program differed from Newfoundland's in a couple of key areas. IEL pursued only established companies whereas Newfoundland funded new ones. The Stanfield government left it to the board of IEL (comprised of the business elite of Nova Scotia) to court business opportunities.

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[1] Province of Nova Scotia. "Principal Agreement Between Industrial Estates Limited and the Provincial Government". September 25, 1957. p.2

[2] The Nova Scotia concept involved having Industrial Estates Limited finance and build factories for industries locating to the province. The concept allowed companies to rent or enter into lease-purchase agreements. It also entailed financing equipment purchases and arranging municipal tax concessions.

This placed the government in the role of banker while Stanfield accepted the "political headaches".[3]

Overall however, despite failures that cost IEL millions of dollars, Nova Scotia experienced a higher rate of success with its industries than did Newfoundland. IEL's policy of dealing with already established companies, provided at least a measure of protection for the Nova Scotia taxpayer. While tax concessions were extended to all companies and preferential rates of interest were advanced to some, the program was operated on a business-like basis and companies were required to pay back what they had borrowed. By contrast, the Newfoundland program advanced millions of dollars to enterprises that had no capital of their own. With little or none of their own resources at stake, the industrialists attracted by the Newfoundland government appeared to be poor candidates for the job of establishing and maintaining the industries that were financed. This state of affairs also cast serious doubt on the Newfoundland government's goal of recouping its investment by selling the companies to private investors. And unlike Newfoundland, Nova Scotia extracted personal guarantees from investors, a move that forced business to share some of the risk. That approach was deemed to be successful.[4]

Nova Scotia's approach to industrial development is not presented here as a point-by-point comparison to what happened in Newfoundland. As was stated above, it is similar in some ways and different in others. The value in sketching the IEL program is that it represents an attempt to deal with underdevelopment by a province that is similar to Newfoundland in many ways.

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By 1957, Nova Scotia was a veteran of ninety years inside the Canadian federation. Yet, despite the suggestion nearly a century before that the Maritimes "would develop into the workshop of the new dominion",[5] the promise was not realized. Indeed, the prevailing sentiment was that "Ontario and Quebec had been double-crossing them ever since

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[3] James Bickerton. Nova Scotia, Ottawa and the Politics of Regional Development. (Toronto: University of Toronto Press) 1990. p. 146

[4] Roy E. George. The Life and Times of Industrial Estates Limited. (Halifax: Institute of Public Affairs, Dalhousie University). Paper No.93. 1974. p.4

[5] David Alexander. Atlantic Canada and Confederation [Essays in Canadian Political Economy]. Compiled by Eric W. Sager, Lewis R. Fischer and Stuart O. Pierson. (Toronto: University of Toronto Press). Published in association with Memorial University of Newfoundland. 1983. pp. 50-51

1867...imposing tariff, trade, transportation, political and financial policies to milk the Maritimes and crush local industry."[6] When it came to cold economic statistics, Nova Scotia lagged behind the nation. Its population was in decline relative to the nation; it was unable to close the gap on per capita personal income (Nova Scotia's was about three-quarters of the Canadian average); and new investment in Nova Scotia was only half of the national average.[7] The resulting picture was that in the 17-year period from 1940 to the inception of IEL, Nova Scotia's Gross Provincial Product increased by 76 percent, while Canada's national economy grew by 119 percent.[8]

This was the set of circumstances that lay in wait for Robert Lorne Stanfield when his Conservative party came to power in Nova Scotia in late 1956. Stanfield promised during that campaign to do something to bring the economy around. He spoke of setting up a Nova Scotia Development Corporation, although "he had no precise idea of what it would be or do..."[9] The agency that eventually got launched was Industrial Estates Limited, a crown company that was to be started with government-guaranteed loans of $12-million. It was believed IEL would eventually build a credit rating that would allow it to borrow its own funds.[10] IEL never did borrow long-term funds on its own, although its authorized borrowing limit eventually reached $200-million in 1971.[11]

There are many similarities between IEL and earlier efforts by the Smallwood government to increase industrial activity. For these and other reasons, it is instructive to look at what happened in both provinces.

In an overall way, Newfoundland and Nova Scotia interfered in their economies in a major way to try and increase the level of economic development.

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[6] Harry Bruce. Frank Sobey: The Man and the Empire. (Toronto: Macmillan of Canada) 1985. p.242

[7] Nova Scotia Voluntary Planning Board. First Plan for Economic Development to 1968. February 1966. pp.24-25

[8] Bickerton, p.98

[9] Bruce, p.245

[10] George, p.25

[11] Ibid

The establishment of IEL in Nova Scotia and the policies pursued by the government in Newfoundland were proof that responsibility for the granting of business incentives was being transferred from the municipal level of government to the provincial level. Prior to 1930, it was common for municipalities to extend help in the form of "grants, loans, bond guarantees, land gifts, and tax exemptions."[12] After the Depression, this kind of economic inducement was seen as the proper role of the provinces, as was evidenced in the growing number of provincial loan agencies dedicated to financing economic development.[13]

There were some key differences between the approach taken by IEL and that followed by Newfoundland. Perhaps the two most important differences relate to the type of industry they pursued and the involvement of political leaders in the two provinces in the running of their industrial programs.

IEL was interested in attracting established, secondary manufacturing firms, thereby staying away from financing new companies. (Even this approach however, did not prevent the loss of $70-million in the spectacular collapse of Clairtone and Deuterium.) The goal was to assist existing industries that did not compete with firms already in business, not to prop up "ailing industries."[14] Indeed the first chairman of IEL's board - supermarket magnate Frank Sobey, openly said IEL "should never accept a client with insufficient capital to run a business and repay its debt."[15] Quite the opposite was true in Newfoundland, where Smallwood and Valdmanis appeared to be searching out know-how, rather than people with deep pockets and abundant business acumen. And although the government's policy in Newfoundland was to lend money to the plants it started, these became de facto grants, since only a tiny percentage of the money was ever repaid. By contrast, Nova Scotia was more vigilant with its "loans only" policy, and it was committed to lending money solely to companies that demonstrated an acceptable independent capital base. But even this ironclad policy was changeable if the potential catch was a major one. Consequently, the "loans only" policy was altered on two occasions in the mid-1960's to allow IEL to invest directly in two big new clients - Clairtone and Deuterium.

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[12] Atlantic Provinces Economic Council. The Atlantic Economy. [Seventh Annual Review] October 1973. p.19 [This document will be referred to as APEC in later citations in this paper.]

[13] Ibid, pp.19-20

[14] George, p.10

[15] Bruce, p.254

Frank Sobey presided over IEL's board during "...the Golden Years", a time "when success followed success" and "...when it seemed everything IEL touched was turning into glittering new enterprises..."[16] IEL carried on its role with little government interference. "We would have no political discussions with any members of the government, with the exception of Mr. Manson", (a cabinet minister and the government appointee on IEL's board of directors) Sobey said years later.[17] Just to make sure the government understood its role, ground rules were established early in IEL's mandate about announcements regarding new industries where the agency was involved. The agreement was that IEL, not the government, would make all such announcements, and then only after all the paperwork was done.[18] This was very much different from what had happened in Newfoundland, where Smallwood was front and centre of every effort to land new industry. Many of the Newfoundland industries were announced far in advance of their being established. In the case of some industries, such as the machinery plant at Octagon and the textile mill in St. John's, Smallwood's public pronouncements dramatically overstated both the size of the industries and the number of people who would find work.

