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The Politics of Underdevelopment:
Resource Policy and Regime Change in Newfoundland

by
Valerie A. Summers, B.A., M.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of the requirements for the degree of
Doctor of Philosophy

Department of Political Science

Carleton University

Ottawa, Ontario

30 October, 1987

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The undersigned hereby recommend to
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ABSTRACT

This work combines dependency theory with a policy approach to examine the political economy of mining and regime change in Newfoundland. The thesis argues that two dimensions of the politics of underdevelopment - dualism and external dependency - have affected the nature of the mineral policy process and changes of political regime. After a theoretical discussion and an historical review of the political economy of 19th century Newfoundland, the dissertation presents four 20th century case studies - two of mineral policy-making and two of regime change. These cases were selected to elucidate the theses and to make possible an analysis of continuity and change in the politics of underdevelopment.

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Valerie Summers
St. John's
October 13, 1987

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Preface

In the past two decades the concept of dependency has been central to studies of inter-regional and international political economy. In the origins and revival of Canadian political economy, the principal problematic has been Canada's relationship with the United States. In both its general and Canadian version, "dependency" ultimately refers to an external relation of international or inter-regional dominance which is held to distort the internal functioning of the dependent social formation.¹

In national politics, dependency has been associated with concerns about structural weaknesses in the Canadian economy and the potential loss of Canadian political sovereignty in a continentalist thrust. In general Canada has been viewed as peripheral to the U.S. "metropole", and Canadian capitalism as only partially developed if not compromised by its affiliation to U.S. business. While this perspective has enhanced our understanding of Canada's position economically and politically in the international order relative to the United States, it has in its emphasis on dependency on the United States underestimated the influence of Canadian economic and political elites on less-developed countries. Though Canada may be viewed as a "rich dependency", the Canadian state by the turn of the century was sufficiently institutionalized and some fractions of Canadian capital were adequately centralized and concentrated, to penetrate beyond Canadian national boundaries.

¹ William K. Carroll, "Dependency, Imperialism and the Capitalist Class in Canada" in Robert Brym (ed.), The Structure of the Canadian Capitalist Class, (Toronto: Garamond Press, 1986), p. 23.

The current boundaries of Canada were not established until 1949 with the addition of Newfoundland and Labrador as a Canadian province. Implicit in examinations of dependency is the assumption that economic dominance is accompanied by political influence in the host country and may be a precursor of more formal political integration. Can the addition of Newfoundland and Labrador to the Canadian federation be understood from such an approach and to what extent does dependency theory provide insights into Newfoundland and Labrador's underdevelopment and changes in constitutional status? Since Newfoundland existed as a separate country until 1949, both international and inter-regional studies of political economy may enhance our understanding of the Newfoundland case. A detailed examination of the Newfoundland case may contribute, as well, to our understanding of the process and maintenance of the Canadian federation.

While there are numerous interpretations of the origins of the Canadian federation, undoubtedly the need of the British North American colonies to enhance trade with each other in light of the decline of the imperial preference in Britain and the abrogation of reciprocity with the United States prompted a federal economic solution which involved the construction of a tariff wall between the United States and the newly created federal Canada and free trade at least formally and constitutionally among the provinces. In a sense, the origin of the Canadian federation had both economic and defence motivations which have been integrated in the Aitken thesis of "defensive expansionism".² However, to maintain the newly created Canadian core, to economically sustain the federation, which constitutionally was a centralized one though theoretically

² For a discussion of the Aitken thesis of "defensive expansionism" see Wallace Clement, The Canadian Corporate Elite, (Toronto, McClelland and Stewart Limited, 1975), p. 54

one based on the principle of the relative equality of the provinces, in a very real sense Canadian federation continues to be characterized by inter-regional dominance.

Central Canada unquestionably exploits its hinterland to maintain its wealth just as it is in turn exploited by the United States. Some optimistically look to the current renegotiation of trade terms with the United States to solve Canada's economic ills, and foresee better trade with the other more economically advantaged areas of the world. While Canada may be semi-peripheral, it need not exploit its own hinterland or the impoverished of the world to maintain its own "rich dependency". Canada should first consider the possibilities and advantages of making trade more fair between its own advantaged and less-advantaged areas and between itself and the lesser-developed countries which it currently exploits and also between itself and the United States if the price is not Canadian sovereignty. The politics of underdevelopment examined in this work suggest that the contradictions of the "rich dependency" of semi-peripheral areas undoubtedly concern sovereignty and federation. The Canada-Newfoundland cases of dependent policy-making and regime change described and analyzed here indicate both the impossibilities and the necessity of relative sovereignty. The resolution of federalism as unity in diversity which provides for relative equality at a geo-political and individual level, though desirable and to some extent achievable, can be accomplished peaceably only through a fundamental commitment to gradual social and political change from within the political regime. Such change requires vigilance in the face of external dependency which could conceivably transform the political regime undemocratically and create not only economic dependency but political dependency as well. The lesson in the Newfoundland case of federation with Canada is a powerful illustration of this point. While federation did not produce the opportunities and the amelioration of conditions of poverty expected by many, Canadian socialist values, which

are reflected in Canadian social policy, have at least moderated the level of economic uncertainty in many Newfoundlanders' lives and have to some minimal extent provided to Newfoundland the opportunities of being part of a large and relatively "rich dependency".

Chapter 1

The Politics of Underdevelopment and Regime Change in Newfoundland

The Newfoundland Case of Underdevelopment and Regime Change - Thesis and Theoretical Framework

The political development of Newfoundland has been conditioned by the staple economy, the British colonial system and Canada's national development. In the first half of the nineteenth century Newfoundland was tied into the British colonial system and in 1934, after nearly ninety years of responsible government, was again formally subordinated to United Kingdom political institutions and authorities. In the nineteenth century, colonial political structures and authorities were established in Newfoundland because of British interests in the Newfoundland cod fishery. Until the third decade of the twentieth century, fishing was the livelihood of the majority of the population and codfish was the principal export commodity. Twentieth century economic development continued to be export-led but although fishing remained the major employer, by the 1930's the new staples of minerals and forestry products had displaced fish as the most valuable export commodities.

Underdevelopment is characterized by physical-environmental, economic, socio-economic, and political-institutional characteristics indigenous to the peripheral region and by the same factors external to it but impacting upon the region. (See Figure 1) It is the interaction of aspects of the external system on the domestic process in the periphery that is the essential feature of underdevelopment. Underdevelopment occurs when the internal functioning of the peripheral social formation is distorted by relations of external dominance. The particular features of this distortion are a function of both the indigenous character of the peripheral society and the particular manner in which that society is integrated into the world system. Underdevelopment imbues the politics of the peripheral society with a particular quality which is itself an

aspect of the distortion of the peripheral social formation. The politics of underdevelopment is characterized by external dependency and internal dualism.

Towards a Framework

Two general questions are pervasive in most examinations of Newfoundland politics: what accounts for Newfoundland's underdevelopment and why have political institutions exhibited such volatility? From the nineteenth century, Newfoundland has been characterized by persistent underdevelopment and by major transformations in the structure and functions of political institutions. It is the intention of this work to describe and analyze the changing dimensions of underdevelopment in Newfoundland's staple economy and to assess the impacts of underdevelopment on regime change.

In Newfoundland, nineteenth century politics centred on the institutional changes connected with the establishment of colonial government in 1825, representative government in 1832, the amalgamated assembly in 1842, the partial restoration of the 1832 constitution in 1848, and the granting of responsible government in 1854. While most Canadians are unfamiliar with the changes in state structures in the nineteenth century, the collapse of democratic institutions and return to colonial rule in 1934 and the re-establishment of democratic politics in 1949 with the entrance of Newfoundland into the Canadian federation are more widely known events.

In general, it is the intent of this research to explore the impact of Newfoundland's changing political and economic integration into the world system on the indigenous social formation. Specifically, the major question to be examined is: how

were, the regime changes of the nineteenth and twentieth centuries affected by the changing dimensions of underdevelopment? The thesis is that Newfoundland regime changes were produced by two tendencies in the politics of underdevelopment - external dependency and internal dualism.

Figure I

Relationship of Variables: Newfoundland Underdevelopment and Regime Change

Indigenous characteristics(Newfoundland)

- Physical Environmental (resource endowment, size, geography, etc.)
- Economic (dominant mode of production: pre-capitalist at the level of the social relations of productivity, household production with capitalistic relations of exchange and circulation (merchant capitalism))
- Socio-economic (class composition and relations, political culture attributes and values re nationalism, role of the state, democracy, leadership, political patronage, corruption, etc., demographic characteristics - i.e. educational achievements, literacy, occupational structure, unemployment, urbanization, and population dispersion, inequality, etc.)
- Political Institutional (state structures and functions, development policies, structure and function of political parties and interest groups)

External characteristics

- Physical Environmental (location and distance to markets, corporate headquarters)
- Economic (dominant mode of production - capitalist)
- Socio-economic (financial, trade and cultural linkages, market forces - i.e. demand and price, exchange rates, foreign debt, trade, nature of comprador class and relevant external capitalists)
- Political-Institutional (nature of colonial system, interests of other governments and non-governmental organizations - i.e. international consortia, cartels, and trans-national corporations)

The politics of underdevelopment is rarely examined in analytic explanations of regime change. Two general explanations of regime change have been developed in the literature on this subject: first, a structural one which postulates that regimes change because political institutions are structurally flawed and, second, a functional one which suggests that regimes change because political institutions do not function properly or fail to perform.

While these two very general explanations for regime change appear to be almost self-evident, they do not satisfactorily address the questions of (1) why institutions are structurally flawed, and (2) whether functional performance is not dependent upon the structural. In this analysis, changes in the structure and function of state institutions and in relations between citizens, either individual or corporate, and the state are produced by the politics of underdevelopment.

Diffusionist, policy and dependency approaches stress different social, political and economic features of underdevelopment. Diffusionist approaches direct attention to the social, cultural, and even psychological dimensions of underdevelopment and place less emphasis on economic variables, state structures and processes. While economic variables are ordinarily considered, analyses are usually restricted to the presentation of aggregated statistics on changes in GNP, industrialization, and other indicators of macroeconomic performance. The diffusionist paradigm, in its epistemological origins and approach, is predominantly sociological and, because of its roots in structural-functionalism, exhibits some weaknesses in dealing with changes in political structures. (See Figure II) Policy approaches focus specifically upon institutional processes, outputs, and outcomes and provide a more middle-range theoretical framework than diffusionist approaches. In highlighting outputs and outcomes, a public policy

approach permits an examination of the impact of the state on the underdeveloped environment and, through an examination of outcomes, facilitates assessments of institutional and economic performance. (See Figure II) In themselves, government institutions and policies are central to an understanding of underdevelopment. Furthermore, institutions and policies provide useful analytical foci for the observation of the interplay of specific values and interests associated with the politics of underdevelopment at particular points in time and space.

Figure II

Constellation of Variables Affecting Underdevelopment and Regime Change

Diffusionist Approaches *

Socio-Cultural

- educational attainment, literacy,
- social mobility
- size of middle class
- urbanization
- "traditional" vs "modern" attitudes
- diffusion of communication channels and networks
- specialization of roles & institutions
- patterns of cleavage
- social mobilization

Economic

- GNP
- economic diversification
- industrialization
- productivity
- inequality

Policy Approaches **

Process

- degree of policy-making specialization
- degree of policy implementation specialization

Outputs

- scope of extractive outputs
- scope of regulative outputs
- scope of symbolic outputs
- scope of distributive outputs

Outcomes

- level of disorder, instability
- economic growth
- welfare

Dependency Approaches *

Structural-Economic

- amt of foreign investment & ownership
- impact of external economic actors on social formation
- extent of trade imbalances
- extent of foreign debt
- extent of unequal exchange
- rate of profit, level of exploitation
- extent of exit of surplus
- extent of staple specialization
- extent of state autonomy
- extent of class divisions
- articulation of capitalist & pre-capitalist modes of production

Outcomes

- development of underdevelopment
- dualism
- dependent development
- loss of economic and political sovereignty

* These are examples, not a complete inventory, of variables (factors) considered.

** Adapted from Gabriel Almond and G. Bingham Powell, Comparative Politics: System Process Policy

Despite this useful addition to diffusionist perspectives, policy analysis is not without its own limitations in understanding the politics of underdevelopment. Policy approaches were pioneered in industrialized democracies where institutional specialization in interest aggregation and policy-making lends itself to interpretations of incrementalism and pluralism in the domestic political process. In contrast, dependency theories emerged to specifically analyze the politics of underdevelopment and to examine the role of external economic actors and market forces on the peripheral society. Relations of domination, exploitation and dependency are typically depicted and the potential success of radical shifts in policy and regime are contemplated. Because of the radical departures and prescriptions of much of dependency theory, such concepts as dualism,³ development of underdevelopment⁴ and dependent development⁵ provide important insights into the nature of the policy process, outputs and outcomes in underdeveloped contexts. A sensitivity to the concerns of dependency, coupled with a policy framework, serve two theoretical functions: an expansion of the relevancy of policy approaches to underdeveloped contexts where pluralism, incrementalism, and consensual politics are less evident, and a modification of dependency theory to provide it with a middle-range analytical and empirical framework through which the central proposition of dependency theory, that the internal functioning of the peripheral society is distorted by relations of international or inter-regional dominance, may be assessed. In the discrete examination of the process surrounding specific development policies, the

³ For a discussion of the concept of "dual economy", see Tony Smith, "The Dependency Approach" in Howard J. Wiarda (ed.), New Directions in Comparative Politics, (Boulder: Westview Press, 1985), pp. 113-126; also Richard H. Chilcote and Joel C. Edelstein, Latin America: the Struggle with Dependency and Beyond, (New York: John Wiley and Sons, 1974), pp. 3-26.

⁴ See Andre Gunder Frank, Capitalism and Underdevelopment in Latin America, (New York: Monthly Review Press, 1967).

⁵ Peter Evans, Dependent Development: the Alliance of Multinational, State, and Local Capital in Brazil, (Princeton: Princeton University Press, 1979).

presence or absence of relations of dominance and their impact on the peripheral society should be discernable.

1) External Dependency

Underdevelopment has a direct impact on the political process. Underdevelopment may produce a policy process which directly includes representatives of external economic and political interests among the principal policy actors and may produce policy outputs which reflect these interests over those of local citizens. External dependency constrains the range of development policy options open to the peripheral government.

The domestic policy implications of external dependency are most clearly evident from an examination of the political-institutional characteristics of the international environment to which the underdeveloped country is linked. The most important institutional feature of that environment has historically been the colonial system. Britain, during the period of colonial government and even after the attainment of responsible government in 1855, had a direct influence on Newfoundland politics and policy. Though in the early twentieth century the Newfoundland government experienced an emerging independence from the Colonial Office at Whitehall, from 1934 to 1949 Newfoundland fell even more completely under the influence of British civil servants and politicians. During the Commission of Government regime from 1934 to 1949, Newfoundland was ruled by a British-appointed commission comprised of a British governor, three British civil servants and three appointed Newfoundlanders. The Commission was accountable to the British Dominions Office and, through the Secretary

of State for Dominion Affairs, to the British Parliament, in which Newfoundland residents had no representation. For much of Newfoundland's history, there were ample opportunities for the reflection in Newfoundland policy of the concerns and interests of the British government and of British business.⁶ Such non-resident political and economic concerns are particularly discernible during periods of crisis and uncertainty. In the debt crisis of the 1930's, the interests of British bondholders held sway over the maintenance of a democratic regime. In the post-World War II period of political adjustments and British dollar shortages, the interests of the British government in eliminating the cost of the maintenance of Newfoundland's administration led to Newfoundland's movement out of the British domain into Canadian jurisdiction.⁷ British government interests were not only reflected in regime changes but in the myriad policy decisions throughout Newfoundland's colonial history.⁸

Although clearly the most salient extraterritorial influence on policy in formally dependent areas is that of the colonial power itself, external non-governmental actors also frequently have policy clout. The nature and extent of the policy involvement of external non-governmental actors is a critical question. This is a difficult theoretical and empirical problem as the solution hinges on the conceptualization of the role of the state in the underdeveloped context, particularly the question of its relative autonomy from foreign capitalists. Among the more significant non-governmental actors in

⁶ See, for example, Peter Neary, "The French and American Shore Questions as Factors in Newfoundland History", in James Hiller and Peter Neary, (eds.), Newfoundland in the Nineteenth and Twentieth Centuries, (Toronto: University of Toronto Press, 1980), pp. 95-122.

⁷ See Philip McCann, "Confederation Revisited: New Light on British Policy", paper presented to the Newfoundland Historical Society, 1983, for a discussion of the role of the British Treasury in Britain's decision to discharge itself of responsibility for Newfoundland.

⁸ See Gertrude Gunn, The Political History of Newfoundland, 1832-1864, (Toronto: University of Toronto Press, 1966), *passim*.

situations of external dependency are the managers and directors of transnational corporations which operate, or wish to operate, in the area of the state's jurisdiction. The relative influence of this fraction of capital compared with the influence of local capitalists and local subordinate classes is an empirical question. Theoretically, if the state is to be viewed from a non-instrumental structuralist perspective,⁹ not only is it important to assess the relative influence on policy of various classes and class fractions but the extractive, regulative, distributive and symbolic interests and the capabilities of state structures themselves must also be taken into account. If state structures are unspecialized and undifferentiated with weak extractive, regulative and symbolic capabilities, as is often the case in post-colonial underdeveloped societies, the institutionalization which would facilitate relative state autonomy is largely absent. Weak states are likely to be more easily penetrated by special interests, either domestic or foreign.

In Newfoundland, there is certainly a strong view among citizens that successive Newfoundland governments have been vulnerable to the narrow interests and appeals of numerous foreign-owned corporations and a variety of footloose industrialists, entrepreneurs, and outright conmen. The political cynicism of popular political culture is not a substitute for an analysis of the actual policy role of business or the capacity of governments in dealing with business and effecting development policies. Through a micropolitical focus on the policy process of specific foreign business-government interactions, it is possible to assess the relative autonomy of state structures vis a vis foreign capitalists. In situations of external dependency, aspects of the international

⁹ For the roots of this debate about the role of the state, see Ralph Miliband, The State in Capitalist Society, (London: Weidenfeld and Nicolson, 1969); Nicos Poulantzas, Political Power and Social Classes, (London: New Left Books, 1973); and James O'Connor, The Fiscal Crisis of the State, (New York: St. Martin's Press, 1973).

political and economic environment impinge upon the domestic political process to constrain policy options, to limit the tactical resources of government in policy-making, and to distort development policy outputs and outcomes. Policy outputs are distorted when the extractive, regulative, distributive and symbolic capabilities of government are diminished by the policy process. Development policy outcomes are subverted when underdevelopment is exacerbated through increasing dualism and external dependency.

Figure III.

The Politics of Underdevelopment - The Policy Process

External and Indigenous
Environmental Dynamics

Outcomes

External Dependency

Conversion from base

Political-
Institutional

Internal Dualism

Interactions (Policy
Actors, Goals
Tactics), Outputs
(Regulative, Extractive
Symbolic)

Regime
Change

Economic
Cultural

The environment affecting the policy process of underdeveloped political systems is structured by forces of dualism and external dependency. (See Figure III) Dualism produces a pattern of cleavages and conflicts which impinges upon the political process. Tensions between capitalist expansion and traditional pre-capitalist modes of production, between rural and urban centres, and between social groups rooted in the variations in economic and cultural life impact upon the constellation of relevant policy actors, their goals in policy-making, and the resources and tactics available to them.

Similarly, external dependency has implications for the policy process. External dependency affects the degree to which non-nationals are included as policy actors in the domestic political process; political and economic dimensions of external dependency such as the colonial system, international staple markets, currencies and foreign debt place constraints on policy actors and circumscribe policy resources, tactics and strategies.

Interactions among policy actors may, of course, take a variety of forms - i.e. pluralist, corporatist, or class dominant, as suggested by Marxist analyses.¹⁰ Whether the policy process is characterized by informal inter-group competition, with governmental actors as arbiters, or by formal structured exchanges among governmental actors and select designated group representatives, or by class-based assertions of dominance, exploitation and repression (or by combinations of these patterns) is an empirical question fundamentally linked to the nature of the political regime at various points in time. However interactions among policy actors are structured, the result of the interaction is one or more governmental outputs. Outputs are "authoritative actions

¹⁰ See Douglas A. Chalmers, "Corporatism and Comparative Politics" in Howard Wiarda (ed.), New Directions in Comparative Politics, (Boulder: Westview Press, 1985), pp. 56-79.

of taking, giving, compelling and communicating between the political system and its environment".¹¹ The outputs of government may alter the political-institutional, the economic or the cultural environment. The resulting alterations are the outcomes of the policy process and, in this analysis of underdevelopment, may function to either exacerbate or to minimize dualism and external dependency.

2) Dualism

Dualism is both a spatial-economic division and a socio-political one in the Newfoundland case. St. John's was the commercial core and political capital with an economy based on the supply to the outport hinterland of the goods and services for daily life and the maintenance of the fishing economy, some import substitution manufacturing, and services connected with the international marketing of fish. St. John's was also a centre for the provision of a variety of public services including education, health care, and transportation. As a commercial entrepot, a centre for mercantile and manufacturing interests and for public sector employment, the city was set apart economically and spatially from the geographically isolated outport fishing economy. In contrast to the wage economy of St. John's, fishing communities often operated without a cash basis. Until the 1930's, a vicious truck system structured the economic relations of commodity producers in the fishery. Provisions and gear were supplied to the fisherman at the beginning of the fishing season by the local merchant or agent, to be repaid in kind by the fisherman with the season's catch. As the cost of supplies and the value of the fish caught were established by the merchants, there were

¹¹ Gabriel A. Almond and G. Bingham Powell, Comparative Politics: System Process and Policy, (Boston: Little Brown, 1978), p. 283.

numerous opportunities for the exploitation of fishermen by merchants.¹² Because the major merchant establishments were centred in St. John's, the tensions between core and hinterland were compounded by the economic cleavage between capitalists and commodity producers.

Dualism also had, and to some extent continues to have, socio-political dimensions. Public services in education, culture, health care, communication, transportation, and municipal services barely penetrated the dispersed and isolated outport communities. This meant that the level of material comfort and life opportunities was much higher for residents of St. John's than for much of outport Newfoundland. Though in many small communities there was a rich folk culture and social life which revolved around family and church, the avenues to geographical or social mobility were not within ready access to much of rural Newfoundland. Politically, St. John's was dominant. With virtually no municipal government outside of St. John's, the opportunities for political involvement were limited. Legislators tended to be St. John's professionals and merchants who were parachuted into outport ridings at election time. It was not until the entrance of the Fisherman's Protective Union into politics in 1912 that fishermen's voices were heard in the legislature. The civil service was centred in St. John's and was primarily staffed by St. John's residents who were better situated geographically and educationally to take advantage of public sector employment. Patronage appointments by politicians of constituency supporters to the lower ranks in the service were one of the few opportunities for work outside of the fishing economy for an ambitious rural resident. Outport schools were, in general, poor where they existed and,

¹² For a discussion of the operation of the credit system, see the Amulree Report, Newfoundland Royal Commission 1933 Report, (London, 1934). A fascinating discussion of the social relations which were produced by the credit system appears in Gerald Sider, Culture and Class in Anthropology and History, (Cambridge: Cambridge University Press, 1986), pp. 49-95.

in any event, the major secondary and post-secondary educational institutions were located in St. John's. For the more wealthy, there were English boarding schools or some Canadian colleges and universities. S.J.R. Noel in his examination of Newfoundland politics refers to the St. John's church-run boarding colleges as a training ground for an economic and political elite. Attendance at these institutions was not a realistic option for the vast majority of poor outport students.¹³

Dualism in Newfoundland was also characterized by a marked difference in social structure between rural and urban areas. Because of the household organization of the fishing economy, the outports were largely occupationally homogeneous. While minor lifestyle differences undoubtedly existed between more successful, able, and lucky fishing families and those not so fortunate or skilled, overwhelmingly the men fished while the women and children of the family were engaged in the curing and drying of the fish. Besides the resident fishing families, the typical outport with under 500 inhabitants might have a local merchant who employed a few clerks and assistants, and, if the community was fortunate, a teacher and a clergyman but rarely a doctor. Very often, merchants were agents of the large St. John's mercantile firms and teachers and clergymen were not long-term residents of the community. These "outsiders" were both feared and respected. Ethnographic data indicates a fear of outsiders and a deference to authority as part of the traditional political culture of outport Newfoundland.¹⁴ With strong norms of egalitarianism and individualism among fishing families, the local

¹³ - S.J.R. Noel, Politics in Newfoundland, (Toronto: University of Toronto Press, 1971). On education see Frederick Rowe, The Development of Education in Newfoundland, (Toronto: Ryerson Press, 1964).

¹⁴ See Anthony P. Cohen, The Management of Myths, Newfoundland Social and Economic Studies No. 14, (Institute for Social and Economic Research: Memorial Univ. of Nfld., 1975); John Szwed (ed), Private Cultures and Public Imagery, Newfoundland Social and Economic Studies No. 2, (ISER: MUN, 1966); Noel Iverson and Ralph Matthews Communities In Decline, Newfoundland Social and Economic Studies No. 6, (ISER: MUN, 1968).

merchant, teacher, and clergyman were natural community leaders. Interestingly, some of the features of dualism in the broader Newfoundland context were replicated at the community level in the pattern of strained social relations between resident fishing families and these "outsiders".

Although the class composition of the outports was relatively simple, that of St. John's was, not surprisingly, considerably more complex. While class composition and relations in the outports derived from a pre-capitalist economic organization, in St. John's class formation was based on the expansion of a capitalist economy and upon the continued relevance of pre-capitalist modes of production. Merchants, in a sense, participated in both capitalist relations and in the traditional feudal economic organization of the Newfoundland fishery. In marketing the staple, Newfoundland merchants entered into capitalist markets in international trade and finance, and, in procuring the product for that staple trade, they entered into semi-feudal relationships with fishermen through the operation of the truck system. St. John's was then the home of a merchant class which linked the pre-capitalist rural social formation with the international capitalist system. Another fraction of the Newfoundland capitalist class was composed of a small number of industrialists who were involved in manufacturing, railway construction or non-fish resource exploitation. After 1894, the banking sector was foreign-owned and, during the brief existence of Newfoundland banks, there was considerable overlapping in the directorships of the banks and the major mercantile firms. Of the two fractions of the capitalist class, the mercantile fraction has received the most attention in interpretations of Newfoundland politics. It is the intent of this research to explore the impact of other classes on the political process, particularly the implications for the political process of the involvement of resource capitalists and subordinate classes.

In addition to a capitalist class, St. John's, from the nineteenth century, had a professional middle class of public servants, teachers, lawyers, doctors, and journalists and a traditional middle class of small shopkeepers, grocers, and artisans. The working class was constituted by an industrial fraction employed primarily in manufacturing and a service fraction employed by a variety of business establishments and government. While the social division between merchant and fisherman continued well into the twentieth century, this work argues that other divisions were also politically significant. In the nineteenth century regime changes, the middle class was important. Twentieth century politics has been fundamentally affected by the close alliance of industrial capitalists in mining, railways, forestry and manufacturing with government. While the urban formation of the working class, the middle class and the capitalist class contributed to the dualism of Newfoundland society, it would be a mistake to characterize Newfoundland solely from this perspective for two reasons: firstly, coalitions between rural and urban classes were possible and occurred in the regime changes of 1934 and 1949 and, secondly, twentieth century economic developments facilitated the growth of several medium-size towns off the Avalon Peninsula, whose economic base was resource-extractive, service, or military.¹⁵

¹⁵ Examples of resource towns include Wabana, Buchans, St. Lawrence, Baie Verte, Labrador City and Wabush; manufacturing: Grand Falls, Corner Brook, Mary'stown; service or military: Whitbourne, Bishops Falls, Gander, Lewisport, Springdale, Goose Bay, Stephenville. For a sociological analysis of elite behaviour in one of such towns see Anthony P. Cohen, "The Political Context of Childhood: Leaders and Anti-Leaders in a Changing Newfoundland Community" in Elia Zurick and Robert Pike (eds.), Socialization and Values in Canadian Society, (Toronto: McClelland & Stewart, 1975), pp. 161-184. See as well Newfoundland From Dependency To Self-Reliance, (Economic Council of Canada: Supply and Services, 1980), particularly Chapters 1 and 2.

3) Regime Change

One possible outcome of the policy process in underdeveloped polities is the political-institutional one of regime change. Regime changes vary widely in their implications for the political process, from relatively minor adjustments in the rules of the game such as routine amendments to the electoral law or adjustments in parliamentary rules of procedure which regularly occur in liberal-democratic systems, to fundamental transformations in state functions and structures which have a sweeping impact on political relations. This dissertation is concerned primarily with the relatively major transformations in state structures and political relations in nineteenth and twentieth century Newfoundland. Nineteenth century transformations were part of a gradual and sometimes halting movement from British colonial state structures to responsible parliamentary liberal-democratic forms. Fundamental twentieth century regime changes included the collapse of liberal democracy and the installation of a British-appointed non-democratic Commission of Government in 1934, and the return to liberal democracy within the Canadian federation in 1949. How these events were linked to the politics of underdevelopment is a major theme of this research.

Chapter 2

Explaining the Politics of Underdevelopment - "Beyond Dependency Theory"

Introduction

Explaining Underdevelopment

The explanation of the underdevelopment of some countries has been an important preoccupation of contemporary Western scholarship for almost four decades. Indeed, it might be argued that this concern has been significant in social, economic and political writings since the appearance of Adam Smith's 1776 Inquiry Into the Nature and Causes of the Wealth of Nations. While it is beyond the scope of this thesis to review and analyze the history of ideas on this subject from Smith, Marx, and Weber, contemporary writings on underdevelopment often find their epistemological roots in one or more of these traditions. In post-World War II scholarship, three analytical approaches to underdevelopment can be discerned from the voluminous literature on the subject - diffusion theory, dependency theory, and neo-Marxist theory.

Each perspective has enjoyed some prominence in modern social science and, to a certain extent, these approaches have been dialectically related with one another in the ascendancy and decline of paradigms within which underdevelopment has been considered. Each perspective has emphasized certain aspects of underdevelopment and implicitly, if not explicitly, advocates a political program to eradicate underdevelopment. Diffusion theory, dependency theory, and neo-Marxism are fundamentally political theories - teleological in their view of development and pragmatic in the policy prescriptions they suggest to deal with underdevelopment. Herein resides much of the scholarly controversy about frameworks within which to analyze underdevelopment. Despite the sometimes ideological tenor of the debate on

underdevelopment, much can be gleaned from each perspective and applied to an understanding of the Newfoundland case of underdevelopment and regime change.

Diffusion theory directs attention to cultural variables, dependency theory to external economic variables, and neo-Marxist theory to such internal economic variables as class and state. Fundamentally, this analysis of Newfoundland falls within the ambit of Canadian political economy's concerns about the inter-relationship among staples, region, class, culture and state.¹ These themes, so prominent in the Canadian political economy literature, are evident in this examination of Newfoundland underdevelopment and regime change, but the explanations advanced here have been guided also by the comparative literature on underdevelopment. This is so because Newfoundland's underdevelopment and regime change cannot adequately be understood from the perspective of Canadian political economy, which developed to explain the Canadian case. Newfoundland was differently integrated into the world capitalist economy and existed as a separate national entity long before the regime change of 1949. The roots of underdevelopment and the instances of regime change reach back beyond the political integration of Newfoundland with Canada in 1949. While this thesis will attempt to explain the regime change of 1949 and the persistence of underdevelopment in the post-Confederation period, this is not the primary focus. Instead, this work attempts to elucidate the changing patterns of Newfoundland's integration into the world system and their implications for internal political structures and process. Part of that world system was, of course, Canada and in light of Newfoundland's changes in constitutional status in 1934 and 1949, these linkages will be examined. The approach, though

¹ Patricia Marchak, "Canadian Political Economy" in Canadian Journal of Sociology and Anthropology, (22:5), Dec. 1985, pp. 673-709; Daniel Drache & Wallace Clément, The New Practical Guide to Canadian Political Economy, (Toronto: James Lorimer & Co., 1985), pp. ix-xxiv.

historical and case study, has been, in the selection of events and cases for examination, loosely structured by theories of underdevelopment.

1) Diffusion Theory

Diffusion theory,² sometimes referred to as modernization theory,³ was until the 1970's the major paradigm in the analysis of underdevelopment. As summarized by Chilcote and Edelstein, the theory sees development emanating from

...the spread of modernism to backward, archaic and traditional areas. Through the diffusion of technology and capital, these areas will inescapably evolve from a traditional toward a modern state. Essentially, the diffusion model sees underdevelopment as a condition which all nations have experienced at some time.⁴

Underdevelopment is indicated by a low per capita gross national product and other characteristics such as illiteracy, inequality, lack of social mobility, an undiversified economy, low productivity, the absence of a middle class, slow urbanization, the absence of specialization of political and social roles and institutions, particularistic attitudes, the absence of national integration, et cetera. Basically, the absence of modernity and low national wealth are seen to indicate underdevelopment. Underdevelopment is seen to be attributable to some lack within the region.⁵ In some ways, the argument becomes almost tautological in that the indicators of underdevelopment are very often

² Richard H. Chilcote and Joel C. Edelstein (eds.), Latin America: The Struggle with Dependency and Beyond, (New York: John Wiley & Sons, 1974), pp. 3-26.

³ Henry C. Veltmeyer, "A Central Issue in Dependency Theory" in Canadian Review of Sociology and Anthropology, 17(3) 1980, p. 198.

⁴ Richard H. Chilcote and Joel C. Edelstein (eds.), op. cit., p. 3.

⁵ Henry C. Veltmeyer, op. cit., pp. 198-99.

taken as the causes of underdevelopment, the absence of modernity in its various forms, for example, becomes both indicator and cause of underdevelopment. Despite the view that the causes of underdevelopment are seen to lie within the underdeveloped country, the solution to the problems of underdevelopment must originate externally. Through an infusion of capital, technology, and culture from developed countries at an accelerated pace, the path to development travelled by the developed countries can be opened up for underdeveloped countries.⁶ There is, then, implied in this interpretation of underdevelopment a teleological view of development as continuous and linear progression from traditionalism to modernity and a pragmatic political program to create the conditions to attract foreign capital and technology. This view of development has had currency among intellectuals, businessmen, and politicians alike.

Among social scientists, the view of underdevelopment summarized above has its intellectual roots in Max Weber's distinction between traditional and rational-legal patterns of authority and finds its way into political science perspectives through Talcott Parson's pattern variables and the analytical framework of structural functionalism. Within comparative politics, the pattern variables have been adapted to contrast traditional and modern societies as ideal types - for example, ascriptive status, diffuse roles, particularistic values, collectivity orientation, and affectivity of traditional society versus achievement status, specific roles, universalistic values, self-orientation, and affective neutrality of modern society.⁷ In this view, traditional societies are underdeveloped and change is conceptualized as unidirectional and successive movement along a continuum with end points of tradition and modernity. The significance of

⁶ Chilcote and Edelstein, *op cit.*, p 14.

⁷ See James Bill and Robert Hardgrave Comparative Politics: The Quest For Theory, (Columbus, Ohio: Charles E. Merrill, 1973), pp. 43-83 for a summary of this approach to development.

conflict, politics and the role of the state in understanding change was obscured: political development was operationally defined in terms of social, economic, and psychological factors, and viewed as a dependent variable explained by modernization.

Summarizing this literature, Bill and Hardgrave argue:

Political development becomes an epiphenomenon of social and economic change and democracy, it would appear, is the end toward which all are necessarily moving. The concept of unilinear growth provides a prescription for development. With a model of the pattern of modernization derived from European experience, the social scientist can turn to the third world and say, "Go and do likewise".⁸

Within political science, both a theoretical and empirical critique of development and underdevelopment as conceived above had been launched by the 1970's. Among the principal theoretical critiques of diffusion theory was its view of change. Change was essentially viewed as non-dialectic; an approach which disregarded the internal and external contradictions of the modernization process and their impact on both internal political structures and the environment beyond the underdeveloped country. Empirically, the persistence of underdevelopment despite infusions of capital and technology raised questions about the soundness of the postulates of diffusion theory. The most telling critique, however, focused on what was viewed as a fundamental misunderstanding by diffusion theory of the dynamics of economic development in both developed and underdeveloped contexts. As a dialectical response to the inadequacies and shortcomings of diffusion theory, dependency theory arose to challenge the prevailing conceptualization of underdevelopment and, as was the case for diffusion theory, to suggest a pragmatic political program.

⁸ Ibid., pp 59-60

2) Dependency Theory

Dependency theory, though not a coherent body of literature in terms of philosophical predilection, does provide among the various strands in the literature an alternate conception of underdevelopment and some consensus on its causes. Underdevelopment was not to be understood solely in terms of the social and economic conditions of the disadvantaged region, the unit of analysis was not the nation-state for dependency theorists but the world capitalist system, to which the underdeveloped nation was linked and into which it was integrated.

This view is most clearly reflected in the world systems approach. The world systems approach, as elaborated by Immanuel Wallerstein⁹ draws attention to the dynamics of capitalist economic development and the integral relationship between core states and peripheral areas in the process of development. Within the world system there is a functional and geographic division of labour.¹⁰ The advantaged areas of the system are core states, characterized by a strong state, peripheral areas where the indigenous state is weak, either non-existent or having a low degree of autonomy, and semi-peripheral areas which are in-between core and periphery on such dimensions as complexity of economic activities, strength of state machinery, and cultural integrity. The system is characterized by a hierarchy in which tasks requiring higher levels of skill and greater capitalization are reserved for core states. The geographic maldistribution of these occupational skills in the absence of a central political mechanism creates a strong trend for self-maintenance. As Wallerstein argues, "the

⁹ Immanuel Wallerstein, The Modern World System, (New York: Academic Press, 1974)

¹⁰ Ibid., p 349.

ongoing process of a world economy tends to expand the economic and social gaps among its various areas in the very process of its development."¹¹ Also facilitating the maintenance of the system is the role of the semi-peripheral areas: without semi-peripheral areas the system would be less politically stable and more polarized - semi-peripheries are "both exploited and exploiter".¹² Wallerstein conceives of the system as volatile, with the possibility of a country's position changing in the international economic order from core to semi-peripheral, or from peripheral to semi-peripheral et cetera.

An alternate view is evident in the work of A.G. Frank,¹³ particularly in his much-discussed and criticized "development of underdevelopment" thesis. For Frank,

both (development and underdevelopment) are the necessary result and contemporary manifestation of internal contradictions in the world capitalist system... One and the same historical process of the expansion and development of capitalism throughout the world has simultaneously generated - and continues to generate - both economic development and structural underdevelopment.¹⁴

This occurs because of capital drain, the transfer to the metropolises of surplus generated on the periphery. By a process of "unequal exchange",¹⁵ capital flows to the metropole; capital does not flow out of the metropole to peripheral areas in search of use. Lower

¹¹ Ibid., p. 350.

¹² Immanuel Wallerstein, The Capitalist World Economy, (Cambridge: Cambridge Univ. Press, 1979), p. 23.

¹³ See Andre Gunder Frank, Capitalism and Underdevelopment in Latin America, (New York: Monthly Review Press, 1967); Dependent Accumulation and Underdevelopment, (New York: Monthly Review Press, 1979); Crisis in the World Economy, (New York: Holmes & Meier, 1980); Reflections on the World Economic Crisis, (New York: Monthly Review Press, 1981).

¹⁴ Andre Gunder Frank, Capitalism and Underdevelopment in Latin America, op. cit., p. 9.

¹⁵ Andre Gunder Frank, Dependent Accumulation and Underdevelopment, op. cit., pp. 103-110.

wages at the periphery allow for the extraction of a higher surplus value which is siphoned off to the centre. The advanced, industrialized West was able to develop only because it was underdeveloping the Third World. This point of view was a direct challenge to what has been called diffusion theory, which postulated development at the periphery with the diffusion of capital, technology; and culture.

While dependency theorists such as Wallerstein, Frank, and Amin¹⁶ see underdevelopment as the underside of economic development and have responded to the assumptions of the diffusion theorists regarding the unidirectional nature of change, in many ways the dependency perspective is subject to similar criticisms. These criticisms have evolved out of both mainstream political science approaches to underdevelopment and Marxist theory.¹⁷ Like diffusion theory, dependency theory, particularly the world systems approach, is a macro-theoretical "grand theory" formulation which, in attempts at generalization, tends to be ahistorical and reductionist; the real variations in peripheral economies and their varied linkages to the international market are obscured by the general concepts and propositions of the dependency approach. From within both mainstream and Marxist perspectives, an argument for a more historically specific and less macro approach has evolved. While dependency theory has contributed to the debate on underdevelopment, the pessimism of its prognosis for underdeveloped countries within the capitalist system and the often ideological tenor of its prescriptions, which vary from economically nationalist arguments for autarkic development to the overthrow of capitalism at the periphery presaging a world collapse of the capitalist

¹⁶ See Samir Amin, Unequal Development: An Essay on the Social Formations of Peripheral Capitalism, (New York:Monthly Review Press, 1976); and Imperialism and Equal Development, (New York:Monthly Review Press, 1977).

¹⁷ For a historiography of development theory see Richard A. Higgott, Political Development Theory, (New York:St. Martins Press, 1983).

system, have left many theorists and practitioners of politics doubtful of its basic tenets.¹⁸ The radical critique of dependency theory has focused on the importance of the examination of specific societies in light of class analysis and the role of the state, while more mainstream critiques have focused on the need to empirically assess the nature of dependence and underdevelopment and to understand the policy process in underdeveloped countries.

From both directions, the economy is no longer viewed separately from political, social, or cultural variables. While we might 'all be political economists now', the range of research programmes and the variation in underlying assumptions are broad.

3) Marxist Perspectives On Underdevelopment.

While not all of dependency theory is characterized by a Marxist approach, much of the literature is imbued with Marxist prescriptive orientations and is structured by a Marxist analytical framework.¹⁹ The attention given the role of the state and the relations of production in Marxist approaches adds an important dimension to an understanding of dependency. Furthermore, the historical orientation of Marxist applications of dependency theory address some of the concerns which emanate from the

¹⁸ On this point see John Browett, "Out of Dependency Perspectives", in Journal of Contemporary Asia, (12:2), 1982, pp. 145-157.

¹⁹ The primary intellectual debt of the dependency school is to Marxism. For a discussion of this point, see Tony Smith, "The Underdevelopment of Development Literature: The Case of Dependency Theory" in World Politics, 1979 Vol. 20, pp. 247-288; Tony Smith, "The Dependency Approach" in Howard J. Wiarda (ed.), New Directions in Comparative Politics, (Boulder: Westview Press, 1985), pp. 113-126; and John Browett, "Out of Dependency Perspectives", op. cit.

grand-theory generalizations of diffusion theory. While Marxist theory is in the abstract no less macro-analytical, particular applications have tended to focus on the specific development of capitalism, the relations of production, the state and the interaction of capitalist and pre-capitalist modes of production in specific peripheral economies.²⁰ Periphery and core may then be analytically linked and examined through theories of imperialism. Though theories of imperialism dovetail into dependency theory applications, dependency theorists, themselves, for the most part concentrate on an analysis of peripheral capitalist expansion and of the effects of imperialism. As Cardoso and Faletto explain:

...of course, imperialist penetration is a result of external social forces (multinational enterprises, foreign technology, international financial systems, embassies, foreign states and armies, etc.). What we affirm simply means that the system of domination reappears as an 'internal' force, through the social practices of local groups and classes which try to enforce foreign interests, not precisely because they are foreign, but because they may coincide with values and interests that these groups pretend are their own.²¹

Class analysis has, from this perspective, become an integral part of the dependency approach. The focus has been primarily upon the class seen to link the peripheral economy to the international capitalist system, that is, what has come to be called a "comprador" class.²² The process of modernization and the expansion of capitalism in underdeveloped countries creates modern metropolitan enclaves and classes whose continued growth is linked to the exploitation of the traditional rural sector and to international capitalist markets, technology, financial institutions, and, very often,

²⁰ See for example Fernando Henrique Cardoso and Enzo Faletto, Dependency and Development in Latin America, (Berkeley: University of California Press, 1979).

²¹ Fernando Henrique Cardoso and Enzo Faletto, Dependency and Development in Latin America, *ibid.*, p. xvi.

²² For a significant use of this concept in Canadian political economy, see Wallace Clement, The Canadian Corporate Elite, (Toronto: McClelland and Stewart, 1975).

corporate centres of decision-making. Underdevelopment is characterized not only by international relations of dependency but also by intra-national regional imbalance, or dualism. In underdeveloped countries, the traditional sector coexists with modern metropolitan enclaves. The traditional sector has productive processes, a history and culture often at variance with that of the metropolis. The relative affluence and the international economic and cultural orientation of the metropolitan enclave is in juxtaposition to the economy and culture of rural areas.

While Marxist approaches to dependency acknowledge the importance of class analysis, there has been considerable debate amongst dependistas on the conceptualization of class in relation to the economic structure of underdeveloped countries. The most lively dimension of this debate has concerned the concept of capitalism itself.²³ In the dependency approaches of Frank and Wallerstein, capitalism is conceptualized in terms of exchange relations based on trade and investment rather than as a social formation based on a capitalist mode of production. This is an important point for the analysis of class relations and the structure of the economy at the periphery. If capitalism is viewed in terms of exchange relations and production for profit on a world market, as is the case in the world systems perspective, it becomes difficult to analytically distinguish agrarian society as either feudal or capitalist and difficult to identify the peculiar conditions of capitalist economic development as distinct from that of pre-capitalist modes of production. While this theoretical issue is critical for analyses of Latin American underdevelopment, it is also relevant for an understanding of the Canadian and Newfoundland political economy. In Newfoundland, in particular, the difficulty arises in relation to an examination of household production

²³ Henry C. Veltmeyer, *op. cit.*, p. 198-213.

and domestic commodity producers in the fishing economy. In many cases, while the underdeveloped economy may be linked through trade to the world capitalist system, very often the dominant mode of production is not capitalist but pre-capitalist. An understanding of underdevelopment and the effects of dependency on the social formation of the peripheral country necessitates an examination of the interaction of expanding capitalism with older modes of production. It is on this point that diffusionist and Marxist perspectives on underdevelopment point to an important weakness in the dependency approach. For Marxists, an analysis of underdevelopment would begin with class analysis, particularly the impact of changes in the modes of production, on the constellation of indigenous social forces, class formation, and class relations. Where some dependency interpretations identify stagnation in the underdeveloped economy,²⁴ a Marxist approach would focus on the social and economic dynamics of underdevelopment such as the forces of conflict, change and revolution. Though diffusionist analyses of underdevelopment have very different prescriptive perspectives, they nonetheless emphasize change. While change may be viewed as a unidirectional and sequential progression toward modernity, diffusionists do examine underdeveloped societies as in transition from traditional to modern. The motor of change is not class conflict but the spread of modernity, which is characterized by cultural and attitudinal change seen to accompany infusions of capital and technology at the periphery.

²⁴ While early analyses of dependency were apt to characterize the expansion of capitalism as growth without development, some more recent interpretations have depicted the effects of industrialization and the expansion of a capitalist economy as dependent development. See Peter Evans, Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil (Princeton: Princeton University Press, 1979). Attempts to empirically assess the outcome of modernization as dependency or development have been inconclusive because research is very often handicapped by intractable measurement problems for key concepts and the unavailability of reliable and comparable data. See Paul Stevenson, "Accumulation in the World Economy and the International Division of Labour" in Canadian Review of Sociology and Anthropology, 17 (3) 1980, pp. 214 - 231 for a review of empirical research testing diffusionist and dependency models.

In sophisticated diffusionist theory applications, the development of the periphery occurs through an intermingling of traditional and modern institutions and values and is fraught with tensions between "traditional" and "modern" patterns of behaviour. From both a Marxist perspective and a diffusionist one, therefore, the interaction, or articulation, of indigenous institutions (for Marxists, those of the pre-capitalist social formation and, for diffusion theorists, those of the traditional society) with the capitalist mode of production (from a Marxist perspective) or the forces of modernity (from a diffusionist perspective) is fundamental to an understanding of the dynamics of underdevelopment and development. If the insights of both frameworks are used to inform an analysis of a specific case of underdevelopment, an examination of class cleavages and what are sometimes called more primordial cleavages of region, religion, and ethnicity seems warranted. A political economy of underdevelopment would explore the interrelationships between class, region, religion, and ethnicity.²⁵

Marxist theories of underdevelopment not only put forward class analysis as a necessary corrective to the diffusionist paradigm but also draw attention to the importance of studying the role of the state in underdeveloped polities. As indicated previously in this chapter, early diffusionist approaches, in their close affinity to behaviouralism, had relegated the state to an epiphenomenon determined by social and economic variables. With the possible exception of Samuel Huntington's²⁶ work on institutionalization in the Third World, little emphasis was given to the significance of state structures in either managing conflict emanating from societal change or in

²⁵ Patricia Marchak, "Canadian Political Economy" in Canadian Review Of Sociology and Anthropology, op. cit., p. 673.

²⁶ For a classic discussion of the importance of institutionalization for development, see Samuel Huntington, Political Order in Changing Societies, (New Haven: Yale University Press, 1968).

creating the necessary preconditions for capitalist expansion. Whether the role of the state is viewed from a pluralist or a Marxist perspective, the centrality of the state in understanding underdevelopment cannot easily be dismissed. Firstly, control over state structures provides a focal point for class and other conflicts in the periphery; secondly, in many underdeveloped contexts, the executive and judicial apparatus of the state are deployed in the active implementation of "development" policies designed to advance modernization and/or to facilitate capital accumulation and the legitimation of the capitalist system; thirdly, in situations of extreme dependency, state structures are not only a focal point for conflict between indigenous interests but also may become an arena for the interplay of domestic and international governmental and non-governmental actors; fourthly, changes in the structure and functions of state institutions are hypothetically associated with development from the diffusionist vantage point (i.e. increased capability, performance, penetration, etc.) and with dependency (loss of indigenous control over policy outputs and loss of sovereignty).

The Contribution of Policy Approaches to an Understanding of Underdevelopment

Diffusion theory, or modernization theory, came to prominence as a framework for examining underdevelopment in the midst of the behavioural revolution of the 1950's and 1960's. It was very much the post-behavioural response to behaviouralism which structured the more specific criticisms of diffusion theory within the mainstream of political science. There was a call for the recognition of values in research and for policy relevance.²⁷ As indicated in another section of this chapter, diffusion theory,

²⁷ For an early expression of this point see James C. Charlesworth, (ed.), The Limits of Behaviouralism in Political Science, symposium sponsored by the American Academy of Political and Social
(continued...)

though often couched in value-neutral terms, was fundamentally value-laden²⁸ and in its emphasis on social and cultural variables paid little attention to either policy institutions, which earlier formal-legal approaches had addressed, or the policy process, particularly policy outputs and outcomes. Further, diffusion theory, as grand theory, was ahistorical.

By the early 1970's, the study of political development and underdevelopment, in response to these inadequacies of earlier perspectives, included studies which were more historical,²⁹ more conscious of the interaction of economic and political variables,³⁰ and more oriented to an examination of the policy process.³¹ In a discussion of the logic of political development, Almond and Powell address some of these concerns:

...desired sociopolitical goals and actions - such as national security and expansion, economic growth and social welfare and liberty - typically require increased regulative, extractive, distributive and symbolic outputs. These greater outputs and outcomes, in turn, are dependent on the development of more specialized and effective processes for making and implementing policy...these specialized processes are dependent on structural and cultural changes.³²

While, in their logic of development, state-building and economy-building are logically

²⁷(...continued)

Science, Philadelphia, Oct. 1962, particularly articles by David Easton and Milford Sibley.

²⁸ Modernization theory to the mid-sixties was preoccupied with the diffusion of liberal democracy and in the late 'sixties to early 'seventies with the maintenance of political order. For a literature review of these preoccupations see Richard A. Higgott, op. cit., pp. 17-21.

²⁹ Gabriel A. Almond, R.A. Mundt and C. Flanagan, (eds.), Crisis, Choice and Change: Historical Studies of Political Development, (Boston: Little Brown, 1977).

³⁰ N.T. Uphoff and W. Illichman, The Political Economy of Development, (Los Angeles: University of California Press, 1972).

³¹ Gabriel Almond and G. Bingham Powell, Jr., Comparative Politics: System Process and Policy, (Boston: Little Brown, 1978). This book included three sections on public policy (pp. 167-425) and a chapter on the political economy of development (pp. 358-390).

³² Ibid., p. 359.

prior to material distribution, since welfare-sharing is dependent on there being welfare to share, the politics of development compel a simultaneous confrontation of structural development and of policies to mitigate conditions of poverty.³³

In many ways, the study of public policy is another way of emphasizing the relationship between state, society, and politics. Because social change requires the formulation and ranking of priorities in light of political and economic resources, a focus on policy is consistent with a political economy approach. Policy analysis shifts the emphasis to outputs and outcomes and from macro-theoretical perspectives to a greater attention to the specific context in which policy-making occurs. This means that the approach should be sensitive to normative concerns such as redistribution and, in aiming for the more complete explanation of discrete cases rather than grand theory, should focus on the specific dynamics of politics in underdeveloped societies.

Though a policy approach to problems of underdevelopment is a useful corrective to some of the theoretical difficulties of modernization theory, particularly its macro-theory pretensions, it is not without its limitations in understanding underdevelopment. Among these are (1) the low capability and weak specialization of policy institutions in underdeveloped contexts which therefore circumscribe the application of a policy approach designed primarily as an analytic tool for the examination of more developed polities, (2) the relative absence of organized group interests and parties aggregating interests in many underdeveloped polities restricts the application of policy approaches grounded in incrementalism and a pluralist view of the role of the state in the accommodation of interests, and (3) the significance of external

³³ Ibid., p. 363.

institutions, actors, and economic factors in the politics of underdeveloped countries are not readily dealt with by policy approaches which, focusing on the nation state as the unit of analysis, often view such variables as exogenous to the analysis. In point of fact, very few analyses of the third world have been directed by a policy approach; yet, if the approach were combined with other directions in comparative analysis, it might yield important insights into the phenomenon of underdevelopment.³⁴

There is really no theoretical necessity which prescribes that a policy approach to underdevelopment produce the difficulties outlined above. The capability and specialization of policy institutions, the role of groups, parties and the state, and the significance to the policy process of external actors, institutions and economic forces may be addressed empirically in a particular policy analysis application to underdevelopment. More than anything, a policy approach makes possible an empirical middle-range analytical description of the politics of underdevelopment. If a policy approach is informed by a consideration of the variables and concerns addressed in diffusionist and dependency theory, the political implications of underdevelopment would be highlighted.

³⁴ See Lawrence S. Graham, "Public Policy and Administration in Comparative Perspective" in Howard J. Wiarda (ed.), New Directions in Comparative Politics (Boulder: Westview Press, 1985), pp. 169-199 for an attempt to apply a policy approach to developing countries. For a general review of applications of the policy approach, see Stuart S. Nagel, Public Policy: Goals, Means and Methods (New York: St. Martin's Press, 1984).

Conclusion - "Beyond Dependency Theory"

As this chapter has revealed, no one body of theoretical literature on underdevelopment can within itself address the politics of underdevelopment as explicated in Chapter 1. The intellectual dialectic within political science on theories of underdevelopment makes possible the theoretical framework for this dissertation. Clearly, as the critique of diffusion theory and dependency theory reveals, there is a need to address the dynamics of political change through an examination of class, region and culture and to analyze the relationship between state and society. A focus on the policy process makes possible an examination of the politics of underdevelopment, particularly the impact of such dynamics as internal dualism and external dependency on regime change.

This dissertation is sensitive to the criticisms of diffusion theory and dependency theory and attempts an examination of underdevelopment and regime change in Newfoundland and Labrador which is historically specific and oriented towards the generation of middle-range theoretical generalizations. Some of the insights of dependency theory, particularly the concepts of dualism and dependency, will be applied with a policy analysis framework to an investigation of underdevelopment and regime change in Newfoundland. This requires an examination of various dimensions of the political economy of Newfoundland. Of importance are the historical development of the productive system, the interaction of pre-capitalist and capitalist modes of production, the formation of social class and relations between social classes, the politics of underdevelopment, the role of the state in development policy, the changes in state structures and functions in response to the politics of underdevelopment, and the performance of political institutions in stimulating development or exacerbating

underdevelopment. Such a research agenda demands attention to the particular and unique features of the historical development of the Newfoundland social formation. It is, however, not the intent of this thesis to present a general history of Newfoundland's course of economic and political development. While there is no doubt that such a survey work is long overdue, this dissertation has the more limited goal of using the data of historical research available in the standard secondary sources on Newfoundland, together with a primary analysis of sources not included in the standard works, to advance a theoretical interpretation of underdevelopment and regime change in Newfoundland which has not been systematically examined.

Through an examination of selected archival materials, particularly memoranda to Cabinet, correspondence between the managers of foreign-owned resource companies and the Newfoundland government, correspondence between the Newfoundland government and the British Colonial Office, correspondence between the Newfoundland government and the Canadian government, correspondence between the Newfoundland government and the Canadian banks, newspaper reports, legislative debates and electoral returns, the policy process surrounding development policies in the mining sector and nineteenth and twentieth century cases of regime change are examined.

The policy process of mineral development was chosen for close scrutiny for several reasons. Firstly, the development of the mining sector as part of a strategy for economic development and diversification had been a goal of Newfoundland governments since the attainment of responsible government in 1855. An examination of developments in this sector provides for a comparative data base on policy-making across successive Newfoundland political regimes. Continuities and changes in the policy process, policy outputs and development outcomes can therefore be assessed. Secondly,

the mining sector, for the most part, was developed through foreign capital, of which Canadian capital was an important element. Through an examination of mineral policy-making, the influence of foreign capitalists on the policy process and the impacts of their corporate activities on the broader political environment can be examined. In focusing on the discrete interactions between corporate actors and governmental policy actors, insights into the role of the state in government-business relations, and the capabilities of state structures with respect to foreign capitalists can be assessed. Thirdly, the exploitation of Newfoundland mineral wealth involved the creation of several resource towns whose economic base was clearly tied to a capitalist mode of production. These communities were important sites for the formation of an industrial working class. Though the focus of this research is not on labour history, an analysis of resource politics permits a preliminary description of the increasing complexity of class structure accompanying the expansion of capitalism and of the impact of the tensions and contradictions of that process on Newfoundland politics. Fourthly, because minerals had become important export staples by the 1930's and because operations in Newfoundland were mostly extractive, with processing undertaken in Canada or the United States, the political economy of mining is a bellwether for Newfoundland's shift from a British to a North American economic and political orbit. In summary, case studies of mineral policy-making facilitate investigations of the effect of external dependency and dualism on policy outputs and outcomes. Through an empirical examination of the micro-politics of resource development policies, the specific dimensions of the politics of underdevelopment are reflected. The policy process of mineral development serves as a telescopic lens through which the changing contours of underdevelopment may be viewed.

While analyses of resource policy-making facilitate an assessment of the specific implications of dualism and external dependency for resource policy outputs and outcomes, these dimensions of the politics of underdevelopment may also elucidate the political-institutional outcome of regime change. Much of the research focuses upon the major instances of regime change in Newfoundland in the nineteenth and twentieth centuries, attempting to weigh the relative importance of dualism and external dependency for the institutional outcomes.

Chapter 3

The Canada-Newfoundland Cases Scope, Method and Organization

Introduction: Underdevelopment in Newfoundland

While Canada is a "rich dependency" in relation to the United States, the richness of Canada's dependency is not solely attributable to the positive impact of American direct investment in Canada. As "semi-peripheral" in the international economic system, Canada is both exploiter and exploited. At least some of Canada's wealth has been generated from the return to Canada of investment by Canadian corporations abroad—corporations which through centralization, concentration and protection were able to penetrate beyond Canadian national boundaries. The role of Canadian companies abroad has been a minor theme in Canadian political economy.¹ An examination of the role of Canadian capital in Newfoundland pre-1949 would widen the scope of Canadian political economy to give it an international dimension and an examination of the role of the Canadian state and Canadian capital in Newfoundland further fills out the political economy of Canadian federalism. As is evident from the following review of the Newfoundland scholarly literature, while much has been written from a variety of analytic and disciplinary perspectives on Newfoundland, no examination has explicitly linked Newfoundland's underdevelopment and peculiar constitutional history to the politics of underdevelopment. Most of the research has been heavily descriptive in style.

¹ See for example Daniel Jay Baum, The Banks of Canada in the Commonwealth Caribbean: Economic Nationalism and Multinational Enterprises of a Medium Power, (New York: Praeger, 1974); Jorge Niosi, Canadian Multinationals, (Toronto: Garamond Press, 1985).

Underdevelopment in Newfoundland

There is a small, but growing, literature on Newfoundland history, politics and society. With the growing interest in regional studies in the last decade, analyses and interpretations of Newfoundland's development have mushroomed in scholarly books,² in articles³ and numerous monographs and dissertations.⁴ A regional press has made possible the publication of a variety of specialized scholarly studies, memoirs of politicians and political commentaries.⁵ The Memorial University of Newfoundland

² For example, David Alexander, The Decay of Trade, (Toronto: University of Toronto Press, 1977); David Alexander, Atlantic Canada and Confederation, (Toronto: University of Toronto Press, 1983); James Hiller and Peter Neary, Newfoundland in the Nineteenth & Twentieth Centuries, (Toronto: University of Toronto Press, 1980); David MacKenzie, Inside the Atlantic Triangle, (Toronto: University of Toronto Press, 1986); Ralph Matthews, The Creation of Regional Dependency, (Toronto: University of Toronto Press, 1983); Frederick W. Rowe, A History of Newfoundland and Labrador, (Toronto: McGraw-Hill Ryerson, 1980); Frederick W. Rowe, The Smallwood Era, (Toronto: McGraw-Hill Ryerson, 1985); Gerald Sider, Culture and Class in Anthropology and History: A Newfoundland Illustration, (Cambridge: Cambridge University Press, 1986).

³ Numerous articles have appeared in books and in such Canadian journals of sociology, political economy, and political science as the Canadian Journal of Sociology, Canadian Review of Sociology and Anthropology, Studies in Political Economy, Canadian Public Policy, Canadian Journal of Political Science, Journal of Canadian Studies and Journal of Newfoundland Studies. Those of particular relevance for this research are noted in the text and/or included in the bibliography.

⁴ Memorial University's Institute of Social and Economic Research (ISER) has published over 30 monographs on the Newfoundland culture, society, and economy. The Centre for Newfoundland Studies in the Queen Elizabeth II Library, MUN, is an important repository for documents, published works, and dissertations on Newfoundland.

⁵ Examples of locally published memoirs and/or commentaries include Herbert Pottle, Newfoundland - Dawn Without Light, (St. John's: Breakwater, 1979); William J. Browne, Eighty-four Years a Newfoundlander, (St. John's: Dicks, 1981); A. Brian Peckford, The Past in the Present: A Personal Perspective on Newfoundland's Future, (St. John's: H. Cuff, 1983); F.L. Jackson, Newfoundland in Canada: A People in Search of a Polity, (St. John's: H. Cuff, 1984); specialized scholarly studies include for example Shannon Ryan, Newfoundland-Spanish Saltfish Trade 1814-1914, (St. John's: H. Cuff, 1983); Melvin Baker, Robert Cuff, and Bill Gillespie, Workingmen's St. John's, (St. John's: Harry Cuff, 1982).

interdisciplinary program in Newfoundland Studies, the Journal of Newfoundland Studies, and the Institute of Social and Economic Research, together with regional professional associations and conferences, provide an intellectual environment for Newfoundland specialists. The topics and themes examined are diverse.⁶ For the purposes of this research, studies of underdevelopment, representative, responsible and Commission government, Newfoundland's entry into Confederation, and other aspects of political culture and process are particularly relevant. Even with these limited concerns, a plethora of disciplinary approaches and analytical styles are evident. As this dissertation attempts to explore the inter-relationships between underdevelopment and regime change, focusing on such concepts as state, class, culture, policy and dependency, those works which have a political economy thrust are most important though much may be gleaned from historical-institutional studies⁷ and quantitative attitudinal research.⁸

⁶ For a useful bibliography of social science works to 1975 on Newfoundland and Labrador, see Maurice A. Stearns, Newfoundland and Labrador: A Social Science Bibliography, (St. John's: MUN Department of Sociology, 1975).

⁷ For example, D.W. Prowse, A History of Newfoundland from the English, Colonial, and Foreign Records, (London: MacMillan and Co., 1895); Gertrude Gunn, The Political History of Newfoundland 1832-1864, (Toronto: University of Toronto Press, 1966); James Hiller, "A History of Newfoundland, 1874-1901", Ph.D thesis, Cambridge, University of Cambridge, 1971; Ian D.H. McDonald, "W.F. Coaker and the Fishermen's Protective Union in Newfoundland Politics 1908-1925", Ph.D thesis, London, University of London, 1971.

⁸ The most relevant has been the survey research undertaken by Mark Graesser in the period from 1979-1984. Preliminary findings have been published in pamphlet form. See "The Newfoundland Election Study: Summary of Results", Centre for Newfoundland Studies. Also relevant are the Newfoundland data analyzed as part of national studies. For example, Richard Simeon and David Elkins, "Regional Political Cultures in Canada" in Canadian Journal of Political Science, 1974 (7) 3, pp 397-473; Harold Clarke et al, Political Choice in Canada, (Toronto: McGraw-Hill Ryerson, 1980); Michael Orstein, H. Michael Stevenson, and A. Paul Williams, "Region, Class and Political Culture in Canada" in Canadian Journal of Political Science, 1980, (13) pp. 227-271; and Michael D. Orstein, "Regionalism and Canadian Political Ideology" in Robert J. Brym (ed.), Regionalism in Canada, (Richmond Hill: Irwin Publishing, 1986), pp. 47-87.

The basic text on Newfoundland politics is S.J.R. Noel's Politics in Newfoundland.⁹ Noel's book is a general survey of politics in the twentieth century with special attention given to such topics as political leadership, political parties and elections, and changes in constitutional structure. The work is historical-institutional in approach and contains a wealth of information on the operation of the political process, particularly such dimensions as political style, partisan politics and political corruption. Though not written from a political economy perspective, Noel's interpretation of twentieth century patterns of politics is sensitive to the impacts of external political and economic actors and the operation of the staple economy on Newfoundland politics. While the thesis of underdevelopment and dependency is not explicitly addressed in Politics in Newfoundland, there is much in Noel's research which would support such an interpretation. Of particular significance is the discussion of the role of the Canadian banks and of the Canadian and British government in the years immediately preceding the collapse of democratic government in 1934.

Since the publication of Politics in Newfoundland in 1971, more specialized studies of economic factors and of the British and Canadian governments' role in twentieth century regime change have been made public, for example the works of McCann, Neary, and Mackenzie on the entry of Newfoundland into Confederation.¹⁰ These works supplement such earlier studies of constitutional change in Newfoundland as Gertrude Gunn's analysis of nineteenth century developments, Prowse's nineteenth century history,

⁹ S.J.R. Noel, Politics in Newfoundland. (Toronto: University of Toronto Press, 1971).

¹⁰ Philip McCann, "Confederation Revisited: New Light on British Policy", paper presented to the Newfoundland Historical Society, 1983; Peter Neary, "Newfoundland's Union with Canada, 1949: Conspiracy or Choice" in Aradiensis XII (Spring 1983), pp. 110-119; and David MacKenzie, Inside the Atlantic Triangle: Canada and the Entrance of Newfoundland into Confederation 1939-1949, (Toronto: University of Toronto Press, 1986).

Susan McCorquodale's analysis of the administrative structure of the Commission of Government, St. John Chadwick's treatment of the Commission of Government period and the transition to provincial status, and Henry Mayo's treatment of Confederation.¹¹ These historical case studies, though written from a variety of perspectives, provide grist for an analysis of the inter-relationships between underdevelopment and regime change in Newfoundland. While Gunn, for example, focuses primarily on the religious cleavage in nineteenth century politics, there is much in her work on social class and political change. In many cases, subsidiary themes and data presented as part of a general survey in these major secondary sources are relevant for this dissertation. While none of these works approaches Newfoundland regime change from the perspective of the theories of underdevelopment earlier outlined, they do provide insights and hypotheses for a study of the politics of underdevelopment. McCorquodale's work, for example, examines the diffusion of British civil service administrative practices to the Newfoundland environment during the Commission of Government period, S.J.R. Noel and R.M. Mackay¹² draw attention to the repercussions of a high foreign debt and of a volatile staple economy on regime change, and St. John Chadwick and Thomas Lodge¹³ give insiders' views of the policy process in Whitehall and St. John's during the Commission of Government period.

¹¹ Gertrude Gunn, The Political History of Newfoundland, op. cit.; D.W. Prowse, A History of Newfoundland, op. cit.; Susan McCorquodale, "Public Administration in Newfoundland During the Period of the Commission of Government: A Question of Political Development", Ph.D. thesis, Queens University, 1973; St. John Chadwick, Newfoundland Island into Province, (Cambridge: Cambridge University Press, 1967); Herbert Mayo, "Newfoundland and Canada, the Case for Union Examined", Ph.D thesis, Oxford, 1948.

