A Historical Institutional Perspective on Public Policy and Employment Insurance in Rural Newfoundland

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Abstract

Why does Employment Insurance play such a dominant role in rural Newfoundland communities? This article gives readers a brief overview of the history of public policy making in rural Newfoundland and Labrador and how it has contributed to the dependence of E.I. It looks at the Smallwood Era of development, a history of the fishery with regards to E.I development, and a brief overview of the failed decentralized decision making model for rural Newfoundland and Labrador during the 1990s. Using Historical Institutionalism the article shows how the evolution of the institution of employment insurance and how it transformed to become an income supplement program instead of its original purpose of an employment insurance program.

This essay will use historical institutionalism to analyze the development of public policy in rural Newfoundland over the last sixty years. Through the development of institutions such as Employment Insurance, “make-work” projects, and various expansion mechanisms used for the fishery, the Governments of Canada and Newfoundland and Labrador have created an informal structure of social behaviour that has prevented the development of rural communities by constricting their own public policy-making abilities. This pattern of social behaviour has developed over decades and has become entrenched in the family, culture, business, and politics of rural Newfoundland. This paper will examine the first major attempt at developing rural Newfoundland in the Smallwood era and present the context of which the Employment Insurance Program was offered. It will then proceed with the development and transformations of the institution of Employment Insurance coupled with the expansion and contraction of the fishery. It will then look at the pattern of decentralizing public policy decision-making with regards to economic development in the 1990s and how these policies have been impeded by the current informal structure of rural Newfoundland. Finally, this paper will look at ‘Romanticism’ in rural Newfoundland and how it has impeded public policy-making. It will show the trend of dependency and how over time this trend has become more difficult to break as it further becomes entrenched in rural Newfoundland.

The Smallwood Era of Development

On April 1st 1949 Newfoundland joined into confederation with Canada. At that time Newfoundland’s population was concentrated in St. John’s with hundreds of isolated fishing communities scattered along the entire coastline of the province. Joey Smallwood was Newfoundland’s first premier. His immediate goal for the new Canadian province was economic development and he planned to do this by industrializing Newfoundland (Summers, 1992:14). Smallwood had grand policy ideas to industrialize Newfoundland through the exploitation of its
vast natural resources. The intent of these mega-projects was to diversify the economy and take the reliance off the fishery while providing thousands of jobs for Newfoundlanders and Labradorians. These mega-projects included a linerboard factory in Stephenville, a Pulp and Paper Mill, oil refinery, and chemical plant in Come By Chance, and the development of a hydro-electric plant on the Upper Churchill River in Labrador. These projects cost the province hundreds of millions of dollars with minimum benefits to the province in terms of long term jobs and profits for government coffers (Crosbie, 1997: 126). These projects failed to industrialize Newfoundland for a number of reasons. Former Federal Fisheries Minister John Crosbie testifies that these four projects had a number of things in common: one, they were driven by Joey Smallwood’s personal ambitions; two, he negotiated the deals himself; and three, he conducted these negotiations while pursuing his own financial needs (1997: 110-11). Smallwood’s ability to do all of these things is an indication of a failed institution. The policy-making process was undermined by Smallwood’s rational self-interest that did not allow for careful analyzing or input from others on these multi-million dollar deals. Joey Smallwood could not have objectively negotiated a fair deal for lower Churchill as he was “speculating in Brinco stock”: the company that would develop the hydro-electric resource (Crosbie, 1997: 133).

A major problem that underlined all of Smallwood’s mega-projects was the lack of skilled labour force in rural Newfoundland. Newfoundland’s rural labour force consisted of a huge class of unspecialized individuals. Generally, Newfoundlanders in rural areas were not specialized in any field. This problem has persisted throughout the entire 20th century and was given the name “occupational pluralism” by Alton Howlett in the government’s Royal Commission on Employment and Unemployment in 1986 (May et al., 1986: 22). “Occupational pluralism” is where workers have experience and knowledge in many different areas but do not specialize or have formal education in any single field. This lack of specialization reduced job opportunities for rural Newfoundlanders to unskilled and lower paid positions in many of these projects (Summers, 1992: 15). It also created a lack of knowledge which is crucially needed for mega projects of this kind. Because of these conditions and Smallwood’s ambitions of industrializing Newfoundland overnight, mega-projects were able to be developed and financed by foreign firms - with generous financial support from government - who had everything to gain and nothing to lose by exploiting the province’s resources. In the end this resulted in minimal benefits for rural Newfoundland and few long term jobs.