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The Nova Scotia strategy was based on a package of incentives, including the provision of land, custom-built factories and production machinery at attractive rates of interest. A company taking advantage of IEL assistance could receive up to 100 percent of the cost of land and buildings, either through a lease-purchase arrangement or a loan. Firms could also get loans for 60 percent to cover the cost of buying machinery (some loans went as high as 80 percent.[19]) Interest was charged at the rate the Nova Scotia government was paying, plus a small percentage to cover the government's borrowing costs. This was considered an attractive feature, since the Nova Scotia government could borrow at lower rates of interest than could private companies from the banks.[20] Some firms, automobile tire manufacturer Michelin was an example, got a discount rate from IEL. In Michelin's case, IEL loaned the firm $50 million for twenty years at 3 1/2 percent below what IEL needed to cover its cost, a subsidy that would cost Nova Scotia $30 million over the life

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[16] Industrial Estates Limited. Annual Report. 1982. p.4

[17] Bruce, p.248

[18] Ibid, p.248

[19] APEC, p.44

[20] George, p.26

of the agreement.[21] As if this was not enough to entice firms, or perhaps as an example of what was necessary to get the job done, municipalities were permitted to offer steep discounts in their tax rates to businesses assisted by IEL. Many municipalities were only too eager to help out, proof that the evolution of business incentives from local to provincial governments, was only partway complete. Taken together, the Nova Scotia package constituted an attractive offer for business, having the effect of spreading low capital costs over many years, thereby substantially reducing the cost of doing business.

The strategy raised an important question - if something was good for IEL and good for business, did that necessarily mean it was good for the Nova Scotia taxpayer? The first substantial study of IEL was published in 1974 by Dalhousie University economist, Roy George. George found that overall, IEL had made a positive contribution to Nova Scotia.[22] He referred to the package of inducements offered by IEL as "the bait", and wrote that of the 77 plants financed through to the early 1970's, 56 (73 percent) were still in business. The 21 (27 percent) that failed however, represented 41 percent of the total investment by IEL under the program.[23] The huge loses at Clairtone and Deuterium in the late 1960's would lead to intense scrutiny of IEL, a major change from the way IEL was perceived and treated in its first decade. In those years, critics were silenced both by the apparent accomplishments at IEL and the agency's penchant for secrecy.

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Starting in 1960, IEL began to generate positive headlines that continued unabated for the next several years. The business press was on to the story of what was happening in Nova Scotia. IEL built six plants with eleven more underway, enough for the Financial Post to proclaim IEL had been transformed "...from a fledgling crown corporation to a sturdy agency for the promotion of secondary industry in Nova Scotia."[24]

The six plants IEL had already financed included an Italian knitwear firm at Pictou, a boat and furniture factory at Digby, an electronics company at Dartmouth, a ship repair business at Lunenburg, and a wood products plant at Springhill.[25] This was just the

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[21] Ibid, p.106

[22] Ibid, p.121

[23] Ibid, p.76

[24] Financial Post, January 2, 1960. p.2

[25] Ibid, p.2

beginning however, as IEL's team literally began travelling the globe, selling both Nova Scotia and its industrial assistance program.

The chief salesman was Robert Manuge, who earned the title "Nova Scotia's globe-trotting super-salesman".[26] Manuge was reputed to have travelled tw. million miles on IEL business, making "as many calls as he could without collapsing..."[27]

IEL typically sent out letters to firms explaining its role and the assistance it could offer. There was nothing extraordinary in that, for, as in most businesses, salesmen followed up those letters with personal calls. Four years after its inception however, IEL got some "big-time" assistance when it named an advisory board, "an international network of highly placed bluenose old boys to give the agency prestige, advice, information, and sometimes an entree."[28] These "old boys" were in some of the top positions in Canadian and US corporations. It appears they were required as much for their high-level contacts and 'door-opening' skills as they were for business advice.

The whole formula - the financial inducements, Nova Scotia's growing credibility with business, the people IEL sent calling - all seemed to work. The early to mid-1960's was a period of breath-taking expansion, necessitating the government to expand IEL's capital base on several occasions.[29] It seemed the province's "crack sales and promotional team" was trying to drum up a new image for Nova Scotia as well as new business. "We are tired of being pictured as a province of fishermen and unemployed miners", the deputy minister of Finance and Industry said. "The only time people hear of our province is when a ship sinks or a mine closes."[30] IEL was doing its best to change that image, having concluded twenty-six agreements with firms before its fifth year in business.[31]

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[26] George, p.31

[27] Bruce, p.266

[28] Ibid, p.269

[29] George, p.25. [IEL's original authorized loan base was $12 million. This was increased to $18 million in 1963; $50 million in 1964; $60-million in 1966; $100-million in 1967; $150 million in 1969; $200 million in 1971.]

[30] Financial Post, September 29, 1962. p.5

[31] Financial Post, January 12, 1963. p.40

By 1963, IEL was going into high gear. In that year, it reached agreement with the Swedish car manufacturer Volvo, to establish an assembly plant at Dartmouth. The Volvo opening by Prince Bertil of Sweden was seen by some as more than the mere arrival of another firm. "It served as a signal to other international corporate giants," Harry Bruce wrote, "and they came to Nova Scotia thick and fast."[32] The carpet manufacturer Crossley Karastan settled in Truro, the Reynolds can factory came to Dartmouth, Canada Cement was located at Brookfield, and Deuterium was to build a heavy water plant at Glace Bay. The attraction of new industry earned accolades both for IEL and Premier Robert Stanfield. Maclean's wrote that given certain machinations with John Diefenbaker's leadership of the federal Conservative Party, "then the next leader of the federal Conservatives will likely be the bony Premier of Nova Scotia, Robert L. Stanfield."[33]

In the wake of such accomplishments, IEL appeared untouchable. The Volvo arrival at Dartmouth "had silenced all but the most partisan or axe-grinding of IEL's critics".[34] Still, those golden days of 1963 sowed the seeds for later scrutiny of the way IEL did business and it would pave the way for the departure of its first President, Frank Sobey.

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There was elation in the whole of Nova Scotia when the province emerged the winner in the 1963 sweepstakes to build a heavy water plant to meet the needs of Atomic Energy of Canada's nuclear reactors in Canada and abroad. Nova Scotia got the plant after a political battle against interests that supported a site in Western Canada, and with the help of a rising Cape Breton star in national politics, Allan MacEachen.

The heavy water plant was to be built at Glace Bay in economically-depressed Cape Breton, at a cost of $30 million, and financed with $12 million from IEL (its first venture into equity financing), an amount that represented about 40 percent of the cost. The remaining capital would be raised by Deuterium Corporation of New York. Its president, Jerome Spevack, had pioneered the concept of using salt water to produce heavy water. Salt water from the Atlantic would wind its way through miles of stainless steel piping at the new plant, and through a process that involved mixing the water with hydrogen sulphide gas, and taking the water through several hot and cold stages, heavy water would

32 Bruce, p.277

33 Maclean's, November 16, 1963.

34 Bruce, p. 277

be produced.[35] That was the plan. But in reality, Deuterium was headed for trouble. The salt water technology Spevack had pioneered "corroded the pipes and other equipment, rendering the plant inoperable."[36] Spevack denied salt water was the cause of the problem, but eventually, he was ousted as president of Deuterium of Canada Limited (DCL). IEL put $15-million more into the plant, since DCL was unable to raise its share of the capital. Costs kept mounting, and by the time the plant produced its first drum of heavy water in 1976, the pricetag had climbed to $250 million. The Nova Scotia government took over IEL's investment in the plant and invested even more money of its own. That investment amounted to $135 million by the time the plant opened. In addition to that, Atomic Energy of Canada Limited (AECL) had to spend $95 million to refurbish the Glace Bay facility, in order to be spared the alternative - a $135 million pricetag for a new plant.