¹² R.A. Mackay, (ed.), Newfoundland: Economic, Diplomatic and Strategic Studies, (Toronto: Oxford University Press, 1946); S.J.R. Noel, Politics in Newfoundland, op. cit.

¹³ Thomas Lodge, Dictatorship in Newfoundland, (London: Cassell and Co., 1939); St. John Chadwick, Newfoundland Island into Province, op. cit.

While the literature on constitutional change in Newfoundland has a direct bearing on this research, strands of the literature which analyze dimensions of the political culture and economy are important because regime change does not take place in a cultural or economic vacuum. While the impact of external political and economic actors and market forces are central to an understanding of the relationship between underdevelopment and regime change, indigenous features of the Newfoundland social formation both mediate the impact of external forces and directly affect the operation of the political process.

Of the indigenous features of the Newfoundland social formation, those which have received the greatest scholarly attention are various attitudes and values seen to constitute the Newfoundland political culture. Aspects of political culture have not only been identified in scholarly research as central to an understanding of Newfoundland society and politics but have also been advanced in government inquiries and royal commissions as a fundamental cause of Newfoundland's particular political history. This interpretation has had a significant impact on popular perceptions of politics in Newfoundland and was no doubt important in stimulating systematic scholarly research on attitudes and values towards politics. In the twentieth century, two public documents stand out as important in structuring evaluations of the Newfoundland political process. The first was the Report of the Hollis Walker Inquiry which was struck to investigate charges of political corruption, patronage and election irregularities in the 1920's, and the second was the Report of the Royal Commission on Newfoundland 1933, better known as the Amulree Commission, whose terms of reference made possible a comprehensive examination of the Newfoundland economy and political system.¹⁴ Both

¹⁴ Newfoundland Royal Commission 1933 Report, (London, 1934); Hollis Walker Report, published in the *Daily News*, St. John's, March 22-23, 1923.

documents set out scathing condemnations of the Newfoundland political process and advanced an interpretation of Newfoundland politics which has done little to further an understanding of Newfoundland underdevelopment and regime change. As is very often the case with public inquiries, both investigations and reports were very much a part of the political process which they sought to evaluate. The Hollis Walker inquiry fanned the flames of the political controversies of the 1920's by virtue of the public nature of its proceedings, and in no small part, the report which it produced discredited several of the prominent politicians of the day. Its effects reverberated upon the party system which, as a result of the original scandals and the ensuing revelations to the inquiry, was in a state of disarray. Political coalitions fell apart and governments toppled under the weight of the political intrigue generated by the investigation.¹⁵ Hollis Walker's report, which was widely publicized, characterized Newfoundland politics as bereft of political morality and most of the politicians of the day as self-serving if not corrupt to the core. This document laid the foundation for an interpretation of Newfoundland underdevelopment and political volatility which placed the blame on corrupt politicians who pillaged the Treasury and on a public who tolerated such practices as a normal part of the dirty business of politics. When Newfoundland was on the verge of financial collapse during the international depression of the 1930's, the Amulree Commission fell back on a similar interpretation of the Newfoundland government's plight. The Amulree Commission referred to the "reckless waste and extravagance" of successive Newfoundland governments and the "simple-minded electorate" as being at the root of Newfoundland's difficulties. The only solution was that Newfoundland have a "rest from politics" which, in the Royal Commission's view could be achieved if democratic

¹⁵ See Chapter 5 of this work for a discussion of the inquiry and its implications for relations between resource companies and the Newfoundland government. Also, R.M. Elliot "Newfoundland Politics in the 1920's: The Genesis and Significance of the Hollis Walker Enquiry" in James Hiller and Peter Neary (eds.) Newfoundland in the Nineteenth and Twentieth Centuries, op. cit., pp. 181-204.

self-government was disbanded and a British-appointed committee ruled the land.¹⁶ In the economic crisis of the 1930's, an interpretation of political corruption became an ideological justification for the investiture of the interests of Newfoundland's bondholders in domestic policy-making.

Partly because of the significance² given to political culture in official explanations of Newfoundland politics, scholarly work has attempted to describe the dominant values and attitudes which constitute the political culture and to assess their implications for the functioning of the Newfoundland political system. One approach has been to infer the dominant values of the political culture through holistic, historical interpretations of the Newfoundland ethos. A more recent trend has been to develop descriptions of Newfoundland political culture through quantitative attitudinal research.¹⁷ Holistic approaches include the treatment of political culture found in Noel, Neary, Perlin, Bellamy and Overton.¹⁸ Such works attempt to characterize the Newfoundland political culture from examinations of discrete historical events and from the tenor of politics as

¹⁶ See Chapter 6 of this work for a critique of the Amulree Commission Report and a discussion of the policy process surrounding the Royal Commission. See also S.J.R. Noel, Politics in Newfoundland, op. cit., pp. 158-170.

¹⁷ See David V.J. Bell, "Political Culture in Canada" in Michael S. Whittington and Glen Williams (eds.), Canadian Politics in the 1980's, (Toronto: Methuen, 1981), pp. 108-125 for a discussion of these two approaches in the literature.

¹⁸ S.J.R. Noel, Politics in Newfoundland, op. cit.; Peter Neary, Democracy in Newfoundland: A Comment, in Journal of Canadian Studies, 1969 (Vol. 4, No. 1), pp. 37-45; George Perlin, "Patronage and Paternalism: Politics in Newfoundland" in D.I. Davies and Kathleen Herman (eds.), Social Space: Canadian Perspectives, (Toronto: New Press, 1971) pp. 190-195; David Bellamy, "Background and Political Cultures: The Atlantic Provinces" in David Bellamy, Jon Pammett and Donald Rowat, (eds.), The Provincial Political Systems, (Toronto: Methuen, 1976), pp. 3-18; and James Overton, "Towards a Critical Analysis of Neo-Nationalism in Newfoundland" in Robert J. Brym and R. James Sacouman, (eds.), Underdevelopment and Social Movements in Atlantic Canada, (Toronto: New Hogtown Press, 1979), pp. 219-249.

revealed in political rhetoric and partisan debate.¹⁹ Interpretations have focused on such themes as traditionalism, elitism, patronage, the weakness of democratic norms, deference to authority, belief in strong leaders, populism, nationalism and sectarianism.

In recent years a small body of literature using quantitative approaches to political culture has emerged. The earliest quantitative data on Newfoundland political culture appeared as part of national studies, for example in Richard Simeon's and David Elkins' analysis of the 1968 National Election Study data.²⁰ These findings revealed high levels of disaffection among Newfoundland voters, low levels of political efficacy and high levels of political cynicism. The results were, however based on a very small number of cases from Newfoundland, and survey research conducted by Mark Graesser and others of the Newfoundland electorate has permitted more detailed analyses.²¹ This analysis revealed that partisans in Newfoundland could be distinguished by characteristics such as religion, occupation and education with Catholics and those with higher education levels and occupational status more likely to support the Progressive Conservative party than the Liberal party.²² Using an Alford type index of class partisanship, the authors found that only in British Columbia has such a high index value been achieved as that revealed by their Newfoundland data analysis.²³ The data also revealed that the largest group in the sample were disaffected voters, which was

¹⁹ For an examination of political rhetoric in recent Newfoundland politics, see Robert Paine, Ayatollahs and Turkey Trots: Political Rhetoric in the New Newfoundland, (St. John's: Breakwater, 1981).

²⁰ Richard Simeon and David Elkins, "Regional Political Cultures in Canada", op. cit.

²¹ See Mark Graesser and Michael Wallack, "Partisanship, Social Structure, and Political Culture in Newfoundland", paper presented to the Atlantic Association of Sociologists and Anthropologists, Mount Allison University, Sackville, New Brunswick, March 1981.

²² Mark Graesser and Michael Wallack, *ibid.*, p. 22.

²³ *Ibid.*, p. 23.

consistent with Simeon and Elkins' data, but Graesser and Wallack were further able to demonstrate that Liberal identifiers were more likely to be disaffected than Progressive Conservatives and that the cultural profile of Newfoundland Progressive Conservatives is not very different from the typical central Canadian pattern uncovered by Simeon and Elkins.²⁴ From this, Graesser and Wallack suggest that PC identifiers constitute part of a modern cultural enclave. It is interesting to note that PC's are not only more likely to be more highly educated than Liberals and to have a higher occupational status, but are also more likely to be urban.²⁵ These findings are based on provincial and federal election studies undertaken between 1979 and 1982. They cannot be generalized to earlier periods of Newfoundland politics,²⁶ although other research undertaken by Graesser and Wallack of the 1962-1972 period suggests that Liberal voting was associated with religion and education. Aggregate data analysis of census and electoral statistics revealed that the Liberal party fared best in areas where there were high percentages of Protestants and high percentages of voters who had not finished high school.²⁷ It is suggested that the source of the religious cleavage is a "holdover from

24 Mark Graesser and Michael Wallack, *ibid.*, p. 34. The data revealed that the largest group in the sample were disaffected voters, who constituted 33% of the sample. The authors applied Simeon and Elkins' four-fold typology of political culture types. Supporters, deferentials, critics and disaffected were identified from scores obtained on composite indices of efficacy and trust.

25 Mark Graesser, "Newfoundland 1982 Election Study, Summary of Findings", pamphlet, Centre for Newfoundland Studies, MUN.

26 This is particularly so for the relationship between religion and voting. The nineteenth century pattern was for Catholic support of the Liberal party. The current alignment was likely established in 1948 when the Roman Catholic church opposed Smallwood and Confederation.

27 Mark Graesser and Michael Wallack, "Social Mobilization and Voting in Newfoundland", paper presented to the Atlantic Provinces Political Studies Association, Wolfville, Nova Scotia, 1976, pp. 12-14. See as well Parzival Copes, "The Fisherman's Vote in Newfoundland" in Canadian Journal of Political Science, (3) 4, p. 579.

the past²⁸ and their data support the salience of such modern lines of cleavage as class and urbanization in explaining post 1971-1972 electoral behaviour, which has been marked by large majorities for the Progressive Conservative party. The electoral support base differences between the Liberal and Progressive Conservative parties lend support to the view that the dualism of Newfoundland society and culture is reflected in the pattern of party competition.

Yet another body of the scholarly literature on Newfoundland is relevant for this dissertation on the politics of underdevelopment and regime. Various authors relying on historical or sociological analysis implicitly or explicitly deal with reasons for and implications of the underdevelopment of Newfoundland. For the most part, research has understandably focused on the traditional fishing economy. A seminal work in this area has been Harold Innis' The Cod Fisheries²⁹ which traced the development and expansion of an international staple economy, noting the inherent rigidities of the staple model and the implications of staple-led growth for political institutions.³⁰ Innis' work is particularly significant for this thesis as it is one of the few treatments of the Newfoundland economy which specifically links aspects of economic development with political development. While Innis does not use a class analysis, his discussion of the development of commercialism and Newfoundland merchant capitalism provides not only important historical data on Newfoundland's position in the international trade in cod but valuable insights into the theoretical relationships between economy and polity.

²⁸ Mark Graesser and Michael Wallack, "Partisanship, Social Structure, and Political Culture", op. cit., p 30.

²⁹ Harold Innis, The Cod Fisheries, (Toronto: University of Toronto Press, 1940).

³⁰ See Innis' discussion of the development of responsible government and its collapse in 1934, particularly chapters XII and XIV. A more detailed discussion of the implications of Innis' research for an understanding of nineteenth century regime change appears in Chapter 4 of this work.

The economic history of the fishery has been further developed by David Alexander, Shannon Ryan and Steven Antler.³¹ David Alexander explores several possible interpretations of the underdevelopment of the Newfoundland economy - poor resource endowment, relative disadvantage with respect to external economies, political and economic exploitation, poor management of the resource base,³² weakness in entrepreneurship and capital supply,³³ and low levels of labour productivity and labour force literacy.³⁴ In general, Alexander rejects explanations of underdevelopment which focus upon poor resource endowment, relative disadvantage and exploitation. In his analysis of the saltfish trade from 1935-1965, Alexander focuses on the local mismanagement of the fishing economy, particularly in market development and market organization, and the inadequacies and discontinuities of federal policy in the post-1949 period.³⁵

Shannon Ryan's historical study of the salt cod trade in the nineteenth century focuses upon the detrimental impact of external factors or relative disadvantage on the

³¹ David Alexander, The Decay of Trade, Newfoundland Social & Economic Studies No. 19, (ISER-MUN, 1977); David Alexander, "The Political Economy of Fishing in Newfoundland", Journal of Canadian Studies, XI, No. 1 (Feb. 1976), pp. 32-40; David Alexander, "Newfoundland's Traditional Economy and Development to 1934", Acadiensis, V No. 2 (Spring 1976), pp. 56-78; Shannon Ryan, "The Newfoundland Salt Cod Trade in the Nineteenth Century" in James Hiller and Peter Neary, (eds.), Newfoundland in the Nineteenth and Twentieth Centuries, (Toronto: University of Toronto Press, 1980), pp. 40-66; Shannon Ryan, Newfoundland- Spanish Saltfish Trade 1814-1914, op. cit.; Steven Antler, "The Capitalist Underdevelopment of Nineteenth Century Newfoundland" in Robert J. Brym and R. James Sacouman, Underdevelopment and Social Movements in Atlantic Canada, (Toronto: New Hogtown Press, 1979) pp. 179-202.

³² David Alexander, Atlantic Canada and Confederation, op. cit., pp. 4-6

³³ Ibid., p. 14.

³⁴ David Alexander, "Literacy and Economic Development in Nineteenth Century Newfoundland" in Atlantic Canada and Confederation, op. cit., pp. 110-137.

³⁵ David Alexander, The Decay of Trade, op. cit., passim

industry, particularly as far as markets, competitors and conditions of trade were concerned.³⁶ In contrast, Steven Antler views the underdevelopment of the nineteenth century fishing economy as deriving from class exploitation and the export of capital which might have been deployed for industrialization.³⁷

Historical studies of the fishing economy of the nineteenth and early twentieth centuries provide a basis from which a composite picture of the roots of underdevelopment can be composed. They raise several questions of importance to this research: what were the basic features of the traditional fishing economy; how did merchant capitalism in the fishery develop; what was the nature of the relationships between merchants and fishermen and of that between merchants, fishermen, and the state; how was the fishing economy articulated with other sectors of the Newfoundland economy; at what point did underdevelopment emerge, and why; what has been the history of governmental response to underdevelopment; and, how were the changes in state structures in the nineteenth century related to socio-economic dimensions of Newfoundland society and its integration into an international economy?

Recent works focusing on various aspects of underdevelopment include Ralph Matthew's discussion of regional dependency during the Smallwood administration, particularly resettlement and development policy, J.D. House's treatment of Conservative government oil policies, and Bruce Pollard's description of recent provincial policy as a

³⁶ Shannon Ryan, "The Newfoundland Salt Cod Trade in the Nineteenth Century" in James Hiller and Peter Neary, (eds.), Newfoundland in the Nineteenth and Twentieth Centuries, op. cit., pp. 51-62.

³⁷ Steve Antler, op. cit., pp. 196-197. See Chapter 4 of this work for a more detailed discussion.

response to regional dependency within the Canadian federation.³⁸ Also relevant are various articles and monographs which employ a class analysis of Newfoundland society, such as James Overton's discussion of neo-nationalism as a recent strain in Newfoundland policy and politics, David Close's examination of class politics and recent conflict in the fisheries, Gerald Sider's analysis of Newfoundland culture and class from an anthropological perspective, and Peter Sinclair's analysis of the fate of Newfoundland domestic commodity producers within advanced capitalism.³⁹ Though none of these works specifically addresses the question of the relationship between underdevelopment and regime change, in one way or another each provides insights into the politics of underdevelopment.

These examinations of the Newfoundland society and economy have dealt primarily with the period since Newfoundland's entry into the Canadian federation. Particularly useful for this research has been the attention given to governmental policy as an important factor in understanding the creation and amelioration of underdevelopment.⁴⁰ Other themes of importance are the tensions between the fishing economy and other resource sectors in modern Newfoundland, the socio-economic basis of conflicts over development policy, and the federal-provincial dimensions of policy. From discrete

³⁸ Ralph Matthews, The Creation of Regional Dependency (Toronto: University of Toronto Press, 1983); J.D. House, The Challenge of Oil, Social and Economic Studies No. 30, (ISER: MUN, 1985); Bruce G. Pollard, "Newfoundland: Resisting Dependency" in Peter Leslie (ed.) Federalism in the 1980's, (Queens Institute for Intergovernmental Affairs, 1986).

³⁹ James Overton, "Towards a Critical Analysis of Neo-Nationalism in Newfoundland" in Robert J. Brym and R. James Sacouman, Underdevelopment and Social Movements in Atlantic Canada (Toronto: New Hogtown Press, 1979), pp. 219-249; David Close, "Unconventional Militance: Union Organized Fish Sales in Newfoundland" in Journal of Canadian Studies, 17(2):3-11; Gerald Sider, Culture and Class in Anthropology and History, (Cambridge: Cambridge University Press, 1986); Peter Sinclair, From Traps to Dragnets, Social and Economic Studies No. 31, (ISER: MUN, 1985).

⁴⁰ This emphasis is evident in the works of David Alexander, particularly The Decay of Trade, op. cit.; Ralph Matthews, op. cit.; J.D. House, op. cit.; and Peter Sinclair, op. cit.

examinations of political culture, electoral behaviour, policy in the fishing and petroleum sectors, and federal-provincial relations, a comprehensive view of Newfoundland politics in the federal era is beginning to emerge.

Underlying scholarly investigations and the province-building strategies of recent Newfoundland governments is the recognition of Newfoundland's relative underdevelopment and dependency within the Canadian federation after almost forty years of confederation. Newfoundland's change in constitutional status in 1949 held out for many promise for a more prosperous and less uncertain future, as did the achievement of responsible government in the nineteenth century and even the inauguration of the Commission of Government in the 1930's. To some extent, changing the constitution has been seen as a panacea for Newfoundland's woes, yet the institutional adaptations proposed or achieved have varied from colonial emergent democratic structures (1825-54), independent democratic structures (1854- 1934), colonial non-democratic structures (1934-49), democratic structures within a larger federal framework (1949-present), to recent sentiments favouring constitutional change both within and outside of the Canadian federal union. If state-society linkages have any meaning, such changes in the political regime can only be understood in terms of changing patterns of social and economic relationships. While the stresses of underdevelopment may have contributed to Newfoundland regime changes, the variation in regimes implemented or advocated suggests that the politically significant facets of underdevelopment have also varied over time.

Conclusion: Scope and Method

This work explores the politics of underdevelopment, its changing dimensions, its implications for the resource policy process in Newfoundland and its consequences for regime change in Newfoundland. The theory explicated in Chapter 1 and grounded in Chapter 2 was also generated from the case studies of resource policy-making and regime change described and analyzed in Part II. The cases are all Newfoundland cases and each case study depicts the implications of external dependency and internal dualism for the policy process and regime change. The policy process selected for close scrutiny was that of mineral policy-making. The mineral wealth of Newfoundland has been partially developed by Canadian capital and the role of Canadian mining capital in Newfoundland politics is examined under two different political regimes - the liberal democratic regime of responsible government and the authoritarian regime of Commission of Government. The dependent policy process described in these case studies is clearly important for an understanding of the regime changes described and analyzed, particularly the case studies of the regime change of 1934 and the regime change of 1949. The richness of the cases is revealing. Minimally, the cases demonstrate that internal dualism and external dependency have impacted upon the policy process and that one of the outcomes has been regime change although this has not been the only outcome. Other distortions in the indigenous social formation are also evident. These distortions have exacerbated dualism and external dependency.

Through an historically specific focus on the policy process of mineral policy-making and regime change, some of the macro-theoretical pitfalls of dependency theory are avoided. Specific policy actors, tactics, resources, outputs and outcomes of

mineral policy-making are identified as part of a more general discussion of the politics of underdevelopment. Similarly, more fundamental distortions of Newfoundland's social formation, its regime changes, are discussed in light of the changing dimensions of dualism and external dependency.

The research builds on the theoretical literature on underdevelopment discussed and on the secondary literature on Newfoundland. Much of the literature on Newfoundland, though rich in historical detail, does not go beyond description to consider the repercussions of underdevelopment for the political process. This dissertation attempts to link aspects of underdevelopment with changes in political regime and to assess the implications of regime change for development and underdevelopment. To this end, Chapter 4 of Part II examines the origins of underdevelopment in nineteenth century Newfoundland and important changes in political regime during this period. By the end of the nineteenth century, responsible parliamentary democracy had been established and Newfoundland embarked on a development strategy which stressed resource development through foreign direct investment.

Part II of the dissertation then assesses the implications of this strategy for mineral policy and regime change. Part III discusses the politics of underdevelopment in the federal period since 1949, evaluates the ability of the framework developed in Part I to explain the specific cases presented in Part II and discusses Newfoundland's future prospects for development within the Canadian federal system.

Part II

Chapter 4

Underdevelopment, Resource Politics and Regime Change in the Nineteenth Century

Introduction

This chapter explores the development of the Newfoundland economy and polity in the nineteenth century. The development of a mercantile colonial state is discussed, as is the gradual development of an indigenous merchant class and a small St. John's middle class. The constitutional changes of the nineteenth century are analyzed in terms of tensions between resident and non-resident fractions of merchant capital and tensions between a growing middle class and merchant capitalists. The attainment of responsible government in 1855 was accompanied by the growing importance of development policies which would shift the economy away from a reliance upon the fisheries. The second half of the century was characterized by initiatives in railway construction, manufacturing and resource exploration, and by the end of the century Newfoundland had embarked on a development policy which relied on the attraction of foreign capital. Reasons for a reliance upon foreign capital are explored, particularly the entrepreneurial weakness of the local merchant class and structural problems which hindered capital formation for large investment projects. This chapter examines the potential for autarkic development in the nineteenth century and suggests that the origins of underdevelopment can be traced to this period in Newfoundland's political and economic history. By the end of the century, dualism and external dependency had become important aspects of Newfoundland's politics.

Mercantilism and the Role of the State

Nineteenth century institutional transformations in Newfoundland, like those occurring in British North America, did not take place in a social and economic vacuum. Alterations in the organization of the economy and the role of the state in economic development paralleled institutional change. The establishment of a colonial government in 1825, the creation of representative institutions in 1832, the restructuring of the legislature in 1842, the development of responsible government in 1854 and the failed attempt in 1869 to integrate Newfoundland into a federal union, were in themselves significant events.

Such dramatic changes in the institutional structures of politics reflected significant social and economic developments. Underlying regime change in the nineteenth century were struggles over the direction of economic development, tensions between social classes and divergent views on the role of the state in fostering economic development.

Newfoundland's current status as a resource rich, yet "have not" province was not set in the nineteenth century; however, the politics of natural resources, class relations and regime change in the 1800's offers insights into contemporary political conflicts in Newfoundland. This is so because the political economy of nineteenth century Newfoundland was not a monolith. Within a rather compressed period of time, state structures and capitalism took varied forms. The nature of these changes is most evident in an examination of the fishery and the growth of democratic political institutions. Changes in the organization of the English fishery in the seventeenth century spurred settlement in Newfoundland and, thus, the development of a resident

fishery in the eighteenth century and Newfoundland merchant capitalism in the nineteenth century. After the acquisition of representative and responsible government in the middle of the nineteenth century, a domestic capitalist economy developed.

Three general types of economic organization are discernible in Newfoundland in the nineteenth century; mercantilism, which developed in the older European nation states in the sixteenth and seventeenth centuries characterized the Newfoundland economy until early in the nineteenth century, a capitalist market economy which developed in the old world in the eighteenth century had begun to develop in Newfoundland in the nineteenth century, and the beginnings of a mixed economy and welfare state in the late nineteenth century.

Under mercantilism, the economic development of fledgling nation states was bolstered through the acquisition of colonies which could provide raw materials for domestic industry, foodstuffs for local consumption, and markets for the products of the imperial power. Newfoundland's rich cod fishery provided the basis for its participation in the British mercantilist system.

The role of the state in a mercantilist economic development strategy lay, essentially, in the assertion of sovereignty over foreign territories for the purposes of facilitating access to markets and materials of production or consumption. The migratory nature of the English West Country fishing industry meant that the cod fishery could contribute to the economic development of England without extensive outlays on the part of the British government for administration in Newfoundland. The West Country's prosecution of the Newfoundland fishery was organized so that ships from England would travel to the Newfoundland fishing grounds in the spring, fish over

the sides of these ships in the summer and return to Devon or Dorset in the fall. This fishery required that the fish be heavily salted and was also dependent on the ability of West Country vessels to compete with ships from other countries for the best fishing grounds. With salt shortages in England and increasing competition from other nations, adaptations in the West Country way of fishing occurred which required a greater role for the British government in civil administration in Newfoundland.¹ West Country fishing interests developed techniques for the cod fishery which minimized the amount of salt necessary for the preservation of the fish but which required a land-based operation in Newfoundland for the curing and drying of fish. A land-based operation for the "dry" fishery also had the additional advantage of giving West Country interests a competitive edge in retaining access to the better fishing grounds.² The construction of flakes for drying fish, and of buildings to house fishing supplies, gear, and small boats meant that some men were left behind during the winter months to tend to the stores. Gradually, over a period of about two hundred years, this contributed to the development of a resident fishery which resulted in a more significant role for the British state in the conduct of the Newfoundland fishery. As Innis has pointed out:

The rise of the resident fishery meant not only the establishment of courts but also the introduction of government on a more extensive scale. More elaborate equipment for carrying on the fishery, the growth of St. John's as a distributing centre, an increasing dependence on larger vessels to bring supplies and provisions from Great Britain and Ireland and a rise in the value of sites near which the fishery was conducted with greater efficiency were factors favouring the permanent occupation of the land.³

By the end of the eighteenth century the English ship fishery was in decline⁴ and a

¹ R.A. Mackay, (ed.), Newfoundland Economic, Diplomatic and Strategic Studies, (Toronto: University of Toronto Press, 1946).

² Harold Innis, The Cod Fisheries, (Toronto University of Toronto Press, 1954), *passim*.

³ Innis, *op. cit.*, p. 316.

⁴ Innis, *op. cit.*, p. 320.

recognition of the need to regulate the resident fishery developed.⁵ As the resident fishery developed, so too did political institutions. In 1824 with the passage of the Judicature Act, the Fisheries Act, and the Marriage Act, Newfoundland formally became a British colony.⁶ In 1825 the newly appointed governor, Sir Thomas Cochrane,⁷ was provided with an appointed council.

Colonial government was established somewhat later in Newfoundland than in the British North American colonies.⁸ Britain's interest in Newfoundland developed primarily from the richness of the Newfoundland cod fishery. The nature of this resource was

⁵ Ibid., p 320

⁶ A.H. McLintock, The Establishment of Constitutional Government in Newfoundland, (London Longmans, 1941).

⁷ Frederick W. Rowe, A History of Newfoundland and Labrador, (Toronto McGraw-Hill Ryerson, 1980), p 178. Britain had appointed governors for Newfoundland since 1729 when Captain Henry Osborne received the appointment. The decision to appoint a governor at this time was taken to deal with crime, legal disputes and confusion concerning the administration of Placentia. See F. Rowe p 178. For a brief biography of Governor Cochrane see the Encyclopedia of Newfoundland and Labrador, Vol 1, p 466.

⁸ Keith Matthews, "Historical Fence-Building: A Critique of Newfoundland Historiography", unpublished paper June, 1971, Centre for Nfld Studies, MUN. This is an excellent discussion of the origins, development, and assumptions of the theory of "retarded colonization". Colonial administrations with representative assemblies were put in place in the Canada's in 1791 under the Constitutional Act. The question of why Newfoundland's colonization was "retarded" in comparison to British North America has been a subject of some debate in writings on Newfoundland, partly because aspects of the political and economic organization of Newfoundland have been linked to late colonization. The issue of the purposes of colonization must be addressed if an interpretation of "retarded colonization" is to offer any insights into political and economic development in Newfoundland. On the implications of retarded colonization see Steven Antler, "The Capitalist Underdevelopment of Nineteenth-Century Newfoundland", in Robert J. Brym and R. James Sacouman (eds.), Underdevelopment and Social Movements in Atlantic Canada, (Toronto New Hogtown Press, 1979), p. 190-194. Use of the term, "retarded colonization", suggests that settlement and colonial status are stepping stones toward political and economic development and that a territory's development can be measured in terms of the speed of passage to, and through, the colonial stage. Furthermore, the use of the adjective "retarded", implies that the speed of passage can be evaluated in terms of some absolute or relative criteria. The major difficulty with this and other interpretations of development is not, in this case, only with the teleological assumptions which underlie the analysis, but also with a failure to sufficiently appreciate the reasons why countries such as Britain would undertake the costs of maintaining colonial administrations. The maintenance of colonial governments entails costs, which could only be borne if the benefits of doing so exceeded the costs.

such that it could be exploited very efficiently without extensive outlays for colonial administration. Fish was a "common property" resource and the West Country fishery was primarily a migratory ship fishery. While fish was salted on board the ships, virtually no administrative apparatus was required in Newfoundland for the success of the West Country fishery. When the West Country fishery developed into a dry fishery requiring a land-based operation, only minimal regulations and institutions needed to be established in Newfoundland. This the British government did as early as 1611⁹ and in 1633 with the passage of the Western Charter which formally established the traditional authority of the Fishing Admirals to regulate the fishery in Newfoundland.¹⁰ So, if Newfoundland's colonization was delayed this was because an elaborate administration in Newfoundland was not essential to the early English involvement in the cod fishery. It was only after the development of the resident fishery and the establishment of branches of English mercantile firms in Newfoundland to purchase fish for export that

⁹ Innis, *op. cit.*, p. 56

¹⁰ Despite the attempts of West Country ship fishery interests to influence the British government to prohibit settlement, and thus protect the West Country monopoly, settlement in Newfoundland proceeded. As Frederick Rowe summarizes this situation:

The English government and the Parliament found itself on the horns of a dilemma. The powerful fishing-ship interests demanded protection of their customs and rights, and the national interests dictated the need for a healthy ship-fishery. But the settlers and the bye-boatmen, who were, for the most part, West Country people, also demanded fair treatment, and they were supported by London interests. And behind all these arguments loomed an ominous shadow without permanent settlement Newfoundland was a plum ripe for the picking.

Frederick Rowe, *op. cit.*, p. 109. While increasing settlement created a need for the establishment of political and legal authority in Newfoundland for the orderly prosecution of the cod-fishery, there were also demands from the West Country interests for the alleviation of the disorganization through legislation which would curtail further settlement. This demand arose because of what was perceived as a situation of lawlessness among residents on the island, and also because a resident fishery had begun to develop on Newfoundland which threatened the economic and political monopoly of West Country fishing interests in Newfoundland. If settlement was discouraged there would be no need for an administrative apparatus and legal authority which was more elaborate than that exercised by the captains of the fishing ships. To some extent, the interests of the West Country fishing interests coincided with those of the British government. If the Newfoundland fishery could contribute to the economic development of England without requiring costly colonial administrations, so much the better for both the British government and the English fishing industry.

institutions in Newfoundland became necessary for the changing English role in the fishery.

With increasing transitory and permanent settlement in Newfoundland, the role of the British state in Newfoundland expanded. This was reflected in the additional authority given to the Fishing Admirals under the revised Western Charter of 1671, the Newfoundland Act of 1699, and in the appointment of a year-round governor in 1729. Though the West Country interests clearly wished to maintain control over Newfoundland,¹¹ Newfoundland was a "white settler colony" inhabited by immigrants from the West Country of England and Ireland and, as such, demands for local government on the island originated as early as the mid-seventeenth century.¹² Perhaps because of countervailing pressures from the West Country ship fishing interests, these demands were not recognized until early in the nineteenth century. Though it is likely that neither resident demands for political institutions nor the growth of the resident fishery resulted in the diminution of the economic monopoly or political power of the West Country, the establishment of a colonial government did coincide, as Innis points out, with the economic decline of the West Country ship fishery.¹³ By 1823, only 15

¹¹ Keith Matthews, *op. cit.*, p. 37. Matthews suggests that the West Country interests did not so much wish to curtail settlement as to retain control over Newfoundland through the discouragement of local government.

¹² Frederick Rowe, *op. cit.*, p. 112.

¹³ Innis notes that by 1823 only 50 fishing ships left England as compared with 300 in 1792. By 1823 the number had declined to 15, *ibid.*, p. 320-22. Steven Antler criticizes this interpretation in his "The Capitalist Underdevelopment of Nineteenth-Century Newfoundland", in Robert J. Brym and R. James Sacouman (eds.), Underdevelopment and Social Movements in Atlantic Canada, (Toronto New Hogtown Press, 1979), arguing on p. 182 that there was a fifty year gap between the decline of the ship fishery and the establishment of a resident government. The gap is only this wide if 1855, the year of the establishment of responsible government, is taken as the benchmark. If Colonial Government was established in 1825 as McLintoch has argued or if 1832, the year of the establishment of representative government is taken as the reference point, the gap is considerably more narrow.

ships left England for the Newfoundland fishing grounds. The decline of the ship fishery was accompanied by an increase in the significance of the resident fishery but not by a decline of English involvement in the Newfoundland fishery. English firms established in Newfoundland to purchase fish from Newfoundland-based fishermen. This change in English involvement in the Newfoundland fishery coincided with the 1825 appointment of an executive council and, in 1832, provision was made for the election of a legislative assembly.

Class Relations and Constitutional Change

While the acquisition of representative government in 1832 paved the way for the development of a capitalist state and the accumulation of Newfoundland merchant capital, the power of the English mercantile establishments in Newfoundland was not broken by this change in political institutions. The government which was established in 1832 was a full-fledged colonial government; executive power in Newfoundland was ultimately controlled by the Colonial Office in Britain, not by the elected assembly which represented Newfoundland merchants, entrepreneurs, and professionals.¹⁴ Executive and some legislative powers were exercised by a 7 member appointed council. Relations between the council and the legislative assembly were not harmonious. As Gertrude Gunn points out in her very competent political history of this period, the elected assembly repeatedly clashed with the appointed council, to the point where an amalgamated assembly comprising both elected and appointed members was created in

¹⁴ Gertrude Gunn, The Political History of Newfoundland 1832-1864, (Toronto: University of Toronto Press, 1977), Appendix B, p. 193. Of the 15 representatives elected to the first assembly in 1832, 6 were merchants.

1842. Gunn notes that shortly after the inauguration of the constitution of 1832 there was "a concerted effort on the part of merchants and their West Country associates to discredit the legislative assembly".¹⁵ This effort extended to the presentation of petitions to the British government by the merchants of Liverpool, Torquay, Dartmouth, Teignmouth, and Bristol in 1838 and 1839.¹⁶ These petitions, among other things, argued that the legislative assembly would jeopardize their property, their credit, and the prosecution of the fishery. Three of the petitions advocated the abolition of the assembly. As the West Country ship fishery had declined by the early part of the century, this merchant lobby against the assembly raises the question of why West Country interests were so adamantly opposed to representative institutions in Newfoundland.

By the 1830's the West Country's interest in the Newfoundland fishery had not waned, but changed. Originally, the West Country houses had been involved directly in both the production and marketing of fish. Through the ship fishery fishermen were directly employed, for wages or for a share of the catch, to fish from the ships and boats of the West Country mercantile firms. With the development of a resident fishery, fishermen became independent commodity producers, as opposed to wage earners. They owned their own boats and gear and sold the fish they produced to a merchant who established the price and marketed the product internationally. With the development of household production of fish in Newfoundland, the direct involvement of West Country firms in the catching of fish declined but West Country firms continued to play a role in the exporting of Newfoundland fish. To do this, English mercantile

¹⁵ Gunn, *ibid.*, p. 56.

¹⁶ *Ibid.*, pp. 56-57.

firms established offices and agents in Newfoundland which, on behalf of the home office, contracted for the fishermen's catch at the beginning of the fishing season by extending credit to the fishermen for the purchase of supplies and gear necessary to prosecute the fishery. As Antler¹⁷ has pointed out, this truck system gave the merchant control over the access and utilization of the resource through the control held by the merchant over the extension of credit to fishermen, and also meant that most of the risks of the industry were borne by the fishermen.

There is little doubt that this mode of production resulted in the accumulation of merchant capital in Newfoundland but whether, in the period between 1832 and 1855, the capital accumulated was Newfoundland merchant capital is a moot point.

This is a critical issue if the character of the political regime of representative government, legislative-executive conflict, and institutional change during this period are to be understood. If Newfoundland capitalism was significantly developed by 1832, then a state in Newfoundland which facilitated capital accumulation by Newfoundland merchants would be expected. What was established was an unworkable form of colonial government, fraught with conflict between an elected legislature and an appointed executive. It is unlikely that the contest between the assembly and the council was simply a struggle between resident Newfoundland merchants and West Country merchants. What is more likely is that underlying the legislative-executive conflict was a tension between established and successful merchants, who were for the most part tied to the English houses, and less established business interests who were in competition with the older firms. Furthermore, since the major waves of immigration to

¹⁷ Steven Antler, *op. cit.*, p. 193.

Newfoundland occurred in the first three decades of the nineteenth century, it is likely that most of the adult population were non-natives. The electoral law required only a two year residency for members of the legislative assembly and, as Keith Matthews has argued, for the most part the representatives in the new legislature were relatively new arrivals and not "native" born.¹⁸

Though one dimension of the conflict between legislature and executive involved tensions between established merchants and aspiring merchants, another aspect of the struggle was a cleavage between merchants and a new middle class. Although the assembly of 1832 had a mercantile character, 8 of the legislators had occupations more middle class than capitalist.¹⁹ This new merchant/middle class composition of the legislature goes some way in explaining the antagonism between the Assembly and the Council. Gunn's description of the nature of the conflict between the two institutions is somewhat perplexing. On the one hand the assembly is described as primarily merchant, yet on the other hand supporters of the Council who were also primarily merchants lamented the "unprincipled and unqualified" membership of the assembly²⁰ and advocated an enlarged Council or hefty property requirements for candidates to the Assembly. This rhetoric has more the tone of a rift between the old "merchantocracy"

¹⁸ Keith Matthews, "The Reformers of 1832", Lecture to the Newfoundland Historical Society, Centre for Nfld. Studies, MUN. On p. 15, Matthews notes "A socio-economic elite in St. John's, who were almost all first-generation emigrants, saw fit to advance the cause of Newfoundland nationalism on the grounds that it would benefit the people".

An interesting exception was William Thomas, the most prominent merchant elected to the first assembly. The Thomas family had carried on a merchant business at Dartmouth and St. John's for generations in partnership with a Mr. Stokes, under the firm name Stokes and Thomas. Thomas's father had been born in St. John's and William Thomas was a substantial merchant in the colony. Significantly, however, William Thomas relinquished his seat in the legislature in 1833 to be appointed to the Council.

¹⁹ Ibid., Appendix B, p. 193. The occupations were 1 auctioneer, 1 physician, 1 lawyer, 2 dealer/shopkeepers, 1 naval officer, 1 merchant's agent, 1 carpenter. The remaining six of the fifteen legislators were merchants.

²⁰ Ibid. 56.

and the nouveau riche, than a conflict of interest between residents and non-residents. A similar ambiguity about legislative-executive relations during this period also is evident in Judge Prowse's 1887 account. In this interpretation, the root of the conflict lay in a divergence of views on the most appropriate development strategy for the colony.

The bitterest antagonists of the measure [the creation of a legislature] were, however, the old West Country merchants; the idea of Newfoundland having a legislature was to their minds simply outrageous. One of them - Peter Ougier - stated in his evidence, "they are making roads in Newfoundland, next thing they will be having carriages and driving about".²¹

A similar theme is evident in Gunn's treatment of the tensions between legislature and executive. She notes that from the perspective of the House of Assembly, as expressed in an address to the Queen, the problem originated in a conflict of economic interest between those who constituted the legislature and those who comprised the executive.

Whereas the fostering care of the Imperial Government in the Canadian provinces and New Brunswick had promoted agriculture and created a native gentry with interests in the country common to those of the body of the people, the policy towards Newfoundland had been totally different and produced a unique situation. This policy had been first to forbid residents, and then to restrain settlement, and later to hinder and decry agriculture. The result was there was no native gentry, no resident landowning class, from which councillors might be drawn. There were but two classes. One, the mercantile, was composed of "merchants and adventurers", non-native, and to some extent non-resident, together with officials of the government, also outsiders. The other class comprised the fishermen. *The merchants, because of a desire to maintain their supplying monopoly, were consistently opposed to agricultural development and intent only upon self-aggrandizement and withdrawal. The natives and residents, on the other hand, sought through the Assembly to promote the prosperity and development of the island.* (emphasis added)²²

²¹ Prowse, op. cit., p. 430. Prowse goes on to note that among the appointees to the new Council was Mr. James Simms as Attorney General.

The first law officer of the Crown was one of the most prominent opponents of the new Legislature, and, as senior member of the Council, his conduct toward the Lower House was most overbearing."

²² G. Gunn, op. cit., pp. 53-54. The conflict over road-building was likely based in a desire on the part of St. John's merchants to capture some of the business of the West Country based merchants who were dominant in the outports. Access by road to the outports would have increased the competitiveness of

(continued...)

Following the 1837 elections, at which only one merchant was elected, the tensions between assembly and council came to a head. The constitution of 1832 was suspended and in 1842 a partially appointed and elected Amalgamated Assembly was formed. This institutional change temporarily reasserted the control of established merchants over the policy process in Newfoundland. Ostensibly the reason for the suspension of the constitution was political violence connected with the 1837 elections, but in representations to a select committee of the British House of Commons on the Newfoundland situation,²³ the arguments for disbanding the legislature completely or putting in place a legislature which was only partly elected were couched in terms of the tensions between the legislative assembly and the appointed council.

Information on Newfoundland was provided to the select committee by seven individuals. As Gunn indicates, only one of the seven had been resident in Newfoundland since 1839, and of the seven, four were merchants.²⁴ A principal witness was Sir Thomas Cochrane who had been a governor of Newfoundland and who had opposed the grant of representative government in 1832. In Cochrane's estimation the problem of Newfoundland lay in the absence of a propertied agricultural class, or "sufficient respectable candidates for the Assembly" and the unsuitability of the

²²(...continued)

the new local merchants, wholesalers and retailers based in St. John's. It seems that other elements of the middle class, which was represented in the House of Assembly, saw their future prosperity tied to the opening up of the interior with the development of agriculture. What linked the interests of the newly established merchants and the professional middle class in the legislature was the encouragement of transportation and communication linkages from St. John's.

²³ Ibid., p. 79.

²⁴ Ibid., p. 79.

"Catholic shopkeeping class" for the Council.²⁵ The merchants concurred with this assessment and noted other economic factors in support for their argument for abrogation of the Assembly; the depreciation of the value of property in the outports, the absence of bounties to support the fishery, and the political consciousness of Catholic seal fishermen which led them into "combination for higher wages".²⁶ The interpretation of delegates from the Newfoundland legislature was not heard by the select committee, but in correspondence to the Colonial Office, they were critical of the motives of merchants who advocated the abolition of the Assembly. According to the primarily middle class Assembly of 1837:

the merchants had then embarked on a campaign to hound and discredit the members and to destroy the Assembly, in which scheme they were being assisted by the Governor, the officials, and the press. They had captured the Governor and all new and potentially liberal arrivals by the spread of falsehood and by the threat of public ridicule, and they wielded a solid influence through the Chamber of Commerce and the Council. The whole basis of the mercantile opposition to the Assembly was fear that agriculture would spread and destroy their monopoly and this opposition had found its expression in the unrelenting obstructionism of the Council.²⁷

The Newfoundland legislature was neither disbanded nor the powers of elected members enhanced. Instead in 1842 the British government dealt with the Newfoundland controversy by the appointment of a new governor, Sir John Harvey, and the introduction into the House of Commons of the Newfoundland Bill which produced a change in the Newfoundland constitution. Under this legislation the franchise in Newfoundland was narrowed, income and property qualifications were placed on candidates to the Assembly, the Council was disbanded and 10 of the 25 members of the newly created amalgamated assembly were to be appointed by the Governor, who in the

²⁵ Ibid., p. 79.

²⁶ Ibid., p. 79.

²⁷ Ibid., p. 80.

name of the Crown, alone had the power to initiate money bills.²⁸

The effect of this constitutional change was to temporarily increase the role of merchants in the legislative and executive process. Among the governor's 10 nominees were J.A. Simms, who had opposed representative government in 1832 and who had been appointed to the old council, and the merchant William Thomas, also an alumnus of the old council. Approximately 50 per cent of Harvey's appointees were merchants, about 30 percent were British officials and the remaining 20 percent included John Kent, a commission agent, and W.B. Row, a barrister.²⁹ The Governor's appointments in 1843 and in 1845 provided further representation for merchants. Appointed were T.R. Bennett and Robert Job, two merchants who had both been defeated candidates in the 1842 election. Job had been one of the merchants who made representations to the select committee of the British House of Commons, at which he advocated the revocation of representative government and complained of the political consciousness of seal fishermen. If both the occupations of the governor's appointees and those of the elected members are taken into account at least 11 of the 25 members of the amalgamated assembly were merchants, or 44 percent. In the last legislature before the suspension of the constitution only one merchant, Patrick Morris, was elected, and he was associated with the Catholic Reform movement which supported responsible government. From the totally elected legislature of 1837 to the partially appointed amalgamated legislature of 1842, the percentage of merchants in the Assembly increased from about 6 percent to 44 percent.³⁰

28. Ibid., pp. 85-87.

29 Calculated from table 4, Appendix B, *ibid.*

30 These percentages are estimates based on information on the occupations of legislators presented in Gunn's appendix B.

The political power of the merchants, which the amalgamated assembly and the executive authority of the governor made possible, was not exercised without criticism from members of a developing middle class. The criticism tended to centre on an argument for the need for representative and responsible government. One of the major proponents of this point of view was R.J. Parsons, the editor of the St. John's newspaper, *The Patriot*, and an elected representative for the city in the 1842 legislature.³¹ Another advocate of political reform during this period was Richard Barnes, member for Trinity and first president of the Native Society.³² The unwieldy constitution of 1832 with its elected but ineffectual legislature was reestablished in 1848. Almost immediately agitation began in earnest for responsible government.³³

Shortly after Nova Scotia received responsible government, public meetings were organized in St. John's at which resolutions advocating "the developing more fully of the great resources of this colony" and a government similar to Nova Scotia's were passed.³⁴ The leaders in this initiative for constitutional change were John Kent, a commission agent who had been active in politics since the first legislature of 1832; R.J. Parsons, a member of the legislature and editor of *The Patriot*; Dr. Fleming, a Roman Catholic Bishop; his successor as bishop Dr. Mullock who, in historian Prowse's estimation, did much to promote "telegraphic communication, local steam and

³¹ In the summer of 1850 *The Patriot* published a series of letters on responsible government. See Gunn, op. cit., p. 119.

³² For a brief biography of Barnes see vol. 1, Encyclopedia of Newfoundland and Labrador, p. 132.

³³ Prowse, op. cit., p. 463, and Gunn op. cit., chapter eight.

³⁴ Gunn, op. cit., p. 114.

agriculture".³⁵ Bishop Mullock was publicly critical of the British Colonial Office's reluctance to grant responsible government.³⁶ The major leader and organizer, however, was P.F. Little, a lawyer who had emigrated from Prince Edward Island in 1845 and had become leader of the Liberal party in the legislature following the election of 1852.³⁷

Philip Little had first been elected to represent the city of St. John's in a byelection in 1850. The election had not been contested on the issue of responsible government, as both Little and his opponent, Douglas, were advocates of responsible government.³⁸ In general there was substantial support in the Assembly for responsible government. Addresses, petitions, and resolutions for responsible government were supported by the Newfoundland House of Assembly.³⁹ As the Governor pointed out in a dispatch to the Colonial Office, petitions for responsible government were supported by the Liberal party in the Assembly, the Roman Catholic Church, the "minor mercantile interest", "a small fraction of the bar", and "several shopkeepers".⁴⁰ Though opposed by the Governor and the Council, Little and Parsons were sent to England on behalf of the Assembly to discuss the issue with the Colonial Secretary in 1853. The Colonial Secretary's decision came in March of the following year. Responsible government had

³⁵ Prowse, op. cit., p. 467. Gunn cites the text of a published letter which the bishop wrote on the subject.

³⁶ Ibid.

³⁷ Ibid., p. 465.

³⁸ Gunn, op. cit., p. 120.

³⁹ Ibid., pp. 121, 124, 131.

⁴⁰ Ibid., p. 124.

been achieved.⁴¹

Though the agitation for constitutional change after 1848 is sometimes described as the "movement" for responsible government, it was not in any sense a popular movement involving the bulk of the population who eked out an existence through the prosecution of the fishery. The fishermen, for the most part, were outside the political process. Their political involvement was limited to voting and only then if they could meet the property stipulations of the franchise which were established in 1842 and largely maintained when the constitution of 1832 was reinstated in 1848. In the 6 general elections between 1832 and 1852, only one fisherman is known to have been elected to the House of Assembly,⁴² the institutional locus of demands for responsible government.

If there was a movement for responsible government, it was a decidedly urban middle class endeavour, and one that had the endorsement of the Catholic Church. To some extent it was the tactic of the opponents of representative and responsible government to portray the "reformers" as advocates of Catholic supremacy, and to interpret political conflict in Newfoundland in terms of the religious-ethnic cleavage. By 1832 almost half of the population was Irish-Catholic, most of the immigration having taken place since the turn of the nineteenth century.⁴³ As Mannion indicates,

⁴¹ Rowe, op. cit., pp. 275-276.

⁴² Gunn, op. cit., Appendix B.

⁴³ John Mannion (ed.), The Peopling of Newfoundland, (MUN Institute of Social and Economic Research, papers: no. 8, 1977. In the introduction to this volume Mannion indicates that by 1830 the ratio of English to Irish was 53:47. There were two waves of immigration, primarily Irish, between 1811 and 1816 and between 1825 and 1833. The immigration of the Irish during the famine of the 1840's bypassed Newfoundland. See pp. 6-7

these Irish emigrants represented a broad spectrum of Irish society:

Despite economic distress in the homelands, the common assumption that the majority of the Newfoundland migrants were impoverished on departure is erroneous...Some of the Irish were the surplus sons of small but comfortable farmers unwilling to subdivide the land; others worked plots too small to be economically viable under the changing market conditions; others were fishermen-farmers, farm labourers or cottiers; and still others were engaged in a wide variety of crafts in the towns and countryside of the southeast.⁴⁴

It was the more affluent, urban, and economically ambitious of the Irish immigrants who articulated demands for political reform, road building and agricultural development in the first half of the nineteenth century. To some extent it would have been to their advantage, and to the advantage of their detractors to employ the rhetoric of "sect" and "race" as means to mobilize popular support for their economic interests. While the Liberal party in the legislature was overwhelmingly Catholic, in terms of occupation it was overwhelmingly middle class as well.⁴⁵ As Mannion suggests, Irish immigration in the eighteenth century and even in the nineteenth century when economic conditions in Ireland had deteriorated was probably "as much a consequence of the 'pull' of attractive conditions in Newfoundland as enforced emigration due to distress in the homeland".⁴⁶ If Newfoundland for the Irish was a new frontier, then the task was to open up and develop the frontier.

⁴⁴ Ibid., p. 10.

⁴⁵ Gunn, *op. cit.*, Appendix B. There is little doubt that the ethnic-religious cleavage reinforced the class cleavage, but to describe nineteenth century politics solely in terms of the salience of religion in the political rhetoric of the period would be misleading. Gunn does not attempt to analytically distinguish between the religious-ethnic and class dimensions of politics in the 1832-1860 period. She chooses to refer repeatedly to the politics of "class, sect and race".

⁴⁶ Mannion, *op. cit.*, p. 10

Nineteenth Century Economic Development

Demands for the development of Newfoundland's resources, the encouragement of agriculture, the building of roads and the improvement of transportation and communication in general, were interwoven in the constitutional conflicts and "reform" rhetoric of the nineteenth century. Newfoundland, however, in the nineteenth century was a single staple economy. The primary export product was salt codfish which was produced through household production and marketed internationally by a variety of West Country and St. John's based mercantile firms. If economic diversification was to materialize, the returns from the fishery would have to finance it.

There is little question that for most of the nineteenth century, codfish was a rich and lucrative resource and that the fishery could produce substantial economic surpluses which might have been redirected into the modernization of the industry or into the economic diversification of Newfoundland. Despite the capacity of the nineteenth century fishery to generate economic surpluses, Steven Antler argues⁴⁷ that the outcome was "underdevelopment". After reviewing and rejecting explanations of "underdevelopment" founded on the theory of retarded colonization or linked to geographic determinism, he contends that the fishery had the potential to provide for the economic development of Newfoundland.⁴⁸ This assessment of a potential for economic development is based on estimates of capital exports from Newfoundland in the nineteenth century which averaged 4.5% of net income for much of the second half of

⁴⁷ Steven Antler, "The Capitalist Underdevelopment of Nineteenth-Century Newfoundland", in Robert J. Brym and R. James Sacouman (eds.), Underdevelopment and Social Movements in Atlantic Canada, (Toronto New Hogtown Press, 1979).

⁴⁸ Ibid.

the century.⁴⁹

Though it seems clear that merchants extracted economic surpluses from fishermen, and that capital was exported, the implication that as a result Newfoundland became "underdeveloped" is somewhat tenuous. While this explanation is appealing, and indeed elegant in its simplicity, the questions of why capitalists would export capital, how this capital was exported, and which capitalists exported capital would have to be empirically addressed to sustain an interpretation of nineteenth century "underdevelopment".

At the root of the matter is the question of whether or not Newfoundland was underdeveloped in the nineteenth century. The critical period for Antler is that one between 1835 and the mid- 1880's, because in the first decade of the nineteenth century Newfoundland ranked higher than British North America on four of five indicators of economic performance.⁵⁰ To answer this question, an examination of political and economic institutions seems warranted, particularly whether political institutions were conducive to capital investment in Newfoundland and whether Newfoundland business in the fishery and in banking was sufficiently mature to be capable of stimulating economic development and diversification.

If underdevelopment emerged in the nineteenth century several explanations appear plausible. First it might have been the case that the alteration of political institutions in 1854 did not result in a state capable of facilitating capital formation and capitalist

⁴⁹ Ibid, p 195.

⁵⁰ Ibid., pp 180-181. The indicators were per capita value of output, exports, imports, capital stock, and acres cleared per capita. Only on the last did Newfoundland rank lower than either Upper or Lower Canada, New Brunswick, Nova Scotia, Cape Breton, or Prince Edward Island

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economic development. If this was so then the attainment of responsible government would have been an incomplete institutionalization of the Newfoundland bourgeoisie. The fishery was an international economy, and while the development of Newfoundland political institutions made possible a role for the Newfoundland state in the domestic regulation and management of the fisheries, fish was a resource which was of little value until it entered international trade. The terms of international trade in salt cod in the nineteenth century were largely outside the jurisdiction of the Newfoundland government. Terms of entrance, such as tariffs and import duties, for Newfoundland fishery products into markets in Europe, the Caribbean, and Latin America were negotiated by the Imperial government. This in itself, however, would not account for the failure of the fishery to provide for economic development. This would constitute an explanation only if there were evidence that the surpluses from the fishery were diminished because of an insensitivity of the British government to the interests of Newfoundland capitalists. There is no indication that the economic surpluses from the fishery were diminished after the decline of West Country firms and the rise of Newfoundland merchants. Though Newfoundland merchants might have desired better terms of trade and higher profits, as Antler points out the economic surplus from the fishery was high enough to make possible extensive capital exports from Newfoundland.

An alternate explanation for "underdevelopment" in nineteenth century Newfoundland might be supplied by Innis's theory of underdevelopment and staple rigidities.⁵¹ From this perspective what needs to be explained is not high levels of capital accumulation per se but underdevelopment despite capital accumulation in a

⁵¹ For a discussion, see Daniel Drache, "Harold Innis and Canadian Capitalist Development", in Canadian Journal of Political and Social Theory, Vol 6 Nos. 1-2, (Winter/Spring 1982), pp 35-60, particularly pp. 42-48.

staple economy.⁵² As Drache demonstrates of Innis's analysis of the Canadian staple economy, structural and price rigidities impeded sustained growth and development, particularly the transformation from a commercial to industrial system of production. Industrialization was delayed, however, despite high rates of capital accumulation. It is precisely this point that Antler fails to address. On the question of why capital was exported, the only explanation offered is that investment outside Newfoundland may have maximized utility. Antler stops short of an argument that Newfoundland was underdeveloped in the nineteenth century, perhaps because by his own account the potential for development existed in nineteenth century Newfoundland.⁵³

Newfoundland remained underdeveloped through the mid-eighties, not because economic surplus was not generated in Newfoundland, but rather the surplus that might otherwise have been utilized for industrialization was exported.⁵⁴

Development is made possible by the extraction of surplus value, the greater the profit the greater the possibility of an even greater extraction of surplus value through investment in improved technology which facilitates the greater "productivity of labour". Underdevelopment from this perspective seems to mean incomplete development or the failure of capital to reproduce itself. Yet Antler does not provide evidence that the capital generated by the fisheries was not productively employed; he suggests only that it was not used for the capitalist development of Newfoundland.

The first condition of capitalist economic development, in the sense discussed above, had been established in Newfoundland in the nineteenth century because economic surpluses were accumulated. As capital was present, so should have been development,

⁵² Daniel Drache, *op. cit.*, p. 54

⁵³ Antler, *op. cit.*, p. 191.

⁵⁴ Antler, *op. cit.*, p. 197.

but for the choice of capitalists to invest elsewhere. This raises two questions, the more fundamental of which is whether Newfoundland was "underdeveloped" in Antler's sense, that is incompletely developed, throughout the nineteenth century or at least from 1835 as Antler argues. Second, if underdevelopment emerged because of capital exports, why was capital exported? What were the barriers to investment in Newfoundland?

Newfoundland Business and the Role of the State

Though the West Country ship fishery had declined by the first decade of the nineteenth century, English-based mercantile firms dominated the export trade in salt codfish until at least the 1840's. Innis for example notes that in 1848 the firm of Newman of London had branches at Burgeo, Gaultois and a headquarters at Harbour Breton,⁵⁵ and that Jersey Island and London firms in general dominated on the south coast. The firms of Newman and Company, and Nicolle and Company were particularly strong. Nicolle had branches at Burgeo and Lapoile in 1848 and another Jersey firm of Falle and Company purchased fish from fishermen at Burin.⁵⁶ English merchant establishments were also involved in selling supplies and purchasing fish in Labrador, although firms such as the Hudson's Bay Company were also active in this area. On the northwest side of Forteau Bay the Jersey firms of DeQuetteville, Boutiller, and Dehaume were important.⁵⁷ Overall, Innis argues, the English monopoly, to the north and the

⁵⁵ Innis, *op cit*, p. 404.

⁵⁶ *Ibid.*, p. 403.

⁵⁷ *Ibid.*, pp 401-402.

south, but particularly in the north fishery, was maintained into the 1850's and 1860's. As St. John's merchants established control over areas near the Avalon peninsula, English firms established new bases for their operations:

English firms continued to exercise monopoly control both in the north and the south. They migrated to new areas as they were excluded from territory tributary to St. John's. Garland's moved from Trinity to Greenspond and Bloody Bay and became Robinson, Brooking and Garland; and Slade's moved from Trinity to Twillingate.⁵⁸

The history of the Newfoundland salt codfish trade, which was begun by Innis, has been taken up by Shannon Ryan. Ryan traces the initial growth of St. John's as a commercial centre at the turn of the nineteenth century to its establishment as a commercial "emporium" in the last half of the century. As Ryan points out, however, during the Napoleonic Wars two separate and distinct alterations occurred in the commercial organization of the Newfoundland fishery. With the decline of the West Country ship fishery and the development of a resident fishery, English fishing interests established branch operations in Newfoundland for the purposes of purchasing fish from resident fishermen for export into international trade. These operations were located primarily in the outports. At about the same time, St. John's was developing as a centre of trade and commerce, and "competition between St. John's and the large outport firms began."⁵⁹ Ryan argues that though some of the larger English firms maintained operations in Newfoundland until early in the twentieth century, by 1850 a commercial organization for the fishery in St. John's was "almost complete".⁶⁰ It seems then, that if there had been competition between English and emerging Newfoundland

⁵⁸ Ibid., p. 400.

⁵⁹ Shannon Ryan, "The Newfoundland Salt Cod Trade in the Nineteenth Century" in James Hiller and Peter Neary (eds) Newfoundland in the Nineteenth and Twentieth Centuries, (Toronto: University of Toronto Press, 1980), p. 48.

⁶⁰ Ibid., p. 48.

capitalists for the business of supplying the fishery and for the export trade, the eventual victors were the Newfoundland merchants.

This interpretation of the organization of the fishery is consistent with the alterations in Newfoundland political institutions which occurred in the first half of the nineteenth century. As mercantile firms established in Newfoundland, a colonial government was put in place in 1825 to regulate the resident fishery. With the development of an urban middle class and the emergence of a local merchant class, demands for representative government were articulated. Though representative government was granted in 1832, executive powers were held by the governor and an appointed council, and the larger mercantile interests, who were primarily associates of English firms, as a result exercised substantial control over the policy-process. As St. John's merchants, shopkeepers and professionals were bolstered by the commercial success of St. John's, demands for responsible government intensified in the late 1840's and early 1850's. By the time that responsible government was achieved in 1854, business activity had centralized in St. John's. West Country firms, then, probably had lost their prominence in the Newfoundland fishery by the late 1840's or early 1850's, though some firms remained important in the outports until the turn of the century. From this perspective the attainment of responsible government in 1854, not representative government in 1832 as Antler suggests, marked the creation of a Newfoundland state which might facilitate the prosecution of the fishery in terms of local interests.

The state had an important role to play in the development of Newfoundland capitalism in the fisheries, in the stimulation of the economic diversification of Newfoundland, and in the management of the conflicts, tensions, and dislocations which

were produced by efforts at capitalist economic development. In the years immediately following the attainment of self-government, politicians were preoccupied with the protection of Newfoundland's access to the fishing grounds in Labrador and the Strait of Belle Isle, and the development of markets for fishery products in the United States. For the former, there was little dispute in Newfoundland on the decision to protest the Imperial government's negotiation of a fishery convention with France which would have given French fishing interests the right to expand their operations in Newfoundland.⁶¹ The issue of reciprocity with the United States was more contentious perhaps because it had implications for Newfoundland's monopoly over the inshore fishery, local manufacturers, and government revenues. American fishermen were given rights to engage in the inshore fishery in Newfoundland in exchange for reciprocal free trade in fish and fishery products and selected other items. To compensate for detrimental impacts on government revenues which were derived from import tariffs, and to provide some protection for local manufacturers, tariffs were raised on imported foodstuffs and manufactures.⁶²

Encouragement was also provided to economic diversification through resource development. A geological survey was supported by government, but in general the role of the state in resource development in the decade following the acquisition of responsible government was that of facilitator of private investment. As Alexander argues of Newfoundland's first development strategy:

The weight of development was to be assumed by Newfoundlanders - native born and immigrants - accumulating capital and absorbing modern technology.

⁶¹ Gertrude Gunn, op. cit., pp. 143-145. See also St. John Chadwick, Newfoundland Island into Province, op. cit., chapter 3 and also Peter Neary, "The French and American Shore Questions as Factors in Newfoundland History", in James Hiller and Peter Neary (eds), op. cit., pp. 95-122.

⁶² Gunn, op. cit., p. 142.

through the formation and expansion of small agricultural and industrial enterprises. Their efforts would be complemented by footloose entrepreneurs who, with government backing would tackle large and complex capital investments.⁶³

There was a role for the state not only in protecting access to the fishery, in developing markets, and in providing encouragement to the development of mining, but also in the enactment of a number of measures which could "be beneficial to class and commercial relations in the island".⁶⁴ In 1857 these included an Insolvency Act, a Jury Act, and legislation providing for limited partnerships. On another level the state took on a limited legitimization function in the distribution of "relief" to fishermen unable to obtain credit or to individuals who for one reason or another were unable to find employment. By the mid-1860's the downturn in the fishery and the economic dislocations of the first development strategy had produced enough of these unfortunate individuals that the performance of this function became a source of political controversy and a basis for criticism of the government's responsibility for the economic situation.

Though the fishery undoubtedly facilitated capital formation in the nineteenth century, it seems likely that between 1835 and 1850 a considerable portion of the economic surplus from the fishery left Newfoundland as profits from the branch offices of English mercantile firms. While the establishment of English mercantile firms might explain much of the capital exports from the beginning to the middle of the century, investment in Newfoundland and more complete economic development in the last half of the nineteenth century would be expected if St. John's merchants dominated the fishery

⁶³ David Alexander, "Newfoundland's Traditional Economy and Development to 1934" in James Hiller and Peter Neary (eds), op. cit., p. 29.

⁶⁴ Gunn, op. cit., p. 143

from the 1850's.

If capital is an essential element for economic development, Antler presents evidence that nineteenth century Newfoundland had a potential for economic development. Development in Newfoundland had begun in the sense that capital formation had occurred, but capital was not employed only for the production of further wealth in Newfoundland; some of it was exported, on average 4.5% of net income from 1845 to 1888. Unfortunately this figure does not reveal much about the character of capital exports during this period.⁶⁵ The timing of capital exports is important because different explanations of capital movements are applicable at various junctures in nineteenth century Newfoundland history. Up to the 1850's or perhaps even into the 1860's a large portion of capital exports might be explained by the return of profit from the branch offices of mercantile firms to the home base in the United Kingdom. Though the historical evidence seems to indicate that by the mid 1850's Newfoundland merchants had broken the monopoly of English mercantile firms in the export trade in salt codfish, English firms continued to operate from Newfoundland into the twentieth century and presumably some portion of the total capital exports exited via this route. Though some of the capital was exported through foreign-owned mercantile firms, much of the capital probably exited as savings in banks and insurance companies operating in Newfoundland. If capital investment is viewed as critical for economic development, then an examination of the role of financial institutions in Newfoundland as either facilitating or impeding capital investment is important for an understanding of the Newfoundland economy in the nineteenth century.

⁶⁵ While capital exports might have averaged 4.5 % over a forty-five year period, the actual dollar values of exports on a year by year basis would provide greater insights into the dynamics of capital movement. Was, for example, the level of annual capital exports relatively constant over the whole period or were there peaks and valleys in the amount of capital leaving Newfoundland?

Financial Institutions

Shortly after the acquisition of representative government, financial institutions were established in Newfoundland. In 1834 the publicly sponsored Newfoundland Savings Bank was created by statute.⁶⁶ The first commercial bank, the imperially chartered Bank of British North America, began business two years later in 1836.⁶⁷ Until 1844 the Bank of British North America was the only commercial financial institution in Newfoundland. It was not until 1844 when the Newfoundland Bank was incorporated that Newfoundland capitalists diversified into banking. The capital of the bank was 50,000 and the shareholders were comprised of many of the prominent Newfoundland businessmen of the day.⁶⁸ What is most interesting about the formation of the Newfoundland Bank is the reasons why Newfoundland businessmen entered the banking industry. The Newfoundland Bank was established to provide competition for, and break the monopoly of, the Bank of British North America. The shareholders of the Newfoundland Bank were particularly dissatisfied with the lending policies of the Bank of British North America. When competition from the new bank induced the Bank of British North America to alter its policies, the Newfoundland Bank discontinued operations and the money was paid back to the shareholders. As Prowse explains:

The very existence of the new concern probably influenced the existing bank, and made it discount with more liberality and less favouritism, and the *raison d'être* for the Newfoundland Bank ceased.⁶⁹

⁶⁶ D. W. Prowse, A History of Newfoundland from the English, Colonial and Foreign Records, (London: MacMillan and Company, 1895), p. 436

⁶⁷ Ibid, p. 455.

⁶⁸ Ibid, pp. 455-456

⁶⁹ Ibid, p. 456.

The success of Newfoundland business's attempt to provide competition in banking must have been shortlived, however, as in 1854 almost the same shareholders founded the Union Bank of Newfoundland which operated as a financial institution until it failed in the international bank crash of 1894. In 1857 banking became more competitive with the formation of the Commercial Bank of Newfoundland which also operated until it too fell victim to the bank failures of the 90's.

Up until the mid-1850's there were some significant barriers to capital investment in Newfoundland in both the commercial organization of the fishery and banking. Exports of capital through English mercantile firms and restrictive lending policies of the Bank of British North America likely had the effect of limiting access to the economic surpluses of the fisheries for the purposes of capital investment, economic diversification, and industrialization in Newfoundland. By mid-century, however, Newfoundland merchants replaced British merchants in the export trade in salt cod.