Smallwood’s dream of industrialization failed miserably. However, there were policies that Smallwood implemented that benefited rural Newfoundland. Through investments in provincial infrastructure such as roads, schools, and hospitals the rural population of Newfoundland was becoming healthier and better educated. During Smallwood’s reign, the government of Newfoundland and Labrador changed drastically. It had been transformed from an “isolated rural economy into a more industrial and service-based economy” (Summers, 1992: 19). One of the most controversial and talked about public policies in Smallwood’s era was that of “resettlement.” This public policy has an enormous amount of social and historical literature that continues to have a presence in Newfoundland today. This literature has romanticized the idea of rural Newfoundland and has created problems for policy makers in all departments. The initial program was created in 1953 under the Newfoundland Centralization Program (Rose,
Smallwood believed that the government could not afford to provide services to the hundreds of remote outports in Newfoundland (Summers, 1992: 16). This very simple public policy direction is crucial to understanding the politics of public policies designed for economic development in rural Newfoundland. Initially, this program was very popular and the cost of relocating was paid for by the Department of Public Welfare in cases where an entire community agreed to relocate (Rose, 2007: 424). The idea and premise surrounding this policy was a crucial step towards developing and diversifying the economy outside the Avalon. Government realized that economic development was difficult in remote sparsely populated communities along the coast. They wanted to relocate these communities to centralized locations where they could afford to provide services that they could otherwise never provide along the coast. In 1965 another program was created where families could apply for grants to move into designated growth centers and in 1970 an additional provincial-federal shared program was created to encourage resettlement. From 1965-1975 there were 20,656 people moved from outport Newfoundland (Rose, 2007: 424). However, the amount of people relocated during this era had little effect on the challenging demographics of Newfoundland.

The policy goal of ‘resettlement’ was to relocate people from outport communities to larger regional centers where government could afford to provide services. One of the obstacles that challenged the centralizing of Newfoundland’s widely dispersed population was the “Baby Bonus” that continued the baby boom of World War II well into the 1960’s (Mathews, 1993: 205). This meant that the resettlement programs did little to change the amount of outport communities in the province. The baby boom increased the number of young people in the province and contributed to unemployment problems. By 1966, over 51% of the population was under nineteen years of age (Mathews, 1993: 207). The influx of this under-19 age group into the labour force caused a significant increase in the demand for jobs in the province. Within a twenty year period from 1970-1990 the government predicted it would have to create 80,000 jobs as well as find jobs for the current unemployed and seasonal workers (Mathews, 1993: 208). The small proportion of people that were relocated with the resettlement programs did little to change the economic picture in rural Newfoundland because of the massive demand of job-seekers entering the workforce during the period of 1970-1990. Consequently, the people resettled found that they were worse off and the promise of new jobs in larger centers was not a reality because of the amount of people entering the labour force. They had left their only way of living in the hope of a better future in urban centers only to find out that their employment opportunities were limited. By 1975 the idea of “resettlement” had been abandoned and had become “politically distasteful” (Rose, 2007: 424). The “romanticism” of rural Newfoundland had begun. People in rural Newfoundland were discouraged by the time Smallwood’s grand industrialization schemes had failed and they saw no advantage of moving to urban areas. The “romanticism” of outport Newfoundland was growing but this movement would have passed if only the Employment Insurance Program had not enabled people to survive in communities that would have otherwise died.
The Institution of Employment Insurance