The Deuterium debacle demonstrated the shortcoming of the policy of maintaining a small staff at IEL and the apparent absence of expertise within the provincial civil service to assess risks such as those inherent in investing tens of millions of dollars in a heavy water plant.

There is disagreement about whether IEL had ever wanted to become involved in the heavy water project. James Bickerton claims the project was "dumped" on IEL "because the provincial government had none of the requisite negotiating or management expertise within the ranks of its own bureaucracy."[37] Roy George claims however, that while the Nova Scotia government played a prominent role in bringing the project to the province, "influential IEL directors were very active in setting up and directing the project and the IEL board was obviously eager to be involved."[38]

Management of the project was another question. How could an original $12 million Nova Scotia investment balloon to more than ten times that much? George claimed it was too simplistic to place all the blame on design faults, since $100 million had been spent by the time those flaws were discovered,[39] more than three times the original estimate of

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[35] Philip Mathias, Forced Growth (Toronto: James Lewis and Samuel, Publishers) 1971. p.106

[36] George, p.81

[37] Bickerton, p.236

[38] George, p.79

[39] Ibid, p.84

the cost. "IEL must shoulder the major responsibility" he wrote, "since IEL nominated its own directors to fill the majority of seats and therefore had the power to control all activities..."[40]

Unfortunately for IEL and the Nova Scotia government, Deuterium was not the only industry causing problems. Clairtone - a high fidelity stereo manufacturing company - was enticed to move from Ontario to Stellarton with nearly $8 million in the form of an IEL guarantee. The move to Nova Scotia brought 600 new jobs. "The mood everywhere was jubilation", wrote Garth Hopkins in his book on Clairtone.[41] Everywhere, it seemed, but in Ontario, where newspaper editorialists wondered if that province was beginning to lose its preeminent industrial status to Nova Scotia.[42]

Nova Scotia paid a steep price to get Clairtone. Along with the loan guarantee, IEL waived interest for three years on the loan payback. The agency also built a new plant for Clairtone and the company benefitted from a $1 million "settling-in" bonus. Federal regional development incentives were also a part of the picture, including a three-year federal tax holiday and accelerated depreciation on Clairtone's plant and buildings.[43] And there was more: Clairtone would benefit from a 30-percent freight subsidy under the Maritime Freight Rate Act; it took advantage of federal grants to train its workforce; and it received a reduced municipal tax rate for ten years.[44]

At first, the huge public investment in Clairtone appeared to pay off. The results for 1966 were good, as the company's sales "rose by more than forty percent and profits more than doubled."[45] But 1967 and subsequent years proved to be disastrous. Losses in 1967, 1968, 1969 and 1970 were $6.7 million, $9 million, $3 million, and $7 million respectively.[46]

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[40] Ibid, p.84

[41] Hopkins, Garth. Clairtone [The Rise and Fall of a Business Empire] (Toronto: McClelland and Stewart) 1978. p.90

[42] Ibid, p.90

[43] Hopkins, p.92

[44] Ibid, p.92

[45] George, p.86

[46] Ibid, p.86 and Bickerton, p.236

The losses in 1967 prompted Clairtone to go back to IEL for more capital to sustain its operations. IEL, concerned both about the losses and with Clairtone's move into the colour television business, set a stringent condition - the $2 million Clairtone requested would only be granted if the company's owners surrendered control. For Clairtone, it was either that arrangement or bankruptcy. In August 1967, control of the company was handed over to IEL. Harry Bruce concluded "IEL had bought a bummer".[47] Clairtone was closed in 1972. By that time, the Nova Scotia government had bought the company from IEL and along with it, $26 million in debt.[48]

The problems with Clairtone brought about a period of intense scrutiny of IEL and its way of doing business. There was the question of whether IEL forced Clairtone into manufacturing colour television sets. Or was it the provincial cabinet that forced Clairtone into the colour television manufacturing business, in order to get the company to abandon plans to build an assembly plant for Japanese automobiles at the former Point Edward naval base on Cape Breton Island? Whoever promoted the scheme, the decision to manufacture colour televisions was a disaster. And it affected more than Clairtone. The move to colour television broadcasts in late 1965 did not result in the expected massive buying of colour sets. Having "bought heavily in the fall, building up inventory to supply a surging demand that didn't develop," dealers stopped placing more orders.[49] Clairtone ended 1966 with more than $3 million worth of colour sets that nobody seemed to want.[50]

The "ill-advised and overly ambitious decision"[51] to go into colour television manufacturing, came just as the North American industry was losing sales to the emerging companies of Japan.[52] Frank Sobey's IEL, which was in position to stop the bleeding at Clairtone when it took control in August 1967, did not apply the tourniquet. Sobey later said IEL did not act "because the cabinet wouldn't let me pull the rug on them."[53]

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[47] Bruce, p.299

[48] Bickerton, p.235

[49] Hopkins, p.118

[50] Ibid, p.118

[51] Bickerton, p.235

[52] Bruce, p.299

[53] Ibid, p.299

Whatever the reasons for the failure at Clairtone, and the huge cost overruns at the heavy water plant, the episodes focused attention on IEL's method of operation. It was becoming more fashionable to criticize IEL. These criticisms seemed to carry extra weight now that the agency had invested in a couple of heavy-duty failures.

It was Frank Sobey's job to defend IEL in the face of the gathering storm. Speaking to a hearing of the Industry Committee of the legislature in March and April of 1969, Sobey held firm that despite the "recent troubles" at Clairtone, there was no reason for IEL to change the way it did business.[54] But the political landscape had changed in Nova Scotia with Robert Stanfield's move to Ottawa to take on the federal Conservative leadership. In Nova Scotia, the Liberals under Gerald Regan were on the way to deposing the Conservatives. Sobey himself would leave IEL that fall.

LACK OF AN INDUSTRIAL STRATEGY

One of the main criticisms levelled at IEL was that it lacked an industrialization strategy. The Atlantic Provinces Economic Council (APEC) claimed this policy void allowed IEL to focus on attracting big outside firms to the detriment of local industry.[55] Although IEL was empowered to promote secondary industry, APEC claimed "no one has ever refined the early guidelines to an industrial strategy". APEC felt that weakness resulted in a failure to assess the kind of industry "which could make the most beneficial contribution to the province's overall development."[56] In the absence of such a strategy, "the ideas of successive managers, ministers and boards of directors could determine its direction."[57] IEL's objectives were variously expressed in terms of increasing employment or creating jobs at minimum cost, and "only occasionally, have more thoughtful and sophisticated objectives been stated."[58]

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[54] Financial Post, June 21, 1969. p.M3

[55] APEC, p.44

[56] Ibid, p.45

[57] Bickerton, p.237

[58] George, p.8

Critics claim this weakness brought about an "ad hoc, promotion-oriented approach" to attracting business to Nova Scotia.[59] They point to press reports of chance meetings with industrialists that led to plants being established in the province. Much was made of one such meeting aboard an airplane in December 1967 between IEL general manager Robert Manuge and the wife of a French automobile manufacturing executive. The meeting eventually led to a contact with the tire maker Michelin, and the establishment of two plants in Nova Scotia.[60] (Michelin has since added a third plant.) Another story was told of a chance meeting on a Japan Airlines flight from Tokyo to Hong Kong, where Manuge was said to have "charmed Indian industrialist Govind Jolly into establishing...a $30-million hardboard manufacturing plant..."[61] APEC was unimpressed by these 'chance' meetings and concluded, "the legends of chance meetings on airplanes...are fascinating, but they do not indicate a rational approach to industrialization."[62]

Similar criticism could have been aimed at Smallwood's industrialization strategy. While there were no legends about chance meetings with wealthy industrialists in airplanes, there was near total reliance on the contacts Alfred Valdmanis made in Europe. This precluded any kind of systematic identification of industry that would be suitable for Newfoundland. Such an approach, in combination with the lack of follow-up on the various industries, was a recipe for the disaster that it became.