If the monopoly of English merchants and English banks impeded the development of Newfoundland capitalism in the first half of the century, the mid-1850's marked a turning point in both Newfoundland's political institutions and economic organization. To the extent that a potential for capitalist economic development in nineteenth century Newfoundland existed, it did not realistically exist until the middle of the century. By then, self-government was established, the commercial organization of the fishery was centered in St. John's, and Newfoundland banks had been formed. Any number of plausible explanations based on a mercantilist colonial state, English dominance in the fishery, and the disinterest of the English Bank of British North America in investment banking might be advanced to account for the incomplete development of Newfoundland capitalism in the first 50-60 years of the century. From the mid-1850's to the 1890's

Newfoundland capitalists had the chance to make it big and they did not recoil from the opportunity.

There are indications that capital was employed for the improvement of technology in the prosecution of the fishery. The cod trap, for example, was introduced into the fishery and in 1862 steam was introduced to the seal fishery. As the percentage of the labour force engaged in the fishery declined in the last half of the century, and as in general there was a modest growth in volumes and export values of salt cod between 1850 and 1884, Alexander suggests that some improvements in productivity occurred.⁷⁰ Other indicators of attempts at economic development and diversification included copper mining at Tilt Cove, which was owned by Charles Fox Bennett, one of the original shareholders of the Newfoundland Bank and later the Union Bank of Newfoundland. Bennett was a major entrepreneur and an important politician in Newfoundland. He also was an owner of the Bennett Brewing Company and had been active in politics since 1842, and became Prime Minister following the general election of 1869.⁷¹ Alexander suggests that the accelerated growth of St. John's as home for 20% of the population in 1857 was partly attributable to the development of import substitution industries in St. John's which by the end of the 1880's included such diverse enterprises as a ginger ale factory, a carriage factory, tobacco works, a glass embossing company, a fruit bottling factory, and a boot and shoe factory.⁷²

⁷⁰ Alexander, *op. cit.*, pp. 21-22

⁷¹ Encyclopedia of Newfoundland & Labrador, vol 1, p. 175

⁷² Alexander, *op. cit.*, pp. 21, 27.

Though Newfoundland still remained a primarily maritime economy at the close of the nineteenth century, some significant transformations occurred in the economic and social significance of fishing. The percentage of the labour force engaged in fishing as an occupation declined from 94% in 1858 to 70% in 1891.⁷³ The early 1860's were characterized by a recession in the fisheries, and poor economic conditions resulted in a reduction in the credit business of many merchants.⁷⁴ As fishermen depended upon the credit to obtain food and other household provisions for the winter months when the fishery failed to supply an adequate income for subsistence, a decision to curtail credit had profound social ramifications as well as implications for the allocation of government revenue and for political conflict over how scarce resources should be allocated. Merchants could control access to the fishery by the extension of credit. Without supplies for fishing and without money or credit for the purchase of the necessities of life, there was little alternative but to emigrate, abandon the fishery, and seek employment in another sector of the economy or, failing this, to seek public relief for sustenance until the fishery improved. Gunn indicates that a substantial portion of the government's revenues were allocated to poor relief in the early 1860's and that the economic condition of Newfoundland and the portion of the budget consumed by relieving those most detrimentally affected by the downturn in the economy were a source of controversy and political conflict.⁷⁵ The political tensions and crises produced by recurrent fisheries failures prompted an exploration of alternatives. Two solutions were actively pursued in the late 1860's and 1870's. One was an institutional device for the management of tensions, confederation with Canada, the other was an

⁷³ Ibid, p. 25.

⁷⁴ James Hiller, 'The Railway and Local Politics in Newfoundland 1870 - 1901', in James Hiller and Peter Neary (eds), *op. cit.*, p. 75

⁷⁵ Gunn, *op. cit.*, p. 157

attempt to actively restructure the economy away from an exclusive emphasis on the fishery to a broader resource base which included mining, agriculture, and forestry and which was to be developed by the construction of a trans-insular railway. In this task the role of the state was significant. In both the instigation for confederation and the push for development the principal supporters and advocates were the non-productive middle class.

Institutional Change and Economic Development

The early 1860's were years of economic recession in Newfoundland. A failed fishery, relief payments averaging 23% of current revenues between 1861 and 1865, a sense that economic diversification would be more speedily accomplished within confederation, and a feeling that economic stagnation was so entrenched that confederation with Canada could not make matters worse were all factors which led to an election on the issue of confederation in 1869.⁷⁶ As James Hiller summarizes his examination of support for confederation in the nineteenth century, "Economic depression bred confederates out of pessimism and a sense of helplessness."⁷⁷ Though Newfoundland's complex pattern of political cleavages make an identification of the electoral support base for this proposed change in political institutions problematic, the early advocates of confederation in the legislature of 1865 included most of the middle

⁷⁶ James Hiller, *op. cit.*, *passim*

⁷⁷ *Ibid*, p 78.

class members, and in general the opponents were the merchants.⁷⁸ By 1869 when the election was held on the issue, the political and economic climate had changed, the fishery had improved, the fishermen reportedly were anti-confederate and the option of confederation was soundly defeated at the polls. The issue of confederation remained dead until it was resurrected in 1895 after another financial collapse, but on this occasion the important proponents of the cause were Canadian bankers and railway promoters. In the meantime, the economic problems of Newfoundland remained and as confederation in the 1870's offered no realistic solution to the economic vulnerability of Newfoundland's staple economy or any prospects of economic diversification, the task of facilitating economic development continued to be met by the Newfoundland state.

The role played by the state in the economic development and diversification of Newfoundland was not unlike that undertaken in Canada - the facilitation of capital accumulation through the provision of transportation and other infrastructure which would aid in the development of natural resources.⁷⁹ There had, since the 1860's, been support for the involvement of the state in the economic development of Newfoundland. It seems that some of the supporters of confederation in the 1860's had been critical of the limited involvement of government⁸⁰ in fostering development.

⁷⁸ Hiller indicates in note 14, p. 90 that 16 were supporters of confederation and 14 were opposed. The major merchants in St. John's and Conception Bay were opposed (p. 69), as was the Catholic Church. The church's opposition probably had the effect of dividing the 13 Liberal members on the issue - five supported confederation, as did most of the lawyers and small businessmen in the legislature (p. 69).

⁷⁹ Alexander makes the comparison of Newfoundland's development strategy to that of Canada. It included not only railway building, but also encompassed protective tariffs for local manufacturers and the promotion of agricultural settlement in the interior, *op. cit.*, p. 27.

⁸⁰ Hiller notes that many of the advocates of Confederation after the failure at the polls of this cause became strong supporters of railroad development. The more enthusiastic was the non-mercantile element of the community.

From the inception of representative institutions in 1832, government was confronted with demands from the middle class of small businessmen and professionals for economic diversification, agricultural development, and the improvement of transportation and communications. On the other hand, however, the fishery still remained the lifeblood of the economy and provided a livelihood, however unstable, to the majority of the population. The success of this industry, though requiring attention by government in preserving access to the grounds, regulating commerce, and providing social assistance to fishermen in times of fisheries failures was not contingent upon a labyrinth of roads and railroads or upon the stimulation of interior agriculture, mining, and forestry. Some significant initiatives were taken by government to deal with the problem of the fisheries in the 1880's and 1890's, for example an assertiveness in establishing claims to Newfoundland fishing rights on the Grand Banks and off Labrador,⁸¹ and a bounty on shipbuilding for the encouragement of the Labrador and Bank fisheries.⁸² A Department of Fisheries was established in 1893 and government attempted to regulate the catch for the purposes of replenishing the stocks in selected areas.⁸³

Though government continued to respond to the needs and interests of the mercantile community in the orderly and profitable prosecution of the fishery, government was not exclusively controlled by the merchants and certainly not by the fishermen. The vigour and enthusiasm which accompanied the government's entry into the railway age in the 1880's and resource development is more a testimony to the

⁸¹ Innis, *op. cit.*, p. 450.

⁸² *Ibid.*, p. 456.

⁸³ *Ibid.*, p. 456.

political clout and salience of the middle class of small businessmen and professionals than that of the fish exporters and merchants. As Noel points out the construction of a railroad and economic diversification in general could benefit the middle class:

For the first time fortunes could be made by supplying goods and services to an enterprise unconnected with the fishery; for the first time lawyers and other functionaries who had previously served the merchant class both professionally and politically were able to earn lucrative fees from another source.⁸⁴

The middle class, however, was capital poor and if a transformation was to be effected in the Newfoundland economy it would have to be done partly through the use of public funds. In general, Newfoundland merchants did not participate in financing this development strategy. Private involvement was sought through the encouragement of foreign direct investment. The most obvious reason for the pursuit of this approach is that there were difficulties in the mobilization of sufficient capital in Newfoundland to finance huge projects such as transinsular railroads, pulp and paper mills, and iron ore mines which extended under the sea. While small import substitution manufacturing, which was protected by tariffs, might have been within the financial competence of local capitalists, these nineteenth century megaprojects were not.

Though Newfoundland might have been a net exporter of capital from 1845 to 1888, while Canada during this period was a net importer of capital,⁸⁵ this does not mean that capital was not invested in Newfoundland or that Newfoundland capital might have been mobilized for large development projects. Though capital was likely accumulated, it is unlikely that the rate of accumulation remained constant throughout the last half of the nineteenth century as capital accrued primarily from the prosecution of the cod

⁸⁴ S.J.R. Noel, Politics in Newfoundland, (Toronto: University of Toronto Press, 1971), p. 26.

⁸⁵ William M. Marr and Donald G. Paterson, Canada: An Economic History, (Toronto: Macmillan of Canada, 1980), pp. 224-225.

fishery which underwent periodic recessions. During periods of relative fisheries failure, much of the merchant's economic surpluses would likely have been employed to finance the merchant's credit business or for the maintenance of capital stocks as opposed to being deployed into new ventures. Furthermore, net capital exports during this period do not necessarily indicate that merchants extensively exported capital, they suggest only that the net inflow of capital on average was less than the net outflow. If less capital flowed into Newfoundland in the form of debt, for example, than into Canada, Newfoundland merchants might in fact have exported less of their capital than did Canadian capitalists during the same period.⁸⁶

Newfoundland did not import large amounts of capital during the period from 1845 to 1880 and consequently any net exports of capital would not have been offset by the debt incurred. Also, capital exports need not have been comprised of Newfoundland savings which might have been marshalled into investment in Newfoundland. A transfer of savings from Newfoundland and thus capital exports occurred through the purchase of imported manufactured goods and foodstuffs. Some portion of capital exports after 1850 was also probably used to retire debt. Even if all of the capital exported from 1845

⁸⁶ Investment in the British North American colonies was heavy throughout much of the 19th century. In the Canadas, early investments were in canals and railway building. These projects were primarily financed from British portfolio investment, although there is some evidence that the Bank of Upper Canada played an important role as a financial intermediary and a mobilizer of capital in the early phase of railway construction in the Canadas. (See Patterson and Marr, op. cit., p. 250) This function of fostering directly fixed capital formation was only rarely performed by post-Confederation Canadian banks. In general, however, money from British investors flowed into British North America for these projects through financial intermediaries in Britain, primarily British banks. Extensive foreign debts in debentures and fixed security bonds contributed to the net capital imports in the British North American colonies in the last half of the 19th century and was a factor in the federation of the British North American colonies. Nova Scotia, New Brunswick and PEI had incurred a foreign debt to finance railway building. The Dominion's assumption of the debt was part of the terms of their federation. Tom Naylor in The History of Canadian Business, Vol. I, (Toronto: Lorimer, 1975), pp. 26-35 suggests that it was the unavailability of further credit in Britain for additional railway building which enticed federation. The bankruptcy of the Grand Trunk Railway in 1857 might also have had the effect of inhibiting British investor confidence in BNA railway securities. (See Patterson and Marr, op. cit., p. 277.)

was economic surpluses of merchants and was deployed in investment elsewhere, this does not mean that opportunities for capital investment in Newfoundland were eschewed in the nineteenth century. Assuming the existence of savings, the mobilization of these savings for capital investment would depend upon the existence of intermediaries between savers and investors. Between 1845 and 1880 the institutional development of such financial intermediaries was at a nascent stage.

The earliest financial intermediaries, both in Canada and Newfoundland, were individuals who functioned as entrepreneurs, mobilizing capital for specific development projects. In Canada, individuals such as the railway entrepreneur George Stephens facilitated capital mobilization, and in Newfoundland Charles Fox Bennett performed a similar function in the development of the Tilt Cove copper mines. This, however, was a relatively inefficient means for the mobilization of capital and as the scope of projects requiring capital increased, institutions developed to perform mobilization functions which had originally and almost exclusively been performed by the individual entrepreneur. Among the institutional intermediaries were banks, investment houses, mortgage companies, insurance companies, and the stock exchange. With the exception of banks, locally oriented financial intermediaries were largely absent from the Newfoundland scene in the nineteenth century. While a large number of life and fire insurance companies carried on an insurance business in Newfoundland, these companies were British, Canadian, or American-based and it is likely that Newfoundland savings accumulating in these companies would have been pooled for investment purposes with the companies' holdings in the parent corporations.⁸⁷ Local marine insurance companies

⁸⁷ Prowse lists 21 insurance companies which insured property in Newfoundland in 1894. *op. cit.*, p. 526.

did not form until the second decade of the twentieth century.⁸⁸ Particularly noteworthy in its absence was a stock exchange through which capital might have been marshalled for local development. As Patterson and Marr point out, by the turn of the century most medium sized towns in Canada had a stock exchange⁸⁹ where local capital could be pooled.

Newfoundland banks did not develop until the mid 1850's, but their formation at this time suggests that there was a demand for investment capital, and the involvement of Bennett in both early banking and mining suggests that a role for banks as mobilizers of capital was envisioned and desired by Newfoundland businessmen. By British and Canadian standards, the banking practices of the Union and the Commercial banks were viewed as something less than conservative.⁹⁰ Like Canadian banks, these banks did an extensive business in financing short term capital formation, primarily inventory financing for merchants, but unlike Canadian banks at the same time, they were not required by law to keep large amounts of specie on deposit.⁹¹ The directors of the banks were often themselves engaged in a merchant business, and the practice of the banks was to allow considerable overdrafts or loans to merchants which would be repayable at the end of the fishing season when the returns of the industry were in. This often meant that for several months of the year, from the beginning to the end

⁸⁸ Innis, *op. cit.*, p. 465.

⁸⁹ Patterson and Marr, *op. cit.*, p. 239.

⁹⁰ Prowse, *op. cit.*, p. 539, attributes the collapse of the banks in 1894 to unsound banking. The Newfoundland Royal Commission 1933 Report, (Amulree Report) noted "Newfoundland's banking institutions, the Commercial bank and the Union Bank, had for a number of years enjoyed the highest reputation, but on 10th December, 1894, the Commercial Bank was compelled through reckless banking to close its doors and suspend payment", *op. cit.*, pp. 23-24.

⁹¹ See Patterson and Marr, *op. cit.*, for a discussion of the 1871 Canadian Bank Act.

of the fishing season, the cash reserves of the banks were very low. If during this time any large demands were made on the bank's notes, the banks would be forced to call in merchants' loans to honour these demands. And if the banks called in loans in the middle of the fishing season before fish was placed on the market, merchants would be unable to make cash settlements of their debts, resulting in an inability of the Newfoundland banks to honour their notes, the collapse of the banks, the mercantile firms in debt to the bank, and the deterioration of the Newfoundland economy in general because the notes of the banks were legal tender in Newfoundland. It was such a chain of events which produced the Newfoundland bank crash of 1894, the establishment of Canadian banks to fill the void left by the insolvency or liquidation of the Newfoundland banks, a crisis of public finance as the Union bank was the government's banker, and renewed discussions of confederation with Canada.

The collapse of the Newfoundland banks in 1894 provides some insights into the condition of Newfoundland capitalism at the turn of the century. The dependence of Newfoundland merchants on credit to finance their fishery business suggests that some of the major mercantile firms of the day were very short of working capital. If this was the case in 1894, it would not be surprising. After the devastating fire in St. John's in 1846 which destroyed the premises and inventories of most St. John's merchants, economic recuperation occurred in the 1850's. The fishery, however, was beset by recession in the 1860's, to recuperate in the 1870's but only to undergo a prolonged depression in the 1880's. In 1892 an even more severe fire than that of 1846 in St. John's destroyed about 3/4 of the city, and along with it just about every public building and commercial establishment in the capital.⁹² If the working capital of

⁹² Prowse, *op. cit.*, pp 521-528.

mercantile firms had been somewhat limited as a result of fisheries failures, it was likely in even shorter supply following the fire and the bank crash. It was estimated that the fire destroyed property to the value of \$20,000,000 of which only \$4,800,000 had been insured.⁹³ After the fire the stores, wharfs, factories, offices, churches, and public buildings had to be built anew. The fire, therefore, resulted in the loss of savings invested in capital stock and as Prowse points out the combined effect of the fire and the bank crash was the loss of much of the working capital in Newfoundland.⁹⁴

The bank crash paralysed business in Newfoundland; there was no currency, seven of the largest mercantile firms were in a state of bankruptcy and there were no banking facilities.⁹⁵ Shortly after the collapse of the Newfoundland banks, four Canadian banks established branches in Newfoundland. These were the Bank of Nova Scotia, the Bank of Montreal, the Royal Bank of Canada, and the Canadian Bank of Commerce.⁹⁶ With the entry of Canadian banks, Newfoundland merchants lost the influence they had previously held over banking, Newfoundland currency was replaced by the Canadian dollar, and the Bank of Montreal became the government's financial agent. With the economy in crisis the government also teetered on the edge of bankruptcy.

A crisis of public finance occurred because arrangements which had been made

⁹³ Prowse, *ibid*, p. 525.

⁹⁴ *Ibid*, p. 537.

⁹⁵ Amulree Report, *op. cit.*, p. 27.

⁹⁶ William Stavey, who in the 1930's was a member of the Amulree Commission, which recommended the suspension of democracy, established the Bank of Nova Scotia. In 1895 the Royal Bank was called the Merchants Bank of Halifax. See p. 29 Amulree Report, *op. cit.*

with the Union Bank for a loan to cover interest charges on the public debt fell through, with the collapse of the bank. The bank failures had impaired investor confidence in Newfoundland and the credit of the Newfoundland government.

After the British government refused to guarantee the interest on a new loan to be raised by the Newfoundland government, confederation negotiations were reopened between Canada and Newfoundland. These discussions lasted less than two weeks and terminated as a result of the refusal of the Canadian central government to assume the public debt of Newfoundland and undertake the costs of the completion and operation of the Newfoundland railway. The Canadian government was reluctant to assume a higher level of Newfoundland's debt than had been assumed for any of the other provinces. The highest debt assumed was \$50 per capita which in the case of Newfoundland would have amounted to the Canadian government's assumption of 10.35 million dollars of Newfoundland's debt. As the debt of Newfoundland stood at 11.24 million dollars and as the Canadian government estimated that the completion and operation of the railway would cost 4.58 million, the terms offered were that Newfoundland retain liability for the debt in excess of 10.35 million and retain responsibility for the railway. Newfoundland's traditional sources of revenue, tariffs and custom duties, which yielded a revenue of 1.6 million per year, would be transferred to the central government and in exchange Newfoundland would receive an annual subsidy of \$465,000. Needless to say, these terms were not viewed as fair by the Newfoundland government.⁹⁷

⁹⁷ For memoranda between the Prime Minister of Canada, Mackenzie Bowell, and the Governor General of Canada on the terms of union see Appendix E, pp. 243-245, Amulree Report. Apparently the Montreal business community and the contractors for the Newfoundland railway, the Reids, were supportive of a union between Newfoundland and Canada, perhaps because part payment for railway construction had been made in Newfoundland bonds which had depreciated as a result of the financial crisis (Tom Naylor, *op. cit.*, p. 253, Vol. 2).

After the breakdown of the confederation negotiations, the efforts of the Newfoundland government were again directed to raising a loan so that the financial obligations of the government could be met. When the Bank of Montreal and the Bank of Nova Scotia refused to provide a loan, default was avoided as a result of a short term loan from a brokerage firm in Montreal. This loan of \$150,000 was obtained because Robert Bond, the Colonial Secretary in the Newfoundland cabinet, used his personal wealth as collateral for the loan. Bond was later successful in negotiating a long term loan of 2.75 million dollars in Britain, which averted a financial collapse of the Newfoundland government.⁹⁸

The constitution of 1855 remained in place until the financial crises of the 1930's brought down the democratic regime. Between 1900 and 1930 Newfoundland governments pursued with vigour a development strategy for economic diversification which was based on foreign direct investment. Because Newfoundland lacked access to investment capital for larger development projects, multinational corporations became important actors in Newfoundland politics.

Conclusion

In summary, this examination of the Newfoundland economy and polity reveals several reasons for the underdevelopment of Newfoundland during the first half of the nineteenth century.

⁹⁸ For a discussion of this topic see Amulree Report, *op. cit.*, p. 27

First, indigenously propelled economic development was absent because of the lack of access to capital for large development projects. It is clear that much of the capital accumulated in the fisheries which might have been deployed for industrialization in the fishery or in other sectors of the economy exited from Newfoundland through English mercantile firms which maintained their preeminence in the export trade until the middle of the nineteenth century.

Second, investment banking which might have made possible the pooling of capital for the purposes of economic diversification was also weak. Banking was mercantile in character and until the 1850's monopolized by the English Bank of British North America. Newfoundland banks were formed in the second half of the century but, while their lending policies might have been more liberal than those of the British Bank of North America, their primary business was in short-term capital formation in the fisheries. In any event Newfoundland banks collapsed in 1894, further limiting access to capital as they were replaced by Canadian banks. The installation of Canadian banks thus further contributed to the exit of capital from Newfoundland.

Third, further inhibiting development in Newfoundland was the existence of a colonial state until 1855. The state was strongly representative of English mercantile interests which strongly eschewed the diversification of the Newfoundland economy away from the fisheries and opposed agricultural development and the construction of transportation infrastructure. If there was any possibility for autarkic development in Newfoundland, it did not realistically exist until the middle of the century when local merchants and the growing middle class exerted influence over the policy process and supported policies aimed at economic development and diversification. Though after the attainment of responsible government there were some signs of economic vitality, the

hoped-for economic takeoff never materialized.

The second half of the nineteenth century saw a new set of factors which contributed to the slow rate of economic development in Newfoundland. First was the preoccupation of merchants with their commercial business in the supply of the fisheries. Second was the recurrent recessions in the fisheries which limited capital accumulation. The sensitivity of Newfoundland's merchants to the vagaries of the trade in cod and their vulnerability in the face of the bank crash of 1894 is indicative of the extent to which Newfoundland capitalists were affected by the volatilities of a staple economy. Third, further setting back capital formation were the losses incurred in capital stock as a result of the 1892 fire in St. John's.

Recessions and fires, coupled with demands for economic diversification from the middle class and the growing working class led to an exploration of such options for economic development as confederation with Canada and the promotion of the use of foreign capital to finance development.

If the origins and reasons for Newfoundland's underdevelopment can be traced to the nineteenth century, the politics of underdevelopment have their roots in this period as well. Nineteenth century politics were characterized by dualism, external dependency and regime change. Dualism as a spatial-economic division and as a socio-political one was a feature of the Newfoundland political landscape in the nineteenth century. By mid-century St. John's had become the commercial core. St. John's was the home of 20% of the population. The small working class was concentrated in the city, employed in a variety of service and mercantile establishments, as was the middle class, composed of professionals, civil servants, journalists and small businessmen. With the exception of

a few towns on the Avalon Peninsula, the rest of the population resided in the outports and was involved in domestic commodity production in the fisheries. Frequently destitute and in debt to the local merchants, this class remained unrepresented in the political process during much of the nineteenth century. The political scene, however, was undoubtedly affected by the way in which the rural/urban cleavage was reinforced by class cleavages.

Political institutions in the nineteenth century exhibited great volatility. Three major changes in the structures of the political system were effected: in 1825 colonial government was established, in 1832 representative institutions were created, and in 1854 responsible parliamentary institutions were put in place. In 1842 the representative institutions which were achieved in 1832 were temporarily made less popular and representative in character and in 1869 and 1895 there were two unsuccessful attempts to integrate Newfoundland with her Canadian neighbour. Political institutions underwent significant transformations because the society and economy upon which they rested were in a state of flux. Political institutions, once created, did more than reflect social and economic cleavages; they exerted an impact through public policy on the direction of the development of Newfoundland's society and economy.

The major societal impetus for institutional change was the gradual growth of a Newfoundland middle class. Though not numerous, this group was instrumental in the establishment of representative and responsible political institutions. The middle class developed out of changes in the economic organization of Newfoundland. As the English ship fishery and mercantilism declined, a resident fishery flourished and with it a class in Newfoundland which was centered in St. John's to supply provisions and services to a rapidly expanding population which was primarily engaged in the prosecution of the

fishery.

The institutions of the state had been sought so that the resources of Newfoundland could be more fully developed and state institutions were employed to nurture capitalist economic development in Newfoundland. To some extent capitalist economic development was stimulated. The role of the state was to protect access to the resources of the seas, absorb the social costs of an unstable staple industry (the provision of relief to destitute fishermen when the fishery for one reason or another failed) and to establish a basis in law for the development of commerce in Newfoundland. Under this regime Newfoundland capitalism demonstrated signs of vigour: some technological change occurred in the fishery, Newfoundland banks emerged and import substitution manufacturing developed in St. John's. Though some diversification occurred in the structure of the labour force in the last half of the century, most of the population depended on the fishery for an often meager livelihood. When markets contracted for fish, or prices fell, or the weather resulted in a poor quality cure, merchants were apt to curtail the extension of credit to fishermen, and thus reduce whole families to near destitution. These situations, particularly if extended over a couple of seasons, placed severe strains on the capabilities of the state in conflict management.

The alternatives for conflict management frequently had the result of dividing the political elite. Professionals, small businessmen, and merchants exercised political power in Newfoundland and while each of these interests shared a concern for capitalist economic development, there was frequently dissension on how that goal could be achieved most expeditiously. Merchants, understandably, were preoccupied with the development of the fisheries, or their credit business, or a wholesale and retail trade in imported manufactures and foodstuffs. Except for those few merchants who themselves

wished to diversify into manufacturing or mineral or forest exploitation, they were largely unmoved by arguments for economic diversification away from the fisheries. To the extent that it is possible to identify the economic interests of professionals, small businessmen, wholesalers and retailers, and manufacturers, they probably shared an interest in developing an economy which would put cash in working people's pockets for the purchase of goods and services, something which the credit system in the fisheries did not do. Those who controlled the state structures of the liberal democratic regime attempted through public policy to accommodate both points of view. The fishery was encouraged, the credit system unchallenged, and the fishermen barely sustained through relief when the merchant withdrew credit. But local manufacturing was protected by tariffs, agriculture encouraged, a geological survey was undertaken, and transportation infrastructure built at great cost to the public purse. When the fishery prospered, this compromise of class interests could be maintained, but when successive failures placed strain on government revenues, disputes over appropriate development strategies and over the institutional arrangements for politics emerged. Confederation was put on the agenda in such a context in the 1860's and the 1895 negotiations for confederation took place in an environment of economic crisis and impending bankruptcy.

When these attempts to engender prosperity and economic diversification through a linkage of Newfoundland's fate with that of Canada (unrealistic though this solution was) failed, state efforts to force growth and diversification were stepped up. David Alexander characterized this thrust of policy as Newfoundland's second development strategy. A shift away from local enterprise stimulation to the encouragement of foreign direct investment occurred.

The resulting wedding between Newfoundland and the international corporation can be traced back to nineteenth century contracts for railways, the dry dock, and the Bell Island mines but the volume of such contracts accelerated with the successful Anglo-Newfoundland Development Company agreement in

1905 for a paper-mill at Grand Falls.⁹⁹

This alteration in development strategies did not take place independently of changes in the Newfoundland society and economy. One change was the development of a social class less directly tied to the fishery than were merchants and fishermen. While capital was likely accumulated in the fisheries for much of the last half of the nineteenth century, the lack of locally oriented financial intermediaries made access to that capital problematic for the Newfoundland developer. Even if Newfoundland merchant capital had been more accessible for indigenously propelled economic development, the financial losses incurred in the fishing industry as a result of the fire of 1892 and the bank crash of 1894 undoubtedly dampened optimism about the potential for locally financed and controlled economic diversification. With thousands of people affected by the financial difficulties of mercantile firms, the prospects for economic prosperity must have seemed bleak. The road taken was to encourage the development of the resources of Newfoundland through foreign capital.

It is quite probable that this course of development would still have been taken even if savings in capital stock and working capital had not been lost in the fire and the bank crash. Both the recurrent poverty of fishermen and the interests of the middle class in economic development not based entirely on the fisheries, placed strong pressures on the state for rapid economic diversification - perhaps more rapid than the Newfoundland economy could support.

As Harold Innis has argued at the conclusion of his examination of the Newfoundland cod fishery: "The tragedy of Newfoundland followed the late development

⁹⁹ Alexander, *op. cit.*, p. 30.

of commercial activity and responsible government".¹⁰⁰ This was not a deterministic connection between business, state structures and economic development. It was not until the mid-1850's that a nascent Newfoundland capitalist class in the fishing industry emerged and a state capable of facilitating indigenous capitalist economic development was constructed. West Country of England mercantile firms dominated the fishing industry up until this time, the English Bank of British North America held a monopoly on commercial banking, and public policy was outside the control of aspiring merchants, businessmen and entrepreneurs. Self-government not only signalled the existence of Newfoundland capitalism, but provided impetus for its development. Capital formation was further facilitated with the opening of Newfoundland banks in 1854 and 1857. While the development of banking eased the problems of access to capital, it is doubtful whether sufficient savings would have accumulated to make possible railway finance in the 1880's and the large scale exploitation of mineral reserves in the 1890's. Projects of this scope were beyond the capital mobilization capabilities of institutional financial intermediaries in Canada, where banking, insurance companies, and stock exchanges were relatively well established. It is impossible to speculate upon the possible direction of Newfoundland's economic development had the proponents of development been less politically powerful, or had the pace of economic diversification, railway building and resource exploitation been more gradual, or had the fishery and Newfoundland commercial banks been able to keep pace with the demand for savings that development projects created.

Whatever the prospects for development might have been, by the mid-1890's a development strategy based on foreign direct investment was in place. Though a

¹⁰⁰ Innis, *op. cit.*, p. 483.

reliance on foreign capital began with railway finance in the 1880's, this dependence intensified in the early twentieth century. The first large scale resource development project undertaken through foreign direct investment began in 1895, when two Canadian mining companies, Dominion Iron and Steel Company Limited and Nova Scotia Steel and Coal Company Limited, began the exploitation of the large iron ore deposits of Bell Island. The remaining chapters of Part Two of the thesis will continue to explore the consequences for policy and regime change in Newfoundland of a development strategy based on foreign direct investment.

8

CHAPTER 5

**Resource Politics under the Unitary Liberal Democratic Regime of
Responsible Government (1919-1930)**

Introduction

This chapter examines the implications for resource policy and political volatility of a development strategy based on foreign direct investment. The impact of Canadian mining companies on Newfoundland politics is analyzed. The development of the iron ore reserves of Wabana began at the turn of the twentieth century and was undertaken by two Canadian-chartered companies, Dominion Iron and Steel (DIS) and Nova Scotia Steel and Coal (NSSC). At the time, the operations of these Canadian companies in Newfoundland constituted the largest iron ore development in the Empire. Because Newfoundland's economic and political association with Canada had been an important issue in nineteenth century politics and because Newfoundland eventually moved into the Canadian domain, it is interesting to examine the impact of Canadian mining magnates on the domestic policy process in Newfoundland. From this analysis it is possible to describe the environmental forces of dualism and external dependency which affected resource policy-making, to identify policy actors and assess their goals, strategies and tactics, and to assess the policy outputs and policy outcomes of the interaction between Canadian mining companies and the Newfoundland government.

During the period examined, these Canadian mining companies had a tremendous impact upon the politics of the day. Their formal relations with the government are examined, as are informal relations involving the companies' financial contributions to the Liberal-Reform party and their involvement in political scandals which brought down the Squires government. From a detailed examination of government-company correspondence and of testimony by the participants in resource policy-making to the Hollis Walker inquiry, which was established to investigate charges of political corruption, it is possible to examine such themes as the autonomy of the state from

foreign capitalists, the capabilities of the Newfoundland state in extractive, distributive, regulatory and symbolic resource policy outputs, and the implications of resource policy-making for the political stability of Newfoundland institutions and the development of the economy. Through a micro-political focus on resource policy-making involving these companies, some insights into the political and economic repercussions of a development strategy based on foreign capital can be gleaned.

In the 1880's, the Newfoundland government embarked on a development scheme similar to the one which had been adopted by Canada under the National Policy. The essential elements of the Newfoundland development strategy, as David Alexander has pointed out, were designed to open up the interior of the country through the construction of a trans-insular railway, and to provide protection to local manufacturers through a system of protective import tariffs.¹ The intent of the Newfoundland policy was to stimulate economic diversification through agricultural and resource development. The railway would open up the interior for the exploitation of the minerals and forests and thus reduce the country's dependence on salt cod as an export staple. This pattern of development was further encouraged through policies designed to entice foreign capital to invest in the resource sector.²

By 1919 it was evident that this strategy was both costly and of limited usefulness in reducing the economic dependency of Newfoundland. While the railway opened up the interior of the country, the costs of its construction were not compensated for by any

¹ This development strategy is discussed by David Alexander in "Newfoundland's Traditional Economy to 1934" in James Hiller and Peter Neary (eds.) Newfoundland in the Nineteenth and Twentieth Centuries, (Toronto: University of Toronto Press, 1980), p. 17-39.

² Ibid, p. 29.

great upsurge in resource development.³ By the end of World War I, there were really only two major resource projects in Newfoundland and only one of these, a pulp and paper company, was located in the interior. The other development was the iron ore mines on Bell Island. This island is located only a few miles from the Avalon Peninsula, and the ore produced was shipped from Wabana, Bell Island, to the steel mills of Cape Breton, Nova Scotia. The economic benefits from this development were limited, however, to the creation of approximately 2000 jobs when the mines were working at full capacity. Primarily because of vertical integration in the Canadian iron and steel industry, the forward linkages from the considerable resource of Wabana were to smelters in Canada. In an attempt to moderate the purely extractive character of the Canadian mining companies' operations, post-war Newfoundland governments attempted unsuccessfully to pursue a staple model of development in which Wabana iron ore would be processed in Newfoundland.

Though, to the end of World War I, the railway had done little to foster economic diversification, as salt cod remained the primary export commodity and the majority of the population depended on the fishery for a livelihood, railway-building and the encouragement of foreign direct investment had important repercussions for the Newfoundland political system. This new staples approach to development produced a political agenda which was headed by natural resource development and made railway-builders and the directors of resource companies important political interests. Against this background, primary producers in the fishery mobilized in an attempt to

³ For a discussion of the railroad in Newfoundland politics see James Hiller, "The Railway and Local Politics in Newfoundland, 1870-1901" in Hiller and Neary op. cit., p. 123-147.

redirect public policy to fisheries management.⁴ The political organization of fishermen met with opposition from fish exporters and merchants who eschewed regulation and from manufacturers who opposed tariff reductions which had been advocated by the Union party. A weaker, though not insignificant, interest was a small urban industrial working class, employed primarily in the manufacturing sector in St. John's and in the mines at Bell Island.

At the beginning of the second decade of the twentieth century, Newfoundland was a polity attempting through public policy a transition from a primarily fishing economy to a broader economic base. Economic change functioned to accentuate the inherent class division between fishermen and merchants and to alter the balance of class forces because, as a byproduct of this change, an industrial working class and an industrial bourgeoisie in the resource sector developed. The increasing intensity and complexity of economic cleavages and the continued salience of regional and religious cleavages strained the conflict management capabilities of political institutions. In times of relative economic prosperity, tensions were managed through coalition government and brokerage tactics within political parties. However, when disruptions of the trade in staples resulted in a downturn in the Newfoundland economy, more extreme institutional and ideological devices for conflict management were apparent. Conflict management in Newfoundland and Labrador, during times of relative economic strain and prosperity, can be fruitfully examined through an analysis of the relations between the Newfoundland government and the Canadian mining companies - Dominion Iron and Steel Limited (DIS) and Nova Scotia Steel and Coal Limited (NSSC). The changing relations of these companies with the government between 1919 and 1930 provide some insights into the

⁴ For a history of the FPU see Ian McDonald, "W.F. Coaker and the Balance of Power Strategy: The Fishermen's Protective Union in Newfoundland Politics" in Hiller and Neary, op. cit.

role of the state in conflict management and the implications of the institutional, economic, and ideological context for resource policy, and regime change.

Environmental Dynamics for Resource Policy - Forces of Dualism and External Dependency

Though, by the end of World War I, the governmental structures of a liberal democratic regime had been functioning in Newfoundland for 65 years, stresses created by the dualism and external dependency of the Newfoundland political system were pronounced. In some ways, political-institutional structures themselves exacerbated the internal divisions of Newfoundland society and generalized economic dependence made governments very sensitive to international economic forces. External dependency was also a dimension of the political process in that Newfoundland governments were affected somewhat in their policy goals by the government of Great Britain and by the concerns of the corporate directors of trans-national corporations operating in Newfoundland. Together, these forces were capable of producing volatility in governments and the party system, as well as a mineral policy process which was characterized alternately by confrontation and by conciliation in government-resource business relations.

1) The Institutional Context of Policy-Making

Newfoundland was organized territorially as a unitary state wherein policy-making powers were located almost exclusively within the cabinet and legislative assembly of

the national capital, St. John's. The absence of municipal government other than that of the city of St. John's, meant that the government of the country was even more centralized than that of most unitary states where policy-making powers in matters of local concern are ordinarily devolved from the centre to the municipality. In some respects, then, cabinet ministers, legislators and public servants in Newfoundland had more power to initiate, formulate and implement public policy than did policy-makers in other democratic unitary states with a developed system of local government, and than did politicians and bureaucrats at the national level in the Canadian federation.

In unitary Newfoundland, political parties, interest groups, business and labour all focused their activities on political institutions in St. John's because access, influence, or control of these institutions was essential for the attainment of policy goals. In a sense then, the stakes of politics were higher in Newfoundland as there was no recourse to another government or to the courts or, in the case of political parties, to another electorate. As is often the case when the stakes are high, the game is intensely and sometimes fiercely played and the rules of the game are not beyond manipulation by the players. Politics in Newfoundland in the 1920's was no exception.

As is the case in most parliamentary systems, the prime minister and cabinet played the major role in policy-making. Executive dominance, which is characteristic of most parliamentary systems was mitigated, to some extent, by a multi-party system and by relatively weak party discipline.

Reacting to the political dominance of St. John's and to the inequalities of Newfoundland society, the fishermen entered politics and politically mobilized the dualism of Newfoundland society. Primary producers in Newfoundland entered the

political arena somewhat earlier than was the case of farmers in Canada but the grievances of Newfoundland fishermen and the policies they advocated were not unlike those of the Canadian farmers.⁵ The Fisherman's Protective Union (F.P.U) was formed in 1908 largely as a result of the organizational efforts of William Ford Coaker.⁶ The F.P.U.'s entrance into the political arena was marked by the formulation of the "Bonavista Platform" in 1912 which like the Farmers' Platform of Canadian farmers advocated social and tariff reform.⁷ The political strategy of the fishermen in politics also was similar to that of the Canadian farmers; both interests maintained an ambivalence toward participation in the party system through appeals designed to maximize electoral gain for the purpose of forming governments. Consequently, perhaps to the detriment of the political effectiveness of the Newfoundland fishermen, the strategy adopted was one of "balance of power"⁸ which entailed pre-election agreements with the Liberal Party⁹ and participation in governments dominated by the Liberal Party.

The Newfoundland economic base in the first quarter of the twentieth century was structured by the fishery. The electoral results¹⁰ from both the 1913 and 1919 elections

⁵ G.E. Panting, "The Fishermen's Protective Union of Newfoundland and the Farmer's Organizations in Western Canada" in Canadian Historical Association Report, 1963, pp 141-151

⁶ J. Feltham, "The Development of the F.P.U. in Newfoundland (1908-1923)", unpublished M.A. thesis, Memorial University of Newfoundland, 1959

⁷ G.E. Panting, *op. cit.*

⁸ Ian McDonald, "W.F. Coaker and the Balance of Power Strategy" in Hiller and Neary, *op. cit.*, pp 148-180

⁹ S.J.R. Noel, Politics in Newfoundland, (Toronto: University of Toronto Press, 1971), pp 141-142

¹⁰ Mark Graesser, (ed) "Newfoundland General Election Results 1900-1932", unpublished document. In 1913 Union candidates polled 19.6% of the vote and in 1919 Union candidates received the largest share of the popular vote at 39.5%.

reveal that the Union party had sufficient support to form a minority government or constitute the dominant partner in a coalition government, but in both elections the Union had entered into a pre-election deal with the Liberal party whereby if successful, the government would be controlled by the Liberals in exchange for the implementation into policy of some of the Union's proposals for reform. The impact of participation in Liberal governments for the fishermen was to defuse the radicalism and to impair the longevity of this movement of political protest and reform. A not unrelated impact was the maintenance of the Liberal party as a viable and successful political organization.

2) The Economic Context of Policy-Making

The fundamental features of the Newfoundland economy in 1919 were not markedly different from those which prevailed at the turn of the century. The fishery continued to be the mainstay of the Newfoundland economy, though some significant initiatives had been taken to diversify the economic base. The transinsular railway was completed but the operation and maintenance of the line placed some strains on government financial resources in the early post-war period.¹¹ A small indigenous manufacturing sector which was protected by tariffs had developed in St. John's and some developments had taken place in the resource sector. These were primarily undertaken by foreign capital which responded to the inducements to location in Newfoundland offered by Newfoundland governments since the turn of the century.¹² The financial sector of the economy was also foreign-owned and controlled. In Canada, the financial

¹¹ S.J.R. Noel, *op cit.*, pp 157-158. See also James Hiller for a history of the railway to 1901 in Hiller and Neary *op cit.*

¹² David Alexander, *op cit.*, pp 30-31

sector was domestically controlled and in comparison to other sectors of the economy "overdeveloped".¹³ Banking was sufficiently buoyant in Canada that by 1895 four of the larger Canadian banks expanded beyond the territorial boundaries of Canada into Newfoundland.

At the end of World War I, however, Newfoundland had the appearance of a thriving country. The Minister of Marine and Fisheries, J.G. Stone, noted that never before in Newfoundland's history had the returns been so great from the cod fishery.¹⁴ During the war years Newfoundland had for all intents and purposes become the sole purveyor of salt cod with resulting increases in prosperity. Between 1914 and 1918 Newfoundland's exports doubled from \$15,134,543 in 1914 to \$30,153,517 in 1918. The value of imports also increased during this period from \$15,193,726 to \$26,892,946.¹⁵

Table 1
Source of Imports 1913-1918 (Value in millions Canadian Dollars)

YEAR	BRITAIN	CANADA	USA	OTHER	TOTAL
1913-1914	3.82	4.68	5.79	.89	15.19
1914-1915	2.31	4.50	4.94	.58	12.35
1915-1916	2.57	5.87	7.09	.87	16.42
1916-1917	2.62	7.41	10.23	1.05	21.32
1917-1918	2.25	11.11	12.24	1.29	26.89

¹³ Wallace Clement refers to Canada as both developed and overdeveloped in Continental Corporate Power, (Toronto:McClelland Stewart Ltd., 1979), p. 7.

¹⁴ *Daily News*, Jan. 7, 1919.

¹⁵ Budget Speech of Sir Michael Cashin, May 15, 1919. The text was published in the *Daily News*, May 18, 1919.

The structure of Newfoundland's economic relations with other countries was altered by the war and these changes were sustained in the post-war period. During the war years British imports declined relative to Canadian and American imports. Between 1914 and 1918 the value of Newfoundland's imports from Canada almost tripled, and from the U.S.A. more than doubled, while imports from Britain decreased by a half. Overall, by 1918 Newfoundland had a trade surplus, but because most of its export trade was not with Canada or the United States, Newfoundland had a trade deficit with these countries.

The revenues of the Newfoundland government also expanded during the war years. Throughout the war years the government had budgetary surpluses. Though expenditures had increased, these were compensated for by increases in government revenues. The budgetary surplus for the fiscal year ending June 30, 1918 was \$1,170,625.¹⁶ Though higher receipts from the tariff on imports undoubtedly contributed to increased government revenues, revenues were also positively affected by the yields from the excess profits tax and from a tax on cables, paid for the first time in 1918 by Western Union and Direct Cables.¹⁷

The state in Newfoundland had adopted an interventionist role by 1919. Early interventions entailed public involvement in the provision of transportation infrastructure for economic development. In Newfoundland, railway construction began in the late nineteenth century and was nurtured by land grants and government financing. The operation of the Newfoundland railroad was undertaken by the Reid

¹⁶ Estimates, April 23, 1919.

¹⁷ Ibid.

interests, and Robert Reid by 1897 was a director of both the Canadian Pacific Railroad and the influential Bank of Montreal. The Reids remained important in Newfoundland politics throughout the twentieth century, not only as a result of their railway holdings, but also because of their substantial land holdings and because of their diversification into utilities and the resource sector.¹⁸ During the war years state regulation of the economy expanded and Newfoundland implemented personal and corporate income tax. In general, a larger role for government in economic management was supported by business and labour. For example, both business and labour advocated an expansion of the civil service. The tenth Annual Meeting of the Board of Trade recommended the creation of a Department of Commerce.¹⁹ Similarly the Newfoundland Industrial Workers Association recommended the creation of a Department of Labour.²⁰

In 1919 the Newfoundland government was in a strong position, though the Newfoundland economy displayed some significant weaknesses and vulnerabilities (not least among them were Newfoundland's staple economy, the foreign control of the financial sector, and imbalanced trade relations with the two major powers on the North American continent). At the end of the war the government nevertheless was in a

¹⁸ Railway contracts between the Newfoundland government and the Reids often entailed substantial land grants to the Reids. For example under the 1893 contract the Reid railway company could select lands anywhere in the country if "suitable" lands were not available along the railway. See A. B. Morine, The Railway Contract, 1898 and Afterwards, (St. John's: Robinson & Co., 1933), p. 12. Under the 1898 contract the Reids, in exchange for operating the railroad for 50 years, received 5000 acres of land. Morine suggests that an important purpose of the Reid involvement in railways was to gain access to land for speculative purposes. By 1919 the Reids had diversified their interests in Newfoundland to include, among other companies, Newfoundland Products Company, which had control of the water powers of the Humber river, and St. John's Light and Power. See the Reid papers, Files 92 and 102, Provincial Archives of Newfoundland and Labrador. The Reids remained significant in Newfoundland politics in the 1970's when the government of Newfoundland bought back some of the lands granted at the turn of the century.

¹⁹ *Daily News*, Jan. 22, 1919.

²⁰ *Daily News*, March 2, 1919.

strong financial position; the fishery was prospering, the government had budgetary surpluses, and the credit of Newfoundland in the international money markets was sound. In the past, loans had been secured in the capital markets of Britain and the United States and in 1919 the Minister of Finance, Mr. Michael Cashin, negotiated a seven million dollar loan in Canada.²¹

In 1919 when Richard Squires' Liberal-Reform party took office the policy context had the appearances of stable adaptation and rejuvenation following the uncertainties of the war years which had prompted government by coalition in both Canada and Newfoundland. In 1919 with the resumption of party politics following the war, Richard Squires formed a majority government with support from William Coaker, the leader of the Fisherman's Protective Union, who had participated in the National Coalition.

Though in 1919 the institutional and economic dimensions of the policy context exhibited some strengths, Newfoundland remained a society somewhat divided as to views on the appropriate forms of governmental action. Squires' majority in the legislature was in no way indicative of a high degree of consensus upon the thrust of social and economic policy. The Liberal-Reform party was essentially an electoral vehicle formed to provide opposition to the successor of the unpopular National Government. Liberal-Reform's founding core was Richard Squires, who had been a protégé of Edward Morris, a former prime minister of Newfoundland. In 1919 Squires was not a novice to politics, as he had been a member of the Legislative Council²² under the wartime

²¹ Reported *Daily News*, Feb. 24, 1919.

²² Squires was appointed to the upper house during the tenure of Lord Patrick Morris in government. In 1913 Squires had been an unsuccessful candidate for the People's Party of which Morris was leader.

National Government. Squires, however, had little backing from the political parties operative in the pre-war years primarily because the Peoples' Party had largely disintegrated through the combined impact of Morris's retirement and the formation of a wartime coalition government. Liberal-Reform's control of the government in 1919 was attributable primarily to the alliances which Squires nurtured between August of 1919 and the November election of that year with William Coaker of the Fisherman's Protective Union and W.R. Warren who was supported by the Board of Trade.

If Squires had not secured an agreement with Coaker not to contest districts in which Squires' candidates were running, Liberal-Reform would undoubtedly not have come to power. The Conservative party led by Cashin were the incumbents in the 1919 election, and in its public stance attempted to demonstrate its affinity with business. As the Liberal-Reform party was not formed until three months before the November election, the Union party was perceived as the major opposition to the government. The *Daily News*, a St. John's newspaper and a declared ally of the Cashin government in 1919, produced reams of titillating copy on alleged "Bolshevism" in the F.P.U. and advised its readers that chaos in financial and other affairs, would be a certainty should Mr. Coaker by any fluke of fortune get control of the government. "Every businessman in the city and outports if he has the capacity to think at all, must be aware of this."²³

The Union, however, was a force to be reckoned with in Newfoundland politics. Union candidates captured a substantial share of the popular vote.²⁴ Furthermore, the

²³ *Daily News*, July 17, 1919, p. 4

²⁴ Mark Graësser, op. cit.

formation of Liberal-Reform could split the middle class vote, to the detriment of Cashin's right-of-centre party. The Union's electoral chances were not dependent, therefore, on anything as uncertain as a "fluke of fortune". The Squires pre-election coalition had, as well, gained some credibility in the business community through its recruitment for electoral candidacy of William Warren, a member of the Board of Trade who was reputedly promoted by those members of the Board who had been affiliated with the pre-war Liberal party which had been led by Sir Robert Bond.

In the 1919 election Union candidates secured the largest percentage of the popular vote, 39.5%, and 11 of the 36 seats in the lower house. The Conservative party, led by Michael Cashin secured the greatest number of seats, 13, gaining however slightly less of the popular vote, 37.6%. Non-Union Liberal-Reform candidates won only 20.4% of the vote but 12 seats.²⁵ The Union candidates, with 11 seats, had the balance of power but had, in a pre-election deal, committed their support to a Squires government with Union participation.²⁶

Electurally, the alliance of Squires, Coaker, and Warren was a successful one but Squires' leadership in government was "fragile". The legislative strength of Liberal-Reform was contingent upon the steadfastness of the leaders of the legislative factions that were represented in the Cabinet. Squires' cabinet accordingly reflected the heterogeneity of perspectives and interests of Liberal-Reform's electoral base. Senior positions were awarded to those whose support was most critical. Coaker, therefore, became Minister of Marine and Fisheries and during Squires' frequent

²⁵ Mark Graesser, *op. cit.*

²⁶ S.J.R Noel, *op. cit.*, pp. 141-143.

absences from Newfoundland, Deputy Prime Minister. Warren was made Minister of Justice and Attorney General. In 1923 these two ministers forced Squires' resignation as Prime Minister after Warren obtained information implicating Squires in irregularities in the Liquor Control department and in unethical dealings with two Canadian-chartered mining companies, Dominion Iron and Steel, and Nova Scotia Steel and Coal.

3) The Actors in Resource Policy-Making

In 1919, as is to a considerable extent still the case, policy-making revolved around the Cabinet and the Prime Minister. The interaction, in general, between business and government was facilitated by a web of personal friendships. While the indigenous merchant class was ordinarily an important recruitment base for the policy elite, this was not as clearly the case for the Liberal-Reform party. Squires himself had no familial roots in the dominant merchant segment of the business community. Richard Squires was something of a self-made man in a society in which ascriptive criteria for status reputedly prevailed. He was the son of Alexander Squires, a small shop-keeper in Harbour Grace, and had obtained upward social mobility through his legal education which had been partially financed by scholarships. Mobility was also facilitated through his affiliation with E.P. Morris, leader of the old Peoples' Party and a former Prime Minister.²⁷ Squires was essentially a pragmatist in electoral matters, but to the extent that he did consistently articulate the interests and perspectives of a segment of the electorate, he was an advocate of those who supported the industrial development of Newfoundland. Squires left a double-edged mark on Newfoundland's

²⁷ For a brief biography of Squires see Who's Who's, in and from Newfoundland 1930, (St. John's: R. Hibbs, 1927).

political history - on the one hand he is remembered for his development of the Humber River hydroelectric and pulp and paper facility and, on the other hand, for the scandals of his alleged involvement in political corruption. The two, however, were not unrelated, especially as far as the politics of resource development were concerned.

If Squires' links with the indigenous business community were somewhat tenuous, those of Coaker, a critical component of the Liberal-Reform coalition, were more so. As president of the F.P.U. and leader of the Union party, Coaker was a powerful force in Newfoundland politics and was feared by the business community. It was primarily Warren's participation in the Liberal-Reform coalition that gave the party some legitimacy in the local merchant community because Squires and Coaker likely were perceived as representing non-mercantile interests.

Despite the fact that Liberal-Reform represented something of a novel electoral vehicle, access by local business to policy-makers was probably not detrimentally affected by the coming-to power of the Squires government. Liberal-Reform was certainly not a radical force in Newfoundland politics; it was essentially a coalition for electoral purposes. As a brokerage party it performed a conflict management function but its survival in government was dependent upon a delicate balance of often conflicting interests. Its electoral success was contingent upon the support of the fishermen but also upon the financial resources to mount a campaign. Squires himself supervised the fund-raising for the party and among his principal financial backers were foreign-owned resource companies.²⁸ Among the contributors were Dominion Iron and Steel and Nova Scotia Steel and Coal, the principal mining companies operating in

²⁸ According to testimony presented by Squires, J.T. Meaney, and Miss Jean Miller to the Hollis Walker inquiry, the AND company and a major cable company had also been approached for funds.

Newfoundland in the 1920's. Because their activities had important ramifications for both the politics and the economy of Newfoundland, they provide a focal point for the examination of resource policy-making and institutional change.

The head offices for these two companies, DIS and NSSC, were located in Montreal and Sydney respectively. Both companies operated iron ore mines at Wabana. The potential output of ore from these two operations was 2 million tons of ore per year. The ore from Wabana was primarily exported to Sydney, Nova Scotia where a smelting plant was located. The principal markets for steel created from Wabana ore were Germany and the United States. By 1919 these companies had been operating in Newfoundland for about 25 years. Taxation and regulation of the resource sector, to the extent that either existed, were established through ad hoc contractual agreements between individual companies and the government. The parameters of the government's resource policy were, therefore, laid out in a number of Company Acts. Periodic bargaining between policy-makers and resource company directors over the terms of contracts and relatively frequent interaction between directors and policy-makers in the process of honouring an agreement were critical, therefore, to the profitable maintenance of a company's enterprise in Newfoundland.

Access to decision-makers was an important part of doing business in Newfoundland. Though, because of their foreign ownership and management, these companies lacked some of the traditional routes of access through personal friendships and school ties that were enjoyed by directors of Newfoundland-owned companies, they did not lack influence over public policy. Access accrued from the economic importance of the companies' role as employers on Bell Island and from the potential government revenue from their operations. The personal connections developed with decision-makers

by some members of the corporate boards of these companies also facilitated access. William D. Reid, for example, was a director of DIS. The Reid family had been prominent in railways since the 1880's and had later expanded into resource development. Reid's son, Howard, managed the Newfoundland operations from St. John's and the Reid office cable code was from time-to-time used by Squires in confidential communications with DIS and NSSC. McInnis, another member of DIS's board, was acquainted with Squires from their law school days at Dalhousie University.²⁹

Despite the fact that some of the company directors had developed personal affiliations with Squires, because the management of the Wabana operations was not filled from the Newfoundland employment market, the companies were perhaps somewhat handicapped in their routine dealings with the Newfoundland government and in their extra-governmental relations with political parties. It was undoubtedly as a result of this disability that Dominion Iron and Steel's chief accountant for the Wabana operations, J.J. Miller, functioned as a liaison between the Board of Directors and the Cabinet in business-government negotiations and in matters of party finance. Miller was a Newfoundlander who was acquainted with Squires and, conveniently, Miller's sister, Jean Miller, was Squires' personal secretary and accountant. James Miller's role in the policy process in many ways resembled that of a paid interest group representative. Thus, while kinship, school, and social ties might have been important routes to policy influence for the indigenous economic elite, these were also assets easily within the reach of foreign-owned and managed companies.

²⁹ Testimony of R.A. Squires to the Hollis Walker inquiry, Provincial Archives of Newfoundland and Labrador.

The Process of Resource Policy-Making: Access and Bargaining Strategies in the 1920
Contract Negotiations

Post-war relations between the Squires Liberal-Reform government and the two mining companies, the Dominion Iron and Steel Company and the Nova Scotia Steel and Coal Company, began with a routine renegotiation of the companies' operating contracts which had expired in 1919. In the negotiations which produced a new 20 year contract, Coaker as Deputy Prime Minister was the principal policy actor on the government side. Coaker was involved in discussions with Wolvin, the president of Dominion Iron and Steel, and signed the new contract on behalf of the government. The contract between Dominion Iron and Steel, Nova Scotia Steel and Coal, and the Newfoundland government, or the Wolvin-Coaker agreement as it was referred to at the time, was signed in November of 1920 and ratified by the legislature in August of 1921.³⁰

A single contract was negotiated for both companies because at the time of the companies' dealings with the government the companies anticipated a merger between DIS and NSSC.³¹ In the discussions which produced the new contract Wolvin as president of the larger Dominion Iron and Steel Company represented the interests of both corporations. DIS and NSSC became formally affiliated through British Empire Steel Corporation (BESCO) which through stock ownership acquired the entire capital

³⁰ August 12, 1921, Chapter 10 Dominion Iron and Steel Company Act, 12, Geo V.

³¹ McDougall to Squires, December(?), 1920.

stock of Dominion Steel Corporation, DIS, and NSSC.³² However the internal financial structure of the companies was affected by the merger, both a delay in the conclusion of the merger and its eventual implementation affected the public posturing of these mining companies with the Newfoundland government. Only a month after the Wolvin-Coaker agreement was signed, the companies argued that delays in the merger made it necessary for them to seek an amendment to the agreement before it received legislative ratification. However, after the consolidation had taken place, the extensive outlay of capital necessary to complete the merger was used as a rationale by BESCO for its failure to fulfill its obligations under the 1920 Wolvin-Coaker agreement.³³

In understanding the terms agreed on in November of 1920 by the government and the companies, and the relations between the government and British Empire Steel Company after 1920, the conundrum of the merger appears as something of a red herring. The parties to the agreement negotiated with the assumption that a merger would take place consolidating the two companies and that merger did in fact occur. The corporate board of British Empire Steel Company was similar in personnel to the former boards of Dominion Iron and Steel Company and Nova Scotia Steel. Wolvin became president of British Empire Steel Company, and McDougall, who was president of Nova Scotia Steel, was also represented on the British Empire Steel Company board, as were several of the other directors of Dominion Iron and Steel Company and Nova Scotia Steel and Coal.³⁴

³² See David Frank, "The Cape Breton Coal Industry and the Rise and Fall of the British Empire Steel Corporation" in *Acadiensis* 7, Aug. 1977, pp. 3-34.

³³ Cabinet Memorandum on Bell Island mines, Colonial Secretary Special files, Provincial Archives of Newfoundland and Labrador.

³⁴ See table displaying the corporate board members of these companies in David Frank, *op. cit.*

The principal actors in the 1920 contract negotiations were the Cabinet and the members of the corporate boards of the companies. The British government, however, also made an attempt, albeit unsuccessful, to influence the direction of resource policy embodied in the 1920 operating contract. The theme of British involvement in the Newfoundland political process during the responsible government period has been a prevalent one in interpretations of Newfoundland's politics.³⁵ While Britain did make certain suggestions as to Newfoundland's policy vis-a-vis these companies, these proposals were not acted upon.

Though the company's contract did not expire until late in 1919, as early as September 1918 certain British proposals for the control of the mines themselves were presented to the Newfoundland government. Governor Harris suggested that the Government of Newfoundland consider buying out the shares of these companies as a measure to gain control over the destination of exports.³⁶ After Newfoundland ministers indicated their reluctance to legislate in this manner, it was later proposed by the British Secretary of State for the Colonies, that control of deposit destinations might be achieved through the imposition of a differential duty such that the duty on ore exported to "British" destinations was lower than for ore exported to "foreign" countries.³⁷ The response of the Newfoundland government to this proposal affirmed

³⁵ This is a theme in both the analyses of Gunn, *op. cit.*, and Noel, *op. cit.*

³⁶ Governor Harris to Colonial Secretary, Feb. 20, 1920. In this correspondence Harris refers to a Sept. 1918 dispatch in which proposals for the control of the mines were discussed. Harris also indicates that this is his personal suggestion.

³⁷ Secretary of State for the Colonies to Colonial Secretary, January (?), 1920

the Squires' government's intention to legislate on the basis of "local interest"³⁸ yet the reply, fashioned by the Colonial secretary, dated March of 1920 was firmly and shrewdly non-committal as to the nature of taxation that would be imposed upon the companies and the policy goals of the government in this regard.

In view of the possibility that enquiries with respect to the policy of the government were due to the activities of certain financial interests in Britain and of the fact that the report which the government was having prepared in connection with this matter has not yet been completed, Ministers were unable at the present time to make a statement either that there was to be no taxation, or that the taxation was to be abnormally heavy.³⁹

This correspondence suggests that while the British government did make some representations regarding Newfoundland's resource policy, it was not in this instance an influential policy actor. Furthermore, these communications reveal that two policy options were considered by the Newfoundland government, the public ownership of the mines and higher export duties on ore destined for non-British ports. Up to March of 1920, however, neither the government's general policy goals nor its position on the taxation and regulation of these companies was apparent.

Subsequent interactions between the companies and the government, draft contracts, and the terms of the contract finally signed in November 1920, indicated that the government engaged in negotiations with somewhat different goals from those suggested by the British government. The Squires government wanted the companies to construct a smelting plant on Bell Island which would make possible some local processing of the ore from the Bell Island mines before its export to markets. The

³⁸ Colonial secretary to Governor Harris, March 1 1920. The colonial secretary pointed out that a decision on a differential duty would be influenced by conditions at the time of the negotiations with the company, "conditions affecting Imperial and local interest".

³⁹ Colonial Secretary to Governor Harris, March 1, 1920 Whether such a report was prepared is not known

structure and amount of export duties proposed by the government appear as an integral component of a policy to promote Newfoundland's industrial diversification through the transfer of processing activities from Sydney, Nova Scotia, to Bell Island, Newfoundland. The export duties proposed by the government were not highest on ore destined for non-British destinations as suggested by the British Secretary of State for the Colonies, but were to be highest on ore destined for Nova Scotia, Canada.

The Dominion Iron and Steel Company and the Nova Scotia Steel and Coal Company gained access to Newfoundland policy-makers to present their position on export duties through formal written requests by the directors for consultation and through requests for consultation presented to Squires by their accountant and representative in Newfoundland, J.J. Miller. Access, however, also accrued from the legitimacy the companies enjoyed as a result of their contributions to the Liberal-Reform campaign fund.

Interaction between the government and the companies relating to the renegotiation of their operating contracts began in the spring of 1920. After a meeting with Squires at Squires' home, James Miller wired McDougall, who was president of the Nova Scotia Steel and Coal Company, and Gillis, Superintendent of Mines for Dominion Iron and Steel, to inform them that the government desired a new contract with the companies.⁴⁰ Direct negotiations between the government and the directors did not begin until May of 1920. At that time both McDougall and Wolvin, the presidents of NSSC and DIS, respectively, requested of Squires that the government consult with the

⁴⁰ Testimony of James Miller, Jan 21, 1924, Hollis Walker Inquiry, Proceedings, Provincial Archives of Newfoundland and Labrador.

companies' officials before coming to a decision on export duties.⁴¹ In a telegram to Squires, Wolvin phrased the request for consultation in a somewhat more urgent and perhaps threatening manner.

Am advised you will soon consider legislation covering export duty on iron ore and this will seriously affect the value of our deposits and development and *possibly stop production*. (Emphasis added)⁴²

The appeal on the part of the companies' directors for personal consultation was successful. Squires informed McDougall and Wolvin that if they wanted to take up the matter personally with the government they should come to St. John's within 10 days.⁴³ James Miller arranged the introduction of the officials to Squires and arranged meetings between Squires and McDougall of Nova Scotia Steel and Coal and McInnis of Dominion Iron and Steel.⁴⁴

With the arrival of the companies' directors, the negotiations for the new contract commenced. By May of 1920 the bargaining position of the government and the general thrust of its policy goals had been established. The government wanted a general increase in the export duty and was not intent, as the British government had suggested, on establishing a complicated differential duty. Furthermore, and more importantly, the government was endeavouring to build an industrial strategy into the new contract with the mining companies. The keystone of this policy goal centered on

⁴¹ McDougall to Squires, May 13, 1920, Wolvin to Squires, May 14, 1920, Provincial Archives of Newfoundland and Labrador.

⁴² Wolvin to Squires, May 14, 1920, Provincial Archives of Newfoundland and Labrador. Presumably Wolvin's information was acquired through J. J. Miller.

⁴³ Squires to McDougall and Wolvin, May 14, 1920, Provincial Archives of Newfoundland and Labrador.

⁴⁴ Testimony of J. J. Miller, Hollis-Walker Inquiry, Proceedings, Jan. 21, 1924, Provincial Archives of Newfoundland and Labrador.

the government's attempt to gain a commitment in the contract from the companies to construct a smelting plant in Newfoundland which would permit some processing of Wabana ore before its export to markets. The position of the government on the nature and structure of export duties applicable to ore extracted by these companies from the Bell Island mines was also, however, connected to the policy goal of industrial diversification. The government was willing to forego the remittance of export duties on ore exported to any point in the world other than Nova Scotia, provided that the companies constructed and operated a smelter in Newfoundland. The export duty on ore destined for Nova Scotia was undoubtedly intended to discourage processing at Sydney and provide further incentives for the full utilization of the proposed Newfoundland processing facility.

According to information on the companies' bargaining position provided to Squires by E.P. Morris, a former Prime Minister and Squires' mentor, the companies were willing to comply with the government's terms on the construction of a blast furnace provided that the government moderated its position on the export tax. Morris telegraphed Squires regarding an agreement that might be reached between the government and the companies.

Strictly confidential (Sic), I am inclined to believe that if satisfactory arrangements made regard export tax and term years they (the companies) would favourably consider project erecting blast furnace, make pig iron say within five or ten years, importing coal.⁴⁵

The government and the companies were, however, unable at that time to reach an agreement on the export duties. Coaker was reportedly negotiating for a dollar a ton

⁴⁵ E.P. Morris to R. A. Squires, May 19, 1920, Provincial Archives of Newfoundland and Labrador

duty on exports.⁴⁶ The negotiations broke off in June and official interaction between the government and the companies did not resume until the autumn of 1920 when Wolvin arrived in St. John's to negotiate with Coaker who was at the time Acting Prime Minister. Though the formal discussions to produce a new contract were stalled between June and October of 1920, the companies did have some interaction with the governing party. It seems that as the culmination of a rather peculiar and tangled chain of events, these companies made an unanticipated contribution of \$46,000 to Richard Squires' campaign account at the Bank of Nova Scotia.

According to the testimony of Jean Miller to the Hollis Walker inquiry, Squires' account at the Bank of Nova Scotia was overdrawn⁴⁷ and was periodically replenished with monies raised by Miss Miller and deposited to the account on Squires' behalf. Jean Miller was at that time Squires' accountant and personal secretary and had Squires' power of attorney to enter into financial transactions.⁴⁸ Both Miss Miller and Squires testified to the inquiry that one role performed by Miss Miller was the gathering of political contributions.⁴⁹ As Squires' bank account was in such an unstable condition that funds were often quickly required to meet an overdraft, Miss Miller became very resourceful in raising money on short notice. In such circumstances the procedure

⁴⁶ Testimony of J. J. Miller, Hollis-Walker Inquiry, Provincial Archives of Newfoundland and Labrador.

⁴⁷ Testimony of Jean Miller, Hollis-Walker Inquiry Proceedings, Jan. 8, 1924, Provincial Archives of Newfoundland and Labrador. The testimony revealed that in Aug. 1920, R. A. Squires account at the Bank of Nova Scotia was overdrawn by \$20,000.00.

⁴⁸ The power of attorney was held by Jean Miller until 1921. See testimony of Sir Richard Squires, Hollis-Walker Inquiry, Proceedings, Provincial Archives of Newfoundland and Labrador.