The Employment Insurance Program is implemented by the Federal Government of Canada and is the single most important policy in terms of understanding the problems that face rural Newfoundland today. This program shaped decades of Newfoundland public policy in rural areas, it created an extreme dependency on social programs, and it shaped the way rural economies are developed. The shaping of rural economies began in 1957 when MP Jack Pickergsill for Bonavista-Twillingate was successful in amending the Employment Insurance Act to allow self-employed fishermen to claim Employment Insurance (EI) (Rose, 2007: 433). This institution was created at the beginning of the ‘Romanticism’ movement where rural residents would eventually believe that it is their right to live and work in the community where they were born. This idea was only reinforced by politicians who promised to fight for their constituents and to never let any communities die. The atmosphere into which this institution was introduced created a path dependence where the program was shaped and used as an income supplement rather than an income insurance program. Within five years of amending the act the amount of fishermen in Newfoundland and Labrador rose by over 25% (Rose, 2007: 433). In 1971 the Employment Insurance Act went under another reform that increased the maximum insurable earnings and decreased the amount of weeks a claimant needed to apply for E.I which only further increased the amount of fishers in the industry (May et al., 1995: 3). The decision to amend the Employment Insurance Act is a critical juncture point in the history of Newfoundland. No one at the time could imagine the enormous consequences of this amendment and its far reaching effects on the economy of rural Newfoundland. At the time this decision was seen as a way to improve the lives of fishermen in the province. However, in the long term it has resulted in disastrous consequences on both the fishing industry and the livelihoods of thousands of people in rural communities.

Employment Insurance was meant to be a program that eased the transition between jobs when persons found themselves out of work. However, the history of the institution has morphed into an income supplement program and helped make possible increased participation in the fishery. From its initial introduction in 1957 the program acted as more than an insurance program for the unemployed. Fishermen paid in $4.6 million while they received $49.9 million in payments in the first five years (Rose, 2007: 433). In the beginning of the program fishermen needed 15 hours of work a week for 10 weeks or $92 a week for ten weeks to claim E.I (Hanrahan, 1993: 256). While an individual was on E.I they could look for employment but if successful, their wages could only reach 25% of their E.I cheque or their benefits would be cut (Hanrahan, 1993: 256). This created a disincentive to work. Even if there was no work they had to prove they were looking for employment. Maura Hanrahan argues this is a very difficult task for claimants who live in rural communities where there may only be a couple of businesses besides the fishery in their area (1993: 258).

During the 1970s, there were two main transformations of Employment Insurance which significantly increased capacity in the fishing industry. In 1971 the first major change to E.I was implemented. In the two previous years 30 weeks combined was needed to qualify for E.I and with the changes only eight weeks was needed in one year. The maximum insurable earnings
also increased from $53 to $100 per week (May et al., 1995: 3). The second reform was in 1978 when the federal government raised the number of weeks that were needed for a claim from eight to ten weeks and relaxed many barriers that prevented people from making a claim. In areas where the unemployment rate was highest such as in rural Newfoundland it was made easier to get E.I rather than in urban places where the unemployment rate was much lower (May et al., 1995: 4).

Douglas May states that through the three benefit periods that were established for claimants, workers could work for ten weeks and receive E.I benefits for 42 weeks (1995: 4). Not only would workers in regions that have a higher unemployment rate have to work less to qualify, but they would also get a higher percentage of their earnings during their 42 week benefit period. The E.I program was not designed for rural communities in Newfoundland, it was designed for people in urban centers who lost their job and needed assistance while they searched for another employment opportunity (Hanrahan, 1993, 258). These changes in the E.I system made it easier for people to enter the fishing business because they knew there was a safety net for them. This safety net created the idea of ‘moral hazard’ in the industry where fishermen knew they could depend on E.I if their catches were low or if the fishing season was cut short. The Employment Insurance Institution did not provide choices for rural residents that would help achieve the policy’s goals. Instead, it presented choices to actors who rationally chose to work fewer weeks in return for longer periods of income assistance. The rules of this institution shaped the behaviour of people in rural communities. It presented choices to people who acted in their own rational self-interest by fully exploiting its flaws. These flaws are what increased capacity in the fishing industry and supported rural communities who were uneconomically viable.