Both the Newfoundland program and IEL in Nova Scotia operated with a small bureaucratic staff. George wrote that this was "attributable to a deliberate policy" in the early days at IEL. The agency was of the view that "technical personnel...will be engaged as necessary." By 1968, the corporation's staff consisted of twelve people, "of whom about half were secretaries."[63] There was a feeling though, that IEL did not utilize enough outside technical help to work through the details of the various projects it was financing. APEC complained the lack of staff "limited IEL's ability to perform detailed evaluations of the proposals it receives" and that this impaired its ability to follow up applications it

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[59] Bickerton, p.237

[60] David E. Osborn. "Michelin Tires Manufacturing Co. of Canada Ltd." in Mark C. Baetz and Donald H. Thain. Canadian Cases in Business-Government Relations. (Toronto: Methuen) 1985. p.131

[61] Bruce, p.266

[62] APEC, p.46

[63] George, p.21

accepted.[64] These weaknesses, according to APEC, put "a great deal of responsibility on the board of IEL to use its business acumen to supplement staff analysis."[65] In the case of the heavy water plant at Glace Bay and concerns about whether the technology would work, IEL especially, was considered to be in over its head, given that "...few people understood the process..."[66] Even when expertise was available, IEL appeared reluctant to utilize it since "departments of the Nova Scotia civil service and other government agencies which did have some capability were never utilized because of personality clashes."[67]

The small staff allowed IEL to carry out its business with great secrecy, at least until the agency was ready to trumpet the next new industry for Nova Scotia. The chief reason for the insistence on secrecy was Frank Sobey, who "believed only fools babbled about a deal till it was in the bag."[68] But the penchant for secrecy could exact a dear price in an agency whose enabling legislation allowed directors and provincial politicians an interest in companies IEL did business with, so long as the directors abstained from taking an active part in those discussions. In the late 1960's, there were rumours IEL directors used agency funds for their own benefit.[69] Coming at the time of the Clairtone and Deuterium fiascos, the rumours served to undermine public confidence in IEL at a time when the agency dearly needed public empathy. Having tight-lipped businessmen in charge might have seemed a good idea in the early 1960's when there was lots of praise for IEL, but it seemed to be at odds later that decade when the need arose for IEL to explain its investments in Clairtone and Deuterium. This difficulty was demonstrated in Frank Sobey's answer to a question about Clairtone in 1967. "...I'm not interested in talking to any reporters who are trying to deter and hurt development in Nova Scotia", he said, "we can let the Toronto people do that."[70]

Frank Sobey left IEL in September 1969. To confront the gathering storm about IEL, and no doubt to try and remove the agency as an issue in the coming election, Premier G.I.

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[64] APEC, p.46

[65] Ibid, p.46

[66] Mathias, p.118

[67] George, p.32

[68] Bruce, p.288

[69] Ibid, p.286

[70] Ibid, p.288

Smith appointed television station owner Finlay MacDonald to the top job at IEL. The Financial Post reported "Finlay MacDonald's appointment has been seen as a victory for the agency's critics..."[71]

MacDonald seemed to be saying the right things. He acknowledged IEL could do with a more systematic approach to development - including conducting studies "on the types of industries that Nova Scotia could sustain". And MacDonald lamented that "because of the absence of research resources, IEL has been obliged to use a shot-gun approach."[72] It might have been enough of a confession to allow IEL to survive when the Liberals took over the government in October 1970. Under the Liberals, IEL's mandate was even to include "all industrial attraction activities in the province."[73] This enhanced role included small business loans in the province, an area both APEC[74] and George[75] considered to be serious oversights under IEL's original mandate.

IEL's last big projects were the Michelin tire plants at Bridgewater and Granton. The plants did not come cheap as IEL provided a $50 million low-interest loan[76] and later, a $14.3 million loan at the "current" rate. The Nova Scotia government granted money for capital works and assistance for worker training. In addition, municipalities provided land and slashed their tax rates. The federal government assisted too, with $16-million in regional development grants, tariff concessions on Michelin tires imported into Canada from aboard for three years and "quick write-offs were allowed on capital investment." George suggested that about two-thirds of the $150-million cost for the two plants would be public money.[77] During the late 1980's, Michelin expanded to three plants in Nova

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[71] Financial Post, May 2, 1970. p.A-6

[72] Ibid, p. A-6

[73] Financial Post, June 19, 1971. p.38

[74] APEC, p.46

[75] George, pp.46-47

[76] Ibid, p.92. [Michelin borrowed $50 million from IEL at an interest rate of 6 percent at a time when the Nova Scotia government was borrowing at 8.6 percent. The subsidy was even sweeter than that since IEL didn't charge its customary 1 percent for expenses. George quoted from Michelin documents claiming IEL "felt committed" to the loan in 1968 when the average borrowing rate for the Nova Scotia government was 6.05 percent.]

[77] Ibid, pp.91-92

Scotia, again with help from provincial taxpayers. The new plant at Waterville was assisted with nearly $50-million in provincial money. Michelin expected to have 4,000 employees in the province by the time that plant went into production.[78]

. . . . .

By the 1980's, IEL had become a provincial development agency more concerned with meeting the funding requirements of homegrown business than with landing large industry. And supporting homegrown business meant funding people who were short of capital, the designation of a lender of last resort Stanfield and the originators of IEL were determined to avoid. IEL's 1981 annual report underlined this new role, concluding "the financing provided to clients is often in excess of the amounts which could be available through commercial sources."[79] IEL, still however, kept a vigilant eye for new business "through various sophisticated 'industrial intelligence techniques'".[80] In the depths of the 1983 recession, no one was beating a path to IEL's door. The agency funded just 14 projects for a little over $7 million. There seemed to be little glamour that year as its efforts were mostly directed to "helping...companies stay in business, thus maintaining existing jobs."[81]

IEL loaned $250 million to businesses in its first 25 years. The agency claimed the money went to companies employing more than 11,000 people. According to IEL in the early 1980's, life had become quieter than in the early days, as it "...drifted off the front pages of the newspapers, no longer a powerful magnet for accolades or a prime target for brickbats."[82]

Several of the similarities between IEL's style of operation and the Newfoundland program have been dealt with above. The obsession with secrecy and the unwillingness in both provinces to carry out detailed assessments on projects, are obvious ones. Similarly, both IEL and the Newfoundland government were unwilling to do any kind of systematic follow-up of industries they had sponsored. This approach raises serious questions when scarce public funds are used to finance projects that are often high-risk.