⁴⁹ On Jan. 8, 1924, Jean Miller in her testimony to the Hollis-Walker Inquiry stated: "I was financing for Sir Richard from August 1920..." See also the testimony of R. A. Squires, Jan. 16, 1924, Provincial Archives of Newfoundland and Labrador.

employed was to approach a potential donor with a request for "accommodation," whereupon the amount of the "accommodation" would be acknowledged by an IOU signed by Jean Miller on Squires' behalf or acknowledged by a cheque to the supplier of "accommodation" also signed by Miller on Squires' behalf.⁵⁰ Though these transactions had the appearance of short-term loans to Sir Richard by his "friends", it was not expected by Squires and Miller that there would be any attempt to collect from Squires the amounts advanced. This situation was obviously not anticipated because on a couple of occasions when an attempt was made to cash one of Sir Richard's cheques, the bank was unable to honour the cheque due to insufficient funds in Squires' account.⁵¹ It was under such circumstances that Dominion Iron and Steel and Nova Scotia Steel and Coal found themselves having made a political donation of \$46,000.

In July 1920 James Miller of Dominion Iron and Steel was summoned to Squires' home where Squires indicated that he was leaving for England and required an "accommodation" during his absence. Miller reported to the Hollis Walker Commission that Squires had indicated that his campaign account was short of funds as a result of "four or five large amounts on Water Street" which could not be collected until Squires' return from England. Shortly after Squires' departure, James Miller received a wire from his sister, Jean Miller, to meet on Sunday morning at the home of Mr. Glennie, the manager of the Bank of Nova Scotia. Glennie, reportedly⁵² informed James Miller

⁵⁰ See testimony of Jean Miller and R. A. Squires, Hollis-Walker Inquiry, Proceedings, Provincial Archives of Newfoundland and Labrador.

⁵¹ The companies involved were the Anglo-Newfoundland Development Company, DIS and NSSC. See testimony of R. A. Squires, Jan. 15, Hollis-Walker, Proceedings, Provincial Archives of Newfoundland and Labrador.

⁵² Though Glennie's presence at the inquiry was requested, he failed to appear. This information was supplied in the testimony of J. J. Miller, Hollis-Walker Inquiry, Proceedings, Provincial Archives of Newfoundland and Labrador.

that Squires had left without making any arrangements about the overdraft and threatened to have Squires stopped in Liverpool unless there was money in the account by Monday. Miller signed a note to cover the overdraft which was later endorsed by the manager of the Dominion Iron and Steel's operation in Newfoundland, Mr. McDonald, and the company seal was affixed. Jean Miller had supplied her brother with cheques to the amount of the note, and when the note fell due James Miller was asked to consult with Sir Richard before cashing the cheques.⁵³ Squires replaced the cheques with a single cheque for \$46,000 on the Star newspaper account.⁵⁴ When this cheque was deposited to the Dominion Iron and Steel bank account it was discovered that the cheque was not negotiable. After Jean Miller's suggestion that Squires expected the monies from Dominion Iron and Steel to be a contribution towards campaign expenses, James Miller wired W.D. Reid, a director of Dominion Iron and Steel, for instructions. Reid authorized the expenditure as a political contribution, whereupon \$20,000 of the amount was transferred from the Wabana books to a special expenditure account at Sydney under the authorization of Gillis, Superintendent of Mines, and the remaining \$26,000 was debited from the payroll account of the Wabana operation.⁵⁵

The Hollis Walker inquiry conclusively established that Squires' account at the Bank of Nova Scotia was credited with monies received from Dominion Iron and Steel. The proceedings, however, also suggested that similar tactics in dealing with other companies had been employed by Jean Miller and Squires in financing the Liberal-Reform party,

⁵³ Testimony of J. J. Miller, *ibid.*, Provincial Archives of Newfoundland and Labrador.

⁵⁴ *The Star* newspaper was owned by Squires. See testimony of R. A. Squires and J. J. Miller, Hollis-Walker Inquiry, *ibid.*, Provincial Archives of Newfoundland and Labrador.

⁵⁵ Testimony of J. J. Miller, Hollis-Walker Inquiry, Proceedings, *ibid.*, Provincial Archives of Newfoundland and Labrador.

Though the inquiry did not investigate party finance in general, testimony delivered to the commission revealed that the AND Company had provided a similar accommodation,⁵⁶ that Commercial Cable⁵⁷ had been approached for funds, as had several Water Street firms. The commission established that political parties in Newfoundland, notably Liberal-Reform, received funds from businesses operating in Newfoundland. What the commission did not substantiate was that transactions between Liberal-Reform and Dominion Iron and Steel in any way affected the outcome of the 1920 contract negotiations, the Wolvin-Coaker agreement. That is, were these monies a contribution which in a general sense might have made interaction between the government and the companies more amicable or were these monies a bribe for specific purposes relating to the terms and conditions of the Wolvin-Coaker agreement?

The Wolvin-Coaker Agreement

Negotiations between the companies and the Newfoundland government broke down in the spring of 1920 because of an inability to reach an agreement on the level of the export duty to be imposed upon iron ore.⁵⁸ Negotiations resumed in the autumn. Two draft agreements appear in the public record which suggest the contentious terms of the

⁵⁶ Testimony of R. A. Squires, Hollis-Walker, Proceedings, Provincial Archives of Newfoundland and Labrador.

⁵⁷ In the testimony of J. T. Meaney, Hollis-Walker inquiry, Proceedings, Provincial Archives of Newfoundland and Labrador.

⁵⁸ Ibid; according to Meaney, Coaker was attempting to negotiate a \$1.00 per ton export duty on iron ore. See as well E. P. Morris to R. A. Squires, May 19, 1920.

proposed contract during the final stages of negotiation. These negotiations took place in the autumn of 1920 under the direction of Coaker, acting on behalf of the government and Wolvin acting for the mining companies. This interaction produced two draft contracts and a new contract signed in November of 1920 by Wolvin and Coaker. (See Appendix A-1)

These draft contracts indicate that the clauses dealing with the nature and extent of export duties constituted the principal points of disagreement between the companies and the government at the time of the autumn negotiations. These draft contracts suggest that the two clauses dealing with the expansion of the companies' facilities and the construction of the smelting plant were not important foci for the final bargaining that produced the 1920 contract. The policy goal of industrial diversification was firmly and clearly reflected in the two development clauses of the draft contracts and in the contract which was finally signed by the government and the companies in November of 1920.

The government, by October of 1920, was prepared to enter a 20 year agreement under which the companies would pay \$.25 a ton on ore exported to Canada. The export of ore to other countries was to be duty free for a period of three years provided that the companies spent 1 million dollars per year for three years for the construction of a smelting plant. If the companies failed to comply with this provision then an export duty of \$.15 per ton was to be imposed on all ore exported to countries other than Canada.⁵⁹ Also included in the first draft agreement were clauses relating to the jurisdiction of the Trades and Labour Council over labour disputes and the

⁵⁹ Colonial Secretary to Wolvin, Draft Agreement, Oct. 11, 1920, Colonial Secretary Special Files, Provincial Archives of Newfoundland and Labrador.

provision by the companies of houses to employees for the cost of the 20 year average rental.

In the next draft⁶⁰ contract the clauses dealing with the construction of the smelting plant remained intact as did the clauses dealing with employee housing and the settlement of labour disputes. In this October 13 draft, however, the companies were to pay \$.25 a ton export duty on ore destined for Nova Scotia only. A lower duty of 12.5 cents per ton was to be applicable to the other provinces of Canada but this duty was to be collected only if the companies failed to construct the blast furnace. To insure that the companies did not take undue advantage of the lower export duty to provinces other than Nova Scotia, the draft agreement provided that at least one million tons of ore per year be exported to Nova Scotia and the \$.25 per ton duty be paid. The export of ore to any other country was to be duty free for the duration of the agreement on the condition that the smelting plant produced 100,000 tons of ingots per year. The British motivation for a differential export duty was to some extent reflected in this draft in that under this version of the contract, the export of ore to Germany required the permission of the Newfoundland government. As a further inducement to the construction of the plant facilities, the October 13 draft contract would exempt the companies from the business profits tax, the war income tax and "any further tax of a similar character." Furthermore, all plant machinery and raw materials could be admitted to Newfoundland duty free.

The agreement that was finally signed by Wolvin and Coaker in November of 1920 and subsequently ratified by the legislature in 1921 contained development clauses

⁶⁰ This draft is dated, Oct. 13, 1920. Colonial Secretary Special Files, Provincial Archives of Newfoundland and Labrador.

similar to those included in the previous two drafts. There were, however, some minor alterations in the government's stand on the amount of export duties payable in the final agreement. The Wolvin-Coaker agreement specified that an export duty of \$.25 per ton was due on ore exported to Nova Scotia only. Exports to any other part of the world including any province of Canada were to be duty free provided that 3 million dollars were expended in "improvements and extension of plant and equipment." Failing the expenditure of \$3 million over a 5 year period at the rate of at least \$500,000 per year, an export tax of \$.10 per ton was to be paid on ore destined for all points other than Nova Scotia. This export duty penalty was also to apply if the construction of the smelting plant was not begun by 1926 and not completed by 1928. To insure that the companies did not use the Canadian federal structure to avoid the payment of export duties altogether, the contract specified that at least 1 millions tons of ore be shipped to Nova Scotia per year otherwise the \$.25 per ton duty would be imposed on exports to the other provinces of Canada. Other obligations undertaken by the companies included compliance with the decision of a Labour Board in the settlement of labour disputes, and the construction of houses for the miners and the establishment of a coal depot to meet, at Nova Scotia market costs, the coal consumption requirements of the Reid Railroad, small manufacturing plants, and domestic users.

In consideration of these obligations on the part of the company, however, the government accepted a reduction in the revenues that might accrue from export duties on ore, revenues from import duties on raw materials and construction supplies, and any revenues that might be generated by the imposition on the companies of business profits tax, the war income tax or any tax of a similar character. As a further inducement to the formalization of the contract, the Wolvin-Coaker agreement contained a provision that had been absent in the earlier drafts. The Dominion Iron and Steel Company gained

the rights to water power situated in St. Mary's Bay in consideration of their development within 3 years and payment of a royalty at \$.25 per horse power per year.⁶¹

To provide for its industrial strategy of local processing of the iron ore from the Bell Island deposits, the government, during a period of economic prosperity and budget surpluses, was willing to abandon its revenue interests only if the ore could be processed into pig iron in Newfoundland rather than shipped to Nova Scotia for processing. If pig iron was exported directly from Newfoundland to markets anywhere in the world, then no export duty whatsoever would be payable under the twenty year Wolvin-Coaker Agreement as export duties applied to unprocessed iron ore not to pig iron. Compliance with the 1921 contract provisions for the construction of processing facilities could, therefore, result in significant gains for the companies.

The export duty concessions to the companies were, however, directly tied to the companies' compliance with the spirit of the Wolvin-Coaker agreement, that was, the construction and operation of a smelting facility. Under the agreement, the government was assured \$.25 a ton duty on ore should the companies continue to ship some unprocessed ore to Nova Scotia after the construction of the smelter. Furthermore, the contract contained a penalty clause to cover the possibility of the companies' construction of the smelting plant but their failure to operate the smelter. Under clause 7 of the agreement, should the smelter be non-operational for a period of one year, the government could collect \$.10 per ton duty on ore shipped to any point other

⁶¹ Clause 6, Dominion Iron and Steel Company Act, 12, Geo. V Chapt. 10, 1921.

than Canada.⁶² The companies' complete non-compliance with the capital expenditure clauses of the contract would enable the government to collect \$.25 a ton on ore exported to Nova Scotia and \$.10 a ton on ore exported elsewhere. A reduction in government export duty revenues from the Bell Island mines would result only if the companies did not honour the terms and conditions of the development clauses of the contract. If the principal policy goal of the government was industrial diversification and that of the companies the reduction of the level of export duties, then compliance with the terms of the Wolvin-Coaker agreement involved benefits for both parties to the contract - the government and the companies.

Even after Liberal-Reform had received \$46,000 from these companies, the government's interest in industrial diversification remained reflected in both October draft contracts and in the final agreement signed in November of 1920. The implication during the Hollis Walker inquiry was that the funds received by the governing party from these companies were linked to overtures for the elimination of the development clauses. The argument that the \$46,000 was a bribe to keep such development clauses out of the new 20 year contract is, however, unsubstantiated. These clauses ~~were~~ included in the agreement which was signed in November of 1920 and no reference in the public record or in testimony to the Hollis Walker inquiry indicates that the exclusion of these terms was considered in the negotiations culminating in the November 1920 agreement. In fact, the events which followed the 1920 agreement suggest that the companies were less than satisfied with the contract they had signed. Within months of the signing of the Wolvin-Coaker agreement the companies initiated a lobby to amend the signed agreement before it was even ratified by the legislature. If the

62 Ibid., clause 7

\$46,000 had been intended as a bribe, from the companies' perspective, it had not been very efficacious.

The companies' perception of the negotiations leading to the Coaker-Wolvin agreement was that the government had, through Coaker's involvement in the discussions, driven a very hard bargain. Of Coaker's involvement in the 1920 contract negotiations, Wolvin, president of Dominion Iron and Steel Company, wrote the following to Squires:

I have always appreciated the amount of time that they gave me and the manner in which they endeavoured to meet my wishes, and it was only the almost entire lack of precedent in meeting such a situation as then existed that could have made them insist on such an onerous contract as the one which I executed at that time.⁶³

What absences of "precedent" were involved in the 1920 contract negotiations? Why did these two mining companies at that time sign a contract over which they were to spend the next ten years lobbying for complete amendment and failing that, annual temporary suspensions of the terms of the agreement?

The government was certainly in a strong position to undertake discussions with the companies in 1920. The Liberal-Reform party had just emerged from an election with majority support in the legislature. Squires had become Prime Minister of a country with a favourable financial standing in the international community. Coaker, as Deputy Prime Minister and principal government actor was less likely than some other members of the Squires cabinet to be indulgent towards business. In addition, however, to these bargaining resources, the government was in a position to threaten the

⁶³ Wolvin to Squires, Feb. 13, 1923. Admitted as evidence to Hollis-Walker Inquiry.

application of economic reprisals against the companies and thereby gain additional leverage in the negotiations.

The basis of the bargaining position in the 1920 contract negotiations was the budgetary surplus of the Newfoundland treasury since 1917. The government's revenues were sufficiently favourable to provide bargaining room. The option of moderate or excessive taxation could be manipulated to obtain commitments that would facilitate the industrial diversification of the country. An additional boost to the strength of the government's bargaining position was perhaps provided by the discussion given the British suggestion for the takeover of the mines by the Newfoundland government. Though in the 1920 negotiations an explicit threat of nationalization was not required to conclude a contract with the companies, this policy option remained in the background. That threats of nationalization were not explicitly manipulated as a bargaining tactic in 1920 is to some extent an indication of the strength of the government's bargaining resources. When the Squires government, in 1923, was losing both popularity and financial strength, Squires did threaten to take over the mines. This threat of takeover was meant to induce BESCO to resume operations and thereby relieve unemployment on Bell Island.⁶⁴

The government's political and economic resources in the 1920 contract negotiations were enhanced by certain weaknesses in the companies and in the iron ore industry in general. At the time when the negotiations for the 1920 contract were proceeding, it was anticipated that Dominion Iron and Steel and Nova Scotia Steel and

⁶⁴ J.T. Meaney who had been involved in the 1923 negotiation to re-open the mines testified that Squires at that time threatened that the government would take over the mines unless the company came to terms with the men. Jan. 28 testimony to the Hollis-Walker Inquiry, Provincial Archives of Newfoundland and Labrador.

Coal would be consolidated but the exact date of the mergers' completion and the financial and structural impact of the merger were unknown. The 1920 contract negotiations were likely complicated, therefore, by the involvement of two corporate boards in the discussions, as the agreement reached in 1920 was, at the time of signature by the parties, applicable to two separate corporate entities. Not only did the companies engage in the 1920 contract negotiations with uncertainties as to the future structure of their corporate boards but the bargaining position of these companies was perhaps, as well, hampered by uncertainties as to the impact of post-war adjustments in iron ore markets.

Whatever the reasons for the companies' almost immediate dissatisfaction with the agreement they had signed, and despite the completion of the merger in September 1921, the lobby for the amendment of the contract was both prolonged and intense. The lobby for amendment extended over several years and in attempting to amend the contract or suspend its operation BESCO applied a very persuasive economic sanction - the annual closure of the mines in winter. The employment of Bell Island miners became contingent upon the government's "temporary" waiving of certain provisions of the Wolvin-Coaker agreement.

Tactics in Enforcing the 1921 Contract: The Miners as Pawns.

Representations on the part of the two mining companies to nullify the contract signed in November 1920 were made prior to the legislative passage of the new

Companies Act for the Dominion Iron and Steel Company and the Nova Scotia Company. The agreement negotiated in the autumn of 1920 became legally binding in August of 1921. As early, however, as December of 1920 the companies indicated their desire for an alternate arrangement. Ostensibly, the companies' dissatisfaction with the deal undertaken by Wolvin was due to a delay in the merger of Dominion Iron and Steel with the Nova Scotia Company. In December of 1920 McDougall suggested to Squires that if the merger did not take place the legality of the agreement was open to question and

in the event of the merger not taking place, however, it is quite possible that several serious questions will develop with reference to the respective obligations of the two companies under the contract. It may be that the companies may have to request your government to make separate contracts.⁶⁵

Shortly after signing the contract but prior to the legislative enactment of the Wolvin-Coaker agreement, the companies were lobbying for a revised contract. In March of 1921 Wolvin wrote Squires requesting the removal of "the onerous conditions of this contract".⁶⁶ Mr. Gillis, Superintendent of Mining Operations for DIS, appeared in front of a select committee of the legislature in an effort to convince members of the assembly that the contract as signed in November was disadvantageous to the government and the company. At about that time Gillis outlined in a letter to Squires the companies concern for the public interest!

In the interests of the country the aim of the committee should be to adjust the tax so that heavy encouragement would be given to the companies to increase production and extend operations.⁶⁷

Gillis' proposals, however, for serving "the interests of the country" were somewhat one-sided as the following suggests:

⁶⁵ McDougall to Squires, Dec 14, 1920. Admitted as evidence Hollis-Walker Inquiry, Provincial Archives of Newfoundland and Labrador.

⁶⁶ Wolvin to Squires, Mar. 23, 1921.

⁶⁷ Gillis to Squires, July 11, 1921. Admitted as evidence, Hollis-Walker Inquiry, Provincial Archives of Newfoundland and Labrador.

By writing out the sections covering expenditures at Wabana, the clause relating to the erection of a blast furnace and coal discharging plant, and fixing a general tax of 12.5 cents a ton, a simplified agreement can be made that should be acceptable to all parties who have the welfare of the ore industry in mind.⁶⁸

Despite, however, representations by Wolvin and Gillis to Squires, the companies' appearance before a legislative committee, their designation of the Dominion Iron and Steel Company's Wabana accountant, James Miller⁶⁹ as a local liaison between the directors and the government, and more importantly the "contribution" of \$46,000.00 to Squires campaign fund, the agreement as signed in November of 1920 became law in August of 1921.

After ratification, the lobby for the amendment of the contract took on more threatening tones. From January 1922 to January 1927, the mines were shut down five times and reopened each time upon the government's granting of remission of the export duties which had been negotiated under the terms of the 1921 contract.

After legislative ratification, the relationship between the government and the company may be described as one of blackmail. Explicit threats of mine shut-downs appear in the autumn 1921 correspondence between the directors of BESCO and Prime Minister Squires. These references to an impending closure of the mines were accompanied by specific proposals for the reduction of the export duty and the elimination of the development clauses in the 1921 contract. In September 1921, McDougall wrote Squires that:

⁶⁸ Ibid.

⁶⁹ Squires was notified by Gillis that James Miller was to be a liaison between the government and the directors. Post-script, July 11 letter Gillis to Squires, Hollis-Walker. 1921 correspondence between Gillis and Miller suggests that Miller continued to perform this role. See Jan. 30 Proceedings of Hollis-Walker Inquiry.

Action on our part in the way of providing employment during the coming winter months can only be warranted by our receiving substantial assistance from the Newfoundland government.

BESCO was quite specific in its plea for "assistance." Attached to McDougall's letter was a list of proposals which included the complete remission of export duties for 1922 and 1923, a 3 year extension on the 3 million dollar expenditure stipulated in the 1921 contract, and the elimination from the contract of all references to a blast furnace.

As a response to the urgency expressed in the BESCO submission, a Committee of Council met to consider the proposal. The government was willing to extend the period for the expenditure of 3 million dollars by three years but was unwilling to consider the complete remission of the export duty or the elimination of references in the contract to the construction of a blast furnace. The government, however, was willing to provide some export duty relief to the companies if the size of the work force at Wabana was increased by 1000 men. If the companies employed an additional 1000 men the amount of ore extracted by the additional men could be exported duty free.⁷⁰ The government's offer was, however, unacceptable to the companies.

We consider you should fully meet suggestion made our letter September 29. Owing large quantities of ore now stockpiled Bell Island and Sydney operations past summer, coming winter entirely unnecessary consequently all ore shipped during 1922 and 1923 should be free of export duty.⁷¹

McDougall did not at this time pursue the matter further with the government. Wolvin, president of BESCO, continued, however, to present the companies' demands to the government. BESCO, in the autumn of 1921, was in default on its export duty payments. In November 1921, Wolvin was granted a request to have the balance

⁷⁰ Squires to McDougall, Oct. 27, 1921, Colonial Secretary Special Files, Provincial Archives of Newfoundland and Labrador.

⁷¹ McDougall to Squires, Nov. 2, 1921.

forward to the following May.⁷² This concession by the government was not sufficient to appease the company. The appeal for total remission on the export duty and the amendment of the expenditure and development clauses resumed. Gillis and Wolvin wrote to Squires of the difficulties of "financing a large force at Wabana"⁷³ and the likelihood of a "quiet winter."⁷⁴

When explicit threats and veiled references to mine closures proved futile Wolvin took another tack in his dealings with Squires. Wolvin made a plea for government action in the public interest:

I am convinced that it is in the best interest of Nfld. to have these penalties removed from the contract so that our companies will not be handicapped in closing up some of these large contracts and thus bring to the island the benefits that are so greatly needed in the way of employment and labour and which to my mind will bring about results far beyond the value of any tax that may be imposed in the exportation of ore.⁷⁵

There is no record of a reply by Squires to this advice on what constituted the public interest. It can only be assumed that no written response was forthcoming from Squires as a few days later Gillis informed Squires that he would be arriving in St. John's to discuss the Wabana situation.⁷⁶ Obviously, Gillis' personal intervention proved unfruitful to the company as shortly after mining operations were shut-down on Bell Island.

⁷² Wolvin to Squires, Nov. 29, 1921; Squires to Wolvin, Nov. 29, 1921; Provincial Archives of Newfoundland and Labrador.

⁷³ Gillis to Squires, Nov. 29, 1921, Provincial Archives of Newfoundland and Labrador

⁷⁴ Wolvin to Squires, Dec. 2, 1921, Provincial Archives of Newfoundland and Labrador.

⁷⁵ Wolvin to Squires, Dec. 3, 1921, Provincial Archives of Newfoundland and Labrador.

⁷⁶ Gillis to Squires, Dec. 9, 1921, Provincial Archives of Newfoundland and Labrador.

The negotiations for the re-opening of the mines were conducted from the Ritz-Carleton Hotel in Montreal. From Sydney, McDougall wired Squires who was registered at the Ritz-Carleton of the companies' conditions for the operation the mines during the winter of 1922. The company would employ "as many men as can be economically placed in the mines," provided that the tonnage produced by these was exportable to Nova Scotia duty free and provided that the companies were granted "absolute freedom" from export tax on ore destined for European markets.⁷⁷

On January 24, 1922 Squires capitulated and telegraphed McDougall that this proposal was acceptable provided that the mines were immediately opened and the miners promptly employed.⁷⁸ A minute of Council later confirmed the Squires agreement.⁷⁹ Eight hundred miners had jobs until May because the government acquiesced to the Company's demands for remission of export taxes.

In April the lobby for the complete amendment of the 1921 contract resumed with Miller, the company's Wabana accountant, functioning as an intermediary between the Board of Directors and Squires. Gillis, the Superintendent of Mines, advised Miller of the tactics to be employed in the company's lobby for the amendment of the 1921 contract.

⁷⁷ McDougall to Squires, Jan. 9, 1922; the number of men to be employed was later set at 800.

⁷⁸ Squires to McDougall, Jan. 24, 1922, Provincial Archives of Newfoundland and Labrador. Squires in agreement noted: "It would be necessary for instructions for the opening of the mines to be given immediately and the largest number of men which your company organization could handle week by week to be promptly employed."

⁷⁹ Minute of Council, Jan. 27, 1922; the cabinet agreed that if 800 men were employed full time from January to May, then iron ore could be exported duty free to Nova Scotia, Europe and the U.S.A., Provincial Archives of Newfoundland and Labrador.

The government can very well claim that any concession they grant such as elimination of capital expenditure clauses and blast furnace proposals are for the public benefit because full time working and maximum force can only be employed at our mines when some of the punitive clauses of the Wolvin agreement are rendered obsolete. On the other hand, if they are not disposed to grant these concessions I fear we must continue to look for nothing but broken time for the mines.⁸⁰

Miller obviously acted upon Gillis' instructions as a few days later he wrote the following to Squires:

take the matter under consideration and see if it be not in the best interests of Nfld. as well as the corporations to make the desired alteration in the 1921 contract thereby making it possible for the company to continue present operations to the benefit of the labouring population. Without some re-adjustment of this matter I greatly fear that operations on the present scale cannot be maintained on the Island, but rather we may look forward to curtailment before many months.⁸¹

It seems that Miller anticipated a happy outcome for the company as within a week of Miller's letter to Squires, Miller reported to Gillis:

Elimination clause now in good shape complete without concession part company other than verbal promise maintain present force 1922 and 1923 (stop) Private matter being dealt with direct between head office and Government official.⁸²

Miller was, however unduly optimistic regarding the elimination of the expenditure clauses from the 1921 contract. No concessions were forthcoming in the next few months and on January 15, 1923, the mines were again closed.

The 1923 negotiations for the re-opening of the mines were somewhat strained and

⁸⁰ Gillis to Miller, April 6, 1922; admitted as evidence in Hollis-Walker inquiry.

⁸¹ Miller to Squires, April 10, 1922. Miller notified the Colonial Secretary that employment at the mines would be curtailed to 200 men or less if concessions were not made. Miller to Colonial Secretary, April 8, 1922. In 1922, Squires held the portfolio of Colonial Secretary.

⁸² Miller to Gillis, April 15, 1922 telegram. Admitted as evidence Hollis-Walker inquiry. The government official referred to was probably J. T. Meaney and the private matter a "contribution" to Squires campaign fund.

vitriolic. In what was perhaps a desperate attempt to get the mines re-opened Squires apparently threatened to have the government take over the Wabana operations. It is unlikely, however, that the companies perceived this outcome as a possibility. By 1923 the government was certainly in no position economically to purchase the shares of the company. Furthermore the government by 1923 lacked sufficient strength in the legislature and popularity in electorate to carry out such a controversial measure.

The Squires government took office in 1919 on the crest of the war time boom. By 1921 the economic and political environment in which the Squires government operated had begun to deteriorate. The Newfoundland economy was largely a staple one and as such was intensely sensitive to fluctuations in international market conditions. The prosperity of the war years had been largely attributable to Newfoundland's desirable position in the salt fish trade. After the war markets slumped, the economy slowed down and the Newfoundland budget after five successive years of surpluses, went into deficits which were financed by extensive international borrowing.⁸³

Policy-makers could not help but be cognizant of these difficulties. Campbell, Minister of Agriculture and Mines, in a lamenting letter, informed Squires of the distressing condition of the country. In Campbell's estimation Newfoundland was in the throes of an acute depression in which the banks were "squeezing everybody" and the government becoming "intensely unpopular."⁸⁴ This situation did not improve quickly. The records of the Squires administration from 1921 abound with pathetic letters from

⁸³ For a discussion of the post-war recession see S.J.R. Noel, Politics in Newfoundland, op cit. p. 151-152.

⁸⁴ Campbell to Squires, Nov. 23, 1920, admitted as evidence Hollis-Walker inquiry, Provincial Archives of Newfoundland and Labrador.

the unemployed seeking jobs and various proposals for emergency relief to those left destitute through the collapse of the fishery. Furthermore at the time of the negotiations to resolve the 1923 plant closure at Wabana, Squires' legislative majority was shaky. In January 1923 Coaker announced his intention to resign from Cabinet at the end of the session.⁸⁵ The Union support had been the prime determinant of the Squires victory in 1919 and the maintenance of this base was critical if Liberal-Reform was to successfully contest the election that was due in November of 1923. In such an atmosphere the government attempted to get the miners back to work in the winter of 1923, and the nationalization of the facilities at Wabana was an unlikely solution.

Shortly after the January 1923 closure BESCO submitted its proposal to Squires for the re-opening of the mines. The company claimed that in the interests of the Bell Island miners it might be able to resume operations!

We fully appreciate seriousness of unemployment Wabana this winter and if government will undertake grant exemption from royalties on shipments in 1923, company will undertake work mines to same extent as last winter in order to relieve unemployment situation although present indicators are not required.⁸⁶

On February 1, Wolvin and Squires signed an agreement under which the government would permit shipment of ore free of export duty to any part of the world during 1923. For this concession the company agreed to employ 1400 men in February and March of 1923 and 1500 men in April and May.⁸⁷ Apparently, however, the meeting between Squires and Wolvin at Montreal provided an opportunity for the discussion of another related matter - the complete amendment of the 1921 contract. In February of 1923,

⁸⁵ *Evening Advocate*, Jan. 2, 1923.

⁸⁶ McDougall to Squires, Jan. 17, 1923.

⁸⁷ Agreement confirmed by Minute of Council, Feb 19, 1923, Provincial Archives of Newfoundland and Labrador.

shortly after the conclusion of the Montreal negotiations, a draft of a new agreement was forwarded to the government. This draft omitted the expenditure clauses and provided for a reduction in export duties.⁸⁸ Whether Squires had any intention of acting on this proposal is unclear. A hasty note which J.J. Miller sent to Gillis suggests that there were problems with the proposed new contract.

This is impossible at present time and would suggest elimination only two clauses, and the balance which is not important would stand over and be changed after the election by either party returned. The elimination of clauses can be put through by Minute of Council while renewal of agreement would mean having to go before lower and upper house which is impractical now... As promised I have covered my part and if acceptable would like you to arrange twenty-five or fifty for campaign funds.⁸⁹

Whether Squires ever received a large contribution from these mining companies in the spring of 1923 is not known,⁹⁰ nor is there any direct evidence that Squires seriously considered the elimination of these clauses through Minute of Council. The companies' demands for a complete amendment of the 1920 contract at this time failed.⁹¹

⁸⁸ The unsigned unsealed draft agreement stipulated that in export tax of \$.15 per ton would apply on ore shipped to Canada from 1924-1943; for twenty years ore could be exported duty free to any port of the world, and that the total tax or duty payable in any year would not exceed \$200,000.00 per year. As was the case under the 1921 contract the companies were to be exempt from business profits taxes and income taxes, they were to retain their rights to water powers, import coal, abide by labour laws, and provide housing for the miners. This contract, however, contained no reference to a blast furnace and included no clause dealing with expenditures for the expansion of the facility at Wabana. It was stated in this draft that the 1921 contract be terminated and that the new agreement apply to all successors of the companies.

⁸⁹ J.J. Miller to Gillis (Supt. of Mines) Feb. 1923; admitted as evidence in the Hollis-Walker Inquiry.

⁹⁰ There are some suggestions in the testimony to the Hollis-Walker inquiry that a large donation was negotiated with the companies. A letter from Jean Miller to Squires dated Feb. 11, 1922, notes for example: "party Montreal wishes you to know that he would appreciate any pressure you can bring to bear. Meaney has been instrumental with party in negotiating another hundred thousand over and above the forty-six recently disposed of." Admitted into evidence Hollis-Walker Inquiry.

⁹¹ In response to a letter from James Miller suggesting the elimination of the two development clauses (J. J. Miller to R. A. Squires, Dec. 19, 1922) in exchange for increased employment at Wabana (continued...)

It is difficult, if not impossible to reconstruct the relations of Liberal-Reform or the Squires government and the Wabana operators between February and May of 1923. During this period the government was concluding its arrangements with the Armstrong Whitworth Co. for the construction of a pulp and paper and hydro-electric facility on the Humber River, and Liberal-Reform was engaged in an election campaign for an election day of May 3.⁹² After the February temporary agreement and the submission in the same month of a proposal for the complete amendment of the 1921 contract, the next official communication between the company directors and the government occurred after the re-opening of the legislature in July. Wolvin and Newton-Moore wrote to Squires concerning the proposed new contract.⁹³ The Colonial Secretary replied on Squires behalf:

There is no other business outstanding so far as this department is concerned except some correspondence and drafts relating to your desire to have contract of 1920 revised and modified by statute. (stop) This was put on agenda for consideration of Council some days ago as a result of message received from Mr. Wolvin. (stop). It has not been considered and in view of the fact that legislative is now in session with supply before House and notice of Budget given for Friday of this week I do not anticipate that it is likely to be considered in the near future.⁹⁴

⁹¹(...continued)

Squires replied that the clauses might be eliminated in exchange for employment, "but the case must be formally put before the government." (Squires to J. J. Miller, Jan. 11, 1923; admitted as evidence Hollis-Walker Inquiry.) Other testimony to the inquiry revealed that the clauses were not eliminated by Minute of Council, and no record of such a minute could be located in the Provincial Archives of Newfoundland and Labrador. The only record of putting the case before the government by the companies was their proposal for complete amendment which the Squires government did not act upon. The 1921 contract was not amended until 1930.

⁹² The election was fought and won by Liberal-Reform on the platform of the Humber development. Squires was returned as Prime Minister with a majority.

⁹³ Wolvin to Squires, July 3, 1923 "... to assist future development can you now arrange legislation covering contract proposed of which you have copy". On July 9, 1923 Newton Moore wrote to Squires and referred to a new contract proposal noting that the company was "specially anxious to have this finally confirmed". GN/25, Provincial Archives of Newfoundland and Labrador.

⁹⁴ Colonial Secretary to Newton Moore, July 10, 1923, GN/25, Provincial Archives of Newfoundland and Labrador.

Wolvin made a final appeal to Squires that the decision be reconsidered as "this matter will mean serious results for our corporation and prospective employment Bell Isle."⁹⁵

Wolvin was, however, to receive no satisfaction from Squires as shortly after an element of the Cabinet had forced Squires resignation.⁹⁶ Warren, who succeeded Squires as Prime Minister was instrumental in Squires' resignation. Squires resigned without comment⁹⁷ when Warren presented him with information obtained from J.T. Meaney, the Liquor Controller, which implicated Squires in irregularities in the Controller's department. Despite this unanticipated change in the executive when Warren replaced Squires as Prime Minister, the company did not find it necessary to adapt its tactics. Within weeks of Warren's assumption to the first minister position, 400 men were laid off at Bell Island. Gillis informed Warren that the cost of maintaining the company's operation at Wabana must be reduced before the men were re-employed. The matter was presented very plainly to the new Prime Minister:

In other words if through a reduction in labour rates, or by a combination of both I could show that our mine costs plus carrying charges would not be excessive, I might be able to secure the consent of our people.⁹⁸

Warren was unwilling to accept this proposition.⁹⁹ In December 1923 the Bell Island

⁹⁵ Wolvin to Squires, July 17, 1923, *ibid.*

⁹⁶ For discussion of the political intrigue surrounding this episode see S.J.R. Noel, Politics in Newfoundland, *op.cit.* See also R.M. Elliot, "Newfoundland Parties in the 1920's: The Genesis and Significance of the Hollis-Walker Inquiry," in J. Hiller and Peter Neary (eds.), Newfoundland in the Nineteenth and Twentieth Centuries, (Toronto: University of Toronto Press, 1980).

⁹⁷ Squires testified to the Hollis-Walker inquiry that he considered it 'beneath' him to respond to such allegations.

⁹⁸ Gillis to Warren, Aug. 31, 1923. In this letter Gillis refers to a reduction in labour rates. On Nov. 27, 1923, the miners petitioned the government to secure the continued operation of the mines and to bring in legislation on minimum wages.

⁹⁹ Warren to Gillis, Sept. 10, 1923, Provincial Archives of Newfoundland and Labrador.

mines were closed.

In the midst of the Hollis Walker inquiry, which had been appointed by Warren to investigate, among other things, charges concerning Squires' involvement with the company directors of the Wabana operation, yet another attempt was made by the mining company to negotiate the complete amendment of the Wolvin-Coaker agreement.

To avoid future misunderstandings please have executive authorize proposed new general agreement so same may be executed subject to approval house of assembly later, and we will commence operations immediately.¹⁰⁰

Warren's tactics on the question of a new contract were similar to those of Squires. He suggested the mines be first opened and amendment would be considered later. Given the circumstances of the Hollis Walker inquiry in which innuendos about Squires' capitulation to company demands for contract amendment were bandied about, Warren had little choice but to stall on that potentially politically disastrous proposal.

The government is prepared to consider amendment on its merits apart from the question of starting work immediately. If however you propose to take advantage of present conditions to force amendment, government has no alternative but resist, keep you to present agreement and collect amounts now due to relieve the men.¹⁰¹

This, however proved to be something of an idle threat as under the temporary agreement under which the mines were re-opened, the company was relieved of its obligations under the 1921 contract for another year. The company could export seven hundred thousand tons of ore duty free provided that eight hundred men were employed until December 1924.¹⁰²

¹⁰⁰ Wolvin to Warren, Jan. 24, 1924.

¹⁰¹ Warren to Wolvin, Jan. 26, 1926.

¹⁰² Minute of Council, April 2, 1924.

The Hollis Walker inquiry concluded in the spring of 1924. Despite the fact that Walker's report was strong in its condemnation of the conduct of the operators of the Wabana mines, the company's day to day relations with the government were not appreciably altered.¹⁰³ Though the publicity given to the relations between the company and the government had little effect on requests on the part of the company for complete amendment, Warren's government was somewhat more sensitive to the possible political repercussions of compliance with the company's demands. Responding to a new demand from Wolvin for amendment, Warren in March of 1924 cabled the following to Wolvin:

Government will not recommend amendment (as) result of the Commission plus closing down of the mines every year to avoid tax.¹⁰⁴

Warren was understandably concerned about his political future. In April his ministry was defeated in the legislature and after two months of political intrigue and re-adjustments in party lines, a grouping called Liberal-Conservative emerged as the victor from the 1924 general election.¹⁰⁵

The new Prime Minister was Walter Monroe. Monroe, was no less susceptible than his predecessors as Prime Minister to the appeals of the mining companies. The difference between the Monroe relationship with the companies and that of previous administrations was principally one of style. By 1924 periodic plant closures and temporary agreements had become a routine matter which was handled by the Monroe

¹⁰³ The Hollis-Walker inquiry was open to the public. The day to day proceedings were reported in the St. John's press from January to March 1924. Walker's report on the charges which prompted the inquiry was published in the *Daily News*, March 21, 1924.

¹⁰⁴ Warren to Wolvin (telegram) Mar. 25, 1925

¹⁰⁵ See S.J.R. Noel, Parties in Newfoundland, op.cit for a discussion of this election especially pp 171-179

administration in a manner befitting the expected and inevitable - cordial acquiescence.

In January 1925, two mines were closed but were to be kept open if Monroe granted the mining company the same concessions as were granted in 1924.¹⁰⁶ Without hesitation, the government complied with this proposal.¹⁰⁷ Predictably, after a temporary suspension from the terms and conditions of the 1921 contract had been gained, Wolvin approached the government regarding an amended contract.¹⁰⁸ Not surprisingly, Wolvin's memorandum on the new draft agreement contained no references to a blast furnace.¹⁰⁹ In November of 1925, the Cabinet indicated its intention to introduce special legislation to amend the contract.¹¹⁰ In the early months of 1926 negotiations were in progress for the amendment of the 1921 contract. To entice the government to amend the contract along lines favourable to the company Wolvin promised an increase in the hourly wage of the miners.

If full conditions complied with I will personally endeavour to make increase two cents hourly May 1 and if possible post such notice prior discussion in assembly.¹¹¹

By May, however, a long term agreement was no longer in the company's interest and

¹⁰⁶ Wolvin to Monroe, Jan 8, 1925

¹⁰⁷ Monroe to Wolvin, Jan 8, 1925

¹⁰⁸ Wolvin to Monroe, June 2, 1925

¹⁰⁹ The memorandum from Wolvin to Monroe, dated Oct 13, 1925, proposed an agreement to terminate the 1921 contract. The proposal was that the company could export all ore duty free for 3 years from Jan 1, 1926. From 1929-1950 the company moved pay \$10 ton on first 1 million tons, \$05 ton on second million tons, and no duty on all ore in excess of 2 million tons. The company proposed to spend \$750,000.00 over 5 years on "improvements and extensions" at Wabana and that default on this would be subject only to arbitration.

¹¹⁰ Nov. 9, 1925, Minute of Council referred to impending special legislation to amend the 1921 contract.

¹¹¹ Wolvin to Monroe, Jan 4, 1926.

another temporary agreement was negotiated for 1926 under which the company was relieved of export duty payments.¹¹² Similar temporary agreements were negotiated for 1927 and 1928.¹¹³

With the impending expiration of the 1928 temporary agreement negotiations for complete amendment again resumed. This time negotiations culminated in a new 20 year contract. Company representatives met a committee of Cabinet and procedures were established for the determination of the company's arrears on taxes and duties under the 1921 contract provisions. An agreement upon customs duties and profits tax was reached¹¹⁴ and a new 20 year contract was finally signed in July of 1929. The new agreement, which did not expire until December of 1949, contained no references to a smelting plant, and no expenditure clause. Export duties were also reduced to \$.10 per ton for the first million tons exported and to as little as \$.03 a ton for exports in

¹¹² Minute of Council, May 10, 1926. A long term agreement was inexpedient due to impending changes in the corporate structure. At about this time BESCO vested control of the Wabana operation in National Trust Co.

¹¹³ Minute of Council, Jan. 15, 1927; Minute of Council, Jan. 24, 1928, Provincial Archives of Newfoundland and Labrador, GN/25 394(5). Under these one year agreements the mining company could export ore duty free to Sydney, N.S., United States, or Europe from Jan. 1928 - Jan. 1929 provided 4 mines worked at full capacity and 1100 men employed from Feb. to Nov. months.

¹¹⁴ The company initially attempted to negotiate another temporary agreement for the post Jan. 1929 period; similar to the arrangements made in 1927 and 1928 under which they paid no export duty. A committee of cabinet after meeting company representatives refused to consider company proposals until the terms of the 1921 contract were carried out. Newton-Moore requested a further conference with the cabinet and suggested the cancellation of the 1921 contract and a new contract which would increase output of the mines from 1,400,000 tons to 2,500,000 tons. The government demanded that the arrears of the company under the 1921 contract must be settled first. P.J. Cashin was appointed as government representative in dealing with the arrears and L. A. Forsythe acted for the company. A settlement was reached on June 30, 1929 under which the government received \$136,934.00 as a settlement of 1917-1918 profits tax. There was no specific settlement for export duties as the temporary contracts were to override the 1921 contract in this respect. Provincial Archives of Newfoundland and Labrador, GN25, 394(5).

excess of 1 million tons.¹¹⁵

By the 1930's the fruits of a development strategy based on the encouragement of foreign direct investment were evident. The wealth of the iron ore deposits of Wabana were used to fuel economic development in Canada, and the Newfoundland government gained neither economic rent from the mines at Wabana nor the industrial diversification of Newfoundland through the construction of a processing facility in Newfoundland. Both economic rent and local processing of minerals were policy goals of the Newfoundland government. As the context of policy-making changed, the government was unable to realize these objectives. During times of economic strain the mining companies could manipulate mine closure as a bargaining tool to avoid its obligations under the contract negotiated with the government.

Conclusion

This case study of Dominion Iron and Steel's interaction with the Newfoundland government during the 1920's suggests a linkage of contextual variables with policy outputs and outcomes. The institutional, economic and ideological context of resource policy-making had important implications for the structure of resource legislation, party politics, and the stability of governments.

¹¹⁵ Dominion Iron and Steel Company Act, 1930.

In the case of Dominion Iron and Steel's interaction with the Newfoundland government the prominent actors in resource policy-making included members of the corporate boards of the companies, and senior employees of the company who functioned as representative or liaison between the board and the government. The Prime Minister and senior ministers were the major government actors. The mining company gained access to the policy process through written requests for consultation, through the personal acquaintances of some members of its board with the Prime Minister, through the intervention of their accountant J.J. Miller and through the exigencies of party finance. Depending upon the concurrence of corporate goals with the political and policy goals of the party in power the tactics employed in resource policy-making varied from cordial horsetrading, as in the case of the Monroe government's acquiescence to corporate demands in 1926-1927 in exchange for \$.035 per hour for the miners, to fairly tough bargaining on key taxation issues as in the case of Coaker's negotiations on export duty and plant construction which led to the 1921 contract. Less amicable and more extreme tactics were however also employed in government-company interactions. Among the more hard-nosed strategies were threats of economic sanctions and, in some cases outright blackmail. Examples of government threats included Warren's threat in 1924 to fully enforce the 1921 contract and Squires' threat to nationalize the companies' holdings in 1923. Neither of these tactics was successful in shaping company actions along lines desired by the government. The company demonstrated greater adeptness in the manipulation of a more explicit and extreme tactical resource - blackmail. The companies' repeated shutdown of the mines from 1921 to 1928 was specifically connected with efforts to gain a suspension from or complete amendment of the terms and conditions of the 1921 contract. The Squires-Coaker coalition had negotiated in 1921 a contract, which encompassed an industrial strategy designed to moderate the purely extractive dimensions of the Canadian mining industry's operations in Newfoundland.

The contract provided for the transfer of processing of Newfoundland ore from Canada to Newfoundland. While the 1921 contract ambitiously reflected a mood of economic nationalism, the government of Newfoundland proved unable to enforce the terms of the agreement and the anticipated processing facility was never constructed. Only months after the signing of the 1921 agreement, the company began an extended and uncompromising ten year lobby to suspend and/or amend the agreement signed by Wolvin in 1921. That the Newfoundland government in 1921 had the capacity to negotiate such a contract but lacked the resources to force compliance by the company with the terms and conditions to which it committed itself in 1921 can to some extent be understood in terms of the changing institutional, economic and ideological parameters in which policy-making occurred.

At the time of the signing of the Wolvin-Coaker agreement, the government of Newfoundland had considerable economic and political resources. The policy context in 1920 was characterized by economic optimism, budgetary surpluses and easy credit. Politically, the Liberal-Reform party had a recent electoral mandate and in the first year in office it maintained its position in the fractious legislature despite the heterogeneity of its electoral base. The inclusion of the left-of-centre Union contingent in the government provided, in the immediate post-war boom, further impetus for policy innovation. Within, however, a year of the signing of the contract the policy context had changed dramatically to be characterized by economic recession, budgetary deficits and a crumbling basis of political support for the ruling coalition. Under these altered circumstances the electoral interests of parties in power in maintaining employment and increasing revenues collided with the profit motivations of BESCO. Government-business interactions over resource policy were characterized by blackmail. The resource outputs of this policy context were a number of temporary suspensions

from the terms and conditions of the 1921 contract and ultimately in 1930 its complete amendment.

The impact of such policy decisions reverberated upon the party system but also upon the small Newfoundland industrial working class. The obvious losers were the miners whose employment became a tactical resource to be manipulated by the company in its efforts to avoid the payment of export duties or in its attempt to renege on commitments to construct processing facilities in Newfoundland. The party system was also not exempt from the repercussions of the activities of Dominion Iron and Steel. Squires was forced to resign as a result of charges of political corruption involving Dominion Iron and Steel and Nova Scotia Steel and Coal, and the ensuing investigation publicly shone a light on the darker recesses of party finance, and in the process crippled Liberal-Reform as a political party and personally discredited Squires.

With the decline of Liberal-Reform, the party system also disintegrated.¹¹⁶ With a party system in disarray, government stability was also affected. Between July of 1923 and June of 1924 four governments held office. Though Hollis Walker's report was a condemnation of the Newfoundland political system in general, it was clearly directed at the former Prime Minister, Richard Squires. Squires was judged to be a corrupt politician who had been unduly influenced by resource interests like Dominion Iron and Steel. Squires' actions however were not much different from those of his successors in the first minister's office. Warren, who had been Squires colleague in Cabinet, succeeded Squires as Prime Minister as a result of the scandals involving the Controller's Department and the Canadian mining companies. In the public investigation

¹¹⁶ S.J.R. Noel, *op. cit.*, pp. 170-179.

of charges of political corruption of the Liberal-Reform government, Warren as Attorney General became the prosecutor of a Prime Minister he had supported and of a government in which he had participated. Later governments in the 1920's, including that of Warren were no less susceptible to the appeals of the Wabana mining company than the Squires government had been and by 1926 the negotiation of a "temporary" contract had become a routine matter.

It is doubtful if Newfoundland governments were any more corrupt or sympathetic than those elsewhere in their dealings with mining interests. What is more likely is that Newfoundland governments in the inter-war years lacked the resources to bargain on an equal footing with resource companies in the negotiation of contracts or if a contract favourable to the government was concluded as was the case in 1921, the government lacked the resources to enforce such a contract. The government's failure was not one of morals as has often been the major explanatory variable in treatments of Newfoundland politics but one of economic dependency and a lack of institutional legitimacy which derived from a society that was severely fragmented internally along economic, ideological and religious lines. Despite the sensitivity of Newfoundland's economic prosperity to the availability of foreign markets, the tenor of indigenous class and ideological divisions made any creative solutions to Newfoundland dependency impossible within the liberal regime of responsible government. Liberal-Reform as a brokerage party performed some conflict management functions but after the scandals of 1923 the support base of Liberal-Reform crumbled. The scandals of the early 1920's not only affected Liberal-Reform but were accompanied by a breakdown in the party system in general. Between July of 1923 and June of 1924 there were four governments. The industrial strategy of the 1921 contract failed and nationalization was neither a viable economic nor political alternative. Newfoundland by the late 1920's was on the brink of

radical restructuring of the political system. The suspension of the constitution was, however, not carried through in the interests of those whose lives had been most closely touched by the uncertainties of dependency, the miner, the fisherman, and the logger. The political regime was restructured along reactionary not radical lines. Democracy itself was dispensed with in the interests of financial and resource capital which feared even social democratic alternatives.

CHAPTER 6

Policy Actors and Regime Change 1930-1934

Introduction

This chapter will examine the involvement of resource and other policy actors in Newfoundland's seemingly dramatic change of regime from democratic to non-democratic political institutions in 1934. Alterations in the policy process, in policy actors, and in the tactics, strategies, and goals of resource and other actors in the years between 1930 and 1934 foreshadowed the institutional change which was marked by the Newfoundland Act of 1934. Under this act of the British Parliament, the Newfoundland legislature was dismantled, the electoral process eliminated, and Newfoundland's status as a sovereign nation state, in effect, revoked.

The Amulree Commission Report, upon whose recommendations the British Parliament acted, suggests that these measures were warranted by the pressing nature of Newfoundland's financial difficulties and by what was viewed as Newfoundland's inability to manage her affairs in a manner deemed suitable for a British Dominion.¹ The financial difficulties of the Newfoundland government in the years following the market crash of 1929 were not, however, unlike the problems experienced by other governments at that time; the Canadian provinces of Saskatchewan and Manitoba, for example, were particularly hard hit by the Depression and avoided bankruptcy only through large transfer payments from Ottawa.² In the Canadian federation, provincial financial crises did not necessitate the termination of the democratic process in the

¹ For example, the 1933 Royal Commission Report (Amulree Report) noted that "The difficulties with which the country is faced, due primarily to persistent extravagance and neglect of proper financing principles on the part of successive governments during the years 1920-31", p. 71.

² See Donald Smiley (ed.), The Rowell Siros Report Book I (Toronto: McClelland and Stewart, 1963), pp. 174-184. Smiley notes "The Western Provinces either temporarily or permanently lost their financial independence and could only function with Dominion loans and in some cases with partial default of debt charges", p. 179, *ibid.*

provinces nor the termination of provincial status under the Canadian constitution.

It is also difficult to rationalize the Newfoundland Act of 1934 in terms of the alleged ineptness, incompetence, and corruption of Newfoundland politicians as there is no evidence indicating that, in comparison to other political systems of the period, Newfoundland's was more corrupt. It is no more difficult to make an argument that Newfoundland was a paragon of political morality than it is to maintain that Newfoundland was so politically corrupt that democracy was no longer possible.³

The collapse of democracy in Newfoundland in 1934 was not solely due to the financial effects of the Depression or the corruption of the politicians of the responsible government regime. Explicitly political and institutional factors constitute at least part of an explanation of the change in regime. Even though between 1930 and 1934, Newfoundland still formally retained democratic responsible government, during these years the policy context and policy process were fundamentally altered. Newfoundland's dependence on foreign markets and foreign capital made the dominion particularly vulnerable to the impact of the international depression. The effects of the depression reverberated upon the institutional, economic, and ideological parameters of the policy context. Changes in the setting or context of public policy were accompanied by changes in policy actors - injecting new goals, strategies, and tactics into the policy process. Alterations in context and process resulted in some

³ Harold Innis in a commentary published in the Canadian Journal of Economics and Political Science shortly after the suspension of democracy in Newfoundland remarked that "It would be presumptuous for a Canadian to comment critically on the affairs of Newfoundland - particularly as a native of a country which has done its share of bullying a small neighbour and of a country which can scarcely point the finger of scorn on grounds of bad government. Charges of corruption in Newfoundland fall on attuned Canadian ears and it would probably not be difficult to find specific instances of scandal in the history of government in Canada which would match those of Newfoundland.", Canadian Journal of Economics and Political Science, 3, 1, 1937, p. 83.

extraordinary resource outputs, for example, a monopoly for Imperial Oil and attempts to mortgage or sell the resources and lands of Labrador. The most significant outcome of the policy process during the period from 1930-1934, however, was an institutional one - regime change.

On the surface it appears incredible that such a transformation in the political system could have been effected with hardly a whimper of protest. It was, however, not a divided bourgeoisie that brought the democratic regime down, but a relatively cohesive one. The institutional change embodied in the Newfoundland Act was supported by the dominant financial, industrial, and mercantile interests. Furthermore, there was little organized opposition to these interests. The political organization of fishermen had waned by 1924.⁴ The working class in the resource and manufacturing sectors accepted political corruption as the explanation for unemployment and poverty.⁵ The country was portrayed in the press and at public meetings as having been mismanaged by corrupt politicians. The eventual solution which emerged was to throw out the baby with the bathwater. Not only should the 'corrupt' politicians be removed from democratic office, but democracy should be dispensed with as well. Newfoundland, it was maintained, required a 'rest from politics'⁶ which meant, for the Amulree Commission, the dismantling of democratic institutions.

⁴ For a discussion of the rise and fall of the Fisherman's Protective Union see J. Feltham, "The Development of the FPU in Newfoundland (1908 - 1923)", (unpublished MA thesis, Memorial University of Newfoundland, 1959). See also Ian MacDonald, *op. cit.*

⁵ *Evening Telegram*, April 5, 1933 reported that trade union representatives were present at the April 4th Majestic Theatre public meeting. At this meeting, the demonstration which became the April 5th riot was organized and political corruption was diagnosed as the cause of Newfoundland's financial difficulties.

⁶ 1933 Royal Commission Report, p. 195, parag. 553.

This recommendation and the tone of the report in general,⁷ obfuscated Newfoundland's real difficulties. The immediate problem was that the Newfoundland government was unable, without additional borrowing, to meet its debt payments. The problem lent itself to two solutions. Newfoundland could continue to borrow to meet the debt charges or Newfoundland could default or partially default on the debt. When the banks refused to lend to Newfoundland, and when other sources of credit were not found, the only alternative open to the Newfoundland government was default. Why was this option not taken, and how did regime change become connected with Newfoundland's financial problems? To answer these questions, it is essential to examine the institutional and economic parameters of the context in which this decision was taken. Also important is the manner in which the decision was made - the policy process. The decision is comprehensible only if the actors who chose this option are known, and if some insight into their tactics, goals, and ability to forge decisions in terms of their interests can be gleaned.

The Newfoundland Policy Context in the Early 1930's

1) Institutional Parameters

The fundamental parameters of the institutional context of 1930 were unchanged from the early post-war period. Newfoundland was a unitary dominion with a bicameral parliamentary system of responsible government. Politically, however, 1923 to 1928 had

⁷ The recommendation of the Amulree Commission may be found on pages 197 - 198 of the 1933 Royal Commission Report. The Commission attributed the financial collapse to political corruption. See footnote 1 of this chapter.

been turbulent years. The competitive two party system which had re-emerged after the war was in disarray by 1924.

In July 1923 the governing party, Liberal-Reform, which had been an electorally successful alliance of business and fishermen in the 1919 and 1923 elections was torn apart by political scandals. The leader of Liberal-Reform and the Prime Minister, Richard A. Squires, under pressure from members of his cabinet, resigned. The new Prime Minister, William Warren, who had been a minister in the Squires government, formed a new administration and appointed Mr. Hollis Walker to inquire into the charges of political corruption. The Hollis Walker inquiry, held in early 1924, was open to the public and revealed to all interested the machinations of party finance and the nature of the Squires government's relationship with industrialists.

As a result of the testimony to the inquiry which was published in the press, and of the Hollis Walker Report, which denounced the conduct of Newfoundland politicians in general, and of Squires in particular, the political career of Richard Squires was temporarily in ruins and old political alliances broke down. The fragmentation of the party system was reflected in governmental instability. Between July 1924 and November 1928 there were five governments. In the November 1928 election, however, Squires and the Liberal-Reform party, with support from the fishermen, were returned to office with a majority government.

2) The Economic Context of Policy-Making

a) The trade in staples:

Any optimism surrounding the election of a third Squires majority government⁸ in 1928 was quickly dashed. With the onset of the international depression, the domestic social and political ramifications of a staple economy in crisis became apparent. As Newfoundland's currency was the Canadian dollar, the success of the trade in staples was dependent not only on buoyant markets but further upon the fluctuation of the Canadian dollar against other currencies, over which the Newfoundland government had no control. The absence of an indigenous financial sector meant that Newfoundland was dependent on foreign banks for loans to cover budgetary deficits. The modest diversification of the staple economy to include pulp and paper and minerals as major export commodities had done little to insulate the Newfoundland economy from international forces. An export trade in these staples was also sensitive to fluctuations in markets and currencies, and had been developed through the encouragement of foreign direct investment which diminished the ability of the Newfoundland government to manage this sector of the economy.

In Newfoundland, public finance was closely tied to the workings of the staple economy. With the decline in prices for Newfoundland exports, incomes and government revenue fell. This occurred because approximately 75% of government revenue was derived from customs duties on imports⁹ and import consumption was tied to the income

⁸ See Mark Graesser, *op. cit.* for Newfoundland election results to 1932.

⁹ 1933 Royal Commission Report, 7.5% income taxes, 5.5% liquor profits, p. 58.

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ACTIVE MATRIX LCD
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available for their purchase. The revenues of the Newfoundland government were particularly sensitive to the trade in salt cod fish because approximately 40% of the adult male labour force obtained some portion of their income from fishing.¹⁰ If incomes from the fisheries declined, import consumption and government revenues were affected. A decline in the value of mineral and forestry exports also had salient, though less direct, repercussions on public finance. The most important impact of the decline in trade in minerals for the Newfoundland government was that plant lay-offs and shut-downs increased urban unemployment and, therefore, demands for social welfare expenditures.

¹⁰ Calculated from 1935 census.

Table 2
Exports and Value of Salted Cod, 1928 - 1933

Year	Amount of exports (Hundredweights)	Total value (C\$'000')
1928	1,573,748	11,541
1929	1,293,502	11,824
1930	1,252,479	11,531
1931	1,147,109	7,725
1932	1,111,007	5,030
1933	1,193,969	5,092

1919 figures indicated exports of 1,681,770 hundredweights to the value of 24,317 thousands of dollars. Prices dropped in 1921 and averaged only 11,174 thousands of dollars between 1921 and 1927. Source: Historical Statistics of Nfld. and Labrador, p. 181-182.

Table 3
Value in \$Cdn. of Mines and Forest Exports, 1928 - 1932

Year	Mines	Forests	Manufactures (primarily newsprint)*
1928-29	4,102,618	1,139,130	14,904,504
1929-30	7,232,288	895,372	15,998,872
1930-31	4,371,288	573,447	17,462,588
1931-32	3,408,308	314,421	15,540,425

*Exports in this category were attributable almost entirely to newsprint exports. For example, \$15,376,398 of 1931-32 exports were newsprint. Source: 1933 Royal Commission Report, p. 240.

Table 4
\$Cdn. Value of Imports, 1928 - 1932

Year	Imports
1928-29	29,237,381
1929-30	31,871,151
1930-31	25,261,701
1931-32	18,135,651

Source: 1933 Royal Commission Report, p. 238.

The circumstances which the Newfoundland government faced in 1930-31 are summarized by Tables 2, 3, and 4. With declining revenues in relation to expenditures in the fiscal year 1930-31, (see Table 5), the Newfoundland government had to rely upon borrowing to meet its deficit. By 1930 the interest charges on the public debt alone consumed 45% of current revenues. (See Table 6). The ability of the Newfoundland government to pay the interest on the debt, maintain the public services of the Dominion, and provide assistance to those hardest hit by the Depression became increasingly dependent on the ability of the government to secure credit.

Table 5
Newfoundland Government Revenues and Expenditures 1928 - 1933

Year	Revenues (\$Cdn.)	Expenditures (\$Cdn.)
1928-29	10,025,649	11,520,439
1929-30	11,579,214	11,841,805
1930-31	9,655,640	13,608,541
1931-32	7,931,047	12,299,418
1932-33	8,085,666	11,553,774

Source: Compiled from 1933 Royal Commission Report, statistics displayed on pages 57 and 63.

Table 6
Percent of Revenues and Expenditures Attributable to the
Interest Charge on the Public Debt, 1930 - 33

Year	Interest Charges, on Debt (\$Cdn.)	% of Total Expenditures	% of Total Revenues
1930-31	4,328,129	31.80	44.82
1931-32	4,731,571	38.46	59.65
1932-33	5,113,145	44.25	63.23

Source: Percentages were calculated from figures on debt charges and expenditures, 1933 Royal Commission Report, p. 63, and figures on revenues from p. 57.

The most costly demand on scarce government revenues during the international depression was the interest charges on the public debt. In contrast, expenditures on

able-bodied relief in 1930-31 accounted for only 7% (see Table 7) of all allocations as compared with a phenomenal 32% for the public debt.(see Table 6)

Table 7

Percent of Expenditures and Revenues Allocated
to Able-bodied Relief, 1930-33

Year	Expenditure Relief(\$Cdn.)	% of Total Expenditures	% of Total Revenues
1930-31	1,000,000	7.34	10.35
1931-32	1,170,000	9.51	14.75
1932-33	1,085,000	9.39	13.41

Source: 1933 Royal Commission Report, p. 50, the report here also notes that relief expenditures in 1921-22, a much less severe recession, were \$2,000,000. Percentages were calculated from figures on pages 50, 57, and 63 of the report.

Partly because of expenditures for debt charges, allocations for 'able-bodied relief' in 1930 were exactly half of the expenditures under this category during the less severe 1920-21 recession.¹¹ If the basic public services were to be sustained, borrowing was the government's only alternative to tide it over the collapse of the staple trade. In May of 1931, however, the government was unable to find buyers for a bond issue of \$8 million.¹² As the interest on the public debt was due in June of 1931, default was inevitable if credit could not be quickly secured. Between June of 1931 and December of 1933, the Newfoundland government entered into a series of interactions with the Canadian and British governments, the Canadian banks, and some resource companies in a desperate effort to avoid default on its interest charges. One result of these interactions was the recruitment of a number of new governmental policy actors and the

¹¹ 1933 Royal Commission Report, p. 50.

¹² S.J.R. Noel, Politics in Newfoundland, op. cit., p. 189.

implementation of a policy of retrenchment of the public services. In doing so, Newfoundland politicians during the international depression responded to international financial, as opposed to domestic political, demands for budgetary allocations. The result of this strategy was an intensification of the social and economic costs of the Depression to Newfoundland, civil violence, and formal political dependency in 1934.

The policy of retrenchment and the priority given to expenditures on debt charges can only be understood from an examination of the piecemeal diminution of political sovereignty which began in 1931 with the attempt to raise a loan and which was completed in February 1934 with the Newfoundland Act.

b) The public debt

How did the Newfoundland government get into a situation where by 1930 some 45% of its revenues were consumed by debt charges and by 1931 the government was verging on default? One answer to this question is that Newfoundland governments had engaged in reckless borrowing and had been extravagant and wasteful in their budgetary allocations. There is no doubt that the indebtedness of Newfoundland increased after the war. At the end of World War I the public debt was a modest 35 million dollars, by 1930 the public debt had escalated to 87 million dollars.

Table 2
The Public Debt 1918 - 1930

Year	Amount
1918	35,413,078
1919	42,956,478
1921	48,956,478
1922	54,956,478
1923	60,517,511
1924	66,518,112
1925	67,018,405
1926	72,017,931
1927	77,017,931
1928	79,477,374
1929	85,477,000
1930	87,592,000

Source: Calculated from Appendix F, pp. 246-51, 1933 Royal Commission Report

While on the surface this appears as a phenomenal increase in the public debt, other governments during the post-war period also increased their total indebtedness. The Dominion government of Canada, for example, had increased its net unmatured debt from, 1.4 billion in 1917 to 2.3 billion in 1930,¹³ and it is likely that the rate of increase for the provinces during these years was even greater. Furthermore, the increase in the public debt of Newfoundland from 1919 to 1930 does not in itself provide evidence of excessive spending or 'reckless waste and extravagance' on the part of Newfoundland governments. An analysis of the loans negotiated between 1919 and 1930 by the Newfoundland government reveals that while the government borrowed approximately \$60 million in those years, the money raised was not in general used to finance new development projects.

¹³ J. McUrquhart and K.A.H. Buckley, Historical Statistics of Canada, (Toronto: Macmillan) 1965, pp. 203-204. The rate of increase in provincial public debt was probably higher as the provinces had constitutional responsibility for social policy and for economic development based on the new staples.

Table 9
Debt Incurred, 1919 - 1930

Year	Loans (\$Cdn.)
1919	6,000,000
1921	6,000,000
1922	6,000,000
1923	5,561,033
1924	4,000,000
1925	2,500,000
1926	4,499,526
1927	5,000,000
1928	10,002,946
1929	5,999,626
1930	5,000,000
Total	60,563,131

All of these loans were repayable in gold with the exception of \$2,061,033 borrowed in 1923 and repayable in sterling. Source: Compiled from Appendix F and Appendix G, pp. 246-255, 1933 Royal Commission Report

Table 10
Purposes For Which Loans Raised, 1919 - 1930

Purpose	Amount (\$Cdn.)	% of Total
Railway	17,000,000	28.3
Debt Retirement and other loan-related	16,000,000	26.6
Public Works*	11,000,000	18.3
War Expenses	5,000,000	8.3
Deficit	5,000,000	8.3
Social Policy	4,000,000	6.6
Fisheries	1,000,000	1.6
General Purposes*	1,000,000	1.6

* - Some portion of this amount was incurred to finance able-bodied relief or job-creation projects. Source: Compiled and computed from a breakdown of loan purposes, Appendix F, pp. 246-251, 1933 Royal Commission Report

Of the new loans raised between 1919 and 1930, 55% of the amount borrowed was used to retire old loans which matured during this period or to finance the operation and capital expenditure of the railway. (See Table 10) So, though by 1930 the total debt had more than doubled from 1918, the increase in indebtedness was primarily

attributable to the need to pay for projects, such as the railway, which were initiated before the turn of the century.

If railway expenses, debt retirement and expenses associated with Newfoundland's participation in World War I are excluded, then only \$22 million of the loans incurred may be seen as connected with new policy initiatives taken by 1919-1930 Newfoundland governments. This figure compares favourably with the debt incurred by Newfoundland governments between 1887 and 1918. Only \$4.4 million of the debt of \$35.4 million incurred by 1918 was borrowed to retire old loans.

Of the remaining 31 million, about 12.9 million was used to finance the war and most of the remainder was allocated to railway construction. If Newfoundland governments had been wasteful and reckless, it was to the end of the completion of a trans-insular railway, an 'extravagance' which the Newfoundland government shared with her Canadian neighbour. Furthermore, if the Newfoundland government had borrowed beyond its means to repay, the ready supply of credit up to 1930 does not suggest that its creditors were concerned about the return of their investment. Every attempt of the Newfoundland government to secure a loan from 1919 to 1930 had been successful. The financial situation of the government of Newfoundland was sound as long as the fluctuations of the trade in staples could be smoothed out with borrowing. This was, in fact, the only recourse of the Newfoundland government because the government could not use monetary policy to counteract the swings in the business cycle. Newfoundland's currency was the Canadian dollar, and as a result, the Newfoundland government had no control over the money supply. More economically sovereign governments might be less likely to default because, as a last resort, the government could always devalue its currency. Newfoundland's last resort in 1931, when its credit in the bond market dried

up, was to approach the Canadian banks, and they had no particular interest in the maintenance of the domestic political system in Newfoundland. Their concerns were relatively uncomplicated; if Newfoundland was to be a debtor, they preferred a situation where the credit risk was low. An understanding of the policy process in Newfoundland from 1931 to 1933 must be based on a recognition of this goal of the Canadian banks as policy actors.