From the beginning this institution was formed, it created a disincentive to work longer periods of time. In 1957, inshore fisherman received their stamps (weeks of work counted toward their claim) by the value of fish they caught each week. After receiving ten weeks of work many fishermen would tie up because it was nearing the end of the season and catches were getting smaller. The rules of this program state that if a person works between ten and fourteen weeks the claim is based on the average of the last ten weeks of work (Hanrahan, 1993: 259). If 15 weeks or more was worked it is based one’s ten best weeks. Therefore, as catches decrease nearing the end of the season a fisherman would have to risk working longer and also risk not reaching 15 weeks of work (Hanrahan, 1993: 259). This would mean averaging their last ten weeks where the final weeks would be significantly lower in value (since catches decrease as the season grows), decreasing their average earnings per week; also decreasing their claim for E.I. Therefore, it seems irrational for a fisherman to work more than ten weeks. It is very unlikely that catches in any of weeks, 11,12,13,14 or 15 would be significantly larger than those in their first ten weeks of fishing enough to increase their average earnings over a top-ten average. Also, the risk of not making 15 weeks means the last few weeks of lower value landings can decrease the last ten week average, significantly lowering the E.I claim.

When the possible policy outcomes of this program are defined and then analyzed, it is clear what any rational self-interested actor would choose – to stop fishing after ten weeks. Dr. Noel Roy of Memorial University in The Impact of Social Insurance on the Length of the Fishing
Season created a formula based on the E.I conditions of the early 1980s where he showed both incentives and disincentives at various points throughout the fishing season for a fisherman to continue working or go on E.I. He states that in Stage 1 if a fisherman does not have ten weeks of work there is an incentive to work longer so that they can get an E.I claim (Roy, 1996, 7). In Stage 2, the number of benefit weeks worked, in addition to the minimum ten weeks, results in an increase in the number of insured weeks, which is also an incentive to work longer. However, in Stage 3, the maximum number of benefit weeks a fisherman can earn has been reached and the fisherman is nearing the end of the fishing season. Stage 4 is the beginning of the off-season – 15 plus weeks - where every week a fisherman continues to work is one less week he cannot claim on his E.I (1996: 7). In Stage 3 and Stage 4 there is a disincentive to work.

The E.I program persuaded fishing families to work for only short periods of time. This meant fish plants only had a limited amount of time where they would receive raw material for processing. This was the beginning of a vicious cycle that prevented the natural outmigration of people to more prosperous areas of the province and the country. It allowed the number of fisherpeople and plant workers to stay at high levels and prevented the natural concentration of people, resources, and quotas in the fishing industry that would have increased efficiency and competitiveness. Because of the E.I program, fishermen were working less and plants were open for shorter periods of time. This meant more and more people were going on E.I. The program was easily accessible and for out of work people in rural communities it was their best option for a livelihood.

This trend towards the fishery can be seen in a number of statistics during the 1960-1980s. Within the first 15 years that the E.I program came into effect the number of people in the fishing industry doubled and the number of plant workers tripled (Crosbie, 1997: 385). During 1976-1981 the number of inshore vessels doubled from 14,000 to 34,000 (Shrank, 2005: 408). Also, from 1977-1981 the number of fish plants increased by 53% (Rose, 2007: 434). At this time the federal government had extended Canada’s fisheries jurisdiction to the current 200 mile limit and the outlook of the fishery was promising. The provincial government invested in fish plants on every coast and peninsula on the island (Rose, 2007: 434). It was a cheap and effective way of getting people employed long enough to be able to claim E.I. However, many communities that would have naturally died off from outmigration and lack of opportunities in the region were now sustainable because of E.I. Communities that were uneconomical were now being fully subsidized by Employment Insurance.