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[78] Winnipeg Free Press, August 4, 1988. p.8

[79] Industrial Estates Limited, Annual Report, March 31, 1981. p.13

[80] Ibid, p.13

[81] IEL Annual Report, March 31, 1983. pp.4-5

[82] IEL Annual Report, March 31, 1982. pp.4-5

The industrial development thrust in both Nova Scotia and Newfoundland suffered from vague statements of the mission to be accomplished. The principal weakness in the case of Nova Scotia is that it left unresolved the question of responsibility for the promotion of local business. IEL funded some local businesses, but the assistance was weighted heavily in favour of outside firms by a two-to-one margin.[83] In Newfoundland, the objectives did not even seem to be as well defined as they were in Nova Scotia. Newfoundland "must develop or perish" was as detailed as the message became. The result was that a politician and his mysterious sidekick determined what industries they would attract, and then, using the surplus built during the Commission of Government period, they doled out the money to cashless industrialists, who presumably, had been players in pre-war Europe, principally Germany.

The preoccupation in Newfoundland and Nova Scotia with big industry and foreign ownership may have emanated from a belief that the long tradition of exploiting the resource sector made for a poor supply of entrepreneurship and managerial talent.[84] This factor is also assumed to have been an obstacle in the development of a Newfoundland business culture capable of taking charge of fisheries development in the first two decades of the twentieth century. Of that failure, David Alexander wrote, "the answer must surely rest in the weakness in entrepreneurship and capital supply."[85]

A question that must be put in assessing both development strategies, is the relative impact they had in their respective provinces. George determined that "...on ordinary business criteria IEL has proved a fiasco,..." But he argued, the assessment of such a program must extend past the bottom line. He judged "the province's material standard of life is higher for IEL having been born", although "there is...no indication IEL has succeeded in reducing Nova Scotia's lag in the development of its manufacturing sector."[86]

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[83] George, p.75. [Up to 1971, out of a total investment of $158.6, IEL had invested $50.5 million (32%) in Nova Scotia-owned plants; $37 million (23%) in other Canadian-owned plants; $22.8 million (14%) in American-owned firms; and $48.3 million (30%) in other foreign-owned companies.]

[84] Ibid, p.5

[85] Alexander, p.15

[86] George, p.122

An APEC study released in 1987 noted "only a slight narrowing of the gap" in manufacturing between Atlantic Canada and the national average since 1959.[87] In Nova Scotia, there has been an improvement in value-added exports. These improvements accounted for 11 percent of all exports in 1986, a strong improvement over 3 percent in 1970. Tire production at the Michelin plants represented a large part of the increase.[88] For Nova Scotia as a whole then, did the $250 million advanced to firms by IEL (to 1982), help transform it from the "province of fishermen and unemployed miners" to a modern and competitive manufacturing centre? APEC's opinion was that while "there is a little more diversity in Nova Scotia's manufacturing, fish processing and pulp and paper products still dominate."[89]

Another pertinent question centres on whether Newfoundland and Nova Scotia's development priorities were the right ones. Did the development dollars chase after the right industries to bring both employment and economic growth? In Newfoundland's case, with the exception of industries that had ties to local resources and a ready local market (eg. cement and gypsum mills), the answer is an unqualified no. In the case of Nova Scotia, the answer is not quite as simple. Certainly, the major losses in Clairtone and Deuterium raised important concerns about whether IEL used all the influence it had, in order to resolve the problems in both firms. Outside those losses however, IEL had many successes. Its philosophy of dealing with established firms removed many of the uncertainties and risks that would be present if IEL was primarily concerned with financing new companies. Established firms have reputations to protect, both with their customers and their shareholders. Newfoundland unfortunately, made little effort to link its industrial program with established firms. The preoccupation with going after German industrial expertise with no experience in the North American marketplace (a market Newfoundland would increasingly do business with after Confederation) gave all the industries a poor start. This, combined with a loan guarantee program that gave the government a de facto majority equity position without control of the company, allowed the various owners to plot their own losing strategies.

Of course, no one can guarantee the success of a business venture, whether publicly or privately funded. The best that can be done is to assess the risk that is about to be taken.

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[87] Atlantic Provinces Economic Council. Atlantic Canada Today. (Halifax: Formac Publishing Limited) 1987. p.102

[88] APEC, Atlantic Canada Today. p.180. [This statistic may illustrate to some extent George's reasoning that the bottom line cannot be taken as the only indicator of the success or failure of public investment in a given firm.]

[89] Ibid pp.100-101

Clearly, in the case of IEL, there were many deficiencies in this respect. The insistence on a small staff, while admirable as a goal, probably did the agency much harm, as the APEC report suggested. Sobey and others with IEL believed the agency's autonomy from government and bureaucratic influence would comfort the private sector. Taken too far however, such autonomy can create an air of invincibility in an organization, as it appeared to do at IEL. This situation, combined with a government only too willing to protect the agency from public and political protest, denied IEL the empathy it needed when some of its investments went bad.

IEL served a substantial public policy purpose in Nova Scotia. Private investors were not willing to come to the province in sufficient numbers under ordinary circumstances. Like Newfoundland a few years before, Nova Scotia attempted to create more favourable conditions. Could the money have been better spent doing other things? Even economists lack a crystal ball. "It is possible that, if the money had gone instead into tourism development, public works, education, health services and the like, the results would have been better still", Roy George wrote, but he confessed, "...this we do not know."[90]

For people who disapprove of using public money to promote economic development, what is the answer for small economies at the margins of large trading provinces? Is it to let the areas die a slow, or maybe a rapid, economic death? Is it to deliberately depopulate economically moribund areas in the hope that people will move to larger centres (the growth centre concept that was practiced in the Newfoundland resettlement program under the Smallwood government)? Or are there other solutions to the puzzle of economic development, with a mix of government intervention, greater use of the resource base, and an emphasis on training to take advantage of the information technology era? As the last half of the 1990's approaches, Newfoundland finds itself at another crossroads of economic development, with many of its rural areas rapidly losing population,[91] and with its government pursuing a combination of the old and new economies.

In those circumstances, underdeveloped provinces such as Newfoundland and Nova Scotia will continue to try and spur economic development. For a few years, it will be a program like the one IEL offered. A new government will come along and try a different approach.

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[90] George, p.121

[91] Community Matters: The New Regional Economic Development. [Report of the Task Force on Community Economic Development in Newfoundland and Labrador] St. John's, Newfoundland. January 1995. pp.120-157. [This report was financed by the Atlantic Canada Opportunities Agency and Enterprise Newfoundland and Labrador]

Governments will keep trying because trying fosters hope, and hope often decides elections.

Societies and political units at the margins of major centres of economic development are constantly trying to conquer the barriers to development posed by long transportation distances and small population. Unfortunately, Newfoundland's record in attempting to shake off those problems has not been a good one.

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Smallwood and Beyond

The first three industries were intended to be sold to the private sector. The proceeds from the sales would be used to finance new industries, and so on, ad infinitum. But this plan, as pragmatic as it appeared, masked a major problem that would come to haunt all the new industries - who would want to buy them? The basic problem stemmed from the lack of planning for the industrialization plan. The gypsum plant, for example, was constructed according to European production and market requirements. These requirements were below what was needed in the United States. Eventually, this problem appeared to be the main obstacle in selling the plant to the National Gypsum Company of Buffalo, New York. The question must be asked, of what use were European design standards and production requirements for a mill whose main market was Newfoundland, eastern Canada (including Quebec and Ontario), and the eastern seaboard of the United States? Similarly, poor planning added to the capital costs of another of the industries - Newfoundland Hardboard. Failure to anticipate the high moisture content of the Newfoundland birch to be used in the operation, prompted the company to go back to the government for additional funds to set up wood dryers on the premises. One of the industries that came later - the machinery plant at Octagon - also fell victim to lack of planning, or perhaps, the mistaken value of a wink and a nod from some federal politician. At any rate, management at the plant, and indeed, the government itself, believed CMIC would benefit from national defense orders. When these orders did not materialize, the plant became in Horwood's words, "just a fairly large machine shop."[1] Other plants encountered a litany of problems, from their inability to understand market forces (as was the case with Eckhardt Knitting Mills, the chocolate factory, the glove factory, and the battery plant) to poor quality (the rubber plant had the dubious distinction of being the leader in this category). No matter what specific problems the firms faced, they all stemmed from a failure to plan.