The Canadian Banks and Other Financial Actors in the Policy Process

When the government's attempt to raise a loan in the bond market failed in May 1931, the Newfoundland government approached the Canadian banks with branches in Newfoundland for a short-term loan of two million dollars. The purpose of this loan was to pay the interest charges on the public debt which were due in June 1931.

These four Canadian banks - the Bank of Montreal, the Bank of Nova Scotia, the Royal Bank, and the Bank of Commerce - were reluctant to advance this amount. Prime Minister Squires of Newfoundland appealed to Canadian Prime Minister R.B. Bennett. Bennett complied with Squires' request for intervention with a letter to Dodds, general manager of the Bank of Montreal. To Dodds, Bennett indicated the Canadian government's concern that Newfoundland continue to meet her financial obligations.¹⁴

¹⁴ Letter of June 19, 1931 from Bennett to Dodds quoted by S.J.R. Noel, op. cit., pp. 190-191. The details of this interaction with the Canadian government and the Canadian banks are in general well examined in Noel's Chapter 12.

Since Newfoundland and Canada had a common creditor, the United States, it was perhaps feared that should Newfoundland default on its interest payments to United States creditors, the American creditors would also become reluctant to back Canadian bonds. Shortly after Bennett's intervention, Prime Minister Squires and Finance Minister Cashin wrote to a syndicate of the four Canadian banks requesting an immediate short-term loan of two million dollars.¹⁵ In this letter Squires and Cashin committed the Newfoundland government to what they termed a "twofold policy" through which Newfoundland would undertake a revision and reconstruction of the customs tariff and a reorganization of public services.

The nature of tariff reconstruction and civil service reorganization was to be determined from a complete analysis of Newfoundland's financial situation.¹⁶ It was proposed that a financial analyst competent in such matters be nominated by the British government. As a result of Bennett's intervention and the commitments undertaken by the Newfoundland government in the formal request for the loan, the banks advanced two million dollars. This enabled the government to avoid default in June 1931 and gave the government six months to reduce expenditures so that interest charges due on December 31, 1931 could be met.

In compliance with the commitment extended by the government to the banks in the loan application, Sir Percy Thompson, a British Treasury official, was appointed to advise upon the financial situation of Newfoundland. Sir Percy Thompson's arrival in Newfoundland marked the beginning of some very significant changes in the

¹⁵ Squires and Cashin to Syndicate Banks, June 20, 1931, Provincial Archives of Newfoundland and Labrador, GN8/2, No. 48.

¹⁶ Ibid.

Newfoundland policy process. Thompson's arrival heralded the influence of a new group of influential British and Canadian policy actors who recommended reductions in government expenditures. As the primary motivation of these measures was the release of funds for the biannual payment of interest charges on the public debt, most of the more sweeping reductions were made in the area of social policy - strong medicine for a society and economy which was particularly sensitive to the effects of the international depression. Despite the extensiveness of the domestic measures undertaken to avoid default, Newfoundland remained unable to meet the interest payments. Nevertheless, the end result of these measures and of subsequent interactions with the Canadian financial community, the British and Canadian governments, and resource companies in Newfoundland, was indeed the avoidance of default. The eventual price was, however, the dismantling of the democratic regime of responsible government which had existed in Newfoundland since 1855.

From his appointment in 1931, in compliance with the government's commitment to the Canadian banks, Sir Percy Thompson was the pre-eminent non-elected policy actor. Another British bureaucrat, J.H. Penson, exercised considerable influence during the final years of responsible government. Penson was first appointed in December of 1931 to investigate alleged irregularities in the Department of Posts and Telegraphs.¹⁷ Later as Controller of the Treasury and Deputy Minister of Finance, Penson, with Thompson, became an architect and administrator of the government's policy of "retrenchment".

Thompson was given full access to the records of all departments of the

¹⁷ Newfoundland Archives, GN/25, File 572, Minute of Executive Council, December 1, 1931. Penson did in fact produce a report March 1932. The irregularities detailed were of a minor nature - i.e. small borrowing by public servants from Posts and Telegraph cash, purchase of stamps at wholesale price, and use of personal position by bureaucrats to admit personal purchases into the country duty-free

government and had produced an Interim Report by November of 1931. Thompson's prognosis on Newfoundland's ability to pay the interest on the public debt by December 31, 1931 was not encouraging.

The balance in the bank on the 31st December should be about \$686,910. From this must be deducted the deficit in the Railway account which is expected to amount to about \$300,000 leaving a net sum of \$386,910 available for the payment of interest on the debt which falls due on the first of January. These payments total \$2,128,402 and actual provision will have to be made for them about the 15th December. This could involve additional borrowing to the extent of \$1,741,492.¹⁸

Thompson did, however, add a caveat to this rather grim analysis. His figures did not take account of the "reduction of expenditures from additional economies" which were in progress at the time of the preparation of his report. Nor did his statistics provide for possible increases in revenue accruing from an upward revision of the customs tariff. Thompson's recommendations for solvency were unrealistically simple; reduce expenditures, raise revenues, and strengthen financial control. In 1931, the Newfoundland government was undoubtedly optimistic that immediate action on Sir Percy Thompson's recommendations would make default avoidable. Between Thompson's Interim Report in 1931 and his Final Report in 1932, the government scrambled to reduce expenditures. These reductions in expenditure were so swiftly undertaken that in the Interim Report Thompson officially recommended what was by the time of the Report's publication a fait accompli.

The government immediately invoked Sir Percy's prescription for financial solvency. The change in policy actors, the reduction in services, and the reduction in the size of the bureaucracy were so drastic that in many ways the dismantling of the Newfoundland

¹⁸ Interim Report of Sir Percy Thompson, Provincial Archives of Newfoundland and Labrador, GN8/2, No. 48.

political system began in 1931, not 1934. The votes of three departments, Education, Public Works, and Posts and Telegraphs were promptly reduced by \$750,000. A saving of \$120,000 for transportation subsidies was effected through the discontinuation of certain railway and steamship services. Government departments were reorganized. The Department of Public Works was amalgamated with the Highroads Commission and the Government Engineers Office, and the Department of Agriculture and Mines was combined with the Department of Marine and Fisheries.¹⁹

Thompson felt that the success of any reforms introduced was largely dependent upon a strengthening of the system of financial control over expenditure. The effectiveness of the public service, in Thompson's judgement, was hampered by "lack of suitable staff" and Thompson recommended employing "trained personnel from outside the Dominion for one or two key posts." Among those employed besides Thompson and Penson were Robert Magor and William Stavert as financial advisors. The salaries paid these individuals were far in excess of normal civil service rates. The new deputy minister of Finance, Penson, for example, was paid \$8500 per annum and Magor in 1934 claimed some \$60,000 for his services.²⁰ All this was probably perplexing for the numerous civil servants whose positions were eliminated to save \$145,436 in government expenditures. For those unemployed as a result of the cutbacks, the only recourse was

¹⁹ Newfoundland Archives, Minute of Executive Council, Dec. 24, 1931 amalgamated Public Works, Highroads, and the Government Engineers Office. A Dec. 1, 1931 Minute of Council amalgamated Dept. of Agriculture and Mines with the Dept. of Marine and Fisheries. These consolidations involved reductions in staff and were supervised by Penson and Thompson. See Lake, Minister of Marine and Fisheries to Barnes, Secretary of State, Dec. 8, 1931; GN/25 File 572.

²⁰ Sir Percy Thompson in his report described the new Deputy Minister of Finance as "Mr. Penson, the expert from the British Treasury who is associated with me". Some of the officials appointed upon Thompson's recommendation commanded salaries in excess of \$8,500 per annum (Provincial Archives of Newfoundland and Labrador, GN/25, File 562) whereas a salary of about \$3,000 per annum was a more normal remuneration for deputy minister level civil servants.

6 cents per day "dole".²¹ For those civil servants fortunate enough to retain their jobs, there were salary reductions.²² Other economies, in Penson's own words, included "sweeping reductions" in social services (i.e. police, war pensions, old age pensions, widows and civil service pensions, and education).²³ Not only did the government's retrenchment policy directly lower incomes, but through the reconstruction of the customs tariff, the policy contributed to price increases. Among the harshest of the revisions emanating from Thompson's recommendations regarding the tariff was the removal of special tariff exemptions on flour and salt pork, which at the time were important in the Newfoundland diet.²⁴

Despite the reductions in government expenditures and attempts to raise revenues by the implementation of the measures outlined in Thompson's Interim Report, Newfoundland's ability to borrow remained essential for solvency. The combined effects of increasing relief expenditures, the need to use exchequer funds to meet withdrawals from the Newfoundland Savings Bank, and the interest charges on the public debt due at the end of the year, forced the Newfoundland government to shop for credit again in December 1931. This time the conditions which the Canadian banks attached to the

²¹ The rate at this time was \$1.80 per person per month.

²² Minute of Executive Council, July 26, 1932, Provincial Archives of Newfoundland and Labrador, GN/25, 559-564. Some of these salary reductions were announced in the March 1932 budget. For a critical comment on the government's attempts to "effect economies by scaling down the remuneration - sufficiently low already - of capable officials" see *Evening Telegram* editorial of March 2, 1932.

²³ Penson memorandum dated July 11, 1932. Another element of the scheme of "retrenchment" was the phasing out of post offices and telegraph offices. See Minutes of Council, Jan. 14, 1932.

²⁴ The recommendations regarding the tariff were set out in the Interim Report of Sir Percy Thompson. On this tactic for increasing government revenues the *Evening Telegram* commented: "The 'friends of the poor' have indeed proved their sincerity by the imposition on the foods which he mainly relies, namely flour, and beef, a duty of 50 cents a barrel in the first instance and in the second, of two dollars". *Evening Telegram*, March 2, 1932.

loan agreement were even more stringent. Some of the conditions of the loans demanded by the Canadian banks directly affected the allocation of resources within Newfoundland. The banks, in effect, took over what hitherto had been a function and prerogative of the Newfoundland Cabinet - the determination of policy priorities for the expenditure of public funds.

Among the 13 conditions of the loan set down by the banks were two conditions which clearly prescribed the manner in which the revenues of the Newfoundland government were to be allocated. The most important condition was that the proceeds of the customs duty were to be paid into a special account at one of the Canadian chartered banks in the syndicate. After July 1932 sufficient funds to meet the interest charges were to be retained in the account and only the balance paid over to the exchequer. As customs duties constituted about 3/4 of government revenues, the banks had in fact stipulated that the servicing of the interest upon the public debt took priority over the maintenance of public services. Furthermore, the banks demanded that the Newfoundland government appoint an advisor to be nominated by the Canadian or Imperial government who would furnish the banks with written reports upon matters in Newfoundland deemed to be of interest to the banks.²⁵ Perhaps in an attempt to secure their interests should the Squires government fall, the banks also insisted that the leader of the opposition, Mr. Alderdice, comply with the stipulations attached to the

²⁵ This was the eighth condition of the loan. Two conditions dealt with the "special account" to be established for the payment of interest charges. The remaining 10 conditions, however, were also significant. The export of gold was prohibited and the notes of the banks were legal tender but would not be required to be backed by gold. The recommendations of Magor and Thompson were to be implemented. Legislation would be required to permit the repayment of temporary loans by further temporary loans. It was requested that the government raise an internal loan. The government was to float a bond issue. The government was not to lease or sell the natural resources of Labrador without the banks' permission. See Bank memorandum to Squires, GN/82, File 48ii, Provincial Archives of Newfoundland and Labrador.

2.2. million dollar loan.²⁶

Prime Minister Squires did not receive the list of the bank conditions until the evening of December 28, or the morning of December 29th, only two days before the interest charges on the debt were due. Penson, the new Deputy Minister of Finance, wired the conditions to Squires and advised that Squires accept.

Banks have agreed to make loans under conditions which appear to us to be reasonable. These conditions are being wired to Werlich (local manager of Bank of Montreal) for your consideration and decision, ...strongly advise you accept and implement without delay.²⁷

As the loan had to be negotiated by the end of December to avoid default, the government had in effect been presented with an ultimatum. The government, however, did not view the conditions as "reasonable". Squires telegraphed his dissatisfaction to Canadian Prime Minister R.B. Bennett:

Unanimous resentment expressed at ultimatum procedure and likewise unanimous opinion that decision on document of great magnitude involving such extensive financial and commercial obligations could not possibly be considered and answered within 24 hours.²⁸

Penson and Thompson attempted to negotiate for the government with the banks.²⁹ As late as December 31, 1931 the Newfoundland government continued to express its hesitancy concerning the bank's conditions. Of some of the bank's conditions, Squires expressed the following to Prime Minister Bennett:

²⁶ Alderdice to Squires, Dec 31, 1931, and Alderdice to Bank of Montreal, Dec. 31, 1931 in which Alderdice agrees to the 2.2 million dollar loan.

²⁷ Penson to Squires, Dec. 28, 1931, Provincial Archives of Newfoundland and Labrador, GN8/2.

²⁸ Richard Squires to R.B. Bennett, Dec. 29, 1931, Provincial Archives of Newfoundland and Labrador, GN/82

²⁹ Penson to Squires, Dec. 30, 1931. Negotiations were apparently attempted upon clause 8 dealing with the appointment of an informer for the banks and upon clause 12 relating to the sale or lease of resources in Labrador.

The motive, meaning and practical operation of which are unintelligible to our lawyers and cannot be explained to us by the local manager, Mr. Werlich.³⁰

That same day Werlich sent Squires the text of the clauses under negotiation "as the syndicate banks now require them to read." Within 24 hours of default government finally acquiesced to the banks' conditions. On December 31, the governor in council issued a proclamation to the effect that the export of gold was prohibited and that the five Canadian chartered banks were "authorized to tender in payment of any of their liabilities, bank notes of the said banks issued under the provisions of the Bank Act, or any other act of the Dominion of Canada, instead of gold". With this proclamation, the first two conditions of the loan had been met. In 1932 the Newfoundland government attempted to meet the other eleven provisions of the loan agreement. (See Appendix A-2)

The 1932 Riots

In Canada, the economic crisis of the 1930's produced a consensus among business, labour and farmers' groups in favour of social reform and increased government intervention in the economy, though the motivations of each group for an increased role for the state were quite different.³¹ In Newfoundland, a more limited consensus developed, the result of which was not social reform but the defeat of the Squires government and the dismantling of the democratic regime.

³⁰ Squires to R.B. Bennett, Dec. 31, 1931. Squires did not here refer specifically to a clause or clauses. It is likely the clauses in question were those dealing with the 'special account'.

³¹ Alvin Finkel, in Business and Social Reform in the Thirties, (Toronto: James Lorimer and Company, 1979), argues that business in Canada supported social reform as a preemptory measure to prevent more fundamental disruptions of the capitalist system. *Passim*.

In Newfoundland the governing party took the blame for the financial and economic crisis of the 1930's. A number of interpretations of the plight of Newfoundland during the international depression might have been advanced at the time. The interpretation which provided a basis for political action was not one which focused on the costs of economic dependency or the need to reform the capitalist system. Instead allegations about the political corruption of the Squires government pervaded press, business, trade union, and the unemployed's assessments of the Newfoundland condition. On April 4, 1932 opposition to the government coalesced around this interpretation at a public meeting which was held to organize a mass demonstration. The demonstration which was held on the following day turned into a riot of some eight to ten thousand people outside the legislature.³²

Though the protest was undoubtedly spurred by rampant unemployment and the curtailment of public services as a result of the policy of 'retrenchment', the immediate cause was the perceived corruption of the political elite. The commentary in the press in the month preceding the riot was in itself inflammatory. Criticism of the government became particularly vitriolic with the introduction in March of the 1932 budget.³³ The explanation offered by the press for the financial crisis, the plight of the poor, and the empty treasury was government corruption.³⁴ The *Evening Telegram* on March 18, 1932, asked this seemingly innocuous question: "Is there any chance of prosperity returning,

³² *Evening Telegram*, April 6, 1932.

³³ See *Evening Telegram* comment on the budget, March 2, 1932.

³⁴ See *Evening Telegram*, March 9, 1932.

the obvious answer is Squires must go first.³⁵ On the day before the riot, the following appeared as the last paragraph of an article on Squires' failure to stimulate industry:

Is there any wonder that a cry for deliverance goes up from every town and settlement throughout the breadth of the Dominion? Do those who have neglected the needs of the country and have defied honoured tradition and principles imagine that any longer they can ignore the Voice of the People, which is the Voice of God.³⁶

On the following day, St. John's was a noisy city. The April 5 riot had begun as a demonstration which was organized at a public meeting held at the Majestic Theatre on April 4th. On the platform that evening were many leaders of the business community, for example Eric Bowring, W.S. Monroe, and Gordon Winter.³⁷ Also in attendance were leaders of the trade union movement. On April 5, 1932, a large crowd, which included workers (given half-holidays to participate) marched to the legislature and congregated on the grounds of the building to demand investigations into charges of political corruption. When delays arose in the consideration of the petition, a riot ensued.³⁸

³⁵ *Evening Telegram*, March 18, 1932.

³⁶ *Evening Telegram*, April 4, 1932.

³⁷ Eric Bowring was a director of Bowring Brothers Limited, Standard Manufacturing Co. Ltd., British Clothing Co. Ltd., Nfld. Marine Insurance Co. Ltd., Harbour Grace Boot and Shoe Co. Ltd., Brehm Manufacturing Ltd., in *Who's Who* and in ad from Newfoundland 1930, p 166. W.S. Monroe was Prime Minister of Newfoundland from 1924 to 1928, and a director of Imperial Tobacco, Colonial Cordage, and Monroe Export.

³⁸ The riot began at 4 P.M., April 5th. According to newspaper reports about 8 or 10 thousand people were gathered outside the legislature (see *Evening Telegram* April 6, 1932). The *Telegram's* interpretation was that the orderly demonstration organized by community leaders had turned into a riot because of the presence in the crowd of rowdy youths (see *Telegram* reports of April 6 - 12). The *Canadian Forum's* interpretation of the "causes" of the riot was neither political corruption nor delinquency, as suggested by the *Telegram*:

Although these charges of political dishonesty have helped to accentuate the popular feeling against the party in power, the real causes of the disturbances are wider and more fundamental. Newfoundland suffers from a system which might be described as industrial feudalism, with a small handful of powerful corporations controlling all of the important industries of the island dominion. The iron, pulp and paper, and codfish industries are all suffering from a slump in prices and 20% of the population are on direct relief.

The crowd forced itself into the legislature, smashed the windows of the Colonial Building, burned records, and threatened the Prime Minister, Richard Squires. Squires, who had for some portion of the outburst been hidden in the basement of the Colonial Building, narrowly escaped without harm by going into a home near the legislature and running through its backyard to get into a taxi parked on a nearby street.³⁹ This was Squires' second tangle with an angry mob in the spring of 1932. A smaller incident had occurred earlier outside the Court House building on Duckworth Street in which the Prime Minister's office was housed. The second demonstration was larger, more violent, and precipitated the calling of the 1932 general election which brought Frank Alderdice to power.

Alderdice's platform was presented through the press to the public. Among the planks was Alderdice's proposal for government by an appointed commission, although an election specifically on this proposal for the resolution of Newfoundland's financial difficulties was promised.⁴⁰ Debate at an ideological level on this issue was limited, as the political rhetoric of Alderdice's United Newfoundland Party successfully focused upon the theme of the corruption and ineptness of the incumbent party, Liberal-Reform. The result was that Squires was personally defeated and Liberal-Reform was reduced to two members in the legislature.

Alderdice, as the last Prime Minister of Newfoundland, oversaw the formal

³⁹ Prime Minister Squires was ushered through the crowd and into the house of Mrs. Connally, 66 Colonial Street. A large group gathered on Colonial Street to await Squires' exit from the house. Squires, however, ran through the Connally backyard to emerge on Bannerman Street where a taxi took him from the scene of the riot. See *Evening Telegram*, April 6, 1932. For a reportedly eye-witness account of the 1932 riot which occurred outside the Colonial Building see: J.R. Smallwood, *I Chose Canada*, Vol. I, (Scarborough, Ontario: Signet Paperbacks, 1975), pp. 176-178.

⁴⁰ *Evening Telegram*, May ?, 1932.

suspension of democracy in 1934. His short administration from 1932 to 1934 concerned itself primarily with Newfoundland's financial difficulties, or at least the amelioration of the financial difficulties of Newfoundland business. During Alderdice's tenure it became routine administrative practice for memoranda and telegrams from the Dominions Office and the Canadian banks to be submitted for comment and advice to the major salt fish exporters in Newfoundland.⁴¹ Nor, as the correspondence between the operators of the Wabana mines and Alderdice revealed, were the exporters of minerals excluded from the policy process.

Creditors Of the Newfoundland Government in the Resource Sector

After the banks closed their doors to the Newfoundland government in December of 1931, Newfoundland attempted to borrow privately. In 1932 Imperial Oil became a creditor of the Newfoundland government. In May 1932, this company agreed to underwrite 1.75 million dollars of a 2.5 million dollar loan. For underwriting 7/10ths of the issue and payment of an annual fee of \$300,000, Imperial Oil received a monopoly on the importation and distribution of petroleum products.⁴² The \$300,000 fee payable to the government was not placed in the consolidated revenue fund, but was deposited in a

⁴¹ See for example Alderdice to Bowrings, Sept. 17, 1932, and copies of telegrams from Secretary of State for Dominions, United Kingdom, sent to Monroe Export, A.H. Murray Ltd, Job Bros., Royal Bank, Bank of Commerce, Bank of Nova Scotia, and Bank of Montreal: Sept. 27, 1932, Provincial Archives of Newfoundland and Labrador, Records of the Alderdice Administration.

⁴² An Act In Relation To the Raising Of a Loan On the Credit Of the Dominion, Statutes of Nfld., 1932. Clauses 15 and 16 established the Petroleum Products Fund for the money used for the interest and sinking fund for the loan.

special account earmarked for the payment of charges due on the loan.

The negotiations which produced the agreement were conducted primarily in Montreal, with Robert Magor, under the direction of Percy Thompson, acting for the government. Though the important clauses of the agreement were concluded outside the country, the negotiations were affected by the tense political environment which prevailed in Newfoundland during the spring of 1932. The political situation in Newfoundland from February to April 1932 was, by any indicator, extremely volatile. In the midst, however, of diffuse and generalized opposition to the government, some fairly specific criticisms of the government's involvement with Imperial Oil Company Limited were voiced. The tone of the general political atmosphere and the tenor of the criticisms directed at the proposed petroleum monopoly made Imperial Oil Company reluctant to conclude an agreement in April of 1932.

Shortly after the riot, Victor Ross, a Vice-President of Imperial, outlined the company's concerns to Sir Percy Thompson:

Your letter of April 7 political disturbances which have occurred since you received my memorandum to Mr. Magor have made it very difficult to arrange loan as outlined...our information through financial and other sources is that Newfoundland commercial community and public are very strongly opposed to any form of monopoly legislation and we feel that any considered strong opposition would make it inexpedient to carry through plan proposed.⁴³

Business criticism of the monopoly came from two sources: the Board of Trade and Great Eastern Oil Company Limited. H.G.R. Mews, Secretary of the Board of Trade, informed Prime Minister Squires that the board was "strongly opposed" to any act

⁴³ Victor Ross to Percy Thompson, April 16, 1932, Provincial Archives of Newfoundland and Labrador, GN/25, Box 565-580.

relating to the control of petroleum products.⁴⁴ The concerns of Great Eastern Oil Company were somewhat more explicitly self-interested. The Company feared that a grant of the monopoly to Imperial Oil would deleteriously affect its business and profits in Newfoundland. Neither ideological nor economic considerations, however, pervaded the public opposition to the petroleum products proposal. The spectre of political corruption provided a basis for public reaction against the bill.

The petroleum products bill was received with universal execration, mainly on quite irrelevant grounds; everybody averred that its sole object was to provide a lucrative post of eight thousand dollars a year for some friend of Squires and many other things were said which it did not deserve.⁴⁵

As the successful negotiation of a loan from Imperial Oil was essential if the government was to meet its interest charges due in June, Sir Percy Thompson, upon Ross's initiation, set about to quell the dissent. In the performance of this task, Thompson, the bureaucrat from the British Treasury, demonstrated his political astuteness.

After Ross suggested that the criticism of the monopoly might result in delays in concluding the loan agreement, Thompson contacted the president of the Board of Trade. Upon Thompson's request, a special Sunday meeting of the council was scheduled so that Thompson might appear to discuss the proposed monopoly arrangement. Following the meeting, Thompson communicated the outcome to Imperial Oil.

On receipt of your telegram, I immediately approached the President, Board of Trade who very kindly convened a meeting of the council at 12:00 noon today. I attended the meeting and a full discussion of the petroleum

⁴⁴ H.G.R. Mews to Squires, March 23, 1932, Provincial Archives of Newfoundland and Labrador, GN/25, Box 565-580. See, as well, newspaper report of the Board of Trade meeting at which unanimous opposition to the petroleum monopoly was expressed. *Evening Telegram*, March 22, 1932.

⁴⁵ . Unsigned letter from Percy Thompson to Magor, March 23, 1932.

proposals in all their aspects took place. I am authorized to state...they realize that the creation of a royalty on some commodity and the pledging of such royalty as security offers the only available solution to the problem of obtaining a loan which is necessary to enable the interest on the public debt to be met in June next, and without committing (themselves) to an approval of the details, they lend their support to the measure as a whole.⁴⁶

Thompson's meeting with the Board of Trade also functioned to turn around public comment on the Imperial monopoly. The assessment of Imperial's Newfoundland representative, R.H. Spurr, was that opinion on the proposal had been affected by Thompson's efforts. To Thompson, Spurr commented:

As far as I can learn from the street since the Board of Trade meeting of Sunday there has been a great change politically overnight in favour of the proposal.⁴⁷

To his boss, the general manager of Imperial, Spurr gave a more complete report.

Board of Trade had special session Sunday. Attitude sympathetic to government proposal. Also to Imperial Oil Limited positions. Morning papers had given whole story of proposed monopoly and our position as set forth by Mr. Ross. Public opinion since learning present status of proposals has changed with favourable mood as regards whole situation. -- Sir Percy Thompson has laid the matter fairly before the general public and newspaper comments have lost their bitterness. We do not anticipate general objection to present bill.⁴⁸

It seems that Thompson's appearance before the Board of Trade to argue the case for the monopoly legislation had been successful. Public opposition was sufficiently quieted that Imperial entered an agreement which was given legislative ratification in May, as the 1932 Loan Act. The 2.5 million dollar loan carried interest at 5.5% and was

⁴⁶ Percy Thompson to Victor Ross, April 17, 1932, night letter.

⁴⁷ R.H. Spurr, Manager Sales Development, Imperial Oil Company, St. John's to Sir Percy Thompson, April 18, 1932.

⁴⁸ Telegram from R.H. Spurr to John McNeil, General Manager, Imperial Oil, April 18, 1932; copy sent to Sir Percy Thompson, Provincial Archives of Newfoundland and Labrador, CN/25.

secured by the Petroleum Products Fund. Clauses 15 and 16 of the Loan Act established the Petroleum Products Fund. The \$300,000 paid by Imperial for the monopoly was to be deposited in this fund at the Royal Bank.⁴⁹ The fund was to be vested in three trustees, appointed by the government and the company. The purpose of the fund was to provide for the interest and sinking fund for the loan. Only after the priorities of interest charges and sinking fund were met could the balance, at the discretion of the trustees, be transferred to the consolidated revenue fund.⁵⁰

The Loan Act not only made special provision, through the Petroleum Products Fund, for the concerns of creditors but the legislation also reflected an attempt to respond to the fears of Great Eastern Oil that its profits would diminish as a result of Imperial Oil's rights under the legislation. Clause 19 of the Loan Act made provision for the payment by the government of a compensation to Great Eastern Oil should the profits of the company fall below an average annual amount.⁵¹ W.W. McDonald, managing director of Great Eastern, wrote Thompson in acknowledgement of "the fair degree of protection" given Great Eastern under the act.⁵²

In political discourse, the 1932 Loan Act was called the "prosperity loan". It was initially anticipated that approximately \$500,000 of the bond issue would be taken up by public subscriptions.⁵³ The remaining 2 million dollars worth of bonds were held by

⁴⁹ Clause 15, 1932 Loan Act.

⁵⁰ Clause 16, 1932 Loan Act.

⁵¹ Clause 19, 1932 Loan Act.

⁵² W.W. McDonald, Managing Director, Great Eastern Oil, to Sir Percy Thompson, July 20, 1932

⁵³ 1933 Royal Commission Report, p. 51.

various business interests operating in Newfoundland. Imperial Oil was the largest subscriber, holding bonds to the value of \$1.75 million. The Anglo-Newfoundland Development (AND) Company held \$250,000 in bonds and subscriptions to a value of \$100,000 were received from mercantile and other firms in Newfoundland.⁵⁴ To fully raise all of the \$2.5 million, only an additional \$500,000 was required. Sir Percy Thompson's second report, published in October 1932, placed considerable emphasis on the importance of the government's promotion of the loan to ensure that it was fully subscribed.

...In my view the whole energies of the government and the whole resources of the state should be concentrated on making this loan a success. The churches, the press, the radio and telegraph wires should be utilized for the purposes of propaganda and no stone should be left unturned...⁵⁵

Despite the fact that the government mounted a considerable publicity campaign, the \$500,000 goal for public subscriptions in the prosperity loan was not met.⁵⁶

Corporate subscribers such as Imperial, the AND Company, Newfoundland mercantile firms, and those individuals who took up bonds, joined the Canadian banks as creditors of the Newfoundland government. Other companies such as International Pulp and Paper, subsidiary of a New York based firm, made their "contributions" through the payment of directors fees to two ministers. Upon the recommendation of Thompson, these fees were retained personally by the ministers in lieu of a salary from the

⁵⁴ Final Report of Sir Percy Thompson, Oct 4, 1932, p. 16.

⁵⁵ Ibid.

⁵⁶ H F. Gurpey, "Economic Conditions in Newfoundland to April 1933", Report of British Trade Commissioner, Centre for Nfld. Studies, M.U.N. Library. According to this report, savings deposits in Newfoundland amounted in 1932 to \$25,491,373, p. 57. See also, 1933 Royal Commission Report, p. 156.

Crown.⁵⁷ As a result of the pressing demands of the public debt, resource and merchant capital became important actors in the sphere of public finance. In a manner analogous to the loan conditions put forth by the Canadian banks in December 1931, the 1932 Loan Act made provision for its repayment. Whereas the banks had stipulated that the proceeds of the customs tariff be allocated to the payment of the 1931 loan, the proceeds of the Petroleum Products Fund were to provide security for the investment of Imperial Oil Company Limited and other creditors.

The activities of corporations in the resource sector during the final years of what was still called responsible government were not confined to the furnishing of credit. Though there had been important alterations in the early 1930's in the institutional and economic context of policy-making, decisions affecting resource management and revenues from resource development continued to be made. Because of the adaptations in the economic and institutional setting occasioned by the imminent threat of national bankruptcy, some of the resource issues during this period reflected and magnified the financial crisis of the times. In that category, efforts to negotiate the sale of the resources of Labrador may be understood. On the other hand, because between 1930 and 1934 resource industries continued to operate in Newfoundland, albeit at reduced capacity, routine routes of access through elected policy actors continued to be employed and conventional tactics in government-business interactions prevailed. During Alderdice's business government the tone of the interaction was marked by cordiality and collegiality.

⁵⁷ Sir Percy Thompson, Report on the Financial Circumstances of Newfoundland, Oct 4, 1932, pp 10-11. Thompson here noted "Four paid ministers would be ample and of these two should hold the sinecure office of Director of International Power and Paper and receive their emoluments from that source. By this means not only would money be saved but the trappings of government would be brought more in harmony with the size and economic circumstances of the population to be governed."

Resource Actors in the Policy Process: Tactics and Outputs 1932 - 1934

There had been a considerable expansion in the resource sector of the economy between 1925 and 1930. Minerals and pulp and paper joined salt cod fish as major export commodities.⁵⁸ Prior to 1925 the AND Company and DIS were the major corporations in pulp and paper and mining respectively. The iron ore deposits at Bell Island worked by DIS, a Canadian company, were reported to be the largest deposits in the empire. The Anglo Newfoundland Development Company, formed by the Harmsworth interests of London, England, in 1909 completed the construction of a pulp and paper mill in Grand Falls. By 1933 this mill produced 500 tons of paper a day, which was primarily exported to England.⁵⁹

Between 1925 and 1930 two other major resource enterprises came into operation. In 1925 a second pulp and paper mill opened at Corner Brook and in 1928 the extraction of lead, zinc, copper, gold, and silver was begun at Buchans. These new developments, coupled with the Judicial Committee of the Privy Council's 1927 confirmation of Newfoundland's claim to the territory of Labrador, created the illusion that the resource sector was, in the financial crisis of the 1930's, Newfoundland's most promising prospect for economic recuperation.⁶⁰ Not unlike the older trade in salt codfish, the trade in

⁵⁸ Gurney, op cit, p. 28 indicates that by 1933 newsprint had outstripped the fisheries in value of its output. See also 1933 Royal Commission Report, p. 10. Minerals and newsprint accounted for \$18,900,000 of a total \$26,700,000 in exports.

⁵⁹ 1933 Royal Commission Report, pp. 143-144.

⁶⁰ The Amulree Royal Commission Report of 1933 entitles the chapter dealing with resource industries "Prospects for the immediate future".

pulp and paper and minerals was sensitive to the vagaries of international market conditions and to fluctuations in foreign currencies. The potential contribution that the resource sector might make to the economic revitalization of Newfoundland was hampered by another feature of resource enterprises in Newfoundland - their foreign ownership. Whereas whatever profits accrued from the export trade in fish remained in Newfoundland, profits from the exploitation of the mines and forests left the country. The case of the International Pulp and Paper facility at Corner Brook illustrates the manner in which Newfoundland subsidiaries of multinational corporations generated funds for companies located outside the country.

The initial development of the pulp and paper facility at Corner Brook was undertaken by Newfoundland Power and Paper Company Limited which had been formed as a result of an agreement between W.G. Armstrong, Whitworth, the AND Co. Limited, and the Reid Corporation, which held the rights to timber and water power in the area of the proposed development. The construction was financed by two series of debenture stock which were guaranteed by the British and Newfoundland governments. In 1927 the holdings of the Newfoundland Power and Paper Company were sold to International Pulp and Paper (IPP), a New York-based corporation. IPP had three affiliates in Canada, two in Quebec and one in New Brunswick and paper orders were distributed among the four subsidiaries. The production costs of the Newfoundland subsidiary were lower, however, than those of the three Canadian mills. By 1933 it had become the practice that profits accruing from the more lucrative Corner Brook installation were used as a subsidy to enable the three Canadian mills to remain open.⁶¹

⁶¹ 1933 Royal Commission Report, p. 151.

The other major resource development between 1925 and 1930 was the opening of the mines at Buchans which, throughout the Depression, operated at peak capacity. Buchans Mining Company, the operator of the mines, was incorporated as a result of an agreement between an American corporation and a company which had carried on business in Newfoundland since 1909, the AND Company Limited. The AND Company Limited had discovered the deposits at Buchans and had acquired the rights to the territory. The AND Company, however, did not have the technological capacity to exploit the minerals at Buchans. The American Smelting and Refining Company developed techniques in the 1920's to extract and separate the lead and zinc and entered into a profit-sharing agreement with AND.

Legislation governing the administration of Crown Lands was so anachronistic that in 1927⁶² and 1928⁶³ major amendments were required to regulate such fundamental activities as the issuance of minor permits, the assessment of royalties, and the export of timber. In 1930 a new, comprehensive Crown Lands Act replaced earlier legislation⁶⁴ and, since it remained in effect until 1949, provided a framework for resource policy-making during the Commission of Government period.⁶⁵

⁶² An Act Relating To Crown Royalties, Chapter XIII, 18 Geo V, 1927 Statutes of Newfoundland.

⁶³ Crown Lands Act 1928, Chapter V, 19 Geo. V, 1928 Statutes of Newfoundland.

⁶⁴ Crown Lands Act 1930.

⁶⁵ The act comprised some 190 sections which were divided into various subject areas dealing with such matters as timber lands, water powers, mineral lands, and crown royalties. Procedures for obtaining miner's permits, appropriate staking techniques, methods for the reporting of staking, and provisions for surveying were outlined. Part 5 of the Act specified regulations governing the disposition of mineral lands and defining the rights conveyed by staking, recording, and permit holding of a grant in fee simple. The Act also specified a formula for the calculation of royalties accruing to the Crown from the sale of minerals. Unfortunately for the enforcement of the royalty clauses of the legislation, the amount due to the Crown was calculated as a percentage of net profits. Though allowable deductions for the calculation of profits were specified, conflicts regarding interpretation of these clauses routinely arose between mining companies and government when the companies submitted their annual royalty returns.

The 1930 Crown Lands Act was significant, however, not only for the procedures, regulations, and formula it specified, but also for what it excluded. Section 189 of the Act specifically stated that the provisions of the Crown Lands Act were not to affect legislation governing the granting of lands and rights in Labrador.⁶⁶ This section of the Crown Lands Act referred to earlier legislation which was passed in 1927 shortly after the Judicial Committee of the Privy Council (JCPC) confirmed Newfoundland's jurisdiction over Labrador. Though the Crown Lands Act of 1930 repealed much of pre-existing resource legislation, "An Act to Govern the Granting of Lands and Rights in Labrador" was excepted. The 1927 Labrador legislation made special provisions for the disposition of licenses, leases, grants, rights, titles, or concessions in Labrador. With the exception of mineral lands,⁶⁷ the 1927 Labrador legislation provided that the administration of lands, timber, and water powers were outside the purview of the Crown Lands Act. The granting or leasing of rights, titles, or concessions in Labrador for forest and water powers required specific legislative approval.

That the resources of Labrador were in general excepted from routine administrative procedures governing Crown lands was not surprising. Since the turn of the century the development of Labrador had been hampered by the jurisdictional disputes between Newfoundland and Canada. The dispute between the two countries regarding jurisdiction over the territories of Labrador came to a head in 1902 when the

⁶⁶ An Act To Govern the Granting of Lands and Rights in Labrador, Act 18, Geo. V, Chapt. 11, Statutes of Newfoundland.

⁶⁷ Clause 2(a), *ibid.*, provided that the granting of rights to lands for agricultural purposes was not to be hampered by the general provisions for legislative approval. Mineral lands were similarly excepted, (Clause 2(b)), however, unlike agricultural lands, for mineral lands the jurisdiction of the Crown Lands Act was specified. Chapt. 11, 18 Geo. V, 1927, Acts, p. 124.

government of Quebec questioned the timber leases held by Grand River Pulp and Lumber Limited, a Newfoundland-incorporated business operating on the North and South side of the Hamilton River. As Canada and Newfoundland did not agree on the position of the Labrador boundaries, the Secretary of State for the Colonies suggested in 1904 that the matter be referred to the JCPC for settlement.⁶⁸ The case was not argued before the JCPC until 1926. In the interim, interactions between the two Canadian governments, at Quebec and Ottawa, and the Newfoundland government focused upon the wording of the reference to be submitted to the JCPC and later upon the terms of an out-of-court settlement which would entail the sale of Labrador to Canada. There had been correspondence and meetings between the Monroe government in Newfoundland, the Tachereau government in Quebec, and the Canadian government regarding the terms of such an agreement. Negotiations broke down because of failure to strike an agreement on the continued jurisdiction of Newfoundland over the coast for the prosecution of the Labrador fishery and an inability to negotiate the amount of the cash settlement to be paid to Newfoundland.⁶⁹ The dispute was finally referred to the JCPC in 1926 and a decision rendered on March 1, 1927 in Newfoundland's favour.

Negotiations for the sale of Labrador did not, however, cease at that point. In the financial crisis of the 1930's the resources of Labrador were viewed as a frontier, the exploitation of which could save the island portion of the Dominion of Newfoundland from national bankruptcy. For the business-minded Alderdice

⁶⁸ For correspondence between the Canadian, Newfoundland, and British governments on the Labrador boundary and on the sale of Labrador, see Provincial Archives of Newfoundland and Labrador, Colonial Secretary Special Files, GN/25/573.

⁶⁹ In the correspondence between Prime Minister Monroe and de Champlain, who claimed to have been acting for the Canadian government, various amounts were mentioned - \$30 million, \$10 million, and \$5 million.

government, the liquidation of Newfoundland's resource assets in Labrador appeared to be a panacea for national solvency. That the Canadian banks in their December 1931 loan stipulations required that the banks be consulted prior to any disposition of the resources of Labrador⁷⁰ and that the Amulree Report in 1933 examined the sale or lease of Labrador as a possible solution to Newfoundland's financial trouble,⁷¹ indicate that many of the seemingly offbeat proposals for development were given serious attention by the Newfoundland government. The potential purchasers or lessees were varied and numerous. Among those interested in Labrador were J.A. Morphy of Montreal,⁷² members of the Canadian Conservative party,⁷³ Joseph de Champlain (a Quebec broker),⁷⁴ a Zionist organization,⁷⁵ and E.W. Sutphen, prominent British financier.⁷⁶

⁷⁰ Clause 13, Loan Agreement, December 1931.

⁷¹ 1933 Royal Commission Report, pp. 183-186.

⁷² The "Morphy Proposition" was set forth in a letter to Squires on Aug 29, 1929 in which Morphy proposes to develop the resources of Labrador and advises Squires against an outright sale of the territory for anything less than \$173 million. Provincial Archives of Newfoundland and Labrador, GN/8/2, 52/4/1, File 962.

⁷³ Provincial Archives of Newfoundland and Labrador, Records of the Alderdice Administration reveal that several Canadian Conservative Members of Parliament sent a petition to Canadian Prime Minister R.B. Bennett resolving that in the interests of rounding out Confederation that negotiations between Newfoundland and Canada for the sale of Labrador resume.

⁷⁴ Joseph de Champlain functioned as a promoter or, in his own words, a "broker" between Canada and Newfoundland in negotiations for the sale or lease of Labrador. Apparently de Champlain held the power of attorney of the various concession holders in Labrador so that transactions pertaining to Labrador could be negotiated free of encumbrances. Presumably, de Champlain and the concession holders would receive a portion of the proceeds from the sale of Labrador. Joseph de Champlain's involvement in Labrador began in 1925 and continued until 1933. See Provincial Archives of Newfoundland and Labrador, Colonial Secretary Special Files GN/25/573. Sydney Noel, in Politics In Newfoundland, suggests that one reason for the breakdown of Canada-Newfoundland negotiations for the sale of Labrador was the Canadian government's mistrust of de Champlain, p 205, op. cit.

⁷⁵ F.H. Borden of Massachusetts, U.S.A. on July 23, 1932 wrote Prime Minister Alderdice of a rumour that a Zionist organization had been interested in the southern part of Labrador but had since focused their interests on Palestine; Records of the Alderdice Administration, Borden to Alderdice, July 23, 1932.

(continued...)

Sutphen had, in turn, involved such prominent members of the British Conservative party as the Right Honourable L.S. Amory in a syndicate to develop Labrador.

The most specific proposals for the sale of Labrador were received from the Sutphen interests. In July 7, 1932 correspondence, Sutphen indicated his interest in discussing "the terms of a license to develop the resources of Labrador and an option to acquire sovereignty".⁷⁷ Sutphen's outline for discussion with Alderdice regarding the disposal of Labrador suggests that the initial involvement of the Sutphen interests would be as a licensee of the government of Newfoundland. As a licensee, a Sutphen-organized syndicate would undertake the development of Labrador's natural resources for which the Newfoundland government would receive in rentals, royalties, and export duties an amount sufficient to pay the interest on the public debt. As regards to Newfoundland's release of sovereignty over Labrador, it seems that the plan was for the Sutphen syndicate to function as a promoter. The proposal was that should sovereignty over Labrador be transferred to the government of the United Kingdom or to one of the Dominions, Newfoundland would receive sufficient cash to retire its outstanding loans. As the bonded indebtedness was approximately \$97 million, the Newfoundland government, in any transfer of sovereignty, would receive this amount, and presumably the Sutphen syndicate, in the event of a sale of Labrador, would retain the balance of the sale proceeds. In effect, Sutphen was a land speculator on a grand scale. In return for an option on the sovereignty of Labrador the syndicate would, in royalties and licenses etc. provide the Newfoundland government with sufficient funds to

⁷⁶(...continued)

⁷⁶ Provincial Archives of Newfoundland and Labrador, Alderdice Papers, Sutphen to Alderdice, July 7, 1932.

⁷⁷ Confidential memorandum, Sutphen to Alderdice, Aug 18, 1932.

meet its interest charges until a sale was effected. Clause 6 of an August 18, 1932 confidential memorandum, containing 16 points, further detailed the proposed relationship between the licensee company and the Newfoundland government.

If and when the Licensee Company wishes to exercise the Option on the Sovereignty, a years notice is to be given to the government of Newfoundland; and if the government wishes to retain the Sovereignty, it can have such right by so advising the Licensee Company and agreeing to accept an equitable share, to be fixed by mutual agreement upon the expiration of the years notice, of the gross income of the Licensee Company from development of the resources of the territory, in lieu of further payment by that Company to cover service on the bonded indebtedness.⁷⁸

The discontinuation of payments large enough to cover the interest charges on the public debt, should the Newfoundland government decide to retain Labrador, suggests that the syndicate was primarily interested in profits from an outright sale of Labrador to a purchaser such as the Canadian government, rather than in profits from the development of Labrador's resources. When Canadian interest in Labrador waned, the real estate market for the territory disappeared and, as a result, the Sutphen proposition to develop Labrador's resources fell through.

The height of Canadian interest in the purchase of Labrador occurred between 1924 and 1926. Negotiations between Newfoundland and Canada for the sale of Labrador prior to the 1927 JCPC determination of the boundary were carried out in the context of a political, out-of-court resolution of the boundary dispute. After 1927, with the exception of a Conservative Party petition for Canada's acquisition of Labrador, there is no evidence of official Canadian overtures to Newfoundland for the purchase of Labrador. Although there was much correspondence between Newfoundland and de Champlain on the matter of the sale of Labrador,⁷⁹ Alderdice at the 1932 Imperial

⁷⁸ Clause 6, Confidential memorandum, Sutphen to Alderdice, Aug. 18, 1932.

⁷⁹ Provincial Archives of Newfoundland and Labrador, GN/25, 573.

Conference in Ottawa found no support among the Canadian delegation for the transfer of Labrador to Canada.⁸⁰

This was not Alderdice's only consideration at the 1932 Imperial Conference. If the sale of Labrador was no longer a possible strategy to alleviate Newfoundland's financial situation, the Imperial Conference provided opportunities to lobby foreign governments for tariffs and other import policies that would stimulate Newfoundland's export trade. Among Alderdice's concerns were the tariffs and import duties, which affected the sale of Newfoundland iron ore. As Dominion Iron and Steel was a large employer in Conception Bay, the most populated area of Newfoundland, the continued operation of the mines was critical to the government's attempts to reduce expenditures and to avoid additional civil unrest. The Alderdice government had come to power on the heels of the 1932 riots in St. John's, and any curtailment of operations at Wabana could substantially add to the swelling ranks of the unemployed and government expenditures on relief. The following letter to Newton-Moore, the president of the DIS board, clearly indicates Alderdice's bald assessment of DIS's importance to Newfoundland's political and economic well-being.

A prosperous Bell Island means a great deal to the Newfoundland government. To have the miners working full time at remunerative wages would relieve our exchequer of the cost of feeding them. In addition, when men are working continuously, their minds are occupied and there is less opportunity for the creation of a spirit of unrest...⁸¹

⁸⁰ From the 1932 Imperial Conference held at Ottawa, Alderdice telegraphed Winter, the Acting Prime Minister, the following: "Have no reason to believe Prime Minister Canada has serious intention purchasing Labrador", Alderdice to Winter, Aug. 7; 1932, Provincial Archives of Newfoundland and Labrador, records of the Alderdice Administration.

⁸¹ Alderdice to Newton-Moore, March 2, 1933; Provincial Archives of Newfoundland and Labrador, Colonial Secretary Special Files.

Given Alderdice's attitude about the ramifications of layoffs at the mines, it was perhaps not surprising that in an attempt to avert an impending reduction in Wabana operations, Alderdice overtly lobbied the UK delegation at the Imperial Conference for increased imports by Britain of Bell Island ore.

The nature of the interaction between the Alderdice government and DIS prior to and during the Imperial Conference is an indicator of the degree to which the political fate of the Alderdice government was perceived to coincide with the profitable operation of DIS. Upon Alderdice's suggestion,⁸² arrangements were made to meet DIS officials en route to the Imperial Conference.⁸³ Alderdice's intention at the Imperial Conference was "to offer at Ottawa inducements whereby orders for ore may be obtained from British steelmasters".⁸⁴ To facilitate this, Newton-Moore, the president of the DIS board of directors, was in Ottawa during the conference⁸⁵ to "assist" Alderdice with respect to "the enlargement of markets for our ore" in Britain.⁸⁶

Alderdice conferred with DIS officials on the train to Montreal as arranged. After meeting with Kelly of DIS, Alderdice was persuaded that layoffs at Wabana were unavoidable and, furthermore, was convinced that the maintenance of operations at Wabana was a courtesy extended by DIS to the government to alleviate the political

⁸² Alderdice to Kelly (of Dominion Steelworks, Nova Scotia), July 3, 1932.

⁸³ Kelly to Alderdice, July 19, 1932, Provincial Archives of Newfoundland and Labrador, Records of the Alderdice Administration.

⁸⁴ Alderdice to Kelly, July 3, 1932. Provincial Archives of Newfoundland and Labrador, Records of the Alderdice Administration.

⁸⁵ Ibid., Kelly to Alderdice, July 3, 1932.

⁸⁶ Newton-Moore to Alderdice, July 11, 1932.

situation!

After Conference Kelly am convinced company confronted the serious situation. Sooner Company gets down to lower production cost greater the likelihood continued operations. This entails cut going into effect August 1. If we can induce Britain to take ore, working hours will be materially increased. Confident BESCO anxious to cooperate solution labour problem and that maintenance present operations are most entirely for purpose of relieving the situation.⁸⁷

Policy Outcomes: A Royal Commission

In the election campaign of 1932, Alderdice had advocated the appointment of a committee to investigate the administration of Newfoundland by a Commission of Government. When a similar proposal was made by the British and Canadian governments as a condition of a \$1,250,000 loan in December of the same year, the Alderdice government complied. Since 1930, the Newfoundland government had appointed inquiries, advisors, and officials to appease its creditors. The commission appointed on the British and Canadian governments' initiative of December 1932 was, however, a full-fledged British Royal Commission, on which Newfoundland's real representation was doubtful. In February, the British parliament appointed Lord Amulree (a Labour peer) as Chairman, Charles McGrath (a Canadian banker), and Sir William Stavert (a Canadian banker). At the time of his appointment, Stavert was an advisor to the government of Newfoundland. He had been appointed to replace Sir Percy Thompson, but as S.J.R. Noel reveals, Stavert's loyalties were more with the Bank of

⁸⁷ Alderdice to Winter (Acting Prime Minister), July 24, 1932, Provincial Archives of Newfoundland and Labrador, Alderdice Papers.

Montreal and the Canadian government⁸⁸ than with the Newfoundland government, his nominator to the royal commission. The Amulree Commission was different for another reason: upon its recommendation, the legislature was dismantled and Newfoundland's constitutional status as a Dominion terminated.

The Amulree Commission held over 100 hearings, in camera, and heard from 260 witnesses in Newfoundland, Ottawa, Montreal, and Nova Scotia.⁸⁹ Business interests in Newfoundland and Canada made representations. One of the representations to the commission was made by Dominion Iron and Steel. While, in general, it is not clear how invitations to appear before the commission were obtained, there is no doubt that DIS received its entree through Prime Minister Alderdice. Four days before the scheduled arrival of the Royal Commission in St. John's, Alderdice communicated the following to Newton-Moore, chairman of the DIS board:

It has occurred to me that the time might be opportune to take up with the commission the question of the quota on our iron ore...I feel a strong point could be made of this proposal, in fact sufficiently strong to induce them to incorporate a recommendation in their report for the serious consideration of the United Kingdom. It also occurs to me that it would be a considerable benefit if we had, for presentation to the commission, a memorandum or brief giving a concise and succinct description of the activities of your organization in this country and more particularly the history of the struggle to dispose of a quantity of Wabana ore in the United Kingdom during recent years.⁹⁰

Upon Alderdice's request, Newton-Moore forwarded a short brief, the basic

⁸⁸ S.J.R. Noel, Politics In Newfoundland, op. cit., p. 208. On McGrath's loyalties see p. 212 *ibid*. Noel reveals that Stavert as financial advisor was, without Alderdice's knowledge, in communication with Dodds, of the Bank of Montreal, and also with Canadian Prime Minister R.B. Bennett.

⁸⁹ Hearings commenced in St. John's on March 20 and continued until April 14, 1933. Between April 30 and May 30, hearings were held in Ottawa, Montreal, and Nova Scotia. Among those appearing before the Commission in Canada were the General Manager of the Bank of Montreal, and directors of the Bank of Nova Scotia, 1933 Royal Commission Report, p. 1-3.

⁹⁰ Provincial Archives of Newfoundland and Labrador, Colonial Secretary Special Files, Alderdice to Newton-Moore, March 9, 1933.

recommendation of which was a U.K. quota for Newfoundland ore.⁹¹ Newton-Moore later suggested that

direct verbal evidence on Wabana iron ore mines and their operation may be desired by the commission in which case Mr. C. B. Archibald, Resident Manager at Wabana, will be prepared to give evidence.⁹²

Archibald received an invitation to appear⁹³ and Alderdice suggested that Archibald, before appearing, should consult with Alderdice.⁹⁴ The nature of Archibald's meeting with Alderdice, and of Archibald's testimony to the commission, are not known, but it is evident that Newton-Moore was pleased with the outcome of the Royal Commission's hearings - the recommendation that the constitution of Newfoundland be suspended. To Alderdice he wrote

I am glad to see from the press cables that the second reading of the financial resolutions in regard to the suspension of the Newfoundland constitution has been approved by the House of Commons. I do hope that it will be found possible for you to be the leading representative from Newfoundland and I consider Mr. Penson would make an excellent representative on the English government side.⁹⁵

In reply Alderdice pointed out that government by a British commission might enhance the market for DIS ore in the United Kingdom.

It is now much more in the interest of the United Kingdom government to provide employment for Conception Bay by placing orders for your ore that I feel the earliest reopening of the mines is fairly close at hand.⁹⁶

⁹¹ Ibid, Newton-Moore to Alderdice, March 18, 1933.

⁹² Ibid, Newton-Moore to Alderdice, March 21, 1933.

⁹³ Ibid., Proudfoot (Chief Accountant Wabana) to Alderdice, March 23, 1933.

⁹⁴ Ibid., Alderdice to Proudfoot, in which Alderdice made the following request: "I should like you to intimate to Mr. Archibald that before he attends the meeting, he arranges to have a meeting with me", March 30, 1933.

⁹⁵ Ibid., Newton-Moore to Alderdice, Dec. 19, 1933.

⁹⁶ Alderdice to Newton-Moore, Dec 26, 1933.

By all available accounts, DIS was not alone in its concurrence with the Amulree Commission's recommendations. To the House of Assembly, Alderdice confessed his own reaction to the Commission's report:

I was sitting with my colleagues in the Executive Council chamber when the report was released. I believe the generosity of the terms nearly took my breath away. The proposals of the United Kingdom government seemed to me almost too good to be true.⁹⁷

Alderdice went on to elaborate the reasons for this concurrence with the report's recommendations that responsible government be relinquished.

If we accept the proposals of the House Government, not one man in five hundred will know the difference except that he will see prosperity restored to the country. He will see capital coming to this country and he will see Bell Island moving more ore...capital will come in because it will feel assured that it is in safe keeping and will not be gambled away, because, let me tell you, nothing is more timid than capital, so that when capital the world over knows that the British Government is guaranteeing the principal and interest of our debt they are taking no chances.⁹⁸

Conclusion: Institutional Outcomes

The major institutional outcome of the financial crisis of the 1930's was regime change. The suspension of democracy in 1934 did not directly follow, however, from either Newfoundland's economic dependency or what was called the 'reckless waste and extravagance' of Newfoundland governments. Economic dependency was undoubtedly at

⁹⁷ House of Assembly Proceedings, Nov. 28, 1933. Quoted in Peter Neary (ed), The Political Economy of Newfoundland, p 45.

⁹⁸ Ibid.

the root of Newfoundland's problems in the 1930's, but in itself does not account for the change of regime in 1934 as dependency had characterized Newfoundland for decades if not centuries.

Economic dependency underlay political instability in the sense that disruptions of markets for staples, fluctuations of currencies, and the collapse of the bond market functioned together to create a severe crisis of public finance, which was resolved by regime change. Though regime change was perceived as a solution to the financial crisis of the government of Newfoundland, the financial crisis itself was in no real sense a cause of the collapse of democracy.

Nor does an argument about the corruption of Newfoundland politics and the incompetence of Newfoundland politicians sustain an explanation of regime change. It was not corrupt politicians who had emptied the treasury in the 1930's to the point where revenues were insufficient to meet debt charges and provide for the basic public services. Revenues were dependent upon import consumption and import sales were tied to incomes, which fell when markets for staples collapsed. Though political corruption was not the cause of the collapse of democracy, it did provide an ideological justification for the change of regime, one which could be packaged in a Royal Commission report and sold to the fishermen, the unemployed, and the small industrial working class as an explanation of their plight.

Democracy fell in Newfoundland because elected and non-elected policy actors gave a greater priority in budgetary allocations to debt charges than to social policy, at a time when revenues were contracting and at a time when the brunt of the international depression was personally borne by working people. The financial situation

of the government of Newfoundland by 1933 was so precarious that debt charges could continue to be met only if the public services of the country were virtually eliminated. For the Newfoundland electorate, this was an intolerable situation, as the 1932 riot and the general election of 1932 revealed. If the public services were to be maintained, and domestic demands for budgetary allocations met, the percentage of expenditures given over to debt would have to be drastically reduced. In other words, Newfoundland would have to default or partially default on its debt charges. Had the debt been a less important consideration for policy-makers than the economic and social situation of the people, Newfoundland would have defaulted, retained democratic institutions, and implemented a policy of social reform.⁹⁹ The only way to maintain the high level of spending on debt and the public services of the country was through foreign aid. The only aid forthcoming was from Britain and it had attached as a condition the dismantling of democratic institutions and the revocation of political sovereignty. The alternatives open to the Newfoundland government essentially were default, democracy, and social reform, or solvency, dictatorship, and administrative reform. The choice was the latter. Why?

The simple answer is that the latter option was preferred by policy actors, supported by the dominant economic interests in Newfoundland society, and unopposed by the petit bourgeoisie and the working class. Questions of public finance, solvency, and public administration were foremost for policy actors because these were the major concerns of the creditors of the government of Newfoundland. The implication here is that Newfoundland's creditors were capable of influencing Newfoundland politicians and

⁹⁹ This phenomenon is reminiscent of the role of the IMF in third world countries undergoing a debt crisis. See for example Cheryl Potter, The Debt Trap - The IMF and The Third World, (Monthly Review Press, 1974).

bureaucrats to act in the interest of the banks and the bondholders. The evidence clearly reveals that the creditors of the Newfoundland government had a great influence on elected policy actors and did, in fact, number among Newfoundland's policy actors after December of 1931. The government's dependence on the Canadian banks for temporary loans resulted in major readjustments in the sites of policy-making, the participants in policy-making, and the content of public policy.

The Prime Minister and Cabinet were less directly involved in business-government interactions than had been the case in the 1920's. Policy-making initiative was transferred to a number of senior policy actors who had been recruited from the British Treasury or the Canadian business community. In the 1920's, the Prime Minister and Cabinet had been directly involved in the negotiation of the major contracts and agreements which the Newfoundland government entered. In the 1930's these roles were performed by Sir Percy Thompson and the new Deputy Minister of Finance, Penson. Also involved was Penson's successor, Trentham, and such Canadian businessmen as Robert Magor and William Stavert, who had been integrated into the policy apparatus as "special advisors" to the Newfoundland government.

Newfoundland's reliance on foreign banks, coupled with the decline of its export trade in salt cod during the international depression, severely diminished whatever capacity the Newfoundland government had to direct Newfoundland society. The economic resources of the state were so limited that by 1931 the institutional framework of politics had become little more than a rubber stamp protecting the interests of Newfoundland's creditors. What were once powers within the executive and legislative spheres of government, such as the determination of policy priorities and policy formulation were in effect exercised by a syndicate of Canadian banks. These banks, in

exchange for a loan which would stave off default, stipulated the manner in which the revenue of the Newfoundland government were to be allocated, and how its natural resources were to be managed.¹⁰⁰ The Newfoundland government, for example, was ordered to implement the "recommendations" of Magor and Thompson, and to borrow internally.¹⁰¹ The scope of the banks' conditions was such that policy outputs in 1932-1933 were largely determined by the Canadian banks' conditions of 1931.

Indirectly, resource companies were among the beneficiaries of the banks' policy prescriptions. Efforts to raise an internal loan, as demanded under the 1931 loan agreement resulted in a monopoly in Newfoundland for Imperial Oil. As the banks in 1931 flatly refused to grant further credit, Imperial Oil became a major creditor of the government of Newfoundland. The Anglo Newfoundland Development Company which operated a pulp and paper mill and which were, with American Smelting and Refining Company (ASARCO), joint owner of the Buchans Mining Company also numbered among the corporate creditors. During the financial crises of the 1930's, other companies came to the "assistance" of the Newfoundland government in more direct ways. Upon Thompson's recommendation, International Pulp and Paper were to pay the salary of two ministers of the crown to facilitate expenditure reductions. The interests of Dominion Iron and Steel, an important mover and shaker in the 1920's, also seemed to coincide with those of the Alderdice government. Prime Minister Alderdice, in effect, fronted for this company at the Imperial Conference in 1932 in lobbying for increased U.K. imports of ore mined by DIS. He also ensured that the company was included among the witnesses to the Amulree Commission. Alderdice held the opinion that U.K. imports

¹⁰⁰ Loan Agreement, Dec. 1931.

¹⁰¹ Ibid.

of ore mined in Newfoundland by DIS would be greater if Newfoundland was administered by Britain.

Though changes in the policy process between 1930 and 1933 go some way in explaining regime change in Newfoundland and Labrador, the influence of the creditors on policy-making offers only a partial explanation of the collapse of democracy. Satisfyingly simple though such an explanation is, it is incomplete because it ignores the broader domestic political process, particularly the tenor of indigenous class relations. Specifically this explanation does not answer why a policy of retrenchment for the purposes of debt charges payment was politically feasible in a liberal democratic regime undergoing severe economic and social strains.

The simple answer to this question is that the policy was unopposed by local capital and subordinate classes. But why? One answer, which has been suggested in this chapter, is that the interests of mercantile and industrial capital in Newfoundland were not very much different from those of the Canadian banks and the creditors of the Newfoundland government. By 1933 some resource companies operating in Newfoundland and some local mercantile firms numbered among the creditors of the government of Newfoundland. This situation developed as a result of the condition of the Canadian banks' loan agreement of December 1931 which stated that the government must raise an internal loan. Furthermore, companies such as DIS with export markets in the United Kingdom believed that the release of Newfoundland's sovereignty to Britain would result in an expansion of the U.K. market for their resource exports.

Though self-interest motivated the support of a number of companies of the policy of retrenchment, the payment of debt charges, and the transfer of sovereignty to

Britain, the reasons for tacit support of smaller Newfoundland companies for these policies were more subtle. Not all companies' interests were as closely tied with the maintenance of the policy of retrenchment and the payment of debt charges. Smaller Newfoundland companies feared that default by the government would further disrupt the business climate. This fear was to some extent nurtured by government officials, as Sir Percy Thompson's representations to the Board of Trade suggest. Small Newfoundland businessmen were convinced that should the government default, credit for Newfoundland companies would dry up. The only real opposition to the lengths which the government took to raise revenues (for example, the monopoly to Imperial Oil) came from the Board of Trade and that criticism was quite quickly dispelled by Thompson. Great Eastern Oil Co. Ltd. also voiced its concerns, but its opposition faded when the government agreed to guarantee Great Eastern's profit levels. Newfoundland business was likely convinced well before the publication of the Amulree report that default was unthinkable. The report was perceived as an objective and unbiased restatement and confirmation of the 'wisdom' of the business community. Alderdice, who was indisputably a representative of local merchant capital, publicly articulated this view in the Newfoundland House of Assembly.

The unity of opinion among the state, merchant, financial, and industrial elements of the bourgeoisie on solutions to Newfoundland's financial problems was not the sole factor contributing to the triumph of solvency over democracy. Though business in Newfoundland in the post-war period dominated the political process, it did not do so without challenge from other classes, particularly fishermen. However, through an alliance with the political vehicle of fishermen, the Union Party, essentially bourgeois parties such as Liberal-Reform succeeded in maintaining the electoral hegemony of industrial capital in the 1920's. Partly as a result of this coalition, the political force

of the fishermen was essentially spent by 1930.

Alderdice's United Newfoundland Party, which decimated Liberal-Reform at the polls in 1932, would perhaps more appropriately have been labelled the United Bourgeois Party. With no organized opposition from the fishermen or the small industrial working class, the old bogey of political corruption could be strutted out as an ideological justification for regime change. Further bolstering the success of the fallacious argument that the resolution of the financial crisis demanded a change of regime was the ability of politicians to play upon fears of 'dire consequences' should Newfoundland default, and the adept fashion in which narrow nationalism was invoked in the claim that it would be 'morally' reprehensible for Newfoundland as a member of the British Commonwealth to fail to honour its debt. Such rhetoric pervaded public discourse without even a sustained logical criticism, if not a principled political rebuttal.

Perhaps the most important reason why the ruling class advocated the suspension of democracy to alleviate the financial crisis was that high debt payment could not be maintained without risk of civil unrest. That the political elite feared the possible consequences of political protest was indicated in the correspondence between Imperial Oil and the Newfoundland government and in Alderdice's confidences to Newton-Moore, President of DIS. The riots of the spring of 1932 indicated that these fears were not unfounded.

It was neither the "Voice of the People" nor the "Voice of God"¹⁰² which ended

¹⁰² *Evening Telegram*, April 5, 1932. There was no election in Newfoundland on the question of the suspension of Newfoundland's constitutional status even though Alderdice had stated in his 1932 electoral platform that any constitutional change should be sanctioned by the electorate.

democracy in Newfoundland in the 1930's. The Newfoundland Act of 1934 formally marked the end of democratic politics, but in reality it legitimized the breakdown of democracy which had begun by 1930. Democracy, in the sense of the responsibility of elected representatives to their electorates, and in the sense of policy-making by those popularly elected to do so, ended when elected politicians responded to the demands of the bondholders and when officials, appointed on the recommendation of the bondholders, began to decide on policy priorities. By 1934 the electoral and legislative processes had become tiresome remnants of a regime that no longer existed. The collapse of democracy had not been precipitated by the 1932 riot. If anything, the political turmoil of the spring of 1932 was a reminder to those who implemented the policy of 'retrenchment' that the legislature could provide an arena for opposition to public service cutbacks and a focal point for widespread economic grievances. The only direct outcome of the 1932 riot was the defeat of the Squires government and the virtual decimation of the Liberal-Reform Party in the last general election of the Dominion of Newfoundland. Opposed only by the two Liberal-Reform members elected, the new legislature proceeded to invoke the recommendations of the Amulree Report and requested that the British parliament suspend the constitution of 1855 and place Newfoundland's government under an appointed 'commission'.

The other major reason why Newfoundland politicians accepted institutional change was that this was the condition of financial aid proposed by the Amulree Royal Commission and accepted by the British government. The Newfoundland legislature of 1932 had in effect been presented with a choice: democracy or solvency. For Alderdice's business government the choice was an easy one. On December 2, 1933 the Newfoundland legislature closed; the decision had been solvency.