To provide fish for these plants the Federal Government increased its funding of its Fishing Vessel Assistance Program (FVAP) in turn increasing capacity in the industry (Shrank, 1995: 290). Fishermen knew they could easily enter the industry and provide a year’s income by only working a few months of the year. In the years 1976, 1978, and 1980, E.I benefits grew from $9,774,000 to $22,252,000 to $36,534,000 respectively (Shrank 1995: 291). In 1980-1981 the provincial and federal expenditures on the Newfoundland fishery was $125,000,000 which “was nearly equal to the value of the entire landed catch” (Shrank, 1995: 291). This expansion of the fishery was supported by E.I. During the period of 1982-1992 a little less than $4 billion was paid in E.I in Atlantic Canada (Shrank, 1995: 291).
The social problems that resulted in the Employment Insurance Program have prevented the potential of economic development in many communities. The E.I program allowed many communities – that would otherwise die - be kept alive rather than having people resettle to economically prosperous communities where they could be less reliant on E.I. Economically stagnant communities that depended on E.I developed informal institutional structures of equilibrium patterns. Kenneth Shepsle states in his essay *Rational Choice Institutionalism* that when patterns form which are not structured rules, such as “tit for tat”, can be classified as equilibrium patterns (2006: 28). These equilibrium patterns are social interactions such as job sharing in fish plants - where workers would step aside after ten weeks of work to allow others to work and qualify for E.I (Newfoundland and Labrador Federation of Labour, 1978: 110). It would also include the pattern of taking winters off to cut wood, hunt, fish, or other activities to supplement people’s lifestyle.

These social activities became entrenched in families and communities. Once they became entrenched it becomes very difficult for anyone to change their way of life. Generations of Newfoundlanders have grown up through this cycle and it has become socially acceptable to work for ten weeks and go on E.I for the rest of the year. In John Crosbie’s words “federal Unemployment Insurance is the lifeblood of rural Newfoundland” (Crosbie, 1997: 384). Because of this pattern, once the fishing season has ended, economic activities cease in the community. People therefore have very little disposable income to spend on services or goods. This is why few businesses can prosper in rural communities other than the ones that provide essential services. There just is not enough capital within a community to drive economic development.

**The Introduction of “Decentralization” in Newfoundland Public Policy**

In 1992 – just one month before the cod moratorium – government introduced a new strategy to developing rural Newfoundland. This strategy was called *Change & Challenge: A Strategic Economic Plan for Newfoundland and Labrador*. In this strategy the government introduced a new way of economic development by the introduction of 17 zones. These zones were to be made up of volunteers and an elected chair. The idea was that rural Newfoundland and Labrador would be developed by creating strong regions or hubs within each zone through local development of its resources and people. This process of development looked like it would signal the decentralization of power but the report did not say anything about providing funding to the zones directly, instead it stated:

“The creation of these economic zones will facilitate or allow the economic zones to work more efficiently and effectively with the five regional offices of Enterprise Newfoundland and Labrador to ensure that each zone’s economic plan is considered in the policy and program direction being pursued by ENL and other government services.” (Government of NL, 1992: 16)

As in the case before, the final decision to invest in a business or economic opportunity ultimately rested with the Provincial Government. The idea of economic zones may have seemed new at the time but before this the government had in place Rural Development Associations (RDA) that acted in a similar manner. J.D. House in *Does Community Really Matter in Newfoundland and Labrador? The Need for Supportive Capacity in the New Regional Economic*
Development observed that these RDAs did manage to create some long term benefits for regions but were usually used by politicians as a tool for make-work projects for people to get their stamps (2003: 231).

The same problem that existed for these RDAs was encountered once again with the economic zone boards. House states that the idea of local development and small scale economic diversification was hampered by government’s unwillingness to transfer funding to these boards so that they could distribute it directly to their zone (2003: 232). House explains that there also existed an opposition within the bureaucracy for this type of economic development in rural Newfoundland. He cites the Royal Commission on Employment and Unemployment (RCEU) and stresses that rural and small scale development was resisted by the public sector when the report was issued in 1985 (2003: 232). When Clyde Wells was elected Premier in 1989 he pushed for the decentralization of decision-making for rural development. However, during this time Wells was met with opposition from his bureaucracy that slowed efforts to develop these decentralized decision-making zones (2003: 233).