In addition to the failure to plan, the industrialization program was hampered by Smallwood's bias toward the standard North American development model, where resources are brought to a central location and manufactured into a saleable product. The Royal Commission on Employment and Unemployment referred to this in the mid-1980's as "the mainland model with its urban-industrial thrust."[2] Smallwood's bias was inherent in the mistaken belief that location and other comparative advantage factors can somehow be overcome in the competitive marketplace. Such a bias meant scarce financial resources

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[1] Horwood, p.181

[2] Royal Commission Report, Chapter 2, p.46

were wasted on industries with little chance of survival, while an indigenous industry - the fishery - was largely ignored. This state of affairs was summarized by the-then Conservative Premier, Brian Peckford, in 1983.

> There was no mention whatsoever of the fishery. One industry piled up on top of another was somehow to bring prosperity. The fishery survived in spite of us, not because of us.[3]

Smallwood and his government failed to appreciate the new reality under federalism. Tariff walls that had previously protected Newfoundland's manufacturing sector and its 4,000 jobs were removed at the instant of Confederation. This dramatically changed the competitive position of all Newfoundland industries. Indeed, it caused many to fail. In such an environment, it was foolhardy to finance economic development to compete with already established mainland firms without a proper market assessment.

Federalism also meant freight subsidies that made it cheaper to both export and import goods. This was something mainland firms were able to take advantage of, and as a result, lower the cost of exporting to the Newfoundland market.

Smallwood and Valdmanis could not be accused of of proceeding cautiously. They personally invited industrialists to come to Newfoundland and made deals on the basis of a handshake, rather than rigourous research and analysis. It seemed that if both men liked an idea and were persuaded that the industrialists behind it had good credentials, a deal was signed. There is no evidence that market surveys were required prior to the signing of any deal, or that there was a necessity for anything approaching a proper business plan. The business concept and the plant machinery were all that was required to get the government money flowing. Even in cases where industrialists lacked the required machinery to constitute their equity in a given project, the government was prepared to recognize "know-how" as meeting the equity requirements. Once the plant went into operation, the government appeared to lack either the expertise or the incentive - perhaps both - to oversee operations that would eventually consume $26 million without returning a cent to the treasury. It is little wonder in those circumstances, that most of the industries failed. As a result of those failures, Newfoundland lost out on several counts - the loss of the major part of its pre-Confederation cash surplus; the lost time pursuing industry while virtually losing sight of its most important renewable industry, the fishery; and the serious lack of attention toward assisting an indigenous crop of entrepreneurs.

NEWFOUNDLAND AND DEVELOPMENT: THE BIG PICTURE

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[3] Brian A. Peckford. The Past in the Present [A Personal Perspective on Newfoundland's Future] (St. John's: Harry Cuff Publications Limited) 1983 p.55

Newfoundland is not alone in terms of the problems it has encountered in search of economic development. There are examples from around the world, extending from Canada itself to sub-Saharan Africa to Finland. A study on Finland for example, shows the two northernmost provinces were the poorest and were the most reliant on primary sector industries; they had the lowest birthrate, and their level of unemployment grew most rapidly.[4] The northern-most provinces also had the highest out-migration rates.

There has also been a great deal of work done in the Caribbean, where major changes in policies and institutions, along with a move toward regional institutions have been suggested as ways to help reduce the region's level of economic dependence.[5] Similarly, the impoverished states of sub-Saharan Africa have been urged to co-operate more on a regional basis to foster economic development; the elite have been advised to give up their profligate lifestyles and spend more of their money at home; national leaders have been told to abandon their national airlines and national fertilizer plants and "learn to make do with regional airlines and regional fertilizer plants."[6]

The problems of underdevelopment and uneven development have been the subject of much intense study. Two main theoretical frameworks have emerged to explain development issues - a dependency perspective, which examines the relationships of various aspects of production, including class, the role of elites, capital accumulation, and exploitation; and the orthodox economic or market analysis approach, which views the market as a self-regulating mechanism, to which all other aspects of the economic system must adhere.

Looked at through orthodox economic eyes, Newfoundland would certainly have been seen to be lacking. The province is a long way from major markets and it is sparsely populated. It is a resource-dependent economy, showing few of the signs of evolving to a more developed one. The dependency perspective, on the other hand, defines the development problem as a relational one. Who controls development in a region? Is the

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[4] Britta Koshiaho. "Regional Development, the Case of Finland", pp.348-354, in Anton Kuklinski, Olli Kultalahti and Britta Koshiaho (eds.) Regional Dynamics and Socioeconomic Change (Tempere, Finland: Finnpublishers) 1979

[5] William G. Demas. "Economic Independence: Conceptual and Policy Issues in the Commonwealth Caribbean", pp. 202-204, in Percy Selwyn (ed.) Development Policy in Small Countries (London: Croom Helm Ltd.) 1975

[6] Robert S. Browne. "Africa: Time for a New Development Strategy", pp.407-408, in Michael T. Martin and Terry R. Kandal, Studies of Development and Change in the Modern World (New York: Oxford University Press) 1989

driving force imported capital, or indigenous capital? Are profits kept in the local economy or exported? Out of this approach has developed the concept of dependency theory, which accuses capital of being both centralist and exploitive. Some of the major works on Newfoundland political economy have been from a dependency point of view.

Summers (1993), Antler (1979), Alexander (1973) and Matthews (1983) have studied the Newfoundland problem through the critical lens of dependency theory. The term 'critical lens' is used because dependency theory implies a "turning upside down" of economic analysis, in an effort to understand the underlying factors that affect economic development. This approach differs from orthodox economic theory, such as that advanced by Courchene. He argues regional disparities are exacerbated by government interference (transfers, unemployment insurance, minimum wage laws). Courchene sees an entenchment of regional dispariries under this scenario "where provinces and regions alike are made more dependent on the system of transfers."[7] Implicit in Courchene's thesis is the belief that the market, left to its own devices, can equalize economic growth and benefits. Brewis, similarly, placed great faith in the market. Although he recognized the problems of low- or slow-growth areas, he recommended national government policies as solutions, rather than changes to the structure of the economic system itself.[8] Such an approach however, may not take into account all the factors that contribute to underdevelopment, and as a result, this can lead to sweeping generalizations about the reasons for underdevelopment, and consequently, it can result in the wrong solutions being applied.