The full responsibility for this choice of solvency over democracy does not lie with the legislature elected in 1932. Nor can the Canadian banks nor the British and Canadian governments be held responsible, though as creditors the outcome was clearly in their interests. Any number of times between 1930 and 1934, decision-makers might have chosen democracy, but this would have meant withstanding pressure from the bondholders and acting against the advice of government "advisors". Neither Prime Ministers Squires nor Alderdice was able or willing to do so. The Squires government could have rejected the Canadian bank conditions of December 1931, on the grounds that they severely diminished the capacity of the executive in Newfoundland to govern. The Alderdice government could have rejected the recommendation of the Amulree Commission on the grounds that the price for solvency was too high. While Alderdice might have been correct in his assessment that "not one man in five hundred" would notice the absence of democratic institutions, the argument might also have been made that the quality of life of "not one man in five hundred" would have been diminished had the politicians chosen democracy. The repayment of the debt continued to be the policy priority of the Commission of Government which was installed in February of 1934. Social services remained at an abysmal level and the economy was not revitalized until Newfoundland's geographic location became strategic to the World War II effort. If anything, the material well-being of the unemployed and the working class might have been enhanced had Newfoundland defaulted. Then, at least, the revenues allocated to debt charges could have been used to maintain the public services of the Dominion and cushion the effects of the international depression.

Another justification of the Amulree Commission's recommendation that democracy be suspended was that the restoration of political morality demanded that Newfoundland have a 'rest from politics'. While petty thievery in the Newfoundland bureaucracy may

have been more strictly controlled under the authoritarian Commission of Government regime, there was no 'rest from politics'. Government-business interaction continued under the new regime. In fact, one analysis of the regime change was that it unquestionably installed business within the administrative apparatus of the state. In the British House of Commons debate on the bill to suspend the Newfoundland constitution Clement Attlee noted:

What is going to happen? We are going to take over, put the bailiffs in, and run the business of the island for a certain period of years...There are no provisions in this Bill for dealing with the fundamental viciousness of the economic system in Newfoundland...I suggest that the clearest moral that you can draw from the Report of the Commission is the utter failure of competitive capitalism...¹⁰³

While capitalism had failed all over the world during the international depression, elsewhere in North America at least, this failure was not accompanied by regime change. The moral of the Newfoundland case, if there is one, is that business is not a particularly vigilant guardian of liberal democracy. A liberal democratic state is valued by business as long as business interests are served by the state. When the interests of business are collectively threatened and when the resources of various segments of the business community can be combined and rallied, an attempt may be made to penetrate and redirect the state. In the small unitary dominion of Newfoundland, institutional change was not a difficult task for a united financial, resource, and mercantile bourgeoisie.

¹⁰³ United Kingdom House of Commons Debates, Dec. 12, 1933, pp. 224-31. Reprinted in P. Neary (ed.) The Political Economy of Newfoundland, op. cit., pp. 56-59.

CHAPTER 7

Rule By British Commission: Resource Policy-Making, 1934-46

Of the limitations of Commission of Government, Innis notes:

"Responsible Government involved representation throughout the island in spite of the absence of municipal government, but commission government tends to concentrate on St. John's and to increase inflexibility. Democracy...has been replaced by a Commission based on the efficient English civil service with changing personnel and necessarily lacking in a thorough understanding of Newfoundland problems. In spite of attempts by the commission to secure an adequate expression of views on legislation it is difficult for a people with traditions of responsible government to adapt themselves to these new methods."

On the suspension of democracy in Newfoundland, Innis notes:

"The writer confesses a strong bias on this matter and he cannot refrain from referring to a profound sense of shock when he saw the "Colonial Building" (House of Assembly) filled with office desks. ... How could a Labour peer as chairman of the Commission sanction the recommendations of the report? It will not do to answer the question on the grounds of the peculiarities of Newfoundland, because it is even more disturbing to find the number of so called liberals - i.e. in the very broad sense and including so called radicals and so called conservatives - who do."

Harold Innis, "Basic Problems of Government in Newfoundland", Canadian Journal of Economics and Political Science, 3, 1, 1937, p. 84.

Introduction

The purpose of this chapter is to examine policy-making under the colonial regime of Commission of Government which was Newfoundland's government from February 16, 1934 to March 31, 1949. While the previous chapter examined the reasons for the regime change of 1934, this chapter explores the implications of that change in institutions for the politics of underdevelopment. Specifically, the relationships between the Commission of Government and Canadian mining companies interested in the exploration and development of the resource wealth of Labrador are analyzed, and the mineral policy outputs developed from the interactions of the Commission of Government with Canadian mining magnates are examined.

In a very real sense the institutional transformation of 1934 was a retrogressive step in Newfoundland's political development but one which was not surprising because of the staple dependence of the Newfoundland economy and the political dependency which accompanied a spiralling foreign debt. The installation of the Commission of Government regime was part of Newfoundland's underdevelopment because the regime formally ensconced non-nationals as policy-makers and stripped Newfoundland of most vestiges of political democracy. The effect of the regime change was to exacerbate external dependency and the policy pursued did little to minimize the internal dualism of Newfoundland society. This chapter attempts to characterize the regime, not only to describe the institutions established in 1934 but also to elucidate how those institutions related to Newfoundland society and the British Dominions Office and foreign capital in the mining sector.

Of particular importance is the role of the state vis a vis local and foreign

capitalists and indigenous subordinate classes. Some insights into these questions may be gleaned from an examination of the structure of institutions established, their relationship to the Dominions Office, to the Newfoundland Board of Trade and to Canadian mining magnates seeking to explore and exploit the resource wealth of Labrador. Also of interest is the nature of popular resistance to the regime and the Commission of Government's perceptions of its role and of the dynamics of Newfoundland society.

The Institutional Parameters of the Policy Process

The political system which was established in Newfoundland by the Newfoundland Act of 1934 has been described as a dictatorship of the bureaucracy.¹ The Letters Patent of 1934 provided for six government departments in Newfoundland: Finance, Natural Resources, Public Utilities, Home Affairs, Education, and Justice. Each of these departments was administered by an appointed commissioner. All of the commissioners were appointed by the British government. The more important departments of Finance, Public Utilities and Natural Resources were administered by English commissioners whereas Newfoundlanders were appointed to the departments of Home Affairs, Justice, and Education. These six commissioners sat as a committee and performed functions analogous to those performed by the Cabinet under the old democratic regime. Instead of being accountable, however, to a legislature in Newfoundland, the Commission of

¹ Thomas Lodge, Dictatorship in Newfoundland, (London: Cassell and Co., 1939).

Government was responsible to the Dominions Office in Great Britain, and through the British Secretary of State for Dominion Affairs, to the Parliament of the United Kingdom, in which Newfoundland had no representative. As Newfoundland affairs were not paramount concerns of British MP's, in reality the Commission of Government was accountable to the Undersecretary of State for Dominion Affairs and to senior bureaucrats in the Dominions Office.

Relationship of the Commission of Government to Newfoundland Society

1) The Board of Trade

The nature of the Commission of Government regime is revealed in the pattern of relations of the government with various interests and groups in Newfoundland society. The most important institutional structure representing the local elite was the Board of Trade. The Board of Trade's membership was broadly representative of the business community and the Board had a close relationship with the Commission of Government. The Board of Trade was consulted on specific legislation and general matters of policy by the Commission of Government to add legitimacy to the government's legislative program. In the absence of a legislature and political parties, the Board was viewed by the Commission as representative of the "better classes" and as being capable of providing some indication of local sentiment on policy issues. For example, Board of Trade meeting reports indicate that the Commission of Government forwarded copies of such proposed legislation as the Logging Act, the Camp Sanitation Act² and companies

² , *Evening Telegram*, 13/8/38

legislation.³ Representatives of the Board also met with the Commission of Government to discuss such general problems as unemployment,⁴ Anglo-American trade,⁵ Crown lands⁶ and a proposed government radio station.⁷ The Board sometimes made very specific recommendations, for example that the Commission of Government spend \$100,000 on drilling potential mines.⁸

The Board of Trade was cognizant of the changes in its role as a result of the change in Newfoundland's form of government. At the 1939 Annual Meeting of the Board of Trade, the broadened scope of the Board and of its Council was noted. As Mr. Howard of the Board of Trade stated, "the Board of Trade today enjoys a far more important position in the affairs of Newfoundland than it has ever done in the past."⁹ These views were echoed by Mr. C.J. Fox, the new president, who said that "due to the system of government which we have in this country, a greater responsibility rests on the shoulders of our officers".¹⁰ The expanded political role of the Board of Trade was not experienced without causing some tensions for the internal functioning of the Board itself. On this point, Mr. Milling, outgoing president, commented:

The Board and its elected council, has, more than once been placed in a somewhat invidious position by giving a very definite expression of its

³ *Daily News*, 14/5/38.

⁴ *Evening Telegram*, 13/8/38.

⁵ *Daily News*, 5/3/38.

⁶ *Daily News*, 22/10/38.

⁷ *Daily News*, 7/12/38.

⁸ *Evening Telegram*, 31/1/39.

⁹ *Evening Telegram*, 31/1/39.

¹⁰ *Evening Telegram*, *ibid.*

relation to Government measures respecting these matters and I feel that a stage has been reached when the Board's status and the positions of the Officers and Council of the Board shall be clarified... a body like the Board of Trade cannot afford to allow the respective views and opinions of its members to divide it and it is therefore most important that the Board should, in all these matters, preserve a strictly impersonal and semi-judicial attitude.¹¹

Though the Board of Trade enjoyed a special status with the Commission of Government, it was sometimes scathingly critical of both the form of government and of specific policy decisions. The relationship between the Board of Trade and the Commission of Government was sometimes a very uneasy one.

The Board of Trade's public opposition to the Commission is most clearly revealed in its commentary on the so-called "Gander Agreement" under which Bowater-Newfoundland Pulp & Paper Mills Ltd. would gain cutting and export rights to 12 million cords of pulpwood for 99 years without any commitment to construct a paper mill. There was a public outcry against the agreement and the most articulate opposition emanated from the Board of Trade. Such members of the Board as Chesley Crosbie, Eric Bowring, P.J. Lewis, H.G.R. Mews, Mack Baird, R. Squires, R.B. Job, L.C. Outerbridge and L.R. Curtis publicly spoke against the ratification of the agreement. It was the opinion of one member of the Board that

Powerful financial interests in London appear to have had sufficient influence with the Bank of England and the Dominions Office to force this deal through in spite of strong Newfoundland opposition - the manner in which it was arranged and financed was against all the principles of democratic government.¹²

¹¹ *Evening Telegram*, *ibid.*

¹² Address of Mr. William White to the Annual Meeting, 1938, *Evening Telegram*, 31/1/39.

Not only was the Board of Trade critical of specific government-resource business agreements but it was also vocal in its opposition to the government's general financial policy and *modus operandi*. For example, the Board was critical of the weak communication by the government of its policy intentions. With no Prime Minister or Speech from the Throne, and only irregular and sparse communiques and statements from some individual Commissioners during the year, the business community complained that a lack of information did little to improve the business climate. The Board was also critical of the failure of the Dominions Office to implement Keynesian economic policy to deal with the depression in Newfoundland. Instead of implementing a program of government spending, as one member of the Board colourfully put it, "The people of Newfoundland have been expected to lift themselves up by their bootstraps, a rather difficult proposition when it is known that one quarter of the population is practically bootless."¹³ The government's management of the public debt was also viewed somewhat negatively. It was pointed out that the national debt was no larger than that carried by many medium-sized Canadian and American cities and that "if the country is to be managed by a contraction of public funds somewhat in the manner of a trustee managing an estate in insolvency then we are doomed to failure."¹⁴

While on some matters the Board spoke out in opposition to the Commission of Government, the tenor of its opposition to the Gander Deal, for example, was more the exception than the rule. In general, critical comment sometimes surfaced at Annual Meetings of the Board, but for the most part the Council of the Board throughout the year maintained a close consultative, and largely non-public, relationship with the

¹³ *Evening Telegram*, *ibid*.

¹⁴ *Evening Telegram*, *ibid*.

Commission of Government regarding the details of specific legislation and more general matters of policy.

There were of course various other facets to the Commission of Government's relationship to Newfoundland society than that indicated by its relations with the Board of Trade. The government, throughout its tenure, was concerned that criticism of its actions should not reach the Dominions Office, or most particularly, embarrass the Undersecretary of State for Dominion Affairs on the floor of the British House of Commons. To this end, the Commission monitored public opinion in the press and took some steps to increase its information about public opinion. As there was no legislature nor political parties, and as newspapers had a narrow circulation outside the major towns, the Commission to some extent placed its confidence in police, Ranger, and magistrate reports, and in reports of special inquiries or of senior public servants. Such sources of information are revealing of the preoccupations of the Commissioners about public unrest and of their perceptions of Newfoundland society.

2) The Press

The Commission of Government filed clippings from various Newfoundland newspapers. These indicate both the Commission of Government's concern for public opinion and the public's perceptions of the performance of the Commission. Several themes are evident in these press reports. Some reports discussed and criticized specific government programs and policies while others commented on the form of

government itself. Press coverage focused on such general problems as unemployment,¹⁵ public relief,¹⁶ economic policy,¹⁷ bureaucracy,¹⁸ public debt,¹⁹ social services,²⁰ leadership,²¹ the future of government,²² reconstruction,²³ health,²⁴ and taxation.²⁵

The tenor of these articles was in general highly critical of the Commission of Government policy. For the most part, however, press criticism focused less on specific dimensions of policy than on the nature of the regime itself. In various ways, the Commission of Government régime was depicted as repugnant to Newfoundland values on appropriate government.

A variety of themes emerge in the press commentary on the form of government. An important aspect was the role of the press itself. The scope of press criticism was viewed as "limited" and, in the opinion of the *Evening Telegram* at least, the opinions expressed in the press were viewed by the Commission as carping, prejudiced or unduly

¹⁵ *Evening Telegram*, 31/12/38; *Daily News*, 20/6/38.

¹⁶ *Fisherman's Advocate*, 2/12/38; *Grand Falls Advertiser*, 23/7/38.

¹⁷ *Observers Weekly*, 6/2/40.

¹⁸ *Daily News*, 16/2/40; *Daily News*, 14/2/40; *Fisherman's Advocate*, 22/4/38.

¹⁹ *Daily News*, 21/2/40.

²⁰ *Daily News*, 16/2/40; *Fisherman's Advocate*, 2/12/38; *Fisherman's Advocate*, 10/6/38.

²¹ *Trinity Enterprise*, 24/2/40.

²² *Observers Weekly*, 20/2/40.

²³ *Daily News*, 20/10/38.

²⁴ *Fisherman's Advocate*, 2/9/38; *Fisherman's Advocate*, 17/6/38; *Grand Falls Advertiser*, 18/6/38.

²⁵ *Fisherman's Advocate*, 25/3/38; *Fisherman's Advocate*, 16/4/38.

censorious".²⁶ The same article noted that the secrecy of proceedings; the fact that the press were not admitted to debates of any kind, and the difficulty in obtaining information on routine departmental matters severely restricted the press.²⁷

Not only was the press viewed as "muzzled",²⁸ but there was trenchant criticism of the lack of political liberty and of the Commission of Government in general. Pessimism on the Commission's ability to succeed or to compensate "the country for the rights of which it consented for a time to be deprived" prevailed.²⁹ After six years of the Commission of Government, the government was seen to have "failed miserably".³⁰ Thomas Lodge, a former Commissioner, was among the most critical on Newfoundland's loss of political liberties.

- ✓ Five years ago Great Britain did violence to all the principles of democracy on which this Empire has been built and imposed upon a purely white population, 100% our stock, a constitution which gave to them no voice whatever in the choice of their governing body.³¹

Among some Newfoundlanders, the criticism was even more pointed. The *Evening Telegram* felt that the strongest opposition to the Commission of Government was that the "voice of the people, accustomed to make itself heard and felt for many generations, is virtually mute".³² Others felt Newfoundland had been "deceived", "robbed" of

²⁶ *Evening Telegram*, 15/2/40.

²⁷ *Evening Telegram*, 15/2/40.

²⁸ *Grand Falls Advertiser*, 26/3/38.

²⁹ *Evening Telegram*, 15/2/40.

³⁰ *Fisherman-Workers Tribune*, 16/2/40.

³¹ Reported in *Newfoundland Trade Review*, 22/10/38.

³² *Evening Telegram*, 15/2/40.

democratic government, "the consent of the people on the suppression of the constitution never sought", and the government was to "protect bondholders".³³ The Commission of Government was viewed as a "bureaucratic dictatorship",³⁴ a "retrogressive step",³⁵ an "ignominious failure",³⁶ a "despotic bureaucracy",³⁷ and "cold-blooded if not cynical administrators".³⁸

Some of the commentary was more specific in its criticism of the Commission of Government. Petitions were not encouraged,³⁹ radio speeches by Commissioners "were made to an audience whose reactions can be neither seen nor heard".⁴⁰ On the institutional structure of the Commission of Government itself, the role of the Governor was criticized⁴¹ and the subject of the government's relationship to the Dominions Office, foreign experts, and Newfoundland society was a prominent theme.

The citizen was seen to have no recourse to the Dominions Office or the U.K. Parliament.⁴² On the other hand, the Commission of Government was seen as controlled

³³ *Grand Falls Advertiser*, 5/3/38.

³⁴ *Daily News*, 7/2/40.

³⁵ *Observers Weekly*, 13/2/40.

³⁶ *Ibid.*

³⁷ *Daily News*, 14/2/40.

³⁸ *Fisherman's Advocate*, 2/12/38.

³⁹ *Evening Telegram*, 15/2/40.

⁴⁰ *Ibid.*

⁴¹ *Evening Telegram*, 16/2/40.

⁴² *Daily News*, 19/2/40.

by the Dominions Office, and the Commission was described as "perpetual supplicants for authority".⁴³ The Dominions Office role in decision-making was perceived as impairing the proceedings of the Commission of Government.⁴⁴ The Secretary of State could overturn Commission decisions and all civil service appointments of over \$1,200 per year required the approval of the Dominions Office. There was specific criticism of officials in the Dominions Office who were seen to be "misleading the House of Commons as to Newfoundland's condition",⁴⁵ one article was specifically critical of Peter Clutterbuck, the former secretary to the Amulree Commission and an important official in the Dominions Office.⁴⁶ In general, the complaint was that Newfoundland was governed from a distance of 2000 miles by Dominions Office officials who lacked knowledge and sensitivity to Newfoundland public opinion. This failing was seen as particularly troublesome as the Commissioners themselves changed every three years,⁴⁷ for example in October 1938 only one of the original six Commissioners remained after four years of Commission of Government.

Along similar lines, the role of foreign experts in the Newfoundland public service was a source of controversy. The *Fishermen-Workers' Tribune* commented on the heavy reliance upon foreign experts in policy-making.⁴⁸ Debate was generated over the size

⁴³ *Fisherman's Advocate*, 14/10/38.

⁴⁴ *Daily News*, 20/10/38.

⁴⁵ *Fisherman's Advocate*, 24/6/38.

⁴⁶ *Fisherman's Advocate*, 22/4/38.

⁴⁷ *Observers Weekly*, 13/2/40.

⁴⁸ *Fishermen-Workers' Tribune*, 16/12/40.

and salaries of the civil service, and the large number of "foreign experts".⁴⁹ It was observed that "all key positions were administered by foreigners"⁵⁰ and that Commissioners, despite their short tenure, spent a large amount of their time travelling outside Newfoundland.

Persistently throughout the Commission of Government regime there were proposals in the press for reform of the regime to provide for greater Newfoundland representation and as the Commission of Government moved into a decade of government in Newfoundland, the press voiced proposals for major constitutional change which would re-establish representative government and some semblance of autonomy.

In 1940 the *Observers Weekly* noted that the Commission had retired into "the hard shell of autocracy" and called for a drastic change in the form of government.⁵¹ More specific proposals included the establishment of a crown colony with a nominated and elected representative body⁵² or union with Canada.⁵³ There were calls for leadership so that the pre-1934 constitution of responsible government would be restored.⁵⁴ Other newspapers also felt it was time to explore alternate forms of government and straw polls on preferences among readers were conducted by the *Observers Weekly* and

⁴⁹ *Daily News*, 19/2/40; *Nfld. Trade Review*, 24/2/40.

⁵⁰ *Grand Falls Advertiser*, 26/3/38.

⁵¹ *Observers Weekly*, 13/2/40.

⁵² *Daily News*, 26/2/40.

⁵³ *Newfoundland Trade Review*, 7/2/40.

⁵⁴ *Trinity Enterprise*, 24/2/40.

the *Fishermen-Workers' Tribune*.⁵⁵ The result of both straw polls was that not a single vote was cast in favour of Commission of Government in its form in 1940.⁵⁶

In the absence of major constitutional changes in the form of government, sentiments were expressed which favoured greater consultation with Newfoundlanders in policy-making by the Commission of Government. It was suggested that improvements in the system of government could be undertaken such that the Commission drew on the advice of the community.⁵⁷ More specific proposals included the establishment of an economic advisory council⁵⁸ as the war impeded a full consideration of constitutional options.⁵⁹ While the Board of Trade provided some advice to the Commission of Government, there was dissatisfaction with this procedure and most newspapers favoured a representative body.⁶⁰ Another proposal was for a smaller Commission combined with an advisory council for the representation of local viewpoints.⁶¹ With the exception of regular contacts of the Commission with the Board of Trade, the Commission spurned requests for broader consultation and representation. In fact, official statements and radio addresses by Commissioners indicated that the government would not transfer what it saw as its responsibilities to "communities of citizens".⁶² This is somewhat

⁵⁵ *Observers Weekly*, 20/2/40; *Fishermen-Workers Tribune*, 23/2/40.

⁵⁶ *Fishermen-Workers Tribune*, 5/4/40, *Observers Weekly*, 12/3/40.

⁵⁷ *Evening Telegram*, 16/2/40.

⁵⁸ *Observers Weekly*, 20/2/40.

⁵⁹ *Observers Weekly*, 20/2/40.

⁶⁰ *Newfoundland Trade Review*, 10/12/38.

⁶¹ *Daily News*, 22/3/38.

⁶² *Evening Telegram*, 16/2/40.

perplexing as the Commission had little hesitation on drawing upon and including the Board of Trade in policy-making but it seems its view of the involvement of other groups was less sanguine.

3) Reports and Inquiries

The Commission of Government specifically sought information on Newfoundland society and took some special steps to establish a basis of information. These steps, however, were a far cry from the demands for representative and consultative bodies and councils which had surfaced in the press. In the early years of the Commission's tenure, reliance was placed on the interpretations of the Newfoundland economy, political system and society expressed in the Amulree Commission Report.

The Amulree Report expressed the opinion that the financial crisis of the Newfoundland government was attributable to the "reckless waste and extravagance"⁶³ of Newfoundland governments. The reasons, in the view of the Royal Commission, for what were perceived as excessive expenditures were the lack of 'independence',⁶⁴ 'self-reliance',⁶⁵ 'moral courage'⁶⁶ and 'the tendency of the Newfoundlander to shirk from responsibility and the exercise of discipline'.⁶⁷ The Royal Commission noted the

⁶³ Amulree Report, op. cit., p. 223.

⁶⁴ Ibid., p. 81.

⁶⁵ Ibid., p. 222.

⁶⁶ Ibid., p. 78.

⁶⁷ Ibid., p. 142.

"people exhibit a childlike simplicity",⁶⁸ were 'unprogressive'⁶⁹ and even 'simple-minded'.

The simple-minded electorate were visited every four years by rival politicians, who in the desire to secure election, were accustomed to make the wildest promises involving increased expenditures in the constituency and the satisfaction of all the cherished desires of the inhabitants.⁷⁰

The results of relatively ordinary election practices, in the opinion of the Report meant that

the people instead of being trained to independence and self-reliance became increasingly dependent on those who were placed in authority; instead of being trained to think in terms of the national interest, they were encouraged to think only of the interests of their own district...The Government was looked upon as the universal provider and it was thought to be the duty of the Member of the constituency to see that there was an ever increasing flow of public money...The people were in fact taught to look to government for everything, and to do as little as possible for their own requirements...⁷¹

The prescription of the Amulree Report for Newfoundland's problems was not the reconstruction of political institutions for its own sake but for the reconstruction of the political culture as well.

What is needed is the inculcation of a new morale and a new spirit of self-reliance; it would indeed only intensify the difficulties of the country if the restoration of the physical condition of the people were to be unaccompanied by a change in mental outlook, and if as a result of past experience, they were to continue in the belief that it was the duty of government to satisfy all their wants, without any corresponding exertion on their own part. The obligation to provide for themselves and assist one another in raising the general level of the community must be firmly impressed upon them.⁷²

The recommendation of the report for the suspension of democratic institutions was tied

⁶⁸ Ibid., p. 78.

⁶⁹ Ibid., p. 7.

⁷⁰ Ibid., p. 82.

⁷¹ Ibid., p. 83.

⁷² Ibid., p. 222.

to this interpretation of Newfoundland's political culture.

...in order that the people might be trained anew to a spirit of self-reliance and independence, the existing legislative machine should be temporarily suspended and the Government of the country placed for a period of years in the hands of a "Commission". Such a Commission would be presided over by his Excellency the Governor, and would be able to remodel the administration and to shape policy without regard to the political considerations which no elected Government could afford to ignore.⁷³

The Amulree Commission Report was important in two respects for an understanding of the Commission of Government regime. First, the report was undoubtedly important in the formation of Commissioners' attitudes and preconceptions about Newfoundland and Newfoundlanders. As the preceding quotations indicate, if the Amulree Report was required reading for the Commissioners, it more than likely had the effect of reinforcing the patronizing and paternalistic values of the British colonial civil service. Second, the Amulree Commission Report was for the Commission of Government a blueprint, if not a Bible, and it greatly influenced both the Commission of Government and the Dominions Office in their analyses of Newfoundland society and economy and in their policy prescriptions.⁷⁴

The Commission of Government also relied on other, more specialized reports as a source of information. Among the more significant assessments of the political situation were the reports of Liddell on labour conditions and of Carew on the political situation. Both these memoranda provide valuable insights into the concerns and thinking of the Commissioners.

⁷³ Ibid., p. 196.

⁷⁴ One Commissioner, Thomas Lodge, was publicly critical of the heavy reliance of the Dominions Office on the Report; see Dictatorship in Newfoundland op. cit. passim and also Thomas Lodge, *Newfoundland Trade Review*, 22/10/38.

4) Labour

Mr. Liddell was asked to investigate Newfoundland labour conditions "as the Commission of Government was anxious to ascertain the extent to which they might proceed in an endeavour to control labour disturbances, and the most effective means to ensure such control."⁷⁵ Liddell reviewed the existing labour legislation, labour movement leadership and organization, and provided policy advice to the Commission on how to deal with the labour movement. It is clear from the tone and content of his report that he was somewhat less than sympathetic to the concerns of Newfoundland labour and favoured various measures to suppress union activity.

In general the 1930's seem to have been a period of rapid trade union organization and this caused the Commission some concern. At the time of Liddell's report to the Commission, a number of new unions had recently formed in banking and in the civil services, and in St. John's a number of small unions were initiated in 1935.⁷⁶ In 1937, a Trades and Labour Council was formed to embrace unions throughout the island. A concern of Liddell and of the Commission was the possibility of AFL affiliation.⁷⁷ Railway workers, paper mill workers at Grand Falls and Corner Brook, and miners at Buchans were already organized and AFL affiliates.⁷⁸ Post office workers, telegraphists, fishermen, lumbermen, and longshoremen were also organized, but not

⁷⁵ Liddell Report, Preliminary Memorandum on Labour Survey, Sept-October 1938.

⁷⁶ Ibid., p. 2.

⁷⁷ Ibid., pp. 2-3.

⁷⁸ Ibid., p. 3.

American affiliated. Of these unions, the longshoremens' union was the most strident and effective. Liddell attributed its success to the lack of cohesion in the Employers' Association.⁷⁹ Manufacturers were organized in the Association of Newfoundland Industries and had taken some steps toward collective bargaining.⁸⁰ Liddell had impressed upon employers the importance of employers' organization and argued that there be "a working agreement between Association of Newfoundland Industries and the Employers Association, so that labour trouble of any kind arising in the island could be dealt with on a thoroughly cooperative and exhaustive basis."⁸¹

Not only did Liddell make specific recommendations to employers to enhance their position vis a vis labour, but he also provided the Commission of Government with his opinions on specific unions and union leaders. In Liddell's assessment, the TLC was primarily interested in labour legislation and in his opinion, "The organization in its present state is, I think, fairly harmless. Duggan is an anti-strike man, and as long as he is president I imagine that he can influence his executive in that direction."⁸² Liddell reported that he had attempted to impress upon unions that in Newfoundland the "establishment of minimum wage and pension rights is impracticable."⁸³

⁷⁹ Ibid., p. 4.

⁸⁰ Ibid., p. 5.

⁸¹ Ibid., p. 5.

⁸² Ibid., p. 7.

⁸³ Ibid., p. 8.

5) Political Unrest

The Commission of Government's concerns about labour disturbances, unemployment and general unrest are also revealed in the memorandum of Mr. Carew, Secretary to the Commission, and in police, magistrate and Ranger reports, and in the Commission's dispatches to the Dominions Office.

In a draft telegram to the Secretary of State for Dominions Affairs, the Commissioner for Natural Resources, Mr. R.B. Ewbank presented an assessment of the political situation.⁸⁴ It was Ewbank's opinion that the

trend in public opinion in St. John's and neighbourhood has for some months been moving against Commission of Government and is increasingly outspoken. There has been one public meeting attended by about seven hundred persons organized by men of little standing which demanded return of Responsible Government. General feeling, as expressed in Press and occasional speeches is one of dissatisfaction with work of Commission after three years in office but reversion to Responsible Government is not widely favoured. This difficulty is mainly due to economic causes and difficulty that large classes are experiencing in making both ends meet...Particular classes have their own grievances: lawyers no longer receive large sums as fees for work now done by Government officers, merchants and fishermen want large subsidies; clergymen are critical of slow educational progress. It is being said that retired civil servants lack vision and boldness to deal with abnormal situation and that a Government of businessmen would produce better results.⁸⁵

A separate memorandum on the political situation was prepared by W.J. Carew. Carew's four-page brief argued that "The germ of the present dissatisfaction with Government may be traced back to its form of constitution."⁸⁶ Further, in Carew's

⁸⁴ This draft telegram was part of a memorandum to the Commission of Government prepared under the direction of the Commissioner for Natural Resources (N.R. 23-'37, March 10, 1937, Provincial Archives of Newfoundland and Labrador).

⁸⁵ Ibid.

⁸⁶ Memorandum of W.J. Carew, March 9, 1937, (N.R. 23-'37, Provincial Archives of Newfoundland and Labrador).

opinion:

A considerable proportion of criticism against the Government is based upon petty jealousies. There is an impression abroad, however ill founded, that the English Commissioners only take advice from a limited circle in the community, and that the middle classes have practically no voice in the policy of Government.⁸⁷

Despite the creation of a Ranger force and a special Magistracy whose roles along with police duties and duties related to the administration of justice "were to send confidential reports from time to time as to the political feeling within their respective jurisdictions",⁸⁸ the Commission of Government, in Carew's opinion, was out of touch with local opinion.⁸⁹ Carew pointed to several incidents which were indicative of discontent, for example letters, lectures and articles in criticism of the Commission of Government by prominent citizens, and public meetings of disgruntled citizens.

The Commission of Government was particularly concerned about critical public opinion and public meetings and demonstrations. Commissioner Ewbank discussed these matters with the Chief of Police. Ewbank's summary of this conversation was presented to the Commission.⁹⁰ According to police reports in the winter of 1935, public meetings of the unemployed against the Commission were held about once or twice a week. The winter of 1937 was viewed as relatively quiet but the Chief of Police felt that "seasonal discontent is usually rife towards the end of winter." Specific reference was made to a demonstration of about 700 organized by a Mr. Vardy and

⁸⁷ Ibid., p. 2.

⁸⁸ Ibid., p. 4.

⁸⁹ Ibid.

⁹⁰ Present Political Situation, Circulated by the Honourable Commissioner for Natural Resources, March 10, 1937, N.R. 23-'37.

subscriptions towards its expense by several of the merchants. Such outbursts, in the Chief of Police's opinion, should not be ignored. Major Anderton gave the Commission a report on the political situation outside of St. John's. Public unrest seemed to be confined to St. John's,⁹¹ although papers and books favouring the re-establishment of responsible government as sponsored by the War Veterans were circulated among the people of Whitbourne.

From all of this, it appears to be clear that the Commission of Government's relationship to Newfoundland society was both tenuous and fragile. The regime was an exclusionary one in its constitutional structure and in its perception of Newfoundland attitudes toward reform and economic adjustments. The popular sector was excluded for the most part from the decision-making arenas. Only a small group of Newfoundlanders held much sway with the Commission of Government. These people were likely members of the Board of Trade, and the Board's relationship with government was an uneasy alliance.

There were no formal institutions for the articulation of public opinion on government policy. Despite popular exclusion from political and economic decisions, the regime in the face of sometimes strong criticism, remained as Newfoundland's government until 1949 without having to rely on particularly strong coercive measures. Other mechanisms of social control were evident, however. To some extent, the Commission's relation with the Board of Trade and various inquiries and commissions may be seen from this perspective. Interaction of this sort provided the regime with a window-dressing of concern for representation, but as the Commission was under no

⁹¹ No meetings were reported in Lewisporte, Deer Lake, Grand Bank, Port au Port, or St. Anthony, *ibid.*

compulsion to act on various recommendations and as the Commission chose the inquiry, its personnel, and terms of reference, such devices were far removed from the representative chambers, councils, or boards championed by the press. On some occasions, in fact, experts in policy functioned not only in an advisory position to the government but also actually mediated between the Commission and Newfoundland social groups, for example the role of Mr. Liddell in advising Newfoundland labour as to what was "practicable".

Further facilitating social control was the revamped Ranger service which was modelled on the Canadian RCMP and the new Magistracy program whose officers were to be the principal representatives of the government in the district to which they were assigned.⁹²

If the Commission of Government's relations with various indigenous sectors of Newfoundland society were very tenuous, its relationship to foreign capital was less so.

Resource Policy and the Commission of Government

While the Amulree Report was specific about the institutional changes which should be implemented to deal with the financial crisis of the government of Newfoundland,⁹³ the report did not directly address the manner in which the economy of Newfoundland

⁹² Jan 1936, Report by the Commission of Government on the Work of the Commission, Queens Printer, 1936, London, pp. 12-13.

⁹³ These were contained in 6 recommendations summarized on pages 201 and 202 of the Amulree Report.

might be revitalized. The solution for this problem was left to the discretion of the Commissioners and the United Kingdom government.

...we feel that it is only reasonable in the circumstances that, so long as a reduction of the present burden of debt is achieved, your majesty's government in the United Kingdom should be left complete freedom as to the manner it should be effected. We do not propose, therefore, to complicate the issue by making detailed recommendations under this head.⁹⁴

The Royal Commission justified this approach through their assessment of the reasons underlying the financial crisis in Newfoundland.

Measures designed to alleviate this burden (of the public debt) would not, however, in themselves provide a solution to the island's difficulties; since as we have indicated in chapter V, these difficulties are largely attributable to reckless waste and extravagance, and to the absence of the constructive and efficient administration, engendered by a political system which for a generation has been abused and exploited for personal or party ends...⁹⁵

Since, in the Amulree Commission's view, the basis of Newfoundland's financial dilemma lay in political mismanagement and corruption, the report itself provided little more than a rough guideline to the new policy-makers on how Newfoundland would be made self-sufficient.

In all, the report made about 35 recommendations,⁹⁶ of which the principal ones were the five which proposed institutional change. Only one recommendation dealt directly with the amelioration of Newfoundland's financial situation. This was that the government of the United Kingdom would

assume general responsibility for the finances of the Island until such time as

⁹⁴ Newfoundland Royal Commission 1933 Report (Amulree Report), (London, 1934), p. 201.

⁹⁵ Ibid., p. 192.

⁹⁶ Ibid., pp. 223-237.

it may become self-supporting again, and would in particular, make such arrangements as may be deemed just and practicable with a view to securing to Nfld. a reduction in the present burden of the public debt.⁹⁷

The remainder of the recommendations were related to government re-organization, with a heavy emphasis placed upon the development of regulatory bodies and administrative procedures for the prosecution of the fishery. Other recommendations were addressed to the re-organization of the public services of Newfoundland.⁹⁸ In a number of policy areas the Royal Commission did not itself make specific proposals, but recommended that detailed inquiries and investigations be undertaken, or that technical experts be appointed to the public service. For example, it was recommended that an examination of the tariff, the educational system, and the railway and steamship lines be initiated and that the Newfoundland government recruit forestry officers and a geologist.⁹⁹ More than anything else, it was the view of the Royal Commission that only a "radical change of regime"¹⁰⁰ would make possible the reconstruction of Newfoundland. Yet the radical change of regime advocated did not seem to go much beyond the replacement of elected decision-makers for appointed ones.

Institutional change and the implementation of all the Amulree Commission's other recommendations would not have altered the fundamental flaws in the economic structure of Newfoundland. At the root of the problems of a weak revenue base for the Newfoundland government, budgetary deficits, unemployment, the fall in incomes

⁹⁷ Ibid., p. 202.

⁹⁸ Susan McCorquodale, "Public Administration in Newfoundland During the Period of the Commission of Government: A Question of Political Development", Ph.D. Thesis, Queens University, 1973.

⁹⁹ Amulree Report, op. cit., pp. 205-208. Geological surveys had been conducted in Nfld. since the early part of the 19th century.

¹⁰⁰ Ibid., p. 195.

from the fishery and an onerous public debt, was a generalized economic dependency. The success of the international export trade in salt cod fish was dependent on international markets and currency exchange rates. When markets were poor, or when currency fluctuations worked to the disadvantage of Newfoundland, incomes fell. A decline in incomes was accompanied by a decline in import purchases, and as government revenues were heavily dependent on import tariffs, they too were tied indirectly to the success of the trade in salt cod fish. The budgetary allocations of the Newfoundland government were also affected by the vagaries of the export trade in fish; declining revenues meant that proportionately more of expenditures were allotted to debt charges. This dependency had resulted in the breakdown of the political system in the early 1930's, and after 1934 the dependency was not broken but was made complete. Not only was Newfoundland dependent on foreign markets for incomes, on import consumption for revenues, on foreign capital for industrial development but, as a result of the Newfoundland Act of 1934, she was also dependent on the United Kingdom for a government.

Economic diversification could provide a means to break or at least weaken this particular chain of dependency. As David Alexander has pointed out, Newfoundland governments from about the turn of the century were cognizant of the need for diversification. Development legislation, however, entailed a search for foreign direct investment to develop modern resource industries. Though the resource sector had been nurtured by legislation, previous Newfoundland governments had been unable to foster economic diversification through local processing of natural resources. Resource companies in Newfoundland maintained primarily extractive operations. Increased government revenues from royalties on the products of the mines and forests and from taxes on foreign-owned resource companies had also not been a result of past efforts to

implement an industrial strategy aimed at economic diversification. The Commission therefore assumed power in an economic environment not unlike that which had existed at the time that the Newfoundland legislature was dissolved, but the Commission of Government had been given a carte blanche to make Newfoundland self-sufficient. As appointees of the British government, the Commission had the benefit of some distance from local economic elites and from political pressures for immediate short term solutions. The test for the efficacy of the Commission of Government was its ability during its 15 year tenure to put in place a strategy for economic diversification. In that test it failed miserably. One reason for the failure of the Commission of Government in this task was that it, and the Amulree Report which guided the Commissioners, had misdiagnosed the basis of Newfoundland's problems.

The Trade in Staples:

In terms of dollar value of export trade, by 1933 saltfish exports were surpassed by newsprint exports. By 1937 the dollar value of fisheries exports was exceeded by the value of mineral exports as well.

Table 11

Export Trade: Dollar Value (millions of dollars)

	1936-37	1937-38
Paper	13.2	13.8
Fisheries	6.8	7.4
Minerals	6.4	10.9

Source: Annual Reports of the Commission of Government, 1936-38

Despite the increase in the value of natural resource exports in relation to fishing exports, the significance of the fishery to the Newfoundland economy was crucial. The 1935 census revealed that 34,645 men were engaged in the cod fishery. As the male population aged 20 or more years was 81,007, this meant that 42.75% of men in this group derived some portion of their income from fishing. This basic fact of economic life in Newfoundland gave the Commission very little latitude in stimulating economic recovery.

As incomes and government revenues were indirectly or directly tied to the demand for exports in international markets, over which the government of Newfoundland had little control, the Commission limited itself to the application of band-aid remedies for an economy that required radical surgery. The Commission was cognizant that the major problems of the fishery were that there were "too many individuals engaged in the cod fishery and that the returns from it, even in past years are insufficient to provide the producers with anything approaching an adequate living".¹⁰¹ The Commission was also aware that indeed the whole economic structure of Newfoundland was sensitive to any disturbances in European and South American markets and of the need to diversify the fishery.¹⁰² The Commission attempted to rationalize the trade in fish through the development of administrative and regulatory structures such as the Newfoundland Fisheries Board and the Fisheries Enquiry Commission.¹⁰³ As David

¹⁰¹ Jan. 1936, Report of the Commission of Government, (London: His Majesty's Stationers Office, 1937), p. 15.

¹⁰² 1938 Report of the Commission of Government, (London: His Majesty's Stationers Office, 1937), pp. 17-18.

¹⁰³ 1936 Report of the Commission of Government, (London: His Majesty's Stationers Office, 1937), p. 16. For an excellent discussion of the implications of these measures, see David Alexander, The Decay of Trade, op. cit., pp. 28-37.

Alexander indicated, however,

in both agricultural and fishing industries in the inter-war years, 'organized marketing' was sometimes invested with miraculous powers capable of solving all problems. But it could not turn poor quality fish into top grade fish, and it could not alter the fundamental characteristics of market demand.¹⁰⁴

Table 12

Dollar Value of All Exports 1935-1938

Country	<u>1935</u> Exports	<u>1936</u> Exports	<u>1937</u> Exports	<u>1938</u> Exports
United Kingdom	10,316,579	11,327,187	10,927,692	13,243,676
Canada	2,183,624	2,866,800	2,615,645	3,146,570
BWL	852,409	698,775	852,573	877,332
Belgium	1,807,931	2,539,685	2,485,464	2,494,298
Brazil	1,172,309	1,854,577	1,169,224	987,405
West Indies	567,900	641,052	960,259	809,841
France	415,691	340,621	224,048	505,832
Germany	435,283	262,102	713,372	783,408
Holland	158,293	319,473	239,633	1,975,481
Italy	913,942	206,120	120,130	582,480
Portugal	925,482	994,565	820,409	524,698
Spain	1,376,505	1,041,622	183,572	29,583
U.S.A.	5,171,646	6,219,925	6,276,887	8,168,162
Other	931,564	549,533	711,231	814,474
Total	27,229,125	28,862,037	28,058,073	34,943,240

Source: Compiled from Annual Reports of the Commission of Government.

Newfoundland's problems in marketing saltfish were compounded as well by competition with Canada for markets. Raymond Gushue, Chairman of the Newfoundland Fisheries Board, in a memorandum prepared for Commission of Government for submission to the Canadian government noted

...a section of Canada, which is normally in competition with Newfoundland through marketing the same commodities in the same consuming areas, maintaining an attitude towards Nfld. which at times approaches hostility...¹⁰⁵

¹⁰⁴ David Alexander, op. cit., p. 21.

¹⁰⁵ Aug. 15, 1940 Memorandum Submitted to Commission of Government by Commissioner for National Resources, p. 1.

Gushue went on to outline the inequitable nature of Newfoundland-Canada trade relations. The crux of the matter in Gushue's estimation was that "commercially Newfoundland (is) more important to Canada than some of its provinces".¹⁰⁶ Trade statistics compiled by Gushue revealed that Newfoundland imported considerably more from Canada than was exported to Canada.

Table 13

Trade Figures: Newfoundland-Canada, 1935-1939

	Imports from Canada Dollar Value	Exports to Canada Dollar Value
1935-36	7,635,451	2,644,396
1936-37	8,879,349	2,329,515
1937-38	9,973,700	2,822,288
1938-39	9,196,212	2,031,231

Since the end of World War I, Canada had been the most important source of Newfoundland's imports. As the above table reveals, the balance of trade with Canada was out of adjustment in that imports from Canada far exceeded exports to Canada.

The importance of Canada as a market for Newfoundland exports was even less, however, than these figures suggest. More than half of Newfoundland exports to Canada were iron-ore from the Bell Island mines which were worked by Canadian chartered companies. Under a contract negotiated with the government in 1930 which was in effect until 1949 these companies paid no royalties, or income taxes and paid

¹⁰⁶ Ibid., p. 1.

only a \$.10 per ton export duty on iron-ore shipped to Sydney, Nova Scotia.

Table 14

Exports to Canada from Newfoundland produced by Canadian Mining Companies.¹⁰⁷

	Tons	Values of Ore Dollars
1935-1936	575,049	\$1,563,551
1936-1937	453,311	\$1,104,956
1937-1938	679,398	\$1,722,454
1938-1939	474,543	\$1,210,086

Newfoundland attempted to use the favoured position accorded Canada in mineral exports as a bargaining lever to induce greater Canada-Newfoundland co-operation in fish markets. Newfoundland did not however demand that Canada increase imports of ore from Newfoundland as the impacts in terms of employment, incomes or revenues for the Newfoundland government would be small. Instead the Newfoundland government implied that imports from Canada would be restricted¹⁰⁸ unless Newfoundland were included with Canada in trade negotiations with countries in which there was a market for Newfoundland and Canadian exports, and be granted a "most favoured nation" status in any agreements made by Canada affecting Newfoundland¹⁰⁹

¹⁰⁷ Ibid.

¹⁰⁸ The memorandum pointed out that Nfld. exported considerably more than was imported from other trading partners, "We have been increasingly under pressure from one or more of these countries to purchase their goods in larger quantities, and in one or more instances this pressure has been implemented by the imposition of prohibitive duties and the application of quotas or exchange restrictions, p. 2, *ibid.*

¹⁰⁹ *Ibid.*, p. 3.

The manner in which the Commission used the export of ore from Bell Island to Canada, as a bargaining lever to secure fish markets is indicative of the Commission's approach to resource policy. Though the dollar value of Newfoundland's mineral and timber exports exceeded the value of fish exports, in the first four years of the Commission's tenure the expansion of the resource sector was not viewed as the key to the Newfoundland economy. In deemphasizing the development of the resource sector, the Commission policy may be seen in stark contrast to the industrial strategy pursued by the Squires administration in the 1920's or indeed, on a smaller scale, by governments in Newfoundland since 1880. David Alexander notes that Newfoundland

...began to search for a development strategy which would reduce the rate of inshore fishery expansion and initiate its relative decline. ... The strategy ... contained the essential features of the National development policy pursued by all 19th century territories of European settlement. Through railway technology, the country would be shaken fully from dependence upon coastal resources and a moving frontier of inland settlement would open export sectors in agriculture and minerals - resources whose existence in Newfoundland was confirmed by geological survey.¹¹⁰

The reasons for the Commission's neglect of resource policy from 1934-1938 can be understood from an analysis of the Amulree Report, the state of the resource sector from 1934-1938, and from an appreciation of the Commission's preoccupation with public finance and administration.

¹¹⁰ Alexander, "A New Newfoundland", op. cit., pp. 30-31.

The Amulree Report

While the Amulree Report had been somewhat vague as to how the problems of public finance and economic reconstruction could be resolved, the views of the members of the Royal Commission on the nature of the Newfoundland economic and political system had an impact on the approach to economic development pursued by the new regime. The most direct impact of the Amulree Report on the strategy pursued by the new government was in the area of fisheries policy. It had been the contention of the Amulree Report that the fishery was and should continue to be the mainstay of the Newfoundland economy.¹¹¹ The early attempts of the Commission of Government at economic reconstruction reflected this view. Fisheries reorganization accounted for a considerable portion of economic development policy-making during the first few years of the Commission of Government's tenure. The Amulree Report had recommended the creation of new fisheries administrative structures,¹¹² and the Commission of Government in 1936 created the Newfoundland Fisheries Board to regulate all aspects of the fishing industry.

The second most important economic development preoccupation of the Commission of Government from 1934-1938 was with the "land settlement" program. Unlike the policy to re-organize the fisheries, the initiative for this program did not emanate directly from the Amulree Report. The essence of the program was the resettlement of primarily urban unemployed into newly established agricultural communities. The

¹¹¹ Amulree Report, op. cit., p. 225.

¹¹² Ibid., p. 226.

influence of the Amulree Report on this area of public policy, though less direct than its impact on fisheries policy, was not absent. While the Amulree Report stated that in general the agricultural potential of Newfoundland had been over-estimated,¹¹³ it did concede that "much had to be done with the garden and small farm to supplement returns from the fishery."¹¹⁴ The more significant legitimization of the Commission of Government's land settlement project in the Amulree Report lay in the report's proposal that the government pay the costs of relocating urban unemployed to the outports¹¹⁵ and in the Reports' political culture interpretation of the collapse of public finance in Newfoundland.

The investment of the Commission of Government in the land settlement program was indirectly tied to the Amulree Report's call for both cultural and economic reconstruction. While the public justification of the program was in terms of economic diversification, realistically the program did little more than reflect in public policy the patronizing attitudes of the Commissioners on the need to reform the Newfoundland national character. Certain Commissioners, particularly Mr. Lodge, Commissioner for National Resources, held the rather romantic view that an agrarian society promoted the development of public-minded values.¹¹⁶

¹¹³ Ibid., p. 48.

¹¹⁴ Ibid., p. 166.

¹¹⁵ Ibid., p. 217.

¹¹⁶ Thomas Lodge, *op. cit.*

The Resource Sector 1934-1946

The major resource development undertaken during the tenure of the Commission of Government was the exploration for minerals in Labrador. This exploration was conducted under contracts negotiated between the government and Weaver (Minerals) Limited and later with the Labrador Mining and Exploration Company Limited (LMECL). Weaver (Minerals) Limited sold its interests to LMECL in 1936. It was never the intention of LMECL to actually undertake the development of the resources of Labrador, rather LMECL undertook negotiations with the Newfoundland government with a view to leasing or selling to another company the rights acquired under any agreement. These rights were subsequently leased to the Iron Ore Company of Canada (IOC) which developed the iron ore deposits of Labrador in the early 1950's.¹¹⁷

The actors in resource policy-making included not only the Commissioners and the officials of the Departments of Natural Resources and later Public Utilities but also included the British Secretary of State for Dominion Affairs and the Colonial Office, which functioned in an advisory capacity to the Dominions Office. This profusion of policy actors and the distance between St. John's and Whitehall made the policy process cumbersome and often sluggish in its response to policy inputs in Newfoundland. Furthermore, the basis for resource legislation often differed between Whitehall and St. John's. The Dominions Office, on the advice of the Colonial Office, used as a guideline for resource legislation in Newfoundland practice elsewhere in the Empire, whereas the Commission of Government and the resource companies operating in Labrador, which

¹¹⁷ Michael J. Prince, "Provincial Mineral Policies: Newfoundland 1949-75", Centre for Resource Studies, Working paper no. 3, November 1977, p. 5.

were Canadian chartered, were inclined to look to Canada for appropriate models for resource policy.

The Policy Process: Tactics and Strategies in the Negotiation of Mining Concessions in Labrador

As was the case for mining companies under the old regime of responsible government, resource companies gained access to the policy process through personal consultation of company directors with members of the political executive in Newfoundland. Under the Commission of Government, the Commissioners in committee performed both executive and legislative functions. But, in the performance of these functions, the activities of the Commission of Government corresponded to the procedures for policy-making of the old regime. Memoranda for the Commission of Government were prepared in the same way that memoranda for cabinet were prepared under the old regime and the Commission of Government kept a record of the minutes of the Commission in committee in a manner analogous to the minutes of cabinet under responsible government. In the performance of its legislative functions the Commission of Government prepared bills which were subjected to three readings before being signed by the Governor and proclaimed into law. In resource policy-making the Dominion's Office ordinarily played a role in the early stages of policy-making when legislation between the government and a resource company was under consideration. Though at times the Commission of Government seemed to anticipate a more autonomous role in requesting of the Dominion's Office telegraphic sanction of an agreement near conclusion, such sanction was not always forthcoming as the case of Weaver (Minerals)

Ltd.'s negotiation with the Commission of Government indicates.

Weaver (Minerals) Ltd., a subsidiary of F.P. Weaver Coal Company applied for mineral rights in Labrador in the spring of 1936. The Commissioner for Natural Resources, Lodge, was in charge of negotiations with the company and he was assisted by civil servants Fraser and Snelgrove. As a result of these negotiations the government approved a scheme with the company under which the company could lease up to 2,000 square miles of land in Labrador for a period of 99 years. Under the agreement concluded at this time the company would be obliged to pay a rental of 5 cents an acre and pay royalties at the rate of 10 cents per ton for iron ore and 5 per cent of gross output on precious metals. This scheme was submitted to the Dominions Office for "telegraphic sanction",¹¹⁸ but the anticipated approval for such an agreement did not arrive. In particular, the Dominions Office felt that rentals and royalties should be given greater consideration before an agreement was entered into with the company.¹¹⁹

The Dominions Office proposed to refer the matter to the Colonial Office so that practice elsewhere in the Empire might serve as a guideline for the Newfoundland case. The Commission of Government was given permission to enter into a much more limited agreement with Weaver (Minerals) Ltd. The company could be given the right to explore in Labrador for the years 1936 and 1937 and could be given an agreement under which it would have exclusive prospecting rights for a ten year period. The Commission of Government was instructed that details regarding leases, rentals and

¹¹⁸ Governor to Secretary of State for Dominion Affairs, April 30, no. 49.

¹¹⁹ Secretary of State for Dominion Affairs to Governor, May 25, 1936, no. 70.

royalties were to be set aside to be considered in consultation with the Secretary of State for Dominion Affairs.¹²⁰

While the Commission of Government went ahead and gave Weaver (Minerals) Ltd. rights to explore the area for the years 1936, 1937 and 1938,¹²¹ the company did not view this limited arrangement as satisfactory. The company was anxious to conclude the agreement it had negotiated with the government in the spring of 1936. As an inducement the company offered to deposit a certified bond for \$10,000 and a further \$80,000 at the end of the third year of the agreement as "security for the bona fides of its operations".¹²² As the Commission of Government had been advised to delay on the contract, the offer of a deposit was not accepted, but the Commission of Government continued to make a case to the Dominions Office for the agreement it had reached with the company in the spring of 1936.

The Governor pointed out to the Dominions Secretary that the royalty proposed in the suggested agreement was more favourable to the Government of Newfoundland than that paid by the Buchans Mining Company or charged by provincial governments in Canada.¹²³ The company also continued to lobby for a formal agreement. A company official was dispatched to St. John's and the Dominions Office was informed of his visit.¹²⁴ In response, the Dominions Office provided the Commission of Government

¹²⁰ Ibid.

¹²¹ Governor to Secretary of State for Dominion Affairs, June 8, 1936.

¹²² Governor Humphrey Walwyn to Malcolm MacDonald, Secretary of State for Dominion Affairs, June 30, 1936.

¹²³ Ibid.

¹²⁴ Governor to Secretary of State for Dominion Affairs, August 26, 1936, no. 102.

with its "provisional views" on an agreement.¹²⁵ Using the case of Tanganyika as a basis of comparison, the Dominions Office proposed that the term of the leases be reduced from 99 years, as suggested by the Commission of Government, to 21 years renewable for a further 21 years as existed in Tanganyika. The Dominions Office also advocated a 50 cents per acre rental but viewed the royalties negotiated by the Commission of Government as "reasonable".

The Commissioner for Natural Resources was instructed to communicate the views of the Secretary of State to Weaver (Minerals) Ltd.¹²⁶ J.H. Colville of Weaver (Minerals) Ltd. arrived in St. John's to discuss with the Commission of Government the situation created by the Secretary of State's dispatch. The company maintained that 21 year renewable leases were unacceptable and advocated a rental of 5 cents per acre for 50 years.¹²⁷ The Commission of Government, to break the impasse, proposed to the Dominions Office that it would offer the company 30 year leases renewable at the option of the company for a further 30 years. The Commission of Government also reported that there was no dispute about royalties.¹²⁸ Thirty year leases were also not satisfactory for the company and it continued to bargain for 50 year leases. Obviously unable to negotiate shorter leases, the Commission of Government recommended to the Dominions Office that the proposal of a 50 year lease be accepted.¹²⁹ The Dominions Office, however, did not concur on this point with the Commission of Government. The

¹²⁵ MacDonald to Walwyn, Sept. 16, 1936, no. 454.

¹²⁶ Certified Copy of the Minutes of the Honorable Commission of Government approved by his Excellency the Governor October 30, 1936.

¹²⁷ Governor to Secretary of State, telegraphic dispatch 21, November, 1936 no. 138.

¹²⁸ Ibid.

¹²⁹ Governor to Secretary of State, November 28, 1936.

Dominions Office proposed rentals of 50 cents per acre and a complicated proposal for rentals and leases.¹³⁰ The Dominions Office proposed that the company surrender 1000 square miles of the 2000 held within ten years and that the remaining 1000 square miles be surrendered or made the subject of mining leases at the minimum rate of 50 square miles per year.¹³¹

The reasons for the Dominions Office's insistence on shorter leases were that, potentially, development of reserves of minerals could be delayed because lands were tied up in long-term leases. As the Secretary of State indicated to the Governor, it was "clearly in the public interest that the second stage should be limited to the shortest possible period compatible with the grant to the company of reasonable opportunity."¹³² The Dominions Office, to the end of facilitating the eventual development of Labrador minerals, was insistent that any agreement with the company include a development clause. The Commission of Government was given clear direction in its negotiations with Weaver (Minerals) Limited on this point.

You may think it desirable in order to avoid risk of misunderstanding to warn company that insertion of such a clause is regarded as a matter of principle.¹³³

In December of 1936 the Commission negotiations with Weaver were in a very uncertain stage. Mr. Colville of Weaver was unable to accept the terms outlined by the Dominions Office and the Commission was very anxious that the negotiations might

¹³⁰ Secretary of State to Governor, Nov 26, 36, No. 141.

¹³¹ Secretary of State to Governor, Dec 3, 1936, No. 512.

¹³² Ibid.

¹³³ Secretary of State to Governor, Dec 23/36, No. 195.

break down.¹³⁴ Colville left St. John's without having concluded an agreement with the Commission. In 1937 the Commission continued to press the company on the question of a development clause. On this point the Secretary of State was informed of the Commission's failure to reach agreement with the company.

So far as we can judge, the company's refusal to accept these requirements is final and we have reached the point at which we must either drop the requirements or inform the company that we are unwilling to continue the negotiations if they persist in their refusal....we are most reluctant to adopt the second of these alternatives.¹³⁵

In the same dispatch, the Commission gave the Dominions Office something of a lecture on what they saw as the realities of North American resource development.

They (the company directors) are prepared to risk and have already risked a substantial sum for the purpose of discovering evidence of possible mineral wealth sufficient to impress investors who interest themselves in new mining ventures but at the point at which search and discovery end and active mining in the sense of actual or attempted extraction of mineral deposits begins, they will lease to the investor to carry a substantial part of the considerable financial risks which will still be involved and will be prepared to increase their own risks to a moderate extent only. This is their attitude and we have no doubt that it would be the attitude of any group of men on this side of the Atlantic capable of handling such a venture as that of the discovery and exploitation of mineral wealth in Labrador. No mining lease is worth having unless it has the quality of a marketable security.¹³⁶

On receipt of this argument, the Dominions Office capitulated and waived the inclusion of a development clause.¹³⁷ The Dominions Office viewed this as a substantial concession and "that in return the company might be asked to agree on their part to inclusion...of a clause providing a mining lease shall not be assigned by lease without

¹³⁴ Governor to Secretary of State, Dec 16/36.

¹³⁵ Governor to Secretary of State, Sept 29/37.

¹³⁶ Governor to Secretary of State, Sept. 24/37.

¹³⁷ Secretary of State to Governor, Nov 27/37, No. 263.

consent of the Governor in Commission, which consent shall not be unreasonably withheld".¹³⁸ The Dominions Office further made some specific suggestions regarding royalties but instructed the Commission to proceed with a final agreement "on the best terms obtainable, it being left to their discretion how far the suggestions made above can usefully be pursued."¹³⁹

In March 1937, Weaver (Minerals) Limited transferred its rights, titles and interests in Labrador to the Labrador Mining and Extraction Company Ltd. (LMECL) and in August of 1938 the Commissioner for Public Utilities was authorized to execute a draft agreement with the company.¹⁴⁰ The agreement was ratified Nov. 7, 1938¹⁴¹ and was made in substitution for the agreement of 1936 between the government and Weaver.¹⁴² The negotiations undertaken between the Commission and Weaver in 1936 and 1937 were taken up by LMECL and many of the concerns during these negotiations were reflected in the 1938 Act. LMECL was granted a 10 year licence for up to 2000 square miles to prospect and develop minerals provided the company paid a rental of 5 cents per acre. At any time during the tenure of a 10 year licence, the company could apply for a 40 year licence on which the rental would also be 5 cents per acre.¹⁴³ The company was entitled to lease up to 1000 sq. miles and upon the iron ore extracted from that area the company would pay a royalty of 10 cents per ton and a royalty of

¹³⁸ Ibid.

¹³⁹ Ibid.

¹⁴⁰ Minute of Commission of Government, Aug. 1938.

¹⁴¹ LMECL Act, No. 41, Nov. 7, 1938.

¹⁴² Clause 2, LMECL Act, op. cit.

¹⁴³ Clause 26, LMECL Act, op. cit.

one thirtieth of the total value from the sale of other metals. The company could transfer the rights under the agreement to another company with the consent of the Newfoundland government whose consent would not be "unreasonably withheld".¹⁴⁴

It is interesting to note the extent to which the Dominions Office's views on resource policy were integrated into the agreement signed in 1938. The Dominions Office had pressed for 50 cents per acre rentals, a maximum of 21 year renewable lease, a development clause, a royalty of one thirtieth of total value of non-iron metals, and the consent of the Governor in Commission before the transfer of the rights under the contract. Rentals were finally established at 5 cents per acre, the tenure of leases was, in effect, set at 50 years, and the Dominions Office had dropped the condition of a development clause. Included in the contract were the Dominions Office suggestion of a royalty of one thirtieth of the value of non-iron metals and a clause establishing the right of the Commission to decide on lease transfer.

The specific nature of the "development clause" advocated by the Dominions Office is unclear from the dispatches between the Dominions Office and the Commission. Whatever its particular dimension, the Commission informed the Dominions Office that they were unable to strike an agreement with ~~Weaver~~, and the Dominions Office subsequently capitulated on the inclusion of such a clause. Interestingly, however, the 1938 contract does contain clauses specifying minimum expenditures by the company for surveys, examination and development. LMECL agreed to spend \$150,000 in 1938 and \$50,000 in each succeeding year to December 31, 1945.¹⁴⁵ In 1940, however, LMECL

¹⁴⁴ Schedule II, Clause 10, *ibid.*

¹⁴⁵ Schedule 1, Clauses 7,8, *ibid.*

sought amendments to the 1938 Act to extend the agreement to 1946 and to exempt the company from the \$50,000 annual expenditure requirement. The request for an amendment was originally made of House, the Government Geologist, at a conference in Halifax by A. H. McKay, Managing Director of LMECL.¹⁴⁶ This amendment was made July 14, 1941.¹⁴⁷

By 1943 LMECL had approached the Commission for a major amendment to the 1938 Act. In January of 1943 Commissioner Woods met in Montreal with several mining executives of LMECL to discuss a new agreement. As a result of meetings with Jules R. Timmins (Pres.), Leo Timmins (Vice-Pres), John Knox (Gen. Mgr.) of LMECL in addition to consultations with representatives of Hollinger Consolidated, and with H.R. Pierce, J.K. Gustafson and J.A. Rethy of the M.A. Hanna Company, Woods was convinced that the 1938 Agreement was inadequate for mineral exploration and development in Labrador.¹⁴⁸ Several of the chief executives of LMECL were on the Hollinger board of directors and Hollinger, in conjunction with Hanna were, in Woods' estimation, in a position to plan progressive development in Labrador. LMECL wished to extend its agreement with the Newfoundland government to December of 1953 and to change the 1938 agreement in several significant ways. LMECL wanted to extend the agreement to 1953; to be exempted from surrendering specific areas of land annually; to reduce the royalty from 10 cents per ton to an assessment of royalty based on net profit; to have an additional lease renewal period of 30 years; to exclude the clause stipulating the

¹⁴⁶ Memorandum for the Commission of Government on the Request of LMECL for certain amendments to the agreement annexed to Act 41 of 1938, May 29/40.

¹⁴⁷ An Act for the Confirmation of an agreement between the Government and LMECL, July 14/41, No. 15.

¹⁴⁸ Woods to P. A. Clutterbuck, June 15/43.

necessity of the Newfoundland government's compliance with a transfer of the rights under the agreement to another company; and to have the right to construct a railway in Labrador for the transport of material and ore.¹⁴⁹ The Commission had struck a sub-committee to consider amendments to the 1938 agreement which reported in May of 1943. The report recommended the extension of the agreement to 1953, the exclusion of the requirement that 15% of the land be surrendered each year, and the calculation of the royalty on net profit.¹⁵⁰

The Dominions Office submitted the proposals for amendment to the Mining Law Technical Committee of the Imperial Institute. The Committee recommended a royalty formula based on a sliding scale graded upwards on the basis of net profits.¹⁵¹ H.A.F. Lindsay, Director of the Imperial Institute, advised Attlee that a royalty based on net profits would be acceptable provided there were safeguards for costing, sale price for the ore, and an amortization limit to depreciation charges. The rate of royalty should start at 5% and range up to 35% for high returns on investment to the company.¹⁵² The Committee recommended that only 10 charges of 10% per annum on capital expenditures be permitted for depreciation charges in the calculation of royalty payments. Under the 1930 Crown Lands Act, 10% depreciation per year on capital expenditures could be charged to the end of the lease. The Committee agreed to let the lease run an additional 30 years, thus bringing the total period for a mining lease up to 90 years. Also, the Committee felt that the question of the wishes of the

¹⁴⁹ Ibid.

¹⁵⁰ Memorandum on LMECL, PU 41(a) - '43, May 13/43.

¹⁵¹ C. R. Attlee to Gov. Humphrey Walwyn, Sep 8/43.

¹⁵² H. A. F. Lindsay to C. R. Attlee, Aug 31/43.

company to transfer leases without the approval of the government be left to the Commission of Government to handle.

The final negotiations for the agreement took place in St. John's with a committee of the Commission, composed of the Commissioners for Public Utilities, Finance, and Justice acting for the government and J. R. Timmins and Colonel McGill representing LMECL. Before the final negotiations began, the Commission identified the matters of principle to be taken up with the company in the upcoming negotiations. They were (1) the amount to be spent by the company for exploration and development, and (2) the method of calculating royalties.¹⁵³ In lieu of an annual expenditure requirement for exploration, the Commission decided to pursue a commitment from the company to spend \$1 million over the life of the agreement. Contrary to the advice of the Imperial Institute and the Dominions Office, the Commission preferred a flat-rate royalty on profit rather than the sliding scale advocated by Britain. The Dominions Office suggested that a 90 year lease would only be acceptable if a sliding scale royalty were adopted. Commissioner Woods and Government Geologist House discussed this point with company executives in Canada and Woods found himself convinced by the company's argument that investors would not be attracted to the development of Labrador's mineral reserves if there were no prospect "of a big reward in the event of success". As Woods advised the Commission of Government,

Personally, I believe it is well founded and that if we load the dice against the investor in the way suggested by the Imperial Institute we are not likely to have any mining development in Labrador as a result of this Agreement.

On the question of mining leases Woods argued that the Commission permit 90 year leases and disagreed with the suggestion of the Dominions Office that 90 year leases be

¹⁵³ Memorandum for Commission of Government Public Utilities, Jun 7/44, 24(a) - '44

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held out as a quid pro quo for a sliding scale royalty.¹⁵⁴

After receiving the endorsement of the Commission on these bargaining strategies, the Committee of the Commission met with representatives of LMECL on July 4th and 5th, 1944. Also present at these negotiations was E.S. Martindale, Acting Chief Division of Economics, Dept of Mines and Resources, Ottawa, who acted as an advisor to the Commission.¹⁵⁵ As a result of these negotiations, an agreement with the company was reached in which the royalty was to be assessed at 5% of net profits. Colonel McGill, solicitor for LMECL, remained in St. John's and conferred with the Department of Justice regarding the details of drafting the legislation.¹⁵⁶ By July 25, a bill was prepared and read a first and second time by the Commission.¹⁵⁷ The matter was referred to the Dominions Office for final approval. P.A. Clutterbuck inquired about the status of an expenditure clause requiring the company to spend \$1 million by 1953. Commissioner Woods indicated that the Commission had agreed with the company that if \$1 million must be spent over and above the \$460,000 already incurred by the company in exploration expenses, "they (the company) would probably be compelled to spend money merely to ensure fulfillment of this term of the Agreement and without due regard to the probable value of the results".¹⁵⁸ The bill was submitted to the Mining Law Technical Committee which had "no special suggestion to offer in regard to

¹⁵⁴ Ibid.