After the RDAs were converted into economic zones they were then renamed to Regional Economic Development Boards (REDBs) in 1995 and given a new mandate with more support. These REDBs were supposed to develop five year plans to create economic activity in their regions. They would then present their plan to government and negotiate for funding while working with support programs to help achieve their goals (2003: 232). This concept of empowering local people to make their own decisions, while providing the services and expertise they need was labelled “capacity building.” The supports that were in place for the REDBs were mostly cut once the Tobin administration took control in 1996. The Tobin administration did not believe in the decentralization of decision-making and took a more centralized approach effectively ending the strong support for a decentralized rural development model. The excitement and enthusiasm surrounding these boards ended with the regime change and in effect was not given any priority within government.

When the cod moratorium was announced the provincial government had already been working on a new approach to developing rural Newfoundland. The moratorium resulted in the largest layoff in Canadian history up to that point. This massive unemployment was met with unprecedented amount of monies from both the provincial and federal governments in terms of programs to re-educate fisherman in the hopes of reducing capacity in the fishery. This crisis had the potential to create a policy paradigm in Newfoundland, however this did not happen. Fisherman returned to their communities and the provincial government along with the federal government began to transfer capacity from the ground fishery to the shellfish fishery. In The Newfoundland Fishery: ten years after the moratorium author W.E. Shrank clearly explains how the provincial and federal government have increased capacity in the shellfish industry to unsustainable levels (2005).

The path dependence in the ground fishery that resulted in the cod moratorium is happening again with the shellfish industry. While these developments were occurring the Rural Economic Development Boards were developing and implementing their strategic plans for growth in their zones. After fifteen years of operating in the province the results are minimal at best. These boards have not made any substantial changes to rural Newfoundland and Labrador.
Rural communities in the province still heavily depend on the fishing industry for their weeks of work to apply for E.I and other employment options are limited. The heightened prosperity of the province in recent years can be attributed to the high prices of oil. This new found wealth must be used effectively to develop rural regions and must not be squandered away by increasing capacity in the fishery or grandiose schemes of industrialization.

**The ‘Romanticism’ is Dying Off**

In the past the development of rural Newfoundland as a whole has been hampered by the ‘romanticism’ that exists within small outport communities. Especially in the fishery, the restructuring and consolidation of the industry has been hampered by the ‘romanticism’ that has been able to occur as a consequence of E.I. Any attempt by the provincial government to close fish plants or remove quotas from communities has automatically labelled the government as trying to destroy rural Newfoundland. This image is feared by governments in Newfoundland as the majority of seats are in rural areas. If a government’s public policy adversely affects one district it is seen as an attack on all rural Newfoundland and Labrador. The image of rural communities is glamorized through television shows such as *Land and Sea* and *The Fisheries Now*. Daily radio shows such as the *Fisheries Broadcast* and existing open line shows are extremely powerful tools for residents in rural areas who use these outlets to express their views and voice their opinions on government policy. The idea of economic development or regionalization in the province is delayed by the fact that no community can fail while every community fights for money and services to try and develop. In essence, by trying to save every rural community, all of rural Newfoundland suffers.

The problem of E.I and economic development in rural Newfoundland will significantly decrease as the population ages. The driving forces of the province’s ‘romanticism’ are the older generations who grew up in the fisheries boom of the 1960s and 1970s. The trend of ‘romanticism’ has not transcended to the younger generations in the province who do not have the same attachment to the rural lifestyle nor do they have an attachment to the sea. There is a general trend of outmigration of smaller communities to larger ones where there are more services and opportunities. Unlike forty years ago, factors such as the availability of the internet, has allowed youth to realize the world of opportunities that exist for them outside of their communities. Youth in the province have more educational advantages available to them than previous generations. No longer are youth limited to the fishing industry. The idea of wondering every year if one will receive enough work to qualify for E.I is not appealing for the new generation. Today, the prospect of working in a fish plant as a career is no longer considered by the average youth. Therefore, the pattern of public policy making that has occurred since the implementation of E.I in 1957 will not transcend to this generation. However, to try and change the cultural, political, and economic values that are entrenched in the previous generations today will not happen. These values are entrenched in the people of rural Newfoundland and Labrador which can only be solved by time itself. Time will ultimately be the predictor in the success of economic development in rural Newfoundland and Labrador as the province tries to develop in the 21st Century.
References