Many of the dependency theorists who have written about Newfoundland have a deep understanding of its history of economic development. Summers argues the roots of underdevelopment reside in the early part of the nineteenth century. She argues local development was stymied for several reasons - the absence of capital for investment; a weak investment banking sector which impeded economic diversification; and the existence of the colonial state which "was strongly representative of English mercantile interests", and thereby opposed to diversification of Newfoundland's economy away from the fishery.[9] Summers further claims that during efforts to diversify the economy after the

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[7] Courchene, Thomas J. "Analytical perspectives on the Canadian economic union", in Trebilcock, M.J., et al. Federalism and the Canadian Economic Union. (Toronto: University of Toronto Press) 1983. p.93

[8] T.N. Brewis. Regional Economic Policies in Canada (Toronto: Macmillan) 1969 p.242

[9] Valerie Summers. Regime Change in a Resource Economy: The Politics of Underdevelopment in Newfoundland (1825-1993) Manuscript. (St. John's) 1993 p.40

turn of the twentieth century, mining interests exploited the local dependence on the industry, and exacted substantial concessions, with serious implications for policy modification and regime change.[10]

Alexander added greatly to this line of inquiry. However, rather than opting for the classic dependency approach and its bias against so-called 'exploitive' outside interests, Alexander focused on the local mercantile elite in the early twentieth century. He lamented the lack of attention given to fisheries development, which he believed "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."[11] Alexander pointed to the "inability or unwillingness of its elite to mobilize the country to manoeuvre more effectively."[12] He argued that Confederation, instead of providing new impetus for Newfoundland economic development, confined the province to the traditional role of a peripheral province.[13]

Doug House argued effectively that Newfoundland has been hampered in the post-Confederation period by large, outside interests, beginning in the central Canadian boardrooms of the major mining and pulp and paper companies, extending to the Canadian banks and Wall Street financiers, and into the key federal government departments of Fisheries and Oceans and Mines and Energy.[14] House appeared to adopt Alexander's argument that Newfoundland's dependence is at least partially the result "of its own mistakes in the past";[15] the rest he attributes to "the centralist logic of the international expansion of a market economy..."[16]

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[10] Summers, pp.61-71

[11] David Alexander. "Development and Dependence in Newfoundland 1880-1970", in Acadiensis. Vol.4, No.1. Autumn 1974. p. 13

[12] Ibid, p.6

[13] Ibid, p.24

[14] Doug House. "The Mouse that Roars: New Directions in Canadian Political Economy", p.177, in Brym, Robert J. (ed.) Regionalism in Canada (Toronto: Irwin Publishing Inc.) 1986

[15] Ibid, pp. 177

[16] Ibid, p.178

The story of Newfoundland underdevelopment is a complex one, woven into the fabric of its time as colony, country, and now, province of Canada. It is a story rife with exploitation, from its early days as a fishing station for English merchants, to its present status as exporter of minerals, paper, and fish, and as a half-million plus captive market for Canadian consumer goods.

Dependency theory is a good starting point for the study of the Newfoundland economy, as it dares look beyond the traditional quantifiable economic indicators such as gross domestic product, income level, and the sectoral distribution of industry, to factors such as the ownership of capital. The market approach to analyzing economic underdevelopment also plays a key role, as it quantifies key aspects of economic development, thereby allowing comparisons with other areas and regions.

But theoretical approaches fail to take account of the impact of the political environment. This is an especially important point in discussing the industrialization program that Smallwood undertook in the early 1950's. Smallwood developed a program without well-articulated goals. There was no transparency to the process as far as public oversight was concerned. Industries were negotiated, deals signed, and practically open-ended finances committed.

POLITICS AND DEVELOPMENT PLANS

Smallwood's industrialization program is one of five distinct development stages in the post-Confederation era. Two of those plans were evident during Smallwood's 23 years in office. The industrialization program was the first, and it has been discussed above. The second attempt lasted from the late 1950's to Smallwood's departure from power in 1972. The focus during this period was on megaprojects - both in the natural resource field and in large-scale industrial development.

The iron ore mines at Labrador City [1962) and Wabush [1964] were major resource developments, as was the Churchill Falls power development [late 1960's]. The mines became large employers, necessitating the construction of two large towns in the western Labrador frontier. The Churchill Falls development became the largest construction project in Newfoundland's history, providing employment for thousands of people. There were two other major power developments under Smallwood's tenure, the Bay d'Espoir project [1967] and Holyrood [1970]. Development of the mines in Labrador required massive amounts of capital, as did the Churchill Falls power project. Capital for the mines was provided by the big steel producers, who were anxious to obtain ore for their furnaces in central Canada and the northeastern United States. Financing for Churchill Falls came from an international consortium, and was secured by a long-term, low-rate contract with Hydro Quebec. Newfoundland got the construction jobs, but it is Quebec that continues to enjoy the substantial financial benefits of the contract, estimated by Brian Peckford in 1983 at $2 billion since the power was turned on in 1972.[17] Similarly, with the mines, Newfoundland benefitted from the jobs, but the mining companies paid little in taxes, $16.63 million from 1970 to 1975. Only with new legislation in 1975, did royalties increase to about $12 million a year.[18]

The major industrial enterprises that began under this chapter of economic development were induced not by the kind of concessions Smallwood offered the mining companies, nor the low guaranteed rate for Labrador power, but by substantial subsidies. Federal subsidies on shipbuilding, and subsequent Newfoundland contributions to cover annual deficits allowed the Marystown Shipyard [1966] to get started. The attractive point for Smallwood was the 50-percent subsidy for Canadian-built, steel-hulled fishing vessels over 33 metres.[19] Faced with years of losses, the yard was given a final chance with a promise of new leadership in late 1994.[20] Smallwood attracted the United Kingdom giant, Albright and Wilson, to build a phosphorous reduction plant at Long Harbour [1967]. At one-third the cost of power in the United Kingdom, it was an offer the company could not refuse.[21] The rate was so attractive, concluded Brian Peckford in 1983, "that the Government could have closed the plant permanently, paid each employee $20,000 per year, and still have been money in."[22] Peckford's government renegotiated the power rate to a more "realistic" level. In the late 1980's, Albright and Wilson closed the plant. Smallwood gave a major push to the start of the oil refinery at Come by Chance. In the year he announced the start of the Long Harbour project, Smallwood told the legislature the province would float a $30 million issue to begin construction of the refinery. The refinery eventually became the biggest bankruptcy in Canadian history.

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[17] Peckford, p. 58

[18] Ibid, pp.56-57

[19] Brian Bursey. A Half Century of Progress? [A History of Economic Growth and Development in Newfoundland During the Modern Period, 1930-1980]

[20] Statement from Premier Clyde Wells, Executive Council, St. John's. October 24, 1994

[21] Bursey, p.421

[22] Peckford, p.66

The establishment of these industries happened as Smallwood promoted the resettlement of people from rural areas into so-called "growth centres". He also directed substantial resources toward infrastructure development - roads, schools, Memorial University, hospitals - to make the province "conducive to economic development."[23]

The third distinct development period began under Smallwood's successor, Conservative Frank Moores. There was a two-way emphasis on natural resources - renegotiating various resource deals completed under Smallwood, including revising the royalty structure with mining companies and a decision to buy back the shares of British Newfoundland Corporation (BRINCO). BRINCO had been given crown land and water rights concessions in 1953, including eventually, the water rights of Hamilton River Falls, later to be renamed by Smallwood as Churchill Falls. The second part of the Moores approach to natural resources was in planning for offshore oil and gas development and for growth of fisheries infrastructure, in order to take advantage of the declaration of the 200-mile limit in 1977. The 200-mile limit gave Canada an exclusive role in managing fish resources within the new economic zone, and right of first access to major fish resources such as northern cod.

Lacking any constitutional role in the allocation and management of fish stocks, the Moores government entered an expansionist mode. A position paper titled "Fish is the Future", published in late 1978, contemplated a half billion dollars in spending by the provincial government and private sector in the six years leading up to 1984.[24] The centrepiece of the plan was to be a superport at Harbour Grace, where 76,000 tonnes of groundfish would be landed and "distributed to plants experiencing off-season fish shortages."[25] The plan was an ambitious one, aimed at renewing old infrastructure and creating new facilities, such as vessels and plants.