¹⁵⁵ Memo re proposals for revision of the agreement between LMECL, July 11/44, PV&S 24(b) - '44.

¹⁵⁶ A. A. Magee to Edward Emerson, Commissioner for Justice and Defense, July 8/44.

¹⁵⁷ A Bill "An Act Further To Amend the Act No. 41 of 1938 entitled 'An Act for the Confirmation of an Agreement between the Government and LMECL' ", July 26/44, PU&S 24(c)-'44.

¹⁵⁸ W. W. Woods to P. A. Clutterbuck, Telegram No 345, Aug 23/44.

Bill".¹⁵⁹ The Secretary of State for Dominion Affairs then indicated that "the way is now clear for the Board of Trade to proceed with enactment of the Bill".¹⁶⁰ The Bill was published in the Newfoundland Gazette of Aug 8/44 and no comments were forthcoming. On October 3, W.W. Woods requested that the bill be read a third time.¹⁶¹

In summary, this case reveals several aspects of the involvement of the Commission of Government in mineral development policy and throws some light on the Commission's relations with foreign capital and with the Dominions Office in Britain. From the case examined, it appears that the Commission acted very often as a broker between mining companies interested in mineral development in Labrador and the Dominions Office. The Dominions Office, most particularly the Undersecretary of State for Dominion Affairs, could veto decisions of the Commission of Government, and officials of the Dominions Office ~~were in close contact with~~ members of the Commission regarding the details of government-business contracts. The Dominions Office's view of the actual conditions in Newfoundland and the intentions and interests of mining companies in Newfoundland were very much of course influenced by how the Commission of Government presented the "realities" of Newfoundland policy-making to the Dominions Office. Though the Dominions Office was in a real sense at more than arms length in its involvement in mineral policy-making, it was crucial to the process both formally and informally. The Dominions Office was able to draw upon the huge bureaucracy of Whitehall in the formulation and evaluation of policy options and the considered opinions of British civil

¹⁵⁹ P. A. Clutterbuck to W. W. Woods, Sept 26/44.

¹⁶⁰ Secretary of State for Dominion Affairs to Governor, Sept 26/44.

¹⁶¹ A Bill entitled "An Act Further to Amend the Act No. 41 of 1938 entitled 'An Act for the Confirmation of an agreement between the Government and LMECL' ", Third reading, PU&S 24(d)-44, Oct 4/44.

servants were regularly presented to the Commission of Government on such matters of policy as duration of leases, rentals, royalties, expenditure clauses and depletion allowances. Neither under constraints from mining companies nor as constrained by the Newfoundland electorate as the Commission, the Dominions Office perhaps had much greater autonomy from mining companies and greater capability in the formulation of policy most advantageous to the government of Newfoundland. Drawing upon experience elsewhere in the Empire, the Dominions Office impressed upon the Commission the merits of short-term leases as opposed to long-term ones, high rentals, high royalties and commitments from mining companies to actual development of Labrador resources as opposed to speculative activity only. The Commission of Government, on the other hand, whose members were engaged in face-to-face negotiations with mining company directors, were inclined to present the views of the company on such matters to the Dominions Office as "realistic" for the Newfoundland environment. Failing this, the Commission would, upon instruction from the Dominions Office, attempt to strike a deal with resource companies somewhere between the companies' initial position and that of the experts in Whitehall. While the negotiations which resulted in the agreement which structured the development of Labrador's mineral wealth spanned an 8 year period, the agreement which LMECL reached with the Commission was not much more onerous for the company than that which had been initially proposed by the company in 1936 and vetoed by the Dominions Office. The 1944 legislation gave LMECL, in effect, a 90 year lease instead of the 99 year lease it had advocated and the 21 year lease suggested by the Dominions Office. Royalties were eventually established at 5% of net profits, a figure which in the company's own estimation was less than the 10 cents per ton agreed to between the Commission and the company in 1936 and far less than the sliding scale for royalties advocated by the Dominions Office and the Mining Law Technical Committee which would have assessed royalties at 10% to 35% of net profit depending

on the return to the company on investment. While the 1938 agreement provided for an expenditure clause and for the consent of the Commission on the question of the company's assignment to another company of the rights under the agreement, the expenditure clause was written out in a 1940 amendment and the 1944 agreement did not specify a role for the Commission in the assignments of rights under the contract to a corporate entity other than LMECL.

What is interesting about the process was the degree of Dominions Office involvement and the perennial disintegration of Dominions Office positions in specific issues under negotiation with the companies as a result of the influence of the Commission of Government. The Commission feared that unless a very favourable agreement was given to the company, development would not proceed. This view was perhaps affected by two factors. Firstly, LMECL had no intention itself of developing Labrador and wished only to establish geologically the nature of the iron ore reserves and to work out an agreement on royalties, rentals, etc., which in effect could be marketed to an actual mining company. The Commission was inclined to view this situation relatively favourably and, in the interests of speeding Labrador development, was willing to offer LMECL what might be called a "sweetheart deal". Secondly, from a political perspective, the Commission was interested in giving some indication to the Newfoundland public that they were concerned about resource development and had successfully stimulated the development of Labrador, which had for many years been viewed as a rich hinterland whose development would improve the prospects of Newfoundland generally. As the Commission's days were very much numbered by 1944, they did not as a government have to bear the political embarrassment or budgetary repercussions of low economic rents from Labrador resources. Nor was the Commission concerned, indeed did it even seem cognizant of, such considerations in its mineral

policy as the absence of provisions for local processing or the implications for economic rent of such other aspects of vertical integration as transfer pricing.

The LMECL legislation not only structured the development of iron ore in Labrador but served also as a model for subsequent mineral concessions. As anticipated, LMECL did not itself mine the ores of Labrador but leased its interests in the mineral lands to the Iron Ore Company of Canada. Iron ore has historically been the principal mineral of value mined in Newfoundland, constituting about 85% of the mineral production and yielding a census value-added of in excess of \$500 million per year. Despite this, in the 1970's, the economic rents yielded from the total mineral wealth of the province was less than the tax proceeds from a tiny trotting race track which operates on a seasonal basis 10 miles from the city of St. John's. In recent years, several royal commissions and inquiries have investigated mineral royalties and the concession system in general. While some reforms have been implemented, iron ore is a non-renewable resource and the reserves of Bell Island were exhausted by 1965 and established Labrador reserves cannot be expected to last much beyond the turn of the century.

Conclusion

It is difficult to assess the decision-making autonomy of the Commission of Government. On the one hand, all expenditures of the Commission required the approval of the Dominions Office in London. As the tenure of Commissioners was only three years, the English Commissioners, particularly, had little time to familiarize

themselves with the Newfoundland political environment and could not claim familiarity with the Newfoundland environment as a basis for independent judgement and action. On the other hand, however, Dominions Office approval of the Commission's expenditures was usually a pro forma procedure, and because the Commission governed without requiring the legal sanction of the electorate, there was no need for Commissioners to unduly concern themselves with public opinion or the Newfoundland political context. In any event, attached to each of the six departments was a Secretary to the Commission, who as a permanent civil servant was knowledgeable of the Newfoundland context and performed duties analogous to those performed by deputy ministers under the democratic regime. Secretaries furnished their Commissioner with background memoranda on policy and oversaw the administrative procedures of the Department.

In some ways the decisional efficacy of the Commission seems greater than that of Liberal-Reform or United Newfoundland cabinets from 1930 to 1934. The conflicting demands of the bondholders and the electorate did not have to be reconciled. The Newfoundland Act of 1934 managed the conflict by deciding in the bondholders' favour. Furthermore, the Commissioners were not subject to the frequent and often unjust charges of political corruption which had beset politicians of the responsible government regime. On an ideological level, the Commissioners claimed that as appointed officials they were above politics and the press was hesitant to heap upon the Commissioners the same kind of vicious commentary and personal abuse as it had inflicted on Cabinet ministers of the old regime. The press's reason for this was that as the Governor presided at the meetings of the Commission, an open criticism of the Commission would imply a slight on the Crown! The real reason was perhaps that party gain could no longer be achieved through the embarrassment of the government.

Another reason was that in the closed policy context of the Commission the press lacked the ammunition - information - to attack the government.

Under this new system of government, which lacked functioning political parties, a legislature and an electorate, the hurly burly of politics, so apparent in Newfoundland in the 1920's and 1930's was less obvious. Politics and policy-making continued; the difference was that political decisions masqueraded as bureaucratic ones. The institutional context in which political decisions were made, the bureaucracies of Whitehall and St. John's, were not in the public arena in the same way as the Cabinet and House of Assembly of the responsible government regime had been. Consequently, public political debate was less informed, and because governments could no longer be toppled or elected, perhaps more sedate.

By the late 1930's, alternate forms of government were discussed in the press just before World War II intervened to revitalize the economy. The next chapter will explore how the Commission of Government regime was replaced by a democratic constitution with Newfoundland's federation with Canada in 1949. The period between 1946 and 1949 was one of regime change.

Chapter 8
Regime Change - 1940-1949

Introduction

Newfoundland underwent another fundamental regime change in 1949 with the re-establishment of democratic politics and the entrance of Newfoundland into the Canadian federation. This change in regime involved both transformations in patterns of political relations from authoritarian to democratic and alterations in the territorial organization of Newfoundland from a unitary colonial dependency of Britain to a province of federal Canada. The 1949 change of regime involved a complex web of interactions between three governments, those of Newfoundland, Canada and Great Britain. The public debate and elections accompanying the return to democratic politics and Newfoundland's federation with Canada brought the fundamental cleavages within Newfoundland society into the open political arena. The intensity of the politics surrounding Newfoundland's change in constitution reflected both Newfoundland's external dependency and the inherent dualism of Newfoundland society.

In the regime change of 1949, Newfoundland's external dependency in both its economic and political dimensions is crucial to an understanding of the process through which the regime change was accomplished and the ultimate characteristics of the new regime which was formalized in the British North America Act 1949. External dependency may impinge upon the domestic politics of underdeveloped political systems in a variety of ways - through the actions of foreign governments and such agencies of political dependency as foreign embassies and also through the activities of transnational corporations located in the underdeveloped region. In the regime change of 1934, foreign governments, foreign corporations and local capital each exerted influences which together propelled the Newfoundland political system, in the generalized economic

crisis of the 1930's, toward the dismantling of democratic institutions and into formal political dependency on Britain. Though the dynamics of the regime change of 1949 were different from those of 1934, aspects of external dependency nevertheless produced the outcome of regime change. In the 1949 change of regime, the machinations of external governments and their embassies during the economic crisis of World War II and the post-war period of economic readjustment established the institutional mechanisms for a democratic change of regime - the National Convention and the referenda - but throughout the Canadians, the British and the Commission of Government acted in a way to nurture the desired outcome: Newfoundland's federation with Canada. In general, foreign capital within Newfoundland and local capital were opposed to Newfoundland's federation with Canada. The British and Canadian governments were, however, motivated by a variety of economic and political concerns in the post-war environment and successfully orchestrated the support of a bare majority of the Newfoundland electorate after two bitterly contested referenda.

Canadian interest in Newfoundland in the years leading up to confederation was signalled by the establishment of a High Commission in St. John's in 1941. The objective of the High Commission from the beginning was the encouragement of closer ties between Newfoundland and Canada. During World War II, aspects of Newfoundland's economic relationship with Canada and its strategic geographic position in the North Atlantic made the defence of Newfoundland important for Canada's war effort. The protection of the Wabana mines and, thus, of the Canadian steel and munitions industry which were heavily dependent upon Newfoundland ore, sensitized Canadian policy-makers to the importance of control over Newfoundland. Newfoundland was additionally an important trading partner of Canada as Canada's fifth best customer within the British Commonwealth. Canada and Newfoundland also had complementary goals in the

protection and enhancement of the North Atlantic fisheries. In addition, there was substantial Canadian investment in Newfoundland which increased economic and political integration might protect and develop. As additional motivation for union, there was the resource wealth of Labrador, long coveted by Canada and which, by 1940, had been geologically confirmed by Canadian mining exploration companies. Economically, integration between Canada and Newfoundland had been developing since the turn of the century and the formal political integration of Newfoundland into the Canadian federation had been contemplated since the origins of the Canadian federation itself. By 1943, bureaucratic and political opinion within Canada had developed in the direction of enticing Newfoundland into confederation. As had been the stumbling blocks in earlier attempts to bring Newfoundland into confederation, there were the problems of finding terms of union acceptable to both Newfoundland and the existing provinces and of the generally negative attitudes within Newfoundland towards Canada. With the finalization of federal-provincial fiscal relations following the war, the way was cleared for the admission of Newfoundland on terms not substantially different from those enjoyed by the other provinces. Furthermore, Canada's new social welfare programs in the areas of unemployment insurance, pensions and family allowances proved to be powerful inducements in overcoming negative public opinion in impoverished Newfoundland. This, however, was the final stage in the process of regime change-one which had been prepared through a complex web of diplomatic relations between the governments of Canada, Great Britain and the Commission of Government of Newfoundland years before the referenda of 1948.

For its part, the British government, by the early 1940's, was faced with the problem of how to divest itself of Newfoundland. The Dominions Office, cognizant of negative attitudes in Newfoundland towards Canada and towards the continued existence

of the Commission of Government, attempted to revise the Newfoundland constitution to permit at least the partial restoration of responsible government with grants-in-aid from Britain to finance post-war reconstruction in Newfoundland. Though federation of Newfoundland with Canada was viewed as almost a panacea for Newfoundland's and Britain's problems, the hurdles were seen as formidable. The Dominions Office came to favour for Newfoundland what was called a constitutional "half-way house". It was estimated that development in Newfoundland would cost \$100 million over a ten year period. Since Newfoundland currency was the Canadian dollar, any grants-in-aid from Britain to Newfoundland would affect Britain's exchange relations with Canada. The British Treasury, itself in need of Canadian dollars to finance agricultural and other imports, vetoed plans to use scarce Canadian funds to aid Newfoundland. Though the Dominions Office was sensitive to the political and economic realities of Newfoundland, the Dominions Office deferred to the more nationally compelling arguments of the British Treasury. The Dominions Office was also aware of Canadian interest in the acquisition of Newfoundland and of Canadian hostility toward further aid from Britain to Newfoundland, particularly if it was to be at the expense of Canadian political goals and of Canadian trade with Britain itself. Finally by 1945, the formal recommendation of the Dominions Secretary to the British Cabinet was that Newfoundland's union with Canada be an objective of British policy.

The other governmental actor involved in Newfoundland's change of regime was the Commission of Government. The Commission of Government was not meant to be a permanent form of government for Newfoundland. The Amulree Commission had stipulated that self-government would be restored to Newfoundland when the economy of the island was self-supporting. Newfoundland benefitted economically from World War II

primarily because of Canadian and American defense construction in Newfoundland.¹ By 1942, the Newfoundland government's finances were sufficiently improved that Newfoundland actually made loans to Britain to help finance the war effort.² The positive effects of World War II on the economy were such that the Commission of Government's days were numbered as far as public opinion was concerned. Further, the British government in the post-war economic crisis did not wish to continue its administrative involvement in Newfoundland. The problem for the British government became how to effect a withdrawal from Newfoundland and at the same time provide for some measure of economic and political stability in Newfoundland. Furthermore, because World War II had been fought in the name of democracy and because the Amulree Commission and the Newfoundland Act 1933 had stated that self-government would be restored upon request of the people, any transformation in Newfoundland's form of government had to be accomplished through democratic means.

The Commission of Government was compelled to work toward the economic and political restoration of Newfoundland. Part of the political restoration included, in the Amulree Commission's estimation, the inculcation of democratic norms and the eventual reestablishment of democracy. As the previous chapter has suggested, the Commission of Government was somewhat slow to implement democratic practices. In light of the views held by the Amulree Commission and the Commission of Government of Newfoundland political culture, and in light of Newfoundland's debt crisis, democratic practices were viewed as premature for Newfoundland. Further, the goals of debt repayment and economic reconstruction were seen as conflicting with wide-scale

¹ David Mackenzie, Inside the Atlantic Triangle, (Toronto: University of Toronto Press, 1986), passim.

² S.J.R. Noel, Politics in Newfoundland, (Toronto: University of Toronto Press, 1971), p. 243.

democratic procedures.³ Nevertheless, the Commission of Government operated within general Dominions Office policy and the stated goals for Newfoundland had always included the eventual reestablishment of democratic self-government.

The form which self-government or, at least, government outside formal British policy parameters, would take was very much an open question. Though World War II had resulted in some measure of economic recovery for Newfoundland, it was feared that this recovery would be transitory and that Britain would be again called upon to bail out the Newfoundland government should the old regime of responsible government be restored. The Commission of Government in general had a very jaundiced view of the potential for stable democracy in Newfoundland and were pessimistic about Newfoundland's post-war economic future. Their recommendations on Newfoundland's constitutional future were for the maintenance of Commission of Government with grants-in-aid to provide for economic reconstruction or the partial restoration of representative government such that Britain would continue to control important aspects of public finance and development projects. The Dominions Office, though influenced by the policy recommendations of the Commission, were more committed to the restoration of democracy and the application of democratic procedures to any change in Newfoundland's constitutional status. The Commission of Government, as subordinates really of the Secretary of State for Dominions Affairs and the British Cabinet, fell in line with government policy and they too worked towards the policy goal of uniting Newfoundland and Canada.

³ Though recent evidence seems to indicate that economic stabilization policies need not be incompatible with a democratic regime, in the 1930's it was widely held that authoritarian governments were more effective in dealing with economic crisis. On the impact of political regime on economic stabilization policies, see Karen Remmer, "The Politics of Economic Stabilization: IMF Standby Programs in Latin America, 1954-84" in *Comparative Politics*, Oct 1986, pp. 1-24.

While the behind-the-scenes diplomatic manoeuvrings of foreign governments are part of an explanation of the regime change of 1949, external political dependency constitutes only a partial explanation. The facts are that Newfoundlanders elected a National Convention to debate their constitutional and economic alternatives and voted in free and democratic elections to join the Canadian federation. The indigenous aspects of Newfoundland society and politics, therefore, must constitute another dimension of an explanation of the regime change of 1949. While idiosyncratic, personal and unique dimensions of the Newfoundland political process undoubtedly impacted upon the tenor of the political debate within Newfoundland, the democratic process of regime change was not divorced from the impact of economic and political dependency on various aspects of Newfoundland's social formation. Dependency had created a society which was fragmented along class and regional lines. These cleavages to some extent reinforced one another creating a dualism of culture, economy and political preferences which were manifested in Newfoundland's tumultuous and bitter battle over its constitutional and economic future. The local capitalist and urban classes were in general opposed to confederation and supported the restoration of responsible government and Dominion status. In contrast, Smallwood, as champion of the "toiling masses" and adversary of the St. John's merchant class, held out for many the hope of a more prosperous and less uncertain future.

That the vision of the new messiah was not of socialism as such but of union with Canada governed by the Liberal party of Mackenzie King was an odd touch, but it did not alter his message: confederation would mean a new dignity for the 'little man' or in a vivid phrase coined by another Confederate, William Keough, for 'the lost forgotten fisherman off the bill of Cape St. George'.⁴

Such was the propaganda that ultimately won the day for the confederate forces.

⁴ S.J.R. Noel, *Politics in Newfoundland*, op. cit., p. 252.

Whether the outcome of federation with Canada did very much to mitigate dependency, poverty and underdevelopment remains a moot point within contemporary Newfoundland.

The developmental outcome of the regime change of 1949 is a subject for another research project. This chapter will outline how external political actors and local political and economic interests effected a change in Newfoundland's political regime in 1949. Specifically, this chapter will address the impact of the politics of underdevelopment, external dependency, and internal dualism on the transformation of the Newfoundland political system.

External Actors

The British Government

The British government, through the Dominions Office and the appointed Commission in Newfoundland, governed Newfoundland from 16 February 1934 to 31 March 1949. As the previous chapter has argued, the bureaucrats of the Dominions Office played an important role in many routine aspects of the policy process in Newfoundland. Formally, the Commission of Government was responsible to Parliament through the Undersecretary of State for Dominion Affairs. Informally, the Dominions Office provided direction to the Commission of Government in Newfoundland on many aspects of public policy. This aspect of policy-making did not go unnoticed by the Newfoundland press. As has been indicated, public opinion as expressed through the Newfoundland press was that the government was insensitive to the needs of the people and, because of the role of the Dominions Office and the English Commissioners, distant from Newfoundland.

Agitation for representative and responsible government began soon after the installation of the Commission of Government regime.⁵ With the improvement in Newfoundland finances due to World War II and the deterioration of the economic position of Britain, it became more and more difficult for the British Government to continue to justify its involvement in Newfoundland. Not only did economic factors act against a role for the British government in the reconstruction of Newfoundland, but ideologically the lack of representative institutions in Newfoundland was difficult to rationalize.

This was so because, in August of 1941, off the coast of Argentia, Newfoundland, the first meeting between the leaders of the Allied Nations took place. The outcome of this Atlantic Conference was the Atlantic Charter which proclaimed in a joint press release of Prime Minister Churchill of Britain and President Roosevelt of the U.S.A. the united ideological goals of both countries. Significant for Newfoundland was the third point of the Charter which stated that:

...they respect the right of all peoples to choose the form of government under which they will live; and they wish to see sovereign rights and self-government restored to those who have been forcibly deprived of them.⁶

These words of the Atlantic Charter proclaimed in Newfoundland waters undoubtedly stirred feelings of incredulity in dependent Newfoundland. The Atlantic Charter had an additional significance for Newfoundland's future - the defence of the western half of the Atlantic and the strategic direction of the Newfoundland Escort

⁵ See Chapter 7, and Jeff Webb "The National Convention", Memorial University of Newfoundland Department of History, unpublished manuscript, pp. 10-14.

⁶ See Winston S. Churchill, The Second World War: The Grand Alliance, (Houghton Mifflin Co.: Boston, Riverside Press: Cambridge, 1951), pp. 433-450 for a discussion of the Atlantic Charter.

Force, much to the chagrin of Canada, fell under American control.⁷ In general, British, Canadian and American involvement in defence operations in Newfoundland underlined Newfoundland's dependent status, yet the stated goals of Allied involvement in the conflict held out the hope of the restoration of self-government after the war was over.

By 1942, it was clear to officials within the Dominions Office that some immediate steps should be taken to deal with Newfoundland's underdevelopment and that plans should be made regarding Newfoundland's constitutional future. After a visit of Dominions Office officials Shakespeare and Garner to Newfoundland, discussions on Newfoundland within the Dominions Office led to the formation of concrete British policy on the economic and political future of Newfoundland. Joe Garner and Geoffrey Shakespeare filed reports on the deplorable condition of public services in Newfoundland and on possible policy options for Newfoundland political and economic development.

Shakespeare suggested that the British government "...make a bold and comprehensive effort to repair the deficiencies of years of unimaginative government".⁸ Shakespeare found in Newfoundland "primitive road conditions which would disgrace a cannibal island in the Pacific" and "a complete lack of telephone and modern communications".⁹ Shakespeare estimated that the development needed would take 5 to 10 years to complete and would cost several hundred millions of dollars. As to the

⁷ Mackenzie, op. cit., pp. 71-72.

⁸ PRO/DO/21 92X/J7853, Memorandum from Parliamentary Undersecretary of State for Dominions Affairs of Great Britain to Dominions Secretary and to Permanent Undersecretary of State for Dominions Affairs of Great Britain, in *Canada-Newfoundland Documents*, Vol 2.

⁹ Ibid.

future constitutional status of Newfoundland, it was Shakespeare's view that though confederation with Canada would likely benefit Newfoundland, this alternative would not be acceptable to the people. Instead he proposed a comprehensive development plan under the current government "with an annual grant from the British Treasury to continue even if Dominion Status were subsequently restored".¹⁰

Echoing the views of Shakespeare, P.V. Emyrs-Evans argued that "a new and vigorous policy with regard to Newfoundland has become imperative."¹¹ Like Shakespeare, Emyrs-Evans saw the need of a development scheme for Newfoundland which focused upon natural resource development but, unlike Shakespeare, he saw Newfoundland's constitutional future with Canada.

Our immediate aim should be the improvement of the condition of the people and the development of the natural resources of the country so that it may be able to manage its own affairs again as soon as possible. We should moreover do everything in our power to improve relations between Canada and Newfoundland. If close and sympathetic co-operation in the development of the Island and of Labrador came from Canada, the possibility of union might come into the realm of practical politics. The ultimate aim of our policy should be to bring Newfoundland into the Confederation.¹²

J.M. Machtig, Permanent Head of the Dominions Office, offered similar advice to Attlee, the Dominions Secretary. Machtig was in agreement with Emyrs-Evans "that the aim of our policy should be to bring Newfoundland into the Canadian Federation if by any means this can be accomplished."¹³ Machtig proposed that if Canada "were induced

¹⁰ Ibid.

¹¹ Memorandum from Parliamentary Undersecretary of State for Dominions Affairs of Great Britain to Dominions Secretary and to the Permanent Undersecretary of State for Dominions Affairs of Great Britain, June 10, 1942, PRO/DO 35 723/N2/73/X/J7827 in Canada-Newfoundland Documents, Vol. 2, 1940-1949.

¹² Ibid., p. 25.

¹³ Memorandum from Permanent Undersecretary of State for Dominions Affairs of Great Britain to Dominions Secretary, June 13, 1942, PRO/DO 723/N/73/X/7827, in Canada-Newfoundland Documents, Vol. 2, (continued...)

to take a more liberal view of the terms which she would offer to Newfoundland" and if this were backed by a financial offer from Britain such as the acceptance by the British Exchequer of Newfoundland's debt charges, then public opinion in Newfoundland might swing to favour federation with Canada.¹⁴

These reports and recommendations were made to Clement Attlee, Dominions Secretary in the British cabinet. In September of 1942, Attlee himself made a visit to Newfoundland. This visit sparked renewed interest within Newfoundland on the economic and political future.¹⁵ Attlee interviewed the Commissioners and prominent Newfoundland citizens and travelled to Grand Falls and Corner Brook. He gave some rather non-committal press interviews and radio addresses while in Newfoundland,¹⁶ but upon his return to Britain forwarded some of his impressions about his visit to the Governor of Newfoundland. Attlee indicated his wish to work out a policy on Newfoundland so that the British government not be "unprepared by events" once the war was over. He outlined three possible options; the continuation of Commission of Government, the restoration of self-government, or some form of "half-way house".¹⁷ Attlee saw the continuation of Commission of Government beyond the war years as unacceptable and noted that the Commission "has of its very nature led to a cessation

¹³ (...continued)
1940-1949, p. 27.

¹⁴ *Ibid.*, pp. 28-29.

¹⁵ St. John Chadwick, Newfoundland, Island Into Province, (Cambridge: Cambridge University Press, 1967), p. 183.

¹⁶ See High Commissioner in Newfoundland to Undersecretary of State, External Affairs, Sept. 18, 1942, 2828-40, Canada-Newfoundland Documents, Vol. 2, pp. 37-41.

¹⁷ Dominions Secretary to Governor of Newfoundland, Nov. 25, 1942, PRO/DO 35/1345/N402/43/X/LO 1165, in Canada-Newfoundland Documents, Vol. 2, p. 42.

of the practice of democracy."¹⁸ He proposed that regional committees and local self-government be established in preparation for the return of self-government. Attlee also indicated that he favoured a visit at this time to Newfoundland by one or two experienced Members of Parliament and a special investigation into Newfoundland's post-war economic possibilities.¹⁹ In reply, the Commission of Government indicated that "it may be that the final solution lies in the political incorporation of this country (Newfoundland) in a larger unit."²⁰ The Governor urged the Dominions Secretary to give serious consideration to the option of confederation with Canada and, in fact, suggested a strategy to facilitate federation:

The only other political incorporation which deserves consideration is Confederation with Canada. It may be, as you assert, that confederation is unlikely to be acceptable to public opinion in either country. We feel that on a plebiscite in this country at the present time this assertion would be proved true, but it may transpire that the country will accept this alternative in preference to that of the political uncertainty and economic collapse which return to Responsible Government would almost certainly involve, if unaccompanied by assurances that grants-in-aid would be available.

That confederation with Canada would be unacceptable to public opinion in Canada is not clear. No approach has been made to that country since 1895 and the subject has been so much of a political football in this country that no Canadian Government or high Minister has thought it proper to bring it into discussion. Canada's present and growing interest in this country, her fear of an increase of United States influence, her desire to acquire the Labrador, are all powerful factors. At no time has our bargaining position been so favourable and it is doubtful if it will ever be again.²¹

While Attlee seemed to favour a "half-way house" such as the partial restoration of responsible government with continued grants-in-aid from Britain, he recognized the

¹⁸ Ibid., p. 43.

¹⁹ Ibid., p. 44.

²⁰ Governor of Newfoundland to Dominions Secretary, Jan. 7, 1943, PRO/DO 35 1345/N402/43/ERD/1783 in *Canada-Newfoundland Documents*, Vol. 2, p. 33.

²¹ Ibid.

political and economic difficulties of such an arrangement both in Newfoundland and in Britain. He indicated that the Commission's views would be borne in mind and that some form of association with a larger unit "should not be altogether ruled out in any review of the possibilities".²² As an immediate measure, Attlee discussed the Newfoundland situation with the British Cabinet and arranged for the visit of a parliamentary 'mission' to Newfoundland.²³

The Members of the British Parliament selected for the 'mission' to Newfoundland were C.G. Ammon, Derrick Gunston and A.P. Herbert. St. John Chadwick of the Dominions Office was appointed as Secretary and from June to August 1943 the 'mission' toured Newfoundland and Labrador. Each of the Members of Parliament and the secretary, Chadwick, drafted separate reports which were not made public.²⁴ Cranborne succeeded Attlee as Dominions Secretary and, in his opinion, all of the reports contained a "serious weakness": each report contemplated the provision by the United Kingdom government of large sums of money for development purposes in Newfoundland, even in the event of the restoration of self-government.²⁵ In light of Britain's post-war problems, the constitutional future of Newfoundland must have seemed an intractable political and economic problem.

One suggestion deriving from the reports of the parliamentary mission which the

²² Dominions Secretary to Governor of Newfoundland, March 17, 1943, PRO/DO 35 1345/N402/43/X/LQ.1165, op. cit., p. 59.

²³ Ibid.

²⁴ See St. John Chadwick, Newfoundland, Island Into Province, op. cit., pp. 188-189 for an account of the views of the three parliamentarians.

²⁵ Dominions Secretary to Governor of Newfoundland, Dec. 3, 1943, PRO/DO35 1337 X/1/7896, Canada-Newfoundland Documents, Vol. 2, op.cit., p. 93.

British government acted upon was that of A.P. Herbert that a National Convention be established to investigate Newfoundland's constitutional future. In November 1943, the British War Cabinet considered this proposal to be worth examination. The War Cabinet decided that:

as soon as practicable after the end of the war machinery must be provided to enable the people of Newfoundland to examine the future of the island and to express their considered views as to the form of government they desire, having regard to the financial and economic conditions prevailing at the time.²⁶

Following this policy decision, the Dominions Secretary invited members of the Commission of Government to London to discuss the machinery to be put in place and Newfoundland's constitutional future and plans for post-war reconstruction. In the meantime, the Canadian government was watching the political and economic situation in Newfoundland and London with a view to the possibility of incorporating Newfoundland into the Canadian federation. As a small and economically vulnerable dependency of Britain, Newfoundland's post-war constitutional future was played out on an international stage in the years leading up to the establishment of the National Convention.

The Canadian Government

While Canadian involvement increased in Newfoundland as a result of the exigencies of the defence of Canada and the North Atlantic during World War II,

²⁶ Extract from Conclusions of War Cabinet of Great Britain, London, Nov. 19, 1943, PRO/DO 1337 X/J/7896, *ibid.*, p. 92.

Canada, as this dissertation has revealed, had had significant economic and political interests in Newfoundland since the turn of the century. In the nineteenth century there had been two unsuccessful attempts to bring Newfoundland into the Canadian federation, and with the collapse of the economy in the 1890's, Newfoundland's economic integration with Canada increased. Accompanying the fall of the Newfoundland banks in 1894, Canadian currency and Canadian banks were established in Newfoundland.

As a result of Newfoundland's economic development policies in the last half of the nineteenth century, Canadian railway magnates and industrial entrepreneurs in mining were important political actors. The Canadian banks and the Canadian government were involved in attempts to prop up the Newfoundland economy during the financial crisis of the international depression and exerted a significant influence on the Newfoundland policy process of regime change between 1930 and 1934. Furthermore, from the time of World War I, Newfoundland was an important export market for Canada. While defence and strategic concerns were undoubtedly foremost in Canadian minds in 1941 when the Canadian government decided to establish a High Commission in Newfoundland, economic and political considerations cannot have been insignificant.²⁷

From his appointment in 1941, the first Canadian High Commissioner, C.J. Burchell, offered opinions, comments and advice to the Undersecretary of State for External Affairs concerning the possibility of Newfoundland's entry into Confederation.²⁸ Burchell was concerned about press coverage in Newfoundland and saw the education of

²⁷ See Kathryn Hayman, "Origins and Functions of the Canadian High Commission in Newfoundland 1941-49", M.A. thesis, University of Western Ontario, 1979.

²⁸ See C.J. Burchell to Norman Robertson, Sept. 19, 1941 and Dec. 11, 1941, 2727-AF-40 and 2828-40, Canada-Newfoundland Documents, Vol. 2, pp. 2-4 and pp. 7-8.

Newfoundlanders about Canada "as an essential preliminary to any plan of Newfoundland coming into the Canadian Confederation."²⁹ Burchell regularly reported to the Undersecretary of State for External Affairs on Newfoundland sentiments about confederation as expressed to him in a variety of social situations³⁰ and also gave his impressions to Robertson of politically and socially prominent Newfoundlanders.³¹ Burchell also advised Robertson that Canadian policy should be to increase the links connecting Newfoundland and Canada.³² It seems that this recommendation was acted upon, as a meeting on public relations with Newfoundland was held in the Department of External Affairs with several defence officials.³³ It was decided to establish in St. John's a Canadian Public Relations Committee, chaired by the High Commissioner, and to use the private wire at night to send Canadian news to Newfoundland so that it might be available for use by the Newfoundland press.³⁴

Integration between Newfoundland and Canada was also increasing in other ways. Closer ties from the exigencies of defence and trade during the 1940's eventually led to Canadian support of a political integration between Newfoundland and Canada. By 1945, in defence matters Newfoundland was treated as if it were Canadian soil.³⁵ Canada's initial concerns about Newfoundland were motivated by the need to defend Sydney as an

²⁹ Ibid., pp. 7-8.

³⁰ See for example C.J. Burchell to Norman Robertson, Feb. 21, 1942, *ibid.*, pp. 10-11.

³¹ Burchell to Robertson, Feb. 21, 1942 and Mar. 20, 1942, *ibid.*, pp. 10-12.

³² Burchell to Robertson, Apr. 10, 1942, *ibid.*, p. 13.

³³ Secretary of State for External Affairs to High Commissioner in Newfoundland, Oct. 26, 1942, 2727-AF-40, *ibid.*, pp. 41-42.

³⁴ *Ibid.*, p. 42.

³⁵ See David Mackenzie, *op. cit.*, p. 113.

Atlantic convoy port and an important site for the production of iron and steel.³⁶ Since the iron ore mines of Wabana, Bell Island, supplied the Sydney steel mills, Canada was interested in the defence of Newfoundland and adjacent waters. With the outbreak of war, Sir Humphrey Walwyn, the Governor of Newfoundland, stressed the importance of Wabana ore for the production of munitions at Sydney and asked the Canadian government if provisions were being made for the coastal defence of Bell Island.³⁷ After making some inquiries on the arrangements made for defence by Dominion Steel and Coal Corporation,³⁸ the Canadian government decided that the defence of Bell Island was a "special problem" which it would be prepared to share with Newfoundland.³⁹ In reply to this decision, the Commission of Government confirmed that the Canadians could have access to Botwood, Gander and Red Bay, Labrador for defence purposes.⁴⁰ During the war, Canada had specific defence interests in Newfoundland and with the American presence created by the base-destroyer deal, the Canadian government felt the need to shore up its interests in Newfoundland. The American bases in Newfoundland caused some uneasiness for the Canadian government and frequently during the war years Prime Minister Mackenzie King reminded the Canadian Cabinet of the importance of protecting Newfoundland from encroachments by the U.S. and of the need to safeguard Canada's interests in Newfoundland.⁴¹

³⁶ Memorandum by Joint Staff Committee, Mar. 22, 1937, DND HQS 7410, Canada-Newfoundland Documents, Vol I, pp. 12-13.

³⁷ High Commissioner of Great Britain to Undersecretary of State for External Affairs, Nov. 22, 1939, 1156-D-39, Canada-Newfoundland Documents, Vol I, pp. 56-57.

³⁸ See President of Dominion Steel and Coal Corporation Limited to Undersecretary of State for External Affairs, Jan. 20, 1940, *ibid.*, pp. 61-62.

³⁹ Prime Minister to High Commissioner of Great Britain, Mar. 16, 1940, 1156-D-39, *ibid.*, pp. 64-65.

⁴⁰ High Commissioner of Great Britain to Prime Minister, Mar. 26, 1940, 1156-D-39, *ibid.*, p. 69.

⁴¹ Mackenzie, pp. 100-101.

Though defence considerations were important in moving Canadian official opinion toward the formal integration of Newfoundland with Canada, economic factors continued to be preeminent. Canada's initial defence interests in Newfoundland were motivated by the economic consideration of protection of the Canadian steel industry, 30% of which was dependent on Newfoundland ore. Iron ore constituted Canada's principal import from Newfoundland, but Canada's export trade to Newfoundland had always been and continued to be more significant in dollar terms.

Table 15

Newfoundland-Canada Trade 1943-45

	1943-44	1944-45
Exports from Canada to Newfoundland	\$41,483,171	43,034,879
Imports to Canada from Newfoundland	6,924,088	6,294,506

By the beginning of World War II, Newfoundland was Canada's 5th best customer within the British Commonwealth and its 11th best customer among the countries of the world.⁴² One aspect of Newfoundland's dependency was that it was using earnings from its export fish trade to finance the purchase of Canadian imports. As compensation for the trade imbalance with Canada and the defence considerations given Canada, the Newfoundland government asked that Newfoundland be included in Canada's commercial negotiations and trade agreements with other countries.

⁴² Vice-Chairman, Commission of Government to Secretary of State for External Affairs, Nov. 28, 1940, 9180-40, Canada-Newfoundland Documents, Vol I, p. 1186.

This proposal resulted in some consideration of Newfoundland's economic relationship to Canada within the Canadian Department of External Affairs and the Department of Trade and Commerce. External Affairs considered the request of the Newfoundland government for an "optional clause", in which Newfoundland might be included in Canadian trade agreements, to be a reasonable possibility⁴³ and he requested the views of Trade and Commerce on the suggestion. Trade and Commerce saw "great difficulties" as Newfoundland was the chief competitor for sales of Canadian fish in the British West Indies. While inclusion in Canadian agreements could not be assured, the Deputy Minister of Trade and Commerce informed the Department of External Affairs that no action would be taken to exclude Newfoundland from concessions extended to Canada and that the Newfoundland government would be informed of upcoming negotiations.⁴⁴

What is significant about these interactions is that the Commission of Government in 1940 sought greater international economic integration with Canada and that the Canadian government, though cognizant of the difficulties, was not unsympathetic. In order to carry out the suggestion of the Commission of Government for an "optional clause", the Canadian Department of Trade and Commerce felt that Newfoundland and Canada should first of all agree to cooperate in the production and sale of salt fish.⁴⁵ Apparently, this suggestion met with some support from the Commission of Government since Commissioner Dunn travelled to Nova Scotia and Ottawa to informally discuss the

⁴³ O.D. Skelton, Undersecretary of State for External Affairs to Deputy Minister of Trade and Commerce, Jan. 23, 1941, 9180-40, *ibid.*, p. 1189.

⁴⁴ *Ibid.*, p. 1191.

⁴⁵ *Ibid.*, p. 1197.

formation of a Joint Fishery Board for Newfoundland and Canada.⁴⁶

While the Canadian High Commissioner to Newfoundland was advised upon his appointment "to keep away from all trade matters", by 1941 C.J. Burchell found that his avoidance of trade issues was causing him some embarrassment. To deal with trade inquiries, Burchell recommended that a Trade Commissioner to Newfoundland be appointed.⁴⁷ Canada had previously maintained a Trade Commissioner in Newfoundland from 1905 to 1920. At that time, it was found that the volume of work for the Commissioner's office was quite low because many of the importing firms in Newfoundland got their information about Canadian suppliers from the Newfoundland branches of the Canadian banks.⁴⁸ The Department of Trade and Commerce supported Burchell's recommendations because war conditions and the need for advice on supplies which should be exported to Newfoundland justified a new appointment. R.P. Bower was appointed as Trade Commissioner in June of 1942 and was to have his office in the same premises as the High Commissioner. With this appointment, the Canadian government had an alternate source of advice in Newfoundland on Newfoundland economic and political conditions.

Bower advised the negotiation of a trade treaty with Newfoundland, but by 1944 anti-Canadian feeling in Newfoundland due to the Goose Bay airport deal militated, in

⁴⁶ High Commissioner in Newfoundland to Secretary of State for External Affairs, Mar. 20, 1942, 9180-40, *ibid.*, p. 1198; Secretary of State for External Affairs to High Commissioner in Newfoundland, Mar. 31, 1942, 9180-40, *ibid.*, p. 1199.

⁴⁷ High Commissioner in Newfoundland to Secretary of State for External Affairs, Sep. 25, 1941, 2551-40, *ibid.*, p. 1193.

⁴⁸ Deputy Minister of Trade and Commerce to Undersecretary of State for External Affairs, Apr. 8, 1942, 7588-40, *ibid.*, p. 1201.

Bower's opinion, against a trade treaty.⁴⁹ The High Commissioner in Newfoundland, J.S. MacDonald, concurred and expressed the view that a trade agreement should not be negotiated until post-war military and commercial rights on the bases were secured or when "these problems are disposed of by a wider solution of political union".⁵⁰

In general, therefore, Canada had a broad range of interests in Newfoundland which became more pressing during World War II. Much of Canada's concern about Newfoundland was motivated by economic considerations. The protection of the Canadian steel industry and the port of Sydney spurred Canada's defence interests in Newfoundland. Newfoundland's importance as a trading partner, common concerns of both countries in the protection and development of the North Atlantic fisheries, Canadian interests in civil aviation in Newfoundland and Newfoundland's resource wealth were all background economic factors which precipitated Canadian interest in the annexation of Newfoundland. When these conditions were accompanied by overtures from the British to include Newfoundland in the Canadian federation and by the presence of the Americans in Newfoundland during World War II, Canadian political and bureaucratic policy-makers came to favour federation.

⁴⁹ Trade Commissioner in Newfoundland to Director of Commercial Intelligence Service, Department of Trade and Commerce, Nov. 7, 1944, C13876-C, *ibid.*, pp. 1126-1129.

⁵⁰ High Commissioner in Newfoundland to Secretary of State for External Affairs, Mar. 19, 1945, C13876-C, *ibid.*, pp. 1231-1232.

Canada-Britain Relations on Newfoundland

The Canadian High Commission in London, the British High Commission in Ottawa, and the Canadian High Commission in St. John's functioned as conduits for information between the British and Canadian governments. C.J. Burchell, the Canadian High Commissioner, kept the Canadian Undersecretary of State for External Affairs informed of the activities of British officials and politicians in Newfoundland. Burchell, for example, conveyed to Robertson his impressions of Geoffrey Shakespeare's visit and of P.A. Clutterbuck's arrival in advance of the tour Clement Attlee made of Newfoundland in 1942.⁵¹ Burchell was asked to provide specific information on post-war inflation in Newfoundland and on the establishment of responsible government to various Canadian government departments in anticipation of a request by the British Dominions Office for a Canadian opinion on Newfoundland.⁵² The initial contact between Canada and Britain took place informally between an official of the Dominions Office and the Canadian High Commissioner in Great Britain, Vincent Massey. Emyrs-Evans of the British Dominions Office approached Massey concerning Canada's attitude towards the incorporation of Newfoundland into Canada.⁵³ Massey conveyed the details of the interview to Norman Robertson and requested instruction as to Canadian policy.

While there was undoubtedly strong sentiment within the Department of External

⁵¹ See for example High Commissioner in Newfoundland to Undersecretary of State for External Affairs, Aug. 22, 1940, 4007-40, Canada-Newfoundland Documents, Vol. 2, pp. 32-33 and Sep. 14, 1942, 4007-40, *ibid.*, pp. 36-37.

⁵² Special Assistant to Undersecretary of State for External Affairs to High Commissioner in Newfoundland, 2828-40, Dec. 12, 1942, *ibid.*, pp. 46-47.

⁵³ High Commissioner in Great Britain to Undersecretary of State for External Affairs, Jan. 6, 1943, 2828-40, *ibid.*, pp. 51-52

Affairs favouring federation, Canadian policy on Newfoundland did not crystallize until questions about Newfoundland's relationship to Canada were raised in the Canadian House of Commons.⁵⁴

Mackenzie King was asked in the House of Commons whether Canada would attempt to obtain from Britain the portion of Labrador which was awarded to Newfoundland by a JCPC decision in 1927. King replied that any such negotiations would have to be conducted with the Newfoundland government, not the government of Great Britain.⁵⁵ Later in 1943, King was asked by a CCF member of the House whether the government had given any consideration to the relationship between Canada and Newfoundland when the war ended. In reply, Mackenzie King made a statement of policy on Newfoundland:

If the people of Newfoundland should ever decide that they wish to enter the Canadian federation and should make that decision clear beyond all possibility of misunderstanding, Canada would give most sympathetic consideration to the proposal.⁵⁶

After the Prime Minister's statement, Norman Robertson drafted a letter to Canada's High Commissioner in London, Vincent Massey. Robertson's draft indicates Canadian bureaucratic attitudes towards Newfoundland. Robertson indicated that sooner or later economic pressure would force Newfoundland to become part of the Canadian federation. Though in his opinion this would place a burden on Canada, the acceptance of the burden would be "justified as geography has placed Newfoundland (and Labrador) within Canada's sphere of responsibility". Union would "incidentally protect and develop

⁵⁴ Canada, House of Commons Debates, Mar. 1, 1943, Vol. 1, p. 764; and op. cit., Jul. 12, 1943, Vol. 5, pp. 4657, 4684.

⁵⁵ Canada, House of Commons Debates, 1943, Vol. 1, p. 764.

⁵⁶ Ibid., Vol. 2, pp. 4657 & 4684.

Canadian investment (which is already substantial) in Newfoundland.⁵⁷

Diplomatic soundings on Newfoundland's future between Canada and Great Britain continued to be made through the British High Commission in Canada and the Canadian High Commission in Great Britain. MacDonald, the British High Commissioner in Canada raised the question of long-term policy on Newfoundland personally with Norman Robertson, who suggested that MacDonald also discuss the matter informally with Prime Minister Mackenzie King. In MacDonald's estimation, King's statement in Parliament on Newfoundland may have been influenced by a report Robertson gave King on Robertson's and MacDonald's preliminary discussion.⁵⁸ In a report to King, Robertson expressed the opinion that Newfoundland should become part of the Canadian federation and that there might be a preliminary exchange of views between Canada and Britain about the future of the island before Britain took specific steps on Newfoundland's future.⁵⁹ By October of 1943, officials within the Department of External Affairs had ascertained through informal consultations with Machtig, Permanent Head of the Dominions Office, Clutterbuck of the Dominions Office, and Lord Cranborne that British bureaucratic opinion was not hostile to federation of Newfoundland and Canada.⁶⁰

⁵⁷ Undersecretary of State for External Affairs to High Commissioner in Great Britain, Jul. 16, 1943, Canada-Newfoundland Documents, Vol. 2. This letter was not sent

⁵⁸ High Commissioner of Great Britain to Dominions Secretary, Jul. 15, 1943, PRO/DO35-114-1/X/J7871, Canada-Newfoundland Documents, Vol. 2, pp. 74-75.

⁵⁹ Memorandum from Undersecretary of State for External Affairs to Prime Minister, Aug. 18, 1943, *ibid.*, pp. 77-78.

⁶⁰ Memoranda by Department of External Affairs reporting conversations of Oct. 20, 1943 with Machtig, Oct. 22, 1943 with Clutterbuck, and Oct. 27, 1943 with Lord Cranborne, Canada-Newfoundland Documents, Vol. 2, p. 80.

By November 1943 the Department of External Affairs had formulated a formal Canadian policy towards Newfoundland. Three alternatives for Newfoundland's future were reviewed by the Department: the incorporation of Newfoundland as a tenth province, the continuation of Newfoundland as a joint military dependency of Canada, the United States and the United Kingdom, and the assumption by Canada of the complete defence of Newfoundland with Newfoundland remaining outside the federation.⁶¹ The third option was dismissed because, though Canada would have control over defence, Canada would not enjoy any of the other benefits of control over Newfoundland and would incur heavy defence expenditures to cover an extended Atlantic frontier.

The first and second options were clearly discussed as part of the Canadian policy process. In general, the Department of External Affairs favoured the addition of Newfoundland to the Canadian federation or, if this was not possible, the establishment of a colonial relationship with Newfoundland. The advantages of federation were identified to include Canada's greater freedom in a crisis in the Atlantic, the enhancement of Canada's position as a world power, a better bargaining position in civil aviation, more effective control in export fish markets and the political and economic advantages of control over iron ore deposits in Newfoundland.⁶² On the debit side, Newfoundland would be a financial liability, possibly a political liability with constant agitation for "better terms", difficult to fit into the existing pattern of Dominion-Provincial fiscal relations, and costly in terms of defence requirements.⁶³

⁶¹ Memorandum by Special Assistant to Undersecretary of State for External Affairs, Jan. 8, 1944, 2828-40, Canada-Newfoundland Documents, Vol. 2, pp. 98-102.

⁶² Ibid., p. 99.

⁶³ Ibid., p. 99.

While federation was favoured, a relationship with Newfoundland outside of a political union was considered.

In return for the protection of Canadian defence and civil aviation interests, Canada would assist Newfoundland for a five year period. The plan was that self-government be at least partially reestablished, that Newfoundland's sterling debt be cancelled provided further borrowing was in Canadian dollars, that Newfoundland be given a subsidy of one million dollars per year, and that a long-term loan of up to \$20 million dollars for reconstruction purposes would be approved by Canada. This plan could be reviewable during the five year period, but it was anticipated that before the expiration of five years, the Newfoundland people should come to some decision as to their future political status.⁶⁴ This scenario would have replaced the British Commission of Government with strong defence, economic and political control by Canada over Newfoundland. The plan, if implemented, would have given Canada the St. John's naval base, post-war rights in Goose, Torbay and Bay Bulls, freedom of movement for defence purposes anywhere in Newfoundland and Labrador including territorial waters and air space, and such rights in civil aviation as an extension of Trans Canada Airways services and use by Canada of Newfoundland airfields for transatlantic aviation. In addition, Newfoundland sovereignty would be limited by the need to secure Canadian approval for reconstruction projects and by the obligation to borrow in Canadian dollars.

Though a short-term colonial relationship with Newfoundland was an option considered in Canadian policy, the overall plan of the Canadian government was that the

⁶⁴ Ibid., pp. 100-102.

United Kingdom government be informed that Canada was prepared to admit Newfoundland as a Canadian province when it was clear that there was "very general agreement among Newfoundland people to join Canada"⁶⁵ The preference of the Department of External Affairs for federation was clear to the British High Commissioner in Ottawa. The Senior Secretary of the High Commission communicated with the Dominions Office that there was a "widespread recognition that federation with Canada is the obvious commonsense solution and I think officials (Canadian) would be ready for this"⁶⁶

While intelligence about the motives of the Canadian and British governments concerning Newfoundland was transmitted between embassies in Ottawa and London, policy on Newfoundland was being developed within the British Cabinet and the ministries of Dominions Affairs and Treasury and their deliberations entailed consideration of Canada's possible future role in Newfoundland.

In the formulation of Dominions Office policy on Newfoundland, the Dominions Office convened meetings in London with members of the Newfoundland Commission of Government. In attendance were Commissioners Puddeste, Emerson and Dunn and from the Dominions Office, Machtig, Clutterbuck, Tait, Chadwick and the Secretary of State for Dominions Affairs, Lord Cranborne.⁶⁷ Their discussions focussed on the constitutional question and financial aid for reconstruction to Newfoundland. In general,

⁶⁵ Ibid., p. 101.

⁶⁶ Senior Secretary, High Commission of Great Britain to Parliamentary Undersecretary of State for Dominions Affairs of Great Britain, Mar. 31, 1944, Canada-Newfoundland Documents, Vol 2, p. 112.

⁶⁷ Draft minutes of First Meeting between Dominions Secretary and Commissioners of Newfoundland, Aug. 3, 1944, Canada-Newfoundland Documents, Vol. 2, pp. 113-121.

the Commissioners were opposed to the appointment of a National Convention and preferred the appointment of a committee of experts to consider Newfoundland's future or the postponement of the constitutional question. The Dominions Secretary, Lord Cranborne, feared that Parliament would not accept postponement. Upon the recommendation of the Commissioners, it was decided that the question of financial assistance to Newfoundland could be handled through the establishment of a Joint Development Board which would control grants-in-aid for an approved development plan. The Comptroller would be a U.K. official and succeeding governments in Newfoundland would not be able to borrow without U.K. approval. From a constitutional perspective, this would mean only a limited reestablishment of responsible government in Newfoundland. This in essence was the "half-way house" upon which both the Commissioners and the Dominions Office seemed to settle as a possibility; Cranborne himself, however, seemed to favour responsible government "in fact as well as name".⁶⁸ Furthermore, he anticipated problems with Parliament and the Treasury in gaining approval for the constitutional and financial "half-way house" put forward by the Commissioners. Nevertheless, Cranborne proposed the preparation of a draft scheme, after which he would sound out ministers and approach Cabinet.⁶⁹

Cranborne began his soundings within the British Cabinet with John Anderson, Chancellor of the Exchequer. Cranborne prepared a memo for Anderson and arranged an informal discussion.⁷⁰ As confederation of Newfoundland with Canada was not

⁶⁸ Draft Minutes of Second Meeting between Dominions Secretary and Commissioners of Newfoundland, Aug. 8, 1944, Canada-Newfoundland Documents, Vol. 2, p. 119.

⁶⁹ Ibid., p. 121.

⁷⁰ Dominions Secretary to Chancellor of the Exchequer of Great Britain, Sept. 22, 1944, Canada-Newfoundland Documents, Vol. 2, pp. 125-126.

considered practicable in light of negative Newfoundland public opinion, the Dominions Secretary proposed a 10 year grant-in-aid program from Britain to Newfoundland during which time the Canadians would "work on laying fresh foundations for the future".⁷¹

The problem within the British government was how to find 100 million Canadian dollars to finance a 10 year reconstruction program in Newfoundland. As Newfoundland's currency was the Canadian dollar, British grants-in-aid to Newfoundland would affect exchange relations with Canada. In approaching the Canadians, the Dominions Office contemplated asking Canada to associate itself with the financing of a development program in Newfoundland, or Canada might make Britain a special loan to finance the reconstruction.⁷² The Dominions Office plan, however, did not come to fruition as the Bank of England and the Treasury were strongly opposed because this strategy was seen to prejudice the post-war financial arrangements which the United Kingdom wished to make with the Canadian government.⁷³

It was also the opinion of Britain's High Commissioner in Canada that the Canadians would object to a loan to Britain for purposes other than the purchase of Canadian exports to Britain.⁷⁴ As Philip McCann has documented, the initiative of the Commission of Government for a Joint Development Board for 10 years financed to the tune of \$100 million was also scuttled on both political and economic grounds by John

⁷¹ Memorandum by Assistant Undersecretary of State for Dominions Affairs of Great Britain, Nov. 17, 1944, Canada-Newfoundland Documents, Vol. 2, pp. 129-133.

⁷² Ibid., p. 133.

⁷³ Extract from Memorandum by Foreign Exchange Control Board, Canada-Newfoundland Documents, Vol. 2, p. 135.

⁷⁴ High Commissioner of Great Britain to Dominions Secretary, Dec. 9, 1944, Canada-Newfoundland Documents, Vol. 2, p. 137.

Maynard Keynes, an advisor to the British Treasury and a major architect of post-war international monetary organization. After the war, Britain would need to be able to borrow to the maximum from Canada to pay for agricultural and other imports, and, on political grounds, Keynes argued that it was highly unlikely that Newfoundland would be willing to part company with Britain after the advance of such great sums. Keynes suggested that Newfoundland sell Labrador to Canada for the required \$100 million.⁷⁵ While such a proposal might have made economic sense, the Dominions Office was not insensitive to the practical political problems of such a solution within Newfoundland, where jurisdiction over Labrador had become a part of Newfoundland's nationalist political culture. Furthermore, the Dominions Office was more than aware of the acute political hostility which had developed toward Canada over a century, the knowledge of which had induced the Dominions Secretary to support the Commission of Government's proposal for a British-financed reconstruction scheme for Newfoundland. However sympathetic to Newfoundland concerns, the Dominions Office was part of the British state apparatus and, when the long-term economic interests of the British state conflicted with the financial needs of remote Newfoundland, the ministry was willing to defer to the more nationally compelling arguments of the British Treasury. Furthermore, the Dominions Office was aware that the "Canadian government might take it amiss if we were, as it were, to overdo our assistance to Newfoundland and put them in so stable a financial position as to preclude any possibility of Newfoundland opinion turning in favour of confederation with Canada."⁷⁶ This view was confirmed when

⁷⁵ Philip McCann, *op. cit.*, pp. 11-12.

⁷⁶ Extracts from Memorandum of Assistant Undersecretary of State for Dominions Affairs of Great Britain to Permanent Undersecretary of State for Dominions Affairs of Great Britain, Aug. 9, 1945, *Canada-Newfoundland Documents*, Vol. 2, p. 162.

Clutterbuck visited Ottawa when a grant to Newfoundland was discussed.⁷⁷ It was the opinion of the Undersecretary of State for External Affairs that the new fiscal arrangements with the provinces and Canada's social security program could bring Newfoundland into Confederation on terms favourable to her and the other provinces.⁷⁸ In the meantime, the Canadian government had information that Commissioners Dunn, Winter and Wild would support a Newfoundland approach to Canada when the constitutional question came before the Commission of Government.⁷⁹ While the British government "jollied" the Canadians along, they were not unreceptive and Canadian officials attempted to extract from Clutterbuck a commitment that the forthcoming U.K. statement on Newfoundland make it clear that further financial assistance from the U.K. would not be forthcoming.⁸⁰ Accordingly, the Dominions Secretary, in his report to the British Cabinet, noted that British policy should be adapted to changed conditions and "since we cannot look ourselves to helping Newfoundland financially, we should now regard union with Canada as the objective to be aimed at."⁸¹

⁷⁷ Memorandum from Undersecretary of State for External Affairs to Prime Minister, Sept. 25, 1945, *Canada-Newfoundland Documents*, Vol. 2, p. 169.

⁷⁸ Ibid., p. 170.

⁷⁹ See High Commissioner in Newfoundland to Secretary of State for External Affairs, Aug. 21, 1945, and Memorandum from Special Assistant to Undersecretary of State for External Affairs to Associate Undersecretary of State for External Affairs, Aug. 30, 1945, *Canada-Newfoundland Documents*, Vol. 2, pp. 164-165.

⁸⁰ Memorandum by Assistant Undersecretary of State for Dominions Affairs of Great Britain, [n.d.], *Canada-Newfoundland Documents*, Vol. 2, p. 178.

⁸¹ Memorandum from Dominions Secretary to Cabinet of Great Britain, Oct. 18, 1945, *Canada-Newfoundland Documents*, Vol. 2, p. 181.

Internal Dualism: Manipulation, Rhetoric, Propaganda and Democracy

Though Newfoundland by most standards was a small political system of under half a million population, it was based upon a complex and dynamic society and economy. The state structures which comprised part of the political system were dependent, colonial and authoritarian in nature, but the society these structures governed had a history of democracy and a complex pattern of economic, ethnic, religious and regional cleavages. Although policy-makers in the Dominions Office viewed Newfoundland as a "primitive" island, in fact social divisions within Newfoundland had produced a political process characterized by high levels of conflict and divisive and volatile political relations. In no small part, the internal social divisions of class, region and to some extent religion and ethnicity were nurtured by the dependent nature of the Newfoundland economy. Newfoundland was not simply a "fishocracy". The divisions between merchants and commodity producers in the fishery were one dimension of the social manifestations of a dependent staple economy. There was, however, another aspect: alongside a rural fishing economy, by the 1940's an urban economy based on the production and distribution of goods and services had developed, as had an alternate, dependent resource economy which produced a number of company towns and capitalistic relations of production. The moderate diversification of the economy had not created the anticipated economic independence and prosperity of nineteenth and twentieth century optimists. In the post-war period, as had been the case since the nineteenth century, Newfoundland politics revolved around schemes for development, reconstruction and regime change. This political agenda, largely established by the colonial state, mobilized the fundamental cleavages and contradictions within Newfoundland. For

Britain, Newfoundland's panacea was federation with Canada. For Canada, the integration of Newfoundland held out some benefits. The procedural mechanisms established by the British government to promote debate within Newfoundland on its constitutional options and economic future - the National Convention and the provisions for two referenda if necessary - created a cataclysm of controversy, conflict and, finally, the regime change which had been favoured and nurtured by the British and Canadian policy. The process of Newfoundland's federation with Canada was an indicator of Newfoundland's entrenched political and economic dependency, yet at the same time it was accomplished because a majority of Newfoundlanders were convinced that the most immediate indicators of dependency and underdevelopment in their everyday lives - poverty, economic uncertainty and weak opportunities for improvement in their lives - could be ameliorated by federation with Canada.

The National Convention

In November 1945 the Cabinet of Great Britain again considered Newfoundland's constitutional status. The Secretary of State explained that in light of the inability of Britain to finance Newfoundland reconstruction, that "union with Canada was the natural destiny of Newfoundland".⁸² Cognizant of the opposition of business and financial interests in Newfoundland to confederation, it was Addison's opinion that care should be taken to ensure that these interests did not exert undue influence on the Convention. He therefore proposed that candidates for election to the Convention be resident in the area which they were to represent. This of course would prevent the possibility of St.

⁸² Extract from conclusions of War Cabinet of Great Britain, Nov. 1, 1945, Canada-Newfoundland Documents, Vol. 2, p. 183.

John's businessmen parachuting into rural ridings for the election. The Prime Minister feared that even this precaution would not be satisfactory and raised the question of whether a geographic basis for election could be augmented by a method based on occupational groups and other interests.⁸³

The Secretary of State consulted the Commission of Government on the electoral system to be employed for the constitution of the National Convention. In the Commission of Government's opinion, a vocational basis of representation was impractical because, though there were various unions and associations, a large part of the population including a majority of the fishermen could not be represented in this way. There was also the difficulty of assessing the number of representatives to be assigned to each "body or group of bodies" and that the electoral procedures for representatives within various associations could not be effectively controlled. The Secretary of State took the advice of the Commission of Government and recommended a geographic basis of representation which he saw as "unassailable in democratic theory, and ... with the safeguards mentioned it should give us the results we desire."⁸⁴

The Canadian government was consulted about the statement to be made about Newfoundland in the British House of Lords. Norman Robertson felt that the draft statement in one or two respects would prejudice consideration of confederation. Prime Minister Mackenzie King, after consultation with Robertson, decided that it "would be better to leave the memorandum exactly as it stands." Robertson informed the High Commissioner for Great Britain that the Canadian government had no formal comments

⁸³ Ibid., p. 184.

⁸⁴ Memorandum from Dominions Secretary to Cabinet of Great Britain, Canada-Newfoundland Documents, Vol. 2, p. 189.

to make on the statement to the House of Lords but informally suggested that the phrase "as to possible future forms of government" in the terms of reference for the Convention might rule out the possibility of Newfoundland joining Canada, and suggested more general terms of reference such as "as to the issues to be put before the people."⁸⁵ The Dominions Secretary of Great Britain instructed the High Commissioner in Canada to assure the Canadian government that no such narrow interpretation was intended and that the convention would be instructed "to review all the alternative courses open to the island and make recommendations."⁸⁶

On December 11, 1945 the Prime Minister announced the terms of reference of the Newfoundland National Convention. Following this announcement, there was an open exchange of press opinion and bureaucratic analysis on Newfoundland between the Canadian and British governments through the British Dominions Office, the Canadian Department of External Affairs, the British High Commission in Canada, the Canadian High Commission in Britain, the Canadian High Commission in Newfoundland and the British Governor in Newfoundland.⁸⁷ Among the information exchanged were press reactions in Newfoundland and Canada to the announcement of the Convention, the procedure through which outline terms of union from Canada could be supplied to the National Convention and how information on Canada could be disseminated within Newfoundland without the appearance of a propaganda campaign. In all of this, the Canadian High Commissioner in Newfoundland played a pivotal but discrete role in

⁸⁵ See Memorandum from Undersecretary of State for External Affairs to Prime Minister, Dec. 1, 1945, Memorandum by Prime Minister Mackenzie King, Dec. 2, 1945, and High Commissioner of Great Britain to Dominions Secretary, Dec. 10, 1945, Canada-Newfoundland Documents, Vol. 2, pp. 192-195.

⁸⁶ Dominions Secretary to High Commissioner of Great Britain, Dec. 11, 1945, Canada-Newfoundland Documents, Vol. 2, p. 195.

⁸⁷ See Canada-Newfoundland Documents, Vol. 2, pp. 199-209.

providing interpretation and analysis of political events, personalities and issues within Newfoundland.

With the announcement of the National Convention, democratic politics swung into gear. While Britain and Canada had established the institutions for the interplay of interests within Newfoundland and held hopes for an outcome of federation, the final act of the drama was played out within the Newfoundland political system. The two principal political actors in the upcoming debate within Newfoundland and the referenda campaigns were early identified by Canada's High Commissioner. Peter Cashin, an advocate of the immediate restoration of responsible government was noted as a good orator based on his radio addresses of June 1945, and was seen by Macdonald to have the backing of Newfoundland merchants.⁸⁸ Cashin was reported to be engaged in attempts to organize communities against the National Convention and for the unequivocal restoration of responsible government. Cashin's protagonist in the constitutional debate and regime change was Joseph R. Smallwood who, upon the announcement of the National Convention, decided he would be a candidate and an advocate of confederation with Canada. Smallwood set out to inform himself about various aspects of Canadian government and federal-provincial relations. Within days of the announcement of the Convention, Smallwood wrote the Canadian Prime Minister and the nine provincial Premiers for copies of such information as budget speeches, estimates, annual reports and books and magazine articles on Canada and the provinces.⁸⁹

⁸⁸ High Commissioner in Newfoundland to Secretary of State for External Affairs, Jan. 24, 1946, Canada-Newfoundland Documents, Vol. 2, pp. 205-206.

⁸⁹ J.R. Smallwood, I Chose Canada, Vol. 1, p. 221.

The results of the election of candidates for the National Convention were published in the *Newfoundland Gazette* of Jul. 30, 1946. Both Peter Cashin and Smallwood had secured election. Despite the residency requirements for candidacy and the absence of property qualifications, the Convention was not representative of the Newfoundland population based on occupation. The Convention was composed primarily of merchants, businessmen, professionals and managers, with a smattering of journalists, cooperative workers and labour leaders. Not a single fisherman was elected.⁹⁰ Despite the hopes of the Dominions Office that the residency requirement for candidacy in the Convention would produce a representative group, the Convention was overwhelmingly middle class and merchant class in composition.

The first session of the National Convention convened on Sept. 12, 1946. The rules of the former House of Assembly were adopted with some modifications. A steering committee of seven would arrange the business of the Convention. Convention committees were to have the power to invite persons to offer statements but not to subpoena government officials. Nine committees were struck in various areas of public policy: fisheries, public finance, forestry, mining, agriculture, local industries, education, public health and welfare, and transportation. It was the impression of the Canadian High Commissioner that the committees, "though determined to find out just where the industry stands, are becoming convinced that after the wartime boom Newfoundland would have difficulty maintaining its present standards" and that there was an inclination to consider confederation with Canada. Macdonald then noted the support by Gordon Bradley, Chairman of the National Convention, and Joseph Smallwood

⁹⁰ See Canada-Newfoundland Documents, Vol II for a list of candidates elected by occupation.

of this option.⁹¹

Subtly, in the information the Commission of Government provided to the National Convention, the option of constitutional and economic independence was discouraged. For example, the Commission of Government prepared a memorandum for the Convention on development schemes deemed necessary over the next ten years which would cost almost \$60 million, without outlining how funds might be made available to finance these projects.⁹² This reportedly engendered much pessimism among Convention members. Of great importance for the final outcome was the decision of the Commission of Government to broadcast the proceedings of the Convention. The proceedings were recorded on wax disks and put on the air in the evening at 9 PM on the state broadcast system. While there is no statistical evidence as to the size of the radio audience, it is generally held that the Convention debates were followed very closely by Newfoundlanders in even the remotest settlements.⁹³ It is clear from Smallwood's autobiography that his Convention speeches in support of confederation were as much addressed to the listening audience in every bay and outport as to his colleagues on the Convention floor. Smallwood was a master speechmaker and could skillfully manipulate rhetoric, metaphor and anecdote to his cause. His cause was to get the option of confederation on the ballot paper in the upcoming referendum and to develop support for confederation among the Newfoundland population.