Moores left political life a few months after the plan was announced. His Mines and Energy Minister, Brian Peckford, won the party leadership in March 1979 and three months later, obtained a new mandate from the electorate. In many ways, Peckford's approach to development was a continuation of the approach that emerged during the Moores years. However, Peckford's personal investment in an integrated resource development policy demands that his tenure be regarded as a fourth distinct development approach.

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[23] Bursey, p.397

[24] Notes for Speech delivered by the Honourable Walter Carter, Minister of Fisheries, at a Fisheries Seminar, November 13, 1978. p.6

[25] Ibid, pp. 12-13

Peckford's approach was summed up by the words "never again", a reference to the perceived giveaway of Churchill Falls hydro and the terms under which other resources were allowed to be developed.[26] The goal was not state ownership of natural resources, but rather a channelling of effort to ensure that resources would be developed in such a way as to "raise the rates of growth in investment, employment and income to a level which will permit Newfoundland to narrow the gap that now exists between the Province and other parts of Canada."[27]

Peckford's resource development policies were centred on fisheries, hydro and offshore oil and gas development. It was an extremely high-risk strategy, since it presumed a major power shift in the Canadian state - including the eventual entrenchment of provincial management rights in fisheries in the Constitution;[28] a favourable Supreme Court decision giving ownership of offshore oil and gas to Newfoundland; and intervention from the federal government to facilitate construction of a hydro power through Quebec. The government saw corrective action on all three fronts as imperative precursors to improving the provincial economy. It stated, "the relatively undeveloped state of the goods producing sector can be attributed to the lack of manufacturing industries linked to the Province's resource base."[29]

The pursuit of these issues led to a tumultuous period in the relationship between Newfoundland and Ottawa. In the end, Newfoundland got no say over fisheries management and no power corridor through Quebec. Peckford was however, able to persuade the Mulroney Conservative government to agree to an administrative arrangement (the Atlantic Accord) on offshore oil and gas, thereby allowing the province some say over the pace of development and allowing it to choose the mode of development, a right that contributed significantly to the decision by the Hibernia consortium to construct a labour-intensive concrete production system for that oil field. Peckford regarded offshore development as "Newfoundland's last chance to become a viable society",[30] since substantial revenues from it would relieve "our debt load and

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[26] Government of Newfoundland and Labrador. Managing All Our Resources (A Development Plan for Newfoundland and Labrador) St. John's. October 1980. p.2

[27] Ibid, p.27

[28] Ibid, p.57

[29] Ibid, p.11

[30] Peckford, p.95

heavy taxation burden so that we can have a chance to build a long term economy based on fishing and forestry."[31]

Peckford left office just as major groundfish resources were entering a period of serious decline, before the Hibernia development had begun, and with no resolution to discussions on joint Labrador hydro development with Quebec (the strategy that replaced a frontal attack on the Upper Churchill 'giveaway' deal after Newfoundland's Water Rights Reversion Act was declared unconstitutional in 1984.)

Federal transfer payments, both to individuals and to the government, have been a major contributor to the province in the post-Confederation period. With the federal debt increasing substantially year over year however, Ottawa began to cut back on its expenditures in the late 1980's and into the 1990's. This approach to control federal finances impacted negatively on Newfoundland's position, with the result that provincial budgets have been under serious pressure during this period. This general situation was exacerbated by the near-total groundfish failure in the early 1990's and the retrenchment of other important natural resource industries such as mining and forestry.

Peckford's departure from politics signalled the end of thirty years of increase in both the size and scope of provincial government activity in Newfoundland. The Wells' Liberal government that succeeded the Peckford administration distanced itself from the previous interventionist approach to economic policy-making. The Liberals were philosphically inclined toward privatization of many segments of government activity (albeit, with limited success to mid-1995). They saw their role as setting the stage for private sector investment. This was evidenced in the production of the Strategic Economic Plan, which identified obstacles to business development in Newfoundland. The Plan was also prescriptive; one of its major immediate consequences was a package of tax incentives to attract new business to the province. A further move was the decision to consolidate a plethora of government regulatory regimes into a single "one-stop shopping" agency for permits, licenses, fees, and approvals. Government itself was downsized under the Wells' Liberals, although likely more as a response to budget shortfalls, rather than any philosophical inclination to reduce public sector employment.

The Liberal government of Clyde Wells was elected in May 1989, partly on a promise to help diversify the resource-dominated Newfoundland economy. This approach represented the fifth and most recent attempt to solve an old riddle - cracking the underdevelopment problem in Newfoundland. The Liberals' tax incentive and tax forgiveness law was enacted in December 1994. The government pays a $2000 grant to companies for each permanent job created in industries that do not compete with firms

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[31] Ibid, p.104

already established in Newfoundland.[32] The government referred to its initiative as "bold", and stated "we must attract new investment capital and innovative industrial activity through an aggressive world-wide business prospecting and promotional initiative."[33]

CONCLUSION

Newfoundland is nearing a half-century of life inside Canada, yet the vexing problems of high unemployment and low economic growth remain. Out-migration has been a constant fact of life. The only variable is the destination - in the 1950's and 1960's, it was Ontario. From the mid-1970's to the present, the destination of choice has been Alberta and British Columbia. The resolution of Newfoundland's serious economic problems preoccupies the present crop of political leadership as it did previous governments.

It could be argued that Smallwood's industrialization program, while unquestionably an overall, expensive failure, did less harm to the province than his subsequent resource development efforts with the heavy emphasis on concessions. Indeed, much of the effort in the post-Smallwood era, especially by Moores and Peckford, represented an attempt to undo some of Smallwood's resource deals. [The nationalization of Brinco; revision of the mineral tax regime; renegotiation of the power subsidy for ERCO; and the futile effort to get a more favourable deal on the Upper Churchill power contract are all examples.]

The most glaring gap in the province's ability to chart its own economic course is in the area of fisheries jurisdiction. Fisheries management became a federal responsibility at Confederation, and while it is not possible to prove Newfoundland could have done better at managing the fishery, it is clear Ottawa jealously guarded its exclusive constitutional role in this area to the virtual exclusion of a meaningful advisory role for Newfoundland. Perhaps this was inevitable, given Nova Scotia's large stake in Atlantic fisheries, and its influence in regional politics. This state of affairs however, ignored the economic reality

[32] Government of Newfoundland and Labrador. Attracting New Business Investment (A White Paper on Proposed New Legislation to Promote Economic Diversification and Growth Enterprises in the Province) June 1994. p.iii [The White Paper was passed into law in December 1994. The tax incentives and tax forgiveness aspects of the White Paper remained intact. The minimum investment and sales levels required to qualify for the program were lowered after complaints that the legislation would preclude many local investors from taking part in the program. As well, a controversial section that contemplated imposing collective agreements where trade unions and employers were unable to reach agreement, was removed.]

[33] Ibid, p.iii

in Newfoundland, where hundreds of small communities and a sizeable part of the labour force were entirely dependent on the fishery. Ottawa rebuffed successive attempts by Peckford, and later, by Wells, for the province to play a meaningful role in fisheries management. By the early 1990's, the valuable groundfishery was devastated, and the hundreds of dependent Newfoundland communities faced an uncertain future.

Perhaps the question of Newfoundland development needs to be redefined, not in terms of what the province can do to spur development, but rather, given the constraints that impact development in Newfoundland, are the often-stated goals of reaching various indicators of economic growth even possible? This, admittedly, is another topic, but it raises significant questions about the expectations of people who belong to a first-world country, but whose provincial economy performs only marginally better than a third world one.

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