⁹¹ Despatch from High Commissioner in Newfoundland to Secretary of State for External Affairs, Sept. 30, 1946, *Canada-Newfoundland Documents*, Vol. 2, p. 289.

⁹² High Commissioner in Newfoundland to Secretary of State for External Affairs, Oct. 2, 1946, *Canada-Newfoundland Documents*, Vol. 2, p. 292.

⁹³ J.R. Smallwood, *I Chose Canada*, Vol. 1, p. 245.

On Oct. 2, 1946 the Chairman of the Steering Committee of the National Convention raised the question of sending a delegation to Ottawa to discuss federation. Peter Cashin saw this move as outside the jurisdiction of the Convention while Gordon Bradley felt that the first duty of the Convention should be to ascertain Newfoundland's economic situation and that the sending of a delegation to Ottawa would be premature.⁹⁴

Smallwood decided to proceed with a motion to the National Convention to send a delegation to Ottawa to ascertain the possible terms of a federal union. The motion was debated for several sessions in October 1946. During the debate of Oct. 29 on the motion, Smallwood asked the Chairman and the constitutional advisor to the Convention whether the Convention had the authority to send a delegation to Ottawa. It was the opinion of both the Chair and Professor Wheare that such authority existed. It is interesting to note that both the Chairman and Professor Wheare, an expert on federalism, were appointed to the Convention by the British Government. Professor Wheare communicated with the Canadian High Commissioner in Newfoundland that he felt Smallwood's motion was premature and would not advance the cause of confederation. In Wheare's opinion, Smallwood made an impassioned speech for confederation instead of simply arguing for the need for information about Canada.⁹⁵

Smallwood's impact on the Convention was also made less positive than he might have expected when K.M. Browne, President of the Fisherman's Union, collapsed with a

⁹⁴ High Commissioner in Newfoundland to Secretary of State for External Affairs, Oct. 3, 1946, Canada-Newfoundland Documents, Vol. 2, pp. 292-293.

⁹⁵ High Commissioner in Newfoundland to Acting Secretary of State for External Affairs, Nov. 4, 1946, Canada-Newfoundland Documents, Vol. 2, pp. 316-317.

cerebral haemorrhage at the end of an impassioned speech opposing Smallwood's motion. At the next session on Nov. 4, Gordon Bradley introduced an amendment which was designed to salvage the intent of Smallwood's motion but defuse the bitterness it created. Bradley proposed that a delegation be discharged to Ottawa to gather information no earlier than January 1947, by which time the reports of the various committees of the Convention should be tabled. On Nov. 5, a vote was taken on Bradley's amendment and Smallwood's motion. Both were defeated, the amendment by 25 to 17 and the motion by 25 to 18.

In Ottawa, this was viewed as only a minor and temporary set-back, and in fact, the emergence of Bradley to take a public stand on confederation was viewed positively by Macdonald, Canada's High Commissioner in Newfoundland.⁹⁶ In the meantime, Canada's new High Commissioner in Great Britain was advised by the new Undersecretary of State for External Affairs, Lester Pearson, to formally inform the British Government that Canada would soon be ready to receive a delegation from the National Convention.⁹⁷ Pearson also reminded Robertson that an "informal understanding (should) be sought with the United Kingdom government to the effect that they do not contemplate further grants-in-aid to Newfoundland."⁹⁸ In Ottawa, throughout the autumn of 1946 an interdepartmental committee met to consider the terms under which Newfoundland might enter the Canadian federation.

⁹⁶ Extracts from Despatch from High Commissioner in Newfoundland to Secretary of State for External Affairs, Nov. 7, 1946, *Canada-Newfoundland Documents*, Vol. 2, pp. 322-323.

⁹⁷ Extract from Letter from Undersecretary of State for External Affairs to High Commissioner in Great Britain, Nov. 12, 1946, *Canada-Newfoundland Documents*, Vol. 2, pp. 323-324.

⁹⁸ Ibid.

The National Convention in Newfoundland had a further set-back with the sudden death of its chairman, Judge Fox. The appointment of a new chairman was discussed by Alexander Clutterbuck, Britain's High Commissioner to Canada and Lester Pearson. Clutterbuck indicated that the Commission of Government was considering the appointment as chairman of another Supreme Court judge but that each of the available candidates had certain liabilities.⁹⁹ The problem of a new chairman was resolved by the National Convention itself in a manner which was not adverse to Canadian interests. The Convention met on Nov. 23, 1946 and passed a resolution that Gordon Bradley be appointed Chairman. As Canada's High Commissioner in Newfoundland pointed out, Bradley as chairman would head any delegation to Ottawa and would be in a position of leadership for the confederate forces.¹⁰⁰ Another boost to the confederate cause was the appointment of Joseph Smallwood to the Steering Committee of the Convention; as such, he would also be included in any delegation to Ottawa. It was the Canadian High Commissioner's opinion that Smallwood's inclusion in any delegation would be valuable as he had a detailed knowledge of federal systems and would "undoubtedly be on the side of accepting any reasonably good terms."¹⁰¹

Through Macdonald, the Canadian government had some impact upon the proceedings of the Convention. While Macdonald was in Ottawa, Pearson suggested that tactically, in light of the ongoing negotiations with the provinces, a delegation from

⁹⁹ Memorandum by Second Political Division, Memorandum of a Discussion between the Undersecretary of State for External Affairs and the High Commissioner for the United Kingdom in Ottawa, 19 Nov. 1946, Canada-Newfoundland Documents, Vol. 2, p. 337.

¹⁰⁰ High Commissioner in Newfoundland to Acting Secretary of State for External Affairs, Nov. 23, 1946, Canada-Newfoundland Documents, Vol. 2, p. 338.

¹⁰¹ Extracts from Despatch from High Commissioner in Newfoundland to Acting Secretary of State for External Affairs, Dec. 10, 1946, Canada-Newfoundland Documents, Vol. 2, p. 355.

Newfoundland should not proceed until federal-provincial fiscal arrangements had been settled.¹⁰² To Pearson, Macdonald reported on informal conversations with Bradley and Smallwood in which they were informed that a delay of three or four months in the arrival of a delegation from the Convention would allow time for the settlement of taxation matters with the provinces and would make it easier for the federal government to deal generously with the delegation. Smallwood discussed several delaying tactics which might be used within the Convention. Among those mentioned were the encouragement of a mission to the United States to secure tariff concessions, a more detailed discussion of the committee reports of the Convention, and an inquiry to the United Kingdom government regarding its continued responsibility for the finances of Newfoundland.¹⁰³

The degree to which Smallwood could manipulate the Convention is undoubtedly a moot point, but the eventual action taken by the Convention coupled with the lack of cohesiveness and political disarray among the delegates suggests that Smallwood's predictions to Macdonald as to possible outcomes were at least very astute. R.B. Job, a prominent fish exporter who had long held an interest in a tariff arrangement with the United States, introduced a resolution to the Convention that the Convention ascertain how improved economic or fiscal relationships with the United States might be established, what fiscal and financial arrangements could be established with the United Kingdom under Commission of Government or responsible government, and what would be the basis of federal union with Canada or what other fiscal, political or economic

¹⁰² Memorandum from Undersecretary of State for External Affairs to Second Political Division, Jan. 17, 1947, *Canada-Newfoundland Documents*, Vol. 2, p. 383.

¹⁰³ High Commissioner in Newfoundland to Secretary of State for External Affairs, *Canada-Newfoundland Documents*, Vol. 2.

arrangements might be possible. The scope of Job's resolution was partly a result of the efforts of the Chairman of the Convention, Gordon Bradley, and the final section on a federal union was included at Bradley's suggestion.¹⁰⁴ Job's resolution, incorporating an amendment providing for the election of a committee to consult the Commission of Government, was passed by a vote of 30 to 8 on Feb. 4, 1947. The Commission of Government saw attempts to secure tariff arrangements with the U.S.A. as outside the Convention's terms of reference but were supportive of inquiries to the United Kingdom and Canada. A report on this meeting was tabled in the National Convention on Feb. 26. R.J. Job was so chagrined at the exclusion of investigations with the United States that he was unwilling to move a resolution implementing the report, but Joseph Smallwood gave notice of motion that delegations be sent to the United Kingdom and Canada. Smallwood's motion was a complex one which involved the election of two delegations and the simultaneous consideration of the reports of both delegations by the National Convention. Smallwood attempted to garner support for his resolution amongst Convention delegates, including Peter Cashin and Ches Crosbie.¹⁰⁵ Malcolm Hollett, one of Cashin's supporters, gave a notice of motion to send a delegation to the United Kingdom. Smallwood agreed to give Hollett's motion precedence and it passed unanimously. Shortly after, Smallwood introduced a resolution to send a delegation to Ottawa to ascertain "what fair and equitable basis may exist for federal union of Newfoundland and Canada." After some debate and opposition led by Peter Cashin, the motion was adopted by 24 to 16. The delegation to Ottawa was to leave St. John's as soon as possible after the return of the United Kingdom delegation.

¹⁰⁴ Extracts from Despatch from High Commissioner in Newfoundland to Secretary of State for External Affairs, Feb. 4, 1947, *Canada-Newfoundland Documents*, Vol. 2, pp. 384-386.

¹⁰⁵ J.R. Smallwood, *I Chose Canada*, pp. 258-259.

Not surprisingly, in light of the established British policy that further financial aid to Newfoundland was not possible, the delegation from the National Convention received a cool reception and cold comfort from the Secretary of State for Dominion Affairs as far as further financial support from Britain to Newfoundland was concerned. The Dominions Secretary, Lord Addison, held three meetings with the delegation and reported to Parliament on the talks. He reported that he had advised the delegation that if Commission of Government was maintained for a limited and specified period, the United Kingdom government would continue to maintain responsibility for Newfoundland's finances; if, however, responsible government was restored, the "full responsibility for Newfoundland's finances would rest with the Newfoundland Government and people and...the responsibilities undertaken by the United Kingdom Government in 1934 would cease".¹⁰⁶ Furthermore, the Dominions Secretary indicated to the delegation that Britain could give no firm assurances of Britain's future purchase of Newfoundland fish and iron ore because of currency complications - Newfoundland had a Canadian dollar currency and British purchases of Newfoundland exports would depend upon the "general dollar position of the British government".¹⁰⁷

In the debate on the delegation to the United Kingdom's report to the National Convention, Peter Cashin complained that "there is in operation at the present time a conspiracy to sell this country to the Dominion of Canada."¹⁰⁸ While a conspiracy was not afoot, Canadian and British policy by 1947 favoured confederation, and the

¹⁰⁶ Quoted by St. John Chadwick, Newfoundland, Island Into Province, op. cit., p. 198.

¹⁰⁷ The text of Addison's statement to the Newfoundland delegation was conveyed by Norman Robertson, Canadian High Commissioner in Britain, to the Canadian Secretary of State for External Affairs, May 16, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 470-472.

¹⁰⁸ Quoted by High Commissioner in Newfoundland to Secretary of State for External Affairs, May 20, 1947, Canada-Newfoundland Documents, Vol. 2, p. 473.

supporters of responsible government within the convention were dismayed by Britain's reaction while the supporters of confederation were bolstered by Britain's reply. Interestingly, although it was agreed that the verbatim record of the delegation's deliberations with United Kingdom officials (made by a reporter of the British Treasury Office) was to be kept confidential and not made public, the High Commissioner of Great Britain gave a copy of the report to the Canadian Department of External Affairs on June 19.¹⁰⁹

On June 25, 1947 a delegation from the National Convention was received by the Canadian government and discussions began on the question of Newfoundland's union with Canada. Before the arrival of the Newfoundland delegation in Ottawa, Canadian bureaucrats had been fully informed of the negotiations of the National Convention delegation in London. Furthermore, the Secretary of State for External Affairs had been advised that the Newfoundland electorate would not be asked to vote on the indefinite continuation of the Commission of Government, but for a continuation for a term of five years only.¹¹⁰ It was anticipated that the Newfoundland delegation would remain in Ottawa until, at the latest, July. The Governor told the Steering Committee of the Convention that their recommendations on the choices to be placed before the people were anticipated by August 1, to facilitate a referendum in the autumn of 1947.¹¹¹ Smallwood and Bradley, like many other members of the National Convention,

¹⁰⁹ Noted in footnote 81, *Canada-Newfoundland Documents*, Vol. 2, p. 477.

¹¹⁰ This was an agreement reached between the Governor of Newfoundland and the Secretary of State for Dominion Affairs which did not appear in the verbatim report of the delegations deliberations in London and which was not known of by the chairman of the delegation, Gordon Bradley. See High Commissioner in Newfoundland to Secretary of State for External Affairs, May 26, 1947, *Canada-Newfoundland Documents*, Vol. 2, pp. 479-480.

¹¹¹ Memorandum by Second Political Division, *Canada-Newfoundland Documents*, Vol. 2, pp. 480-481.

had other ideas - leisurely discussions in Ottawa and the postponement of the referendum until 1948.¹¹² In general, this strategy was seen as more advantageous to the cause of confederation. Bradley and Smallwood wanted time for a real campaign on confederation and indicated to the Canadian High Commissioner that in this connection the delegation should have as much favourable publicity as possible.¹¹²

The Canadian government was well prepared for the arrival of the Newfoundland delegation. The Interdepartmental Committee on Canada-Newfoundland Relations had been investigating the implications of union since 1946 and on June 11, 1947 the Cabinet Committee on Newfoundland Relations met to consider the arrival of the Newfoundland delegation. The financial aspects of federation were considered. Among the aspects considered was the best way to deal with the projected Newfoundland provincial government deficit without encouraging other provinces to make additional financial demands on the federal government. One strategy which was discussed was an annual payment to Newfoundland for the resources of Labrador.¹¹³ The Chairman, Louis St. Laurent, pointed out that though some consideration had been given to the costs of incorporating Newfoundland into the Dominion, a clear understanding of the benefits to Canada should also be achieved. The Committee agreed that a further report on the benefits of union would be prepared. A memorandum was prepared for a meeting on June 13, 1947, in which the benefits to Canada were enumerated and discussed as (1) increase in the area and population of Canada, (2) trade increases with Newfoundland amounting to \$16 to \$20 million more per year, (3) positive balance of payments

¹¹² J.S. Macdonald to Secretary of State for External Affairs, May 30, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 483-484.

¹¹³ Minutes of a Meeting of Cabinet Committee on Newfoundland Relations, Jun. 11, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 492-495.

considerations, (4) the North Atlantic fisheries could be treated as a whole, enhancing conservation and scientific development. Moreover, the Newfoundland fisheries were viewed as a potential source of wealth and competition between Newfoundland and Canada might be minimized, (5) natural resources, particularly the mineral and waterpower resources of Labrador, were noted. Labrador iron ore was estimated as potentially yielding as much as \$2 million annually in revenues. In addition, the potential of Grand Falls (now Churchill Falls) waterpower was considered, (6) strategic considerations, including the implications of Newfoundland and Labrador for Canadian defence, were discussed. It was feared particularly that if American involvement increased, this would point to the absorption of Canada within the United States orbit, (7) should Newfoundland become more economically or politically integrated with the United States, Canadian national, economic and defence interests would be undermined, (8) the incorporation of Newfoundland was perceived as a completion of Confederation and the union, if not quickly realized, might not be a possibility for many years.¹¹⁴ While the Cabinet was cognizant of the costs of acquiring Newfoundland in terms of transfers from the federal treasury, the benefits of confederation were also considered in terms of the positive economic advantages accruing from trade, the fisheries and natural resource development in Labrador. At this point, the Canadian government anticipated that bringing Newfoundland into Confederation would result overall in an annual cost to the federal treasury; the estimate of the extent of the cost, however, was admitted to be "little more than a guess".¹¹⁵ Initially, the tactic decided upon by the Cabinet in its dealings with the Newfoundland delegation was to present the

¹¹⁴ Memorandum by Secretary, Cabinet Committee on Newfoundland Relations, Canada-Newfoundland Documents, Vol. 2, pp. 496-499.

¹¹⁵ The estimate was between \$10 and \$20 million per year. See Memorandum by Secretary, Cabinet Committee on Newfoundland Relations, Canada-Newfoundland Documents, Vol. 2, pp. 499-500.

delegation with various papers and documents on the constitution and government of Canada and the Canadian federal system. These papers were not meant to describe the specific terms of entry for Newfoundland into the Canadian federation but were to provide a basis upon which detailed discussions might begin.

The Newfoundland delegation was warmly welcomed to Ottawa. The Prime Minister announced the arrival of the delegation on June 23, 1947 and assured Parliament that no final decision would be made without the approval of Parliament. The Leader of the Opposition, John Bracken, on behalf of his party, indicated his hope that "common ground will be found which will result in mutual advantage to both Canada and Newfoundland" and also extended the services of the official opposition in the upcoming discussions.¹¹⁶ The delegation arrived in Ottawa the following day and a state dinner was held that evening by the Prime Minister in honour of the delegation from Newfoundland. The following morning, in the Railway Committee Room in the House of Commons, the formal meetings began. Later in the day, procedural questions were addressed, whereupon reports were exchanged between Canada and Newfoundland and there was an agreement to adjourn until July 2 to study the documents before detailed discussions began.¹¹⁷

In further meetings, the Newfoundland delegation raised a number of specific questions on the operation of the government of Canada and the implications for

¹¹⁶ Canada, House of Commons Debates, 1947, Vol. 5, pp. 4488-4490.

¹¹⁷ Minutes of a Meeting between the Delegation to Ottawa from the National Convention of Newfoundland and Representatives of Canada, Jun. 25, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 535-538.

Newfoundland.¹¹⁸ After a prolonged and controversial stay of the delegation for 99 days in Ottawa, provisional terms of union were set out in two mimeographed volumes known in Newfoundland as the "black books" or the "1947 terms".¹¹⁹ The volumes were tabled in the House of Commons and made available to the National Convention of Newfoundland.

While the Canadian press treated the presence of the National Convention delegation relatively favourably, the Newfoundland press, particularly the two St. John's dailies, were less sanguine. Although there was positive commentary on the cordial reception given the Newfoundland delegation and on the appointment of senior Canadian ministers to meet with the delegation, headlines in the *Daily News* ran as "Canada Appears Anxious to Annex Newfoundland" and "Are We For Sale?".¹²⁰ Commentary argued that any terms of union should be negotiated between a Newfoundland government and the Canadian government; in other words, that responsible government should first be restored before any consideration be given to federation.

Some ambiguity on this point was also created in the Canadian press. Apparently, Pearson was quoted by a Canadian journalist as saying that "Canada would prefer to

¹¹⁸ Among the issues discussed were marriage and divorce, public lands, education, representation in Parliament, voting qualifications, the judiciary, lieutenant governors, the life of legislative assemblies, agricultural services, fisheries, penitentiaries, unemployment insurance, mines and resources, bases, harbours, wharves and breakwaters, Gander airport, radio services, the effect of federation on government employees, the railway, personal income tax, the value of dutiable and non-dutiable imports, tariffs, customs, excise and sales taxes, and the effect of federation on companies with a fixed maximum tax.

¹¹⁹ The volumes were entitled "Meetings between Delegates from the National Convention of Newfoundland and Representatives of the Government of Canada".

¹²⁰ *Daily News*, June 26, 1947.

negotiate with an elected government."¹²¹ Pearson was distressed about the "misunderstanding" and denied "that the Canadian government could not negotiate with representatives of the Convention but only with representatives of a responsible government."¹²² He hoped that this would be clear to the Newfoundland delegates. Meanwhile, this controversy was fueled by the League for Responsible Government and supporters of responsible government in the Convention and was the cause of a split in the Newfoundland delegation to Ottawa. The Undersecretary of State for External Affairs was informed that delegation members Higgins and Crummey were suspicious of Bradley and Smallwood and felt that before negotiations proceeded that responsible government should be restored.¹²³ The following day a telegram from some of the members of the National Convention was sent to Gordon Bradley, chairman of the Convention and leader of the delegation to Ottawa, asking that the delegation return to St. John's and that the Convention be reconvened immediately.¹²⁴ The Governor had apparently been consulted on this tactic by some members of the Convention and ostensibly the reason for the demands for quick departure from Ottawa by the delegation were to provide for a referendum in the autumn of 1947. Pearson discussed these developments with Clutterbuck, Britain's High Commissioner in Canada, who made it clear that the timing of the referendum would be decided by the Commonwealth Relations Office,¹²⁵ not by the Governor of Newfoundland.¹²⁶ The Canadian Cabinet

¹²¹ Richard Gwyn, Smallwood, the Unlikely Revolutionary, op. cit., p. 87.

¹²² Memorandum from Undersecretary of State for External Affairs to High Commissioner in Newfoundland, July 11, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 561-562.

¹²³ Memorandum from Second Political Division to Undersecretary of State for External Affairs, July 16, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 570-571.

¹²⁴ Signed by Cashin, Hollett, Butt, Harrington and Vardy, Canada-Newfoundland Documents, Vol. 2, pp. 571-572.

¹²⁵ The Commonwealth Relations Office was the successor to the Dominions Office.
(continued...)

decided on July 18, 1947 that an effort to bring about union would be made and that negotiations with the Newfoundland delegation would continue.¹²⁷ In the meantime, Bradley flatly refused to reconvene the Convention until negotiations at Ottawa had been completed.¹²⁸

In the debate within the National Convention on the options to be placed on the ballot for the referendum, four issues concerning Newfoundland's relationship to Canada were prominent: (1) the restoration of responsible government prior to any formal moves toward federation with Canada, (2) the natural resource wealth of Newfoundland, particularly jurisdiction over Labrador, (3) the future of the Newfoundland Fisheries Board and of the fisheries in general and (4) the financial terms. Controversy on some of these issues had developed within Newfoundland even before the delegation to Ottawa returned and the "black books" were tabled in the National Convention. Throughout, the controversies were characterized by a mixture of fact, political rhetoric and propaganda which stirred class, regional and religious cleavages.

The restoration of responsible government prior to negotiation of terms of union became an issue while the National Convention delegation was in Ottawa and, in fact, the Governor and members of the Convention made attempts to recall the delegation. This initiative was affected by the development of the "League for Responsible Government" within Newfoundland. The League was committed to the restoration of

¹²⁶ Memorandum from Undersecretary of State for External Affairs to Secretary of State for External Affairs, Jul. 18, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 576-577.

¹²⁷ Memorandum by Department of External Affairs, July 18, 1947, Canada-Newfoundland Documents, Vol. 2, p. 578.

¹²⁸ Telegram from Gordon Bradley to Convention Secretary, the text of which was referred to the Prime Minister of Canada, Canada-Newfoundland Documents, Vol. 2, p. 580.

responsible government and its membership was drawn from merchants and professionals. Claiming to have "no other motives than honest convictions and the welfare of all classes and sections of Newfoundland at heart", the League's declaration was circulated to Newfoundland households. The League advocated an independent government capable of negotiating trade and other concessions with the governments of the United States, the United Kingdom and Canada "on behalf of a free and independent people." The propaganda of the League was undoubtedly nationalist in tone, critical of the Commission of Government and suspicious of Canadian interest in Newfoundland.

Among the suspicions articulated were a number related to Newfoundland's loss of control over Labrador and of the fisheries. The Canadian government undoubtedly saw Labrador resources as an asset should Newfoundland enter into the federation and at various points during the negotiations of the 1947 terms of union the Canadian government considered the rental of Labrador resources in exchange for a transitional grant. In outlining tactics to be pursued with the Newfoundland delegation, for example, the Assistant Secretary to the Cabinet, J.R. Baldwin suggested that "an arrangement regarding Labrador which would leave Labrador part of Newfoundland but allow the federal government some temporary control over development of its resources" should be taken up with the delegation.¹²⁹ This rental option was given more detailed scrutiny by the Interdepartmental Committee on Newfoundland which outlined two alternatives: (1) rental for an indefinite period subject to termination by Newfoundland or (2) rental for a fixed period of ten years. Though the retention by the federal government of the Crown lands of the prairie provinces was seen as a precedent, the committee noted the apprehension of Newfoundland about control over Labrador

¹²⁹ Memorandum from Assistant Secretary to the Cabinet to Secretary of State for External Affairs, July 11, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 562-564.

resources and that the rental program would be opposed by the Maritime provinces. It was therefore recommended that either a "confederation grant" or a provisional statutory subsidy be offered to meet projected Newfoundland provincial budget deficits.¹³⁰ Though the Canadian government unquestionably dismissed federal control over Labrador as a term of union, a public political debacle developed nonetheless which the League for Responsible Government was able to use to its political advantage.

While Canadian public opinion in general was that "Canada should invite Newfoundland to become the tenth province" at 49% in June, 1947, there were some interesting regional variations. Citizens in Quebec (38%) and in the Maritimes (40%) fell below the national average for support of the move.¹³¹ Canadians saw the major benefits to Canada of including Newfoundland in the Canadian federation in terms of the development of Newfoundland's natural resources and in terms of military bases in the event of another war.¹³² Press reports from Quebec indicated that the province was somewhat restive concerning the admission of Newfoundland. There was concern about the future of Labrador and about consultation with the provinces prior to the admission of Newfoundland.¹³³ By September, a large section of the Newfoundland National Convention was outraged by the publication of a map in the *Montreal Herald* which failed to depict the boundary established between Newfoundland and Quebec by the 1927 JCPC decision. The delegates saw the Quebec government as antagonistic

¹³⁰ M.W. Sharp and R.A.M. MacKay, Memorandum by Members of the Interdepartmental Committee on Newfoundland (Relations?), July 31, 1947, *Canada-Newfoundland Documents*, Vol. 2, pp. 601-605.

¹³¹ Press release of the Canadian Institute of Public Opinion, Gallup Poll of Canada, June 21, 1947.

¹³² Summary of Gallup Poll in *Canada-Newfoundland Documents*, Vol. 2, p. 575.

¹³³ Memorandum of Second Political Division (P.H. Brindle), Minute on article appearing in *Montreal Gazette* on Aug. 18, 1947, describing certain opinions held in the Quebec capital regarding federation with Newfoundland, *Canada-Newfoundland Documents*, Vol. 2, pp. 621-622.

towards Newfoundland and argued that negotiations should cease immediately.¹³⁴ Bradley responded by denying that ownership of Labrador had ever been considered as a condition of union.¹³⁵ Despite this assurance, rumours persisted in Newfoundland that under confederation Labrador would become part of the province of Quebec.¹³⁶ Later, in the debate within the National Convention on the 1947 terms, favourable publicity for the terms was weakened by an announcement of Premier Duplessis noting the mineral wealth of Labrador and that Quebec did not consider the boundary decision final.¹³⁷

A further area of controversy throughout the Canada-Newfoundland negotiations and the National Convention debates following the return of the delegation was the issue of the jurisdiction of the Newfoundland Fisheries Board and of constitutional jurisdiction over the fisheries in general.

The National Convention delegation met with the Minister of Fisheries, Mr. Bridges, and several of his officials for specific discussions on jurisdiction over the fisheries and on the fate of the Newfoundland Fisheries Board in the event of union. Smallwood pointed out that the regulation of marketing and export was critical for the Newfoundland fishing industry and that unless this could be continued after

¹³⁴ Telegram from a Group of Members of the National Convention of Newfoundland to Chairman, Delegation to Ottawa from the National Convention of Newfoundland, September 8, 1947, Canada-Newfoundland Documents, Vol. 2, p. 632.

¹³⁵ Telegram from Chairman, Delegation to Ottawa from the National Convention of Newfoundland to Secretary, National Convention of Newfoundland, September 10, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 632-633.

¹³⁶ Acting High Commissioner in Newfoundland to Secretary of State for External Affairs, September 16, 1947, Canada-Newfoundland Documents, Vol. 2, p. 643.

¹³⁷ Extracts from Despatch from High Commissioner in Newfoundland to Secretary of State for External Affairs, December 13, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 758-760.

confederation, that terms, no matter how acceptable otherwise, would likely be rejected by Newfoundland.¹³⁸ This caused problems for Canadian policy-makers and the question was referred to the Department of Justice for an opinion.

Newfoundland policy in the regulation of the fisheries was, in general, superior to that of Canada. The Deputy Minister of Justice, Louis St. Laurent, explained the nature of Canadian jurisdiction in the fisheries. Federal powers in the areas of trade and commerce and seacoast and inland fisheries made it possible for the federal government to regulate the operation of the fisheries and of interprovincial and international export, but regulation of canneries and curing operations fell under provincial jurisdiction. In theory, a concurrent legislative scheme could evolve which would provide the regulation and protection of the industry existing in Newfoundland. The Deputy Minister of Fisheries pointed out that there was a movement in Canada toward regulatory measures currently in effect in Newfoundland and that federal policy could be expected to evolve in the direction of Newfoundland's. St. Laurent stated that the terms of union might provide for the continued existence of Newfoundland legislation until the federal government could introduce legislation which improved upon the Newfoundland system.¹³⁹

Canadian officials and politicians, however, were somewhat uneasy about Newfoundland's regulatory structure in the fisheries. The basis of this concern was that

¹³⁸ Minutes of a Meeting between two Delegates of the Delegation to Ottawa from the National Convention of Newfoundland and Representatives of the Government of Canada on Fisheries, July 4, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 554-555. Though this meeting was secret, the minutes were given to Clutterbuck by the Canadian government without the consent or knowledge of the Newfoundland delegation.

¹³⁹ Ibid.

the Newfoundland fishery might be in a position to "compete unfairly" with the Maritimes. Smallwood agreed to a draft statement of the basis of union in which the two thirds financial surplus which could be retained by the Newfoundland government would preclude the use of the surplus to subsidize the Newfoundland fishing industry.¹⁴⁰ The jurisdiction of the Newfoundland Fisheries Board remained a moot point.

The difficulty was not only that the Newfoundland fishery was seen by Canadian policy-makers as being in a stronger competitive position, but that the powers of the Newfoundland Fisheries Board included matters falling under both federal (marketing abroad, fishing seasons, methods of catch, etc.) and provincial (inspection, grading, cannery licensing, etc.) jurisdiction. The major concern of the Newfoundland delegation was the preservation of quasi-cartel arrangements for foreign marketing. Various alternatives were discussed including exclusive provincial jurisdiction in the fisheries, concurrent jurisdiction, the continuation of the Newfoundland Fisheries Board subject to the authority of the appropriate legislature and the continuation of the Newfoundland Fisheries Board for a specified period of five to ten years. Canadian policy-makers and the Newfoundland delegates expressed objections to all of the options. The Newfoundland delegates, Bradley and Smallwood, argued for the continuation of the Board for an extended period of 15 to 20 years to assure the continuation of the existing marketing system. This was opposed by Stewart Bates, Deputy Minister of Fisheries, who argued that the "continuance of the Board would probably place the Newfoundland industry in a stronger competitive position than the Maritime industry, that this might enable the Newfoundland industry to under-cut the Canadian industry in the Canadian market as well as abroad, and that the Newfoundland industry would

¹⁴⁰ Meeting of Sub-Committee on Arrangements for Union of Newfoundland and Canada, August 11, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 617-618.

receive all the benefits from Canadian policy without being subject to effective control by the Canadian Government."¹⁴¹

Later, in a letter, R.A. Mackay of External Affairs suggested to Bates that no mention need be made of the Newfoundland Fisheries Board Act in the proposed terms of union, and that the objectives of the Newfoundland legislation could be covered by concurrent legislation between the Parliaments of Newfoundland and Canada after union.¹⁴² Though this proposal was unacceptable to the Newfoundland delegation because the federal trade and commerce power would be paramount over legislation by the province and would thus not give the Newfoundland Fisheries Board the degree of protection deemed desirable, the terms negotiated and outlined in the "black books" deftly avoided the question of the jurisdiction of the Newfoundland Fisheries Board. The "black books" pointed out that the federal government ordinarily had the power to legislate in the fisheries area with the exception of the processing sector which was under provincial control, but that nevertheless the federal government's powers in "trade and commerce" made the federal government paramount in interprovincial and international trading in fish. As to the Newfoundland Fisheries Board, it was suggested that this institution might continue to exist after union, but as an agent of the newly established Fisheries Prices Support Board.¹⁴³

¹⁴¹ Bates expressed these views to R.A. MacKay by telephone on September 8, 1947, reported in Memorandum from Second Political Division to Assistant Secretary to the Cabinet, September 8, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 628-629.

¹⁴² Stewart Bates to Dr. R.A. Mackay, September 26, 1947, Canada-Newfoundland Documents, Vol. 2, pp. 645-646.

¹⁴³ The terms suggested that Newfoundland would be given representation on the Canadian Fisheries Prices Support Board. Though it was suggested only that the Newfoundland Fisheries Board might act as an agent, this was not guaranteed. The Canadian board could influence prices by buying and selling but had no powers in marketing. See Appendix XIII Meetings between Delegates from the National Convention of Newfoundland and Representatives of the Government of Canada, Part II, published in the National (continued...)

The fishery was an important political issue in Newfoundland. The League for Responsible Government was quick to point out that Canada was not a market for Newfoundland fish and was, in fact, a competitor in other markets, that the best trade possibilities in the fishery lay with the fresh fish market in the United States, but that historically Canada had interfered with attempts by Newfoundland to develop fish markets in the United States and that under confederation, the "interests of Newfoundland would be subordinated to the interests of other Canadian provinces."¹⁴⁴ In the debate within the Convention on the 1947 terms, Crosbie (St. John's West) argued that confederation would be ruinous for the Newfoundland fishery - the Newfoundland Fisheries Board would be abolished, compulsory inspection and control of exports would disappear, bait facilities would disappear, Ottawa would dictate the export of Newfoundland's principal commodities and Newfoundland would be unable to negotiate trade agreements with the United States.¹⁴⁵ The question of trade with the United States was an important theme throughout the convention debates. Also opposing confederation in the Convention was R.B. Job, a leading figure in Newfoundland's fresh fish industry. He argued that confederation should not be considered until closer economic ties with the United States could be explored in the interests of developing Newfoundland's fresh fish trade.¹⁴⁶

¹⁴³(...continued)

Convention, October 10, 1947.

¹⁴⁴ Pamphlet by the League for Responsible Government, *Canada-Newfoundland Documents*, Vol 2, p. 589.

¹⁴⁵ National Convention Debates, January 14, 1947, reported by J.S. Macdonald, High Commissioner in Newfoundland to Secretary of State for External Affairs, January 15, 1947, *Canada-Newfoundland Documents*, Vol. 2, pp. 777-778.

¹⁴⁶ High Commissioner in Newfoundland to Secretary of State for External Affairs, Report on Convention Debates of January 16, 1947, *Canada-Newfoundland Documents*, Vol. 2, p. 779.

The debate on confederation in the National Convention opened on Nov. 20, 1947 with Smallwood leading the debate on the terms. Smallwood focused his comments on a comparison of Newfoundland and Canadian public services and the advantages to Newfoundland of Canadian social policy, particularly family allowances, old age pensions and unemployment insurance. While some skepticism was expressed by the opponents of confederation, in general these points were not hotly contested. Despite strong arguments and rebuttals from the Confederate group, however, the National Convention decided not to put confederation on the ballot.

This outcome was anticipated by the Commonwealth Relations Office. The Governor of Newfoundland, while in London conferring with officials of the Secretary of State for Commonwealth Affairs, spoke to Canada's High Commissioner, Norman Robertson, about the situation within the National Convention. Macdonald and United Kingdom officials anticipated that a vote to include confederation on the ballot might be defeated by as much as 26 votes to 14. Robertson was told that in this event, the United Kingdom government would decide whether to accept the Convention's recommendation about the scope of the ballot or to include confederation as an option anyway. Canada's High Commissioner was told that confederation was viewed as a long-run solution to Newfoundland's problems, that no formal decision on the nature of the ballot had yet been taken, and that confederation would not be included against Canada's wishes.¹⁴⁷

As predicted, on January 22 a motion to include responsible government and

¹⁴⁷ High Commissioner in Great Britain to Secretary of State for External Affairs, January 20, 1948, Canada-Newfoundland Documents, Vol. 2, pp. ???.

Commission of Government on the ballot was adopted unanimously by the National Convention with 28 of the members indicating a preference for responsible government and no members indicating a preference for Commission of Government. On January 23, J.R. Smallwood moved that confederation with Canada be placed on the ballot. The motion was defeated 29-16.

While many of those voting against the motion were not actually hostile to Canada or even to the idea of confederation, it was generally held that responsible government should be restored first and that it should then be the decision of an independent Newfoundland government whether to seek closer economic and political integration with Canada or the United States. This view was justified in terms of constitutional law. The Newfoundland Act of 1933 had specified that responsible government would be restored upon the request of the people. Officially, the recommendation of the National Convention was supported by the Newfoundland Law Society¹⁴⁸ in terms of this constitutional issue. In the view of many, the Canadian government had presented unilateral proposals and they felt that full examination should be made of these terms by a Newfoundland government and its financial and economic advisors, and the issue decided through a general election.

Before the Convention submitted its recommendations on the form of the ballot, the British government with knowledge that the inclusion of confederation would not likely be recommended, was considering its inclusion. Another dynamic was in effect as well. The Confederates undertook a popular appeal to the Newfoundland electorate. Its effect was to legitimate the decision of the Commonwealth Relations Office to

¹⁴⁸ *Daily News*, February 10, 1948.

disregard the recommendation of the National Convention and place confederation on the ballot.

On January 31, in a ten minute radio speech, Gordon Bradley urged Newfoundlanders to send telegrams of protest concerning the decision of the Convention not to include confederation as an option. In addition, public meetings were held in such places as St. Anthony, Deer Lake, Burin and Buchans. Letters to the editor on the subject poured into Newfoundland newspapers. In general, the democratic right of the people to as wide a choice as possible was demanded. For example from Carbonear, "We feel our people here want and should have the right to choose their own form of government. Such a right is our heritage..."¹⁴⁹ Comments were critical of the National Convention; for example, members of the Convention who opposed placing confederation on the ballot were referred to as having perpetrated "a very cruel injustice", as having committed "a crime against freedom"¹⁵⁰ The National Convention was seen to have "disbarred the people of Newfoundland from voting for a form of government which may or may not have been best for the country in general."¹⁵¹ Newfoundland had been "snubbed by this Convention decision."¹⁵²

In the meantime, while public opinion was at a fever pitch in Newfoundland, Lord Addison, temporarily in charge of the Commonwealth Relations Office, recommended to the Prime Minister of Great Britain that, barring opposition from the Canadian

¹⁴⁹ *Fisherman's Advocate*, February 6, 1948, p. 5.

¹⁵⁰ *Fisherman's Advocate*, January 31, 1948, Letters to the Editor.

¹⁵¹ *Fisherman's Advocate*, February 4, 1948, Letters to the Editor.

¹⁵² *Fisherman's Advocate*, February 27, 1948, Letters to the Editor.

government, confederation should be listed as one of three options on the referendum ballot.¹⁵³ On the following day, after reading Addison's memorandum, the Prime Minister indicated that he agreed with Lord Addison's views.¹⁵⁴ Through Canada's High Commissioner in Britain, the Canadian government was apprised of British policy but that the British government would be "guided by the judgement" of the Canadian government.¹⁵⁵ On February 5, the Canadian Cabinet decided that U.K. authorities should be informed that the form of the Newfoundland referendum was "solely for decision by the U.K. government".¹⁵⁶ In other words, the Canadian government agreed to placing the option of confederation on the ballot. This was certainly the interpretation of Britain's High Commissioner in Canada who, upon speaking to Lester Pearson, discerned that Canada's attitude was that the British government should proceed as it thought best, that the Canadian government did not wish to be consulted but unofficially welcomed the decision to place confederation on the ballot.¹⁵⁷

On March 2, P.J. Noel-Baker instructed the Governor of Newfoundland to publicize the decision of the British government to include three options on the ballot:

¹⁵³ Memorandum from Lord Privy Seal of Great Britain to Prime Minister of Great Britain, February 3, 1948, Canada-Newfoundland Documents, Vol. 2, pp. 1807-1809.

¹⁵⁴ Assistant Private Secretary to Prime Minister of Great Britain to Assistant Secretary, Commonwealth Relations Office of Great Britain, February 4, 1948, Canada-Newfoundland Documents, Vol. 2, p. 810.

¹⁵⁵ High Commissioner in Great Britain to Secretary of State for External Affairs, February 5, 1948, Canada-Newfoundland Documents, Vol. 2, pp. 810-811.

¹⁵⁶ Memorandum by Department of External Affairs, February 5, 1948, Canada-Newfoundland Documents, Vol. 2, p. 811.

¹⁵⁷ High Commissioner of Great Britain to Secretary of State for Commonwealth Relations of Great Britain, February 17, 1948, Canada-Newfoundland Documents, Vol. 2, p. 823.

- (a) Commission of Government for a further period of five years
- (b) Responsible Government as it existed in 1933 prior to the establishment of the Commission of Government
- (c) Confederation with Canada.

The decision was justified in terms of the lengthy discussions of the National Convention delegation in Ottawa, the number of Convention members who voted for its inclusion and the right of the people not to be deprived of the right to consider the issue.¹⁵⁸ No mention was made of the Newfoundland publicity campaign or the petitions of 50,000 Newfoundlanders for the inclusion of confederation on the ballot. Mackenzie King noted in the Canadian House of Commons, however, this indication of popular support as a justification for the inclusion of confederation on Newfoundland's ballot.¹⁵⁹

In fact, the British government had decided before the creation of the National Convention that confederation with Canada was the best alternative for Newfoundland. The publicity campaign by the Confederates and the petition of 50,000 Newfoundlanders simply made the Commonwealth Relations Office's decision slightly more palatable within Newfoundland. From the beginning, the National Convention's role was proscribed to an advisory one - it was to make recommendations to the United Kingdom government. As an institution it was clearly viewed by British policy-makers as a means through which a particular regime change could be effected in Newfoundland with some semblance of democracy. While it would certainly be wrong to conclude that once the Convention was established, it was in its deliberations heavily or directly influenced by the British government, it is also true that, on occasion, the Commission of Government blocked

¹⁵⁸ Secretary of State for Commonwealth Relations to Governor of Newfoundland, March 2, 1948, Canada-Newfoundland Documents, Vol. 2, pp. 839-841.

¹⁵⁹ Canada, House of Commons Debates, March 11, 1948, Vol. 3, pp. 2095-2096.

the consideration of such items as closer economic ties with the United States. In various ways, the Commission of Government, the Chairman of the National Convention, and its constitutional advisor, Professor Wheare, smoothed the way for the consideration of confederation as an option. Furthermore, Canada's High Commissioner in Newfoundland had an intimate knowledge of the politics and proceedings of the Convention, provided strategic advice to Bradley and Smallwood and was in Ottawa with the delegation during the negotiation of the 1947 terms.

While, undoubtedly, many changes in regime are effected through constitutional means and entail constitutional change, Newfoundland's colonial status made the constitutional argument for the restoration of the responsible government regime vague. In any event the British and Canadian governments and a politically popular group in Newfoundland had decided that confederation was Newfoundland's destiny. Though both governments would have preferred that the National Convention recommend the inclusion of confederation as an option, the decision was taken to include confederation anyway and to work out the constitutional matters later. Throughout, the British and Canadian governments argued that the people of Newfoundland would decide and provision was made for two referenda in the very likely event that neither of the three options received majority support. This decision served two functions - it subtly gave the confederation option the best possible chance of success and, in addition, it insured that whatever the ultimate decision, it would be a majority one.

The Referenda

While the Canadian government did not participate directly in the referendum campaigns, Canada's High Commissioner in Newfoundland, Canadian ministers and bureaucrats within External Affairs provided assistance to the Confederate cause without overtly entering into the political fray within Newfoundland.

The Canadian government's decision to maintain a neutral position with respect to Newfoundland's referenda caused Canada's High Commissioner in Newfoundland some discomfort. Macdonald pointed out that Gordon Bradley and Smallwood were disappointed about the difficulties they encountered in obtaining information about the implications of terms of confederation. In Macdonald's opinion, much of the information requested could be quickly obtained in Ottawa and "no question of giving special help to the Newfoundland Confederate Association need arise..."¹⁶⁰ Macdonald requested a decision as to whether or not to provide information and was instructed by Lester Pearson, Undersecretary of State for External Affairs, that "care should be taken to provide the confederation group with only such material as would be available to anyone requesting it". In clarification, Pearson noted, however, that Canadian public documents could be provided on request, or information which is "public knowledge" or explanations of Canadian policies, laws and administrative practices, although care as to avoid misrepresentation or personal opinion should be taken in this regard. As to the effect of confederation on Newfoundland, Macdonald was instructed not to go beyond anything

¹⁶⁰ J.S. Macdonald to R.A. Mackay, Head British Commonwealth Division, April 15, 1948, Canada-Newfoundland Documents, Vol. 2, p. 856.

given in the "black books".¹⁶¹ Both Bradley and Smallwood maintained contact with Canada's High Commissioner in Newfoundland. With Macdonald they discussed difficulties encountered by the Confederate Association during the referendum campaign. They were concerned particularly about two points upon which, in their opinion, clarification by the Canadian government would aid the Confederate cause. The first related to insinuations by the opponents of confederation that Newfoundland civilians would lose their jobs on United States military bases should confederation be concluded. Their second concern was that opposition groups were suggesting that Family Allowances were only a wartime measure and would shortly be abolished. Macdonald advised the Department of External Affairs that statements on both these matters would have to be made by the middle of May to be effective. The first point was answered by a statement in the Canadian Parliament on May 2 by the Secretary of State for External Affairs and the second point was addressed in a speech by Paul Martin, a copy of which was sent to the Canadian High Commissioner's office in Newfoundland.¹⁶² On the bases question, St. Laurent, Secretary of State for External Affairs, explained to Parliament that American bases in Newfoundland were held under 99 year leases and that any change of tenure would require new treaty arrangements between the United States and Canada.

The involvement of the Commission of Government in the referenda campaigns was similarly subtle. Firstly, on the first referendum, though Commission of Government was an option on the ballot, the Commission refrained from advocacy of this outcome.

¹⁶¹ L.B. Pearson to J.S. Macdonald, April 24, 1948, Canada-Newfoundland Documents, Vol. 2, pp. 860-861.

¹⁶² Extract from Despatch from High Commissioner in Newfoundland to Secretary of State for External Affairs, April 26, 1948, Canada-Newfoundland Documents, Vol. 2, pp. 862-863.

Secondly, throughout the campaign period, the Commission of Government was involved in negotiations with the Canadian government and the Dominions Office on the means through which Newfoundland would enter Canada should the majority of the electorate vote for confederation and thirdly, during the second referendum campaign, three of the members of the Commission of Government publicly supported confederation in radio speeches and addresses.

Though the involvement of the Canadian government and, more importantly, the Commission of Government during the second referendum likely had some impact on the outcome, local politics within Newfoundland was more critical for both the tenor of the campaign and for the results of the referendums of June 23, 1948 and July 22, 1948.

The conventional interpretations¹⁶³ of the referenda results tend to focus on the significance of such factors as region, religion, nationalism and class in affecting the vote. The impact of these divisions on the referenda results was not simple, although the nature of the data available does not permit a sophisticated analysis of cleavages and voting patterns. However, the historical anecdotal accounts of the campaigns and the results of the referenda broken down by electoral district do allow for some tentative generalizations.

To some extent, region and class reinforced one another in structuring the vote. The Avalon Peninsula ridings, which were more urban, and which, though more heterogeneous in terms of class composition, contained most of the Newfoundland middle and capitalist classes, voted overwhelmingly for responsible government. While this does

¹⁶³ See for example J.R. Smallwood, I Chose Canada; Richard Gwyn, Smallwood, the Unlikely Revolutionary.

not of itself indicate a clear dualism of political preferences on the issue of regime change, such a conclusion is strongly suggested. Of the total votes cast on the Avalon Peninsula in the first referendum, the results were:

Responsible government	67%
Confederation	25%
Commission of Government	8%

In districts outside the Avalon Peninsula, the results were:

Responsible government	26%
Confederation	54%
Commission of Government	20%

In general it is held that the popularity of responsible government was affected by such factors as nationalism, the tacit support given to it by the Roman Catholic church and the impact of those who supported responsible government so that an economic union with the United States could be initiated. Though undoubtedly all of these factors were present in the tenor of the campaign, it is impossible, given the available evidence, to precisely document their influence.

In the second referendum, held on July 22, 1948, the results for the Avalon Peninsula were the following:

Responsible government	66%
Confederation	34%

Outside of the Avalon Peninsula, the results were:

Responsible government	30%
Confederation	70%

Overall, the result of the second referendum was a majority for confederation (52%),

but, as the tables above indicate, there was a very marked difference in opinion between voters living in the two areas. In general, the Avalon Peninsula constituted the urban core of Newfoundland, centred around St. John's and containing approximately one third of the electorate. With some exceptions, the remainder of the island was more heavily rural. While there existed several medium-sized towns outside of the Avalon Peninsula such as the paper towns of Corner Brook and Grand Falls, these tended to support confederation, but at a lower level than the average for the other districts outside the Avalon Peninsula. For example, 54% of the Grand Falls district electorate and 66.4% of the Humber district (Corner Brook) electorate voted for confederation on the second referendum. Interestingly, the district of Bell Island/Harbour Main, which was located on the Avalon Peninsula and which was dominated by the mining town of Wabana, voted overwhelmingly for responsible government. Only 15.6% of the district favoured confederation which was a substantially lower level of support than the 34% which was the average for the Avalon Peninsula.

Conclusion

Support for confederation with Canada was unquestionably higher in districts located off the Avalon Peninsula. The breakdown of the referenda results reveals inconclusively the dualism of Newfoundland society and politics in the 1947-48 period. As indicated earlier, this dualism was not in itself a natural phenomenon but was created by the forces of external dependency which fed, through the metropolitan core of the Avalon, on peripheral Newfoundland. Ironically, it was Newfoundland's most

exploited who chose confederation as their best option for a more successful and brighter future.

This dream proved itself to be a laconic one, as rural Newfoundland in the 1980's to some extent sustains St. John's and depends largely on federal transfers to individuals for personal income. St. John's itself is built on what might be called a "hill of chips", wavering with each tremor in world oil prices and each attempt by both levels of government to cut the deficit. While the 1949 regime change brought some improvements to Newfoundland in health care delivery, education and rural transportation, self-generated economic growth has not materialized. The external dependency of the old regimes has been replaced with a dependency on the equalization largesse of Ottawa while internal dualism lives on in high inequalities in wealth and opportunity across regions. ~~The~~ history of Newfoundland has indeed been the result of the politics of underdevelopment rather than of development.

Since the mid-1970's, oil and gas have arisen as potential new resources and the revival of the fisheries has been touted as yet another panacea to Newfoundland's economic ills. The oil resources will be jointly managed in the public interest by both levels of government however that interest is defined. The privatization of the major fish processing firm in Newfoundland, Fishery Products International, with extensive Canadian and European ownership, to some extent places control over the fisheries further outside of the Newfoundland state. As Newfoundland's present Finance Minister, Dr. John Collins, said at a ceremony announcing the privatization, "We'll be keeping an eye on FPI." As far as the Atlantic Accord between Newfoundland and Ottawa on oil resource management and revenue sharing is concerned, Newfoundlanders and other Canadians await the results of negotiations with the multinational oil companies on

economic rents. Mining and forestry are presently both in abysmal condition - large portions of Newfoundland's resource reserves have been depleted providing little economic rent and leaving ghost towns in the wake.

PART III

Chapter 9

Conclusion

While analyses of Canadian political economy have ordinarily focused upon the distortions produced by Canada's "rich dependency" on the United States, there is another side of Canada's position in the international order. As semi-peripheral, Canadian political and economic elites through their involvement in the Newfoundland political process had a significant impact upon political relations in Newfoundland, not only in the nature of the process surrounding mineral policy-making but in the political processes which led up to major restructurings of the Newfoundland political regime. As these Canada-Newfoundland cases of dependent policy-making indicate, the contradictions of the "rich dependency" of semi-peripheral areas concern sovereignty and federation. In these cases, it was Newfoundland's sovereignty at stake and the federation involved was of Newfoundland with Canada. Though it would be premature to draw a similar analogy for the Canada-United States continentalist nexus, the Canada-Newfoundland cases here examined point to compelling reasons for some disquiet over Canada's increasing economic integration with the United States.

The thesis of this work was that underdevelopment is characterized by physical-environmental, economic, socioeconomic and political-institutional factors indigenous to the peripheral region and by the same factors external to it but impacting upon the region. The politics of underdevelopment are produced by external dependency and dualism which imbue the politics of the peripheral society with a particular quality capable of distorting the policy process and the functioning of the political system itself. This work attempted to explore the effects of Newfoundland's changing political and economic integration into the world system on the indigenous social formation. Particularly, Newfoundland's shift from a British colonial to a North American orientation was explored and the role of Canadian economic and political interests in

that change was examined in detail. Of particular concern were Newfoundland's many changes in political regime which were traced from the nineteenth century. The thesis was advanced that regime change in Newfoundland has been produced by the politics of underdevelopment, characterized by external dependency and internal dualism. External dependency fed through St. John's as the metropolitan core and political capital to exacerbate the dualism of Newfoundland society. The involvement of non-nationals in the political process and the tensions and cleavages of the dependent Newfoundland political system impacted upon the policy process, affecting the nature of policy interaction, the actors, goals and tactics displayed in the policy process and the nature of policy outputs. One major distortion of such a dependent policy process has been the outcome of regime change. Theoretically, the research focused upon the conversion from a social base of external dependency and internal dualism to a dependent mineral policy and to the major structural outcome of regime change. While the major structural outcome has been regime change, other less fundamental distortions were also examined. Two of the cases of Part II of this dissertation explored the role of Canadian mining companies in the Newfoundland political process and two of the case studies explored Canadian economic and political interests in regime change in Newfoundland.

In the focus on the policy process surrounding mineral policy-making and regime change, this work moves beyond diffusionist and dependency approaches to underdevelopment. A policy approach makes possible a middle-range, historically specific, analytical description of the politics of underdevelopment. While this research was informed by diffusionist and dependency approaches, through a focus on policy and policy-making the political implications of underdevelopment were highlighted. The focus on resource policy and the policy process of regime change permitted an

examination of how the contradictions of the politics of underdevelopment were converted in the policy process to produce the distortions of the Newfoundland social formation discussed. Not only did this research demonstrate the merits of a policy approach for an examination of the politics of underdevelopment but the approach has, in the focus on Canada's role in Newfoundland, augmented our knowledge of the political economy of Canada and the history of Canadian federalism. While regional studies of the Newfoundland political process have developed in recent years, much of the existing research focuses upon Newfoundland in isolation from other areas and does not go beyond description to consider the repercussions of underdevelopment for the political process. This work examined the origins of underdevelopment in the nineteenth century and the important regime changes during this period and then went on in detailed case studies to examine the implications of a development strategy based on resource extraction through foreign direct investment for the political process.

Case Studies of Resource Policy-Making and Regime Change

The class tensions of emerging capitalism produced the politics of underdevelopment of the nineteenth century. The nineteenth century saw the development of a mercantile colonial state, an indigenous merchant class and a small, though politically significant, middle class. Class tensions were depicted in terms of variations of interests between resident and non-resident fractions of merchant capital and clashes between a growing middle class and merchant capitalists. These changes in the Newfoundland social formation were reflected in the constitutional changes of the period. Alterations in the organization of the economy and the role of the state in economic development paralleled institutional change. Struggles over the direction of

economic development and tensions between social classes underlay regime change in the nineteenth century.

Demands for the development of Newfoundland's resources, the building of roads and the improvement of transportation were interwoven in the constitutional conflicts and "reform" rhetoric of the nineteenth century. In general, constitutional change proceeded with demands for economic diversification away from the fisheries. Though the century saw some economic diversification and development of transportation infrastructure, the result was not development but underdevelopment. Though the fishery undoubtedly facilitated capital formation in the nineteenth century, it seems likely that economic development was nonetheless absent for several reasons: 1) lack of access to capital for large investment projects, 2) weak investment banking and 3) a colonial state strongly representative of English mercantile interests. Some potential for autarkic development existed in the second half of the century after the establishment of responsible government, but setting back development were the entrepreneurial weakness of the local merchant class, fisheries recessions, bank crashes and major fires which destroyed much of the capital stock of Newfoundland. Underdevelopment and the politics of underdevelopment have their roots in this period of Newfoundland's history as does Newfoundland's growing economic integration and eventual federation with Canada. Nineteenth century politics were characterized by external dependency, dualism and by successful and unsuccessful attempts to transform the political regime.

When two attempts to engender prosperity and economic diversification through the federation of Newfoundland with Canada failed, Newfoundland embarked on a second development strategy which was based upon foreign direct investment. Near the end of the nineteenth century, as David Alexander has described, there was a "wedding between

Newfoundland and the international corporation".¹ The first large scale resource development undertaken involved Canadian capital - the development by Dominion Iron and Steel and Nova Scotia Steel and Coal of the iron ore deposits at Bell Island.

The examination of the activities of these two companies made possible the analysis of the implications for resource policy and political volatility of a development strategy based on foreign direct investment. Further, an investigation of the impact of Canadian capital in Newfoundland reveals the distortions for Newfoundland policy and policy-making of increasing economic integration with Canada. The policy approach employed in these case studies permitted discrete examination of the implications of external dependency and internal dualism for the dependent social formation and made possible an analysis of how these dynamics were converted through policy actors, their goals, strategies and tactics to a dependent mineral policy characterized by exclusively extractive activities. Further, the outcomes of this policy process were broadened to include political scandal and changes in governments. As chapter 5 revealed, although the Newfoundland government in its dealings with these companies attempted to foster secondary processing of the ore in Newfoundland, in the face of persuasive tactical resources on the part of the companies, among which were the annual closure of the mines in winter, the negotiated processing facility was never built. The chapter also revealed the machinations of party finance during this period and the role of these Canadian companies in scandals of political corruption which were serious enough to bring down the Squires government.

¹ David Alexander, "Newfoundland's Traditional Economy and Development to 1934" in James Hiller and Peter Neary (eds.), Newfoundland in the Nineteenth and Twentieth Centuries (Toronto: University of Toronto Press, 1980), p. 30.

The political scandals of the 1920's not only toppled the Squires government but the ensuing investigation, the Hollis Walker inquiry, discredited Squires and most of the prominent politicians of the day. The party system which had been developing since the turn of the century was left in a state of disarray. The political situation in Newfoundland between 1923 and 1928 was by any indicator a volatile one. The business-government and extragovernmental activities of these mining companies not only reverberated upon the party system but also upon the the small Newfoundland industrial working class. The obvious losers were the miners whose employment became a tactical resource to be manipulated in efforts to avoid the payment of export duties or in attempts to renege on commitments to construct a processing facility in Newfoundland. The government's failing was not one of corruption as has often been the major explanatory variable in treatments of Newfoundland politics but one of economic dependency and a lack of institutional legitimacy which derived from a society severely fragmented along economic, regional, ideological and religious lines. The suspension of the constitution was, however, not carried through in the interests of those whose lives had been most closely touched by the uncertainties of dependency. By 1930 the restructuring of the political regime had begun along reactionary not radical lines.

While dependence on foreign markets and foreign capital made Newfoundland particularly vulnerable to the impact of the international depression, explicitly political and institutional factors constitute a part of an explanation of the process of regime change. In the early 1930's changes in the context of public policy were accompanied by changes in policy actors - injecting new goals, strategies and tactics into the political process. This resulted in extraordinary resource policy outputs and the fundamental outcome of regime change.

Economic dependency underlay regime change. Though regime change was perceived as a solution to the financial crisis of the Newfoundland government, the financial crisis itself was not the cause of the collapse of democracy. Democracy fell in Newfoundland because elected and non-elected policy actors gave greater priority to debt charges than to social policy at a time when the brunt of the international depression was borne by working people. The only way to maintain the high levels of spending on debt was through foreign aid and the only aid forthcoming was from the British government which, in return, demanded the dismantling of democratic institutions. The Newfoundland government chose solvency, dictatorship and administrative reform over default, democracy and social reform. The reasons for this decision were discussed in detail in chapter 6. The option of solvency and the dismantling of democratic institutions was preferred by policy actors, supported by the dominant economic interests in Newfoundland and unopposed by the petit bourgeoisie and the working class. Questions of public finance and public administration were foremost for policy actors because these were the major concerns of the creditors who were gradually integrated into the policy apparatus of the Newfoundland government after 1930. Of particular significance was the role of Newfoundland's creditors in the process of regime change the most important of which were the Canadian banks.

In June 1931 a syndicate of Canadian banks lent the Newfoundland government \$2 million on the conditions that the Newfoundland government appoint a financial advisor and undertake an upwards revision of the customs tariff and reorganization of the public services of Newfoundland. As a result of this loan agreement Sir Percy Thompson, a British treasury official, was appointed as a financial advisor and became the architect of the government's policy of retrenchment. In December of 1934 for a

\$2.2 million loan from four major Canadian banks, the conditions were even more stringent. These 13 conditions were so sweeping that the ability of the Newfoundland government to exert control over the nature of policy outputs was severely impaired. The more significant conditions were that the proceeds of the customs duty, the major source of revenue for the Newfoundland government, were to be deposited into a special account for the purposes of servicing the loan; the export of gold was prohibited; the recommendations of Thompson and Magor were to be implemented; the government was to raise an internal loan; the Newfoundland government was to appoint a bank-nominated financial advisor; and the leader of the opposition was to agree in writing to the loan conditions.

As a result of one of the conditions of this loan, that the government raise an internal loan, Imperial Oil Company Limited, local business firms and members of the Newfoundland general public became creditors of the Newfoundland government. After a fascinating series of business-government interactions which involved the Board of Trade and Great Eastern Oil Limited, Imperial Oil was given a monopoly in Newfoundland for the importation and distribution of petroleum products, in exchange for a \$1.75 million loan which was secured in the 1932 Loan Act by the Petroleum Products Fund. As a result of the \$2.5 million loan, \$1.75 million of which was held by Imperial Oil Company Limited other resource companies also became creditors of the Newfoundland government. A further informal requirement of the Imperial Oil Company Limited loan was that the Board of Trade agree with the government's loan policy and the monopoly for Imperial. This agreement was obtained by Sir Percy Thompson who personally met with the Board to quiet opposition to the monopoly for Imperial.

These loan negotiations proceeded during a period of civil unrest in Newfoundland.

By 1932 the government had swiftly begun to implement the recommendations of Percy Thompson which entailed extensive civil service cutbacks. The budget of 1932, dislocations in unemployment and poverty of the international depression coupled with charges of government mismanagement and corruption were background factors which precipitated a riot of 10,000 people on the grounds of the House of Assembly. It is clear from correspondence between directors of Imperial Oil Company Limited and the government and directors of BESCO and the government that policy-makers acted in the financial crisis of the 1930's with concern for the volatility of the political situation. Additional budgetary cutbacks could not be implemented to pay the interest charges on the public debt without risk of further civil unrest.

By December of 1932 there were no private sources of credit open to the Newfoundland government and default was avoided as a result of a \$1.25 million loan from the Canadian and British government, but this loan had attached to it the appointment of a full-fledged British Royal Commission. The Amulree Commission reported in October 1933 and recommended the resolution of Newfoundland's crisis through a British government guarantee on the debt and the assumption by the British government of direct control over the policy process. The legislative and electoral processes were to be dismantled, Newfoundland was to be given a "rest from politics" and the government of Newfoundland was to be executed by British-appointed officials. In general the business community agreed to the recommendations of the Amulree Commission report and Prime Minister Alderdice, elected on the heels of the 1932 riot, confessed to the House of Assembly that the generosity of the terms nearly took his breath away! The legislature, dominated by Alderdice's United Newfoundland Party, then proceeded to endorse the recommendations of the report. The full responsibility for this choice of solvency over democracy does not lie with the legislature elected in 1932.

The outcome was clearly in the interests of Newfoundland's creditors. To maintain democracy elected decision-makers would have had to withstand pressure from bondholders and act against the advice of government "advisors", the most important of which owed their appointment to bank loan conditions. Instead a united financial, resource, and mercantile bourgeoisie propelled Newfoundland towards the installation of a non-democratic regime in the 1930's and finally in 1934 to the formal suspension of the constitution and the establishment of the authoritarian Commission of Government.

The regime change of 1934 was a retrogressive step in Newfoundland's political development but understandable in terms of the staple dependence of the Newfoundland economy and the political dependency which accompanied a spiralling foreign debt. The installation of the Commission of Government was part of Newfoundland's underdevelopment because the regime formally ensconced non-nationals as policy-makers and stripped Newfoundland of most vestiges of political democracy. The effect of the regime change was to exacerbate external dependency and the policy pursued did little to minimize the internal dualism of Newfoundland society.

Through the examination of the relationship of the Commission of Government with local capital and with Canadian mining capital, it is possible to draw some conclusions about the nature of the Commission of Government regime. In resource policy-making, as in other fields of public policy, what is most striking about the policy process is the bureaucratic nature of politics and the absence of democracy in the various interactions which resulted in resource legislation. Both the institutional structures of the Commission and the tenor of politics suggest that the regime may be unquestionably characterized as authoritarian.

An authoritarian regime was put in place to protect the interests of Newfoundland's creditors. The Commission of Government was installed in Newfoundland to prevent the default of Newfoundland on its foreign debt and to thus shore up the interests of Newfoundland's bondholders. During the international depression there were popular demands for government expenditure on social welfare rather than debt repayment. When the stresses of the depression resulted in civil unrest and the possibility of default on its debt by the Newfoundland government, the Amulree Commission was appointed by the British government and made the recommendation that democratic institutions be suspended.

The Commission of Government throughout its tenure was preoccupied with the question of how best to restructure the economy. While this question was studied technically and bureaucratically from a variety of perspectives, the only real, albeit unsuccessful, attempt at economic reconstruction was the ill-conceived and unpopular land settlement program. A major justification for the suspension of democracy and rationale for the Commission of Government was that Newfoundland have a "rest from politics" so that the Commission could be given a virtual carte blanche to revitalize the economy and make Newfoundland economically self-sufficient. It was felt that economic reconstruction could not be accomplished without political exclusion. Political exclusion under Commission of Government was accomplished through the disbanding of the legislature and the disappearance of political parties. As chapter 7 indicated, the press as well was less able during the Commission regime to take a critical stance vis a vis government. On the dimension of economic exclusion, the Commission did little to redistribute wealth in Newfoundland. Though not particularly enamoured of the St. John's merchant class, the Commission made little progress on restructuring the exploitive relation between fishermen and merchants. Significantly, public assistance or

"dole" remained at 6 cents per person per day for most of the Commission's tenure. In the view of the press and of some public servants, the Commission was insensitive to the interests of the middle class, the working class and fishermen. Though the Commission implemented some improvements in health care through its cottage hospital program, the health care delivery system remained at a primitive level and a substantial portion of the population suffered from such diseases of poverty as tuberculosis. There was a depoliticization of social issues through a reliance upon "bureaucratic", "technical" and "rational" criteria. The Commission was essentially ruled by the bureaucracy. Commissioners for the most part were British civil servants and they were perceived by Newfoundlanders to be "cold-blooded" and insensitive.

The Commission of Government for most of its tenure lacked legitimacy. Press commentary, as reviewed in chapter 7, clearly indicates that the Commission form of government and many of its specific policies lacked legitimacy among Newfoundlanders. Indeed, the major feature of authoritarianism largely absent in the Newfoundland case is a dependence upon coercion by the state. Though the Commission was clearly concerned with social control, as its creation of the Rangers and magistracy indicates as does its periodic reliance upon police reports for information on dissent, the regime was not an overtly repressive one.

This somewhat positive assessment of the regime's performance was attributable to a window-dressing of concern for public opinion on the part of the Dominions Office and the Commission itself. Select groups in Newfoundland society, such as the Board of Trade, were consulted on policy and the Commission held back on major reforms in education which would have upset the clergy and major structural reforms in the fishery which would have threatened merchant interests. The Commission implemented radio

speeches to inform the public on public policy and pointed to its restructured magistracy service as indicative of its interest in the concerns of rural Newfoundland. Further enhancing popular perceptions of the regime was the fact that the last elected government of Newfoundland in 1933 had in fact requested that the democratic constitution be suspended and the Commission of Government, as recommended by the Amulree Commission, be installed as the government of Newfoundland.

The interactions between the Commission of Government and the directors of Canadian companies interested in the iron ore reserves of Labrador is further illustrative of the nature of the Commission of Government regime. From the analysis of these interactions in chapter 7, it appears that the Commission acted as a broker between mining companies interested in mineral development in Labrador and the Dominions Office in Britain. Officials of the Dominions Office were in close contact with the Commissioners regarding the details of business-government contracts and the Undersecretary of State could veto decisions of the Commission of Government. In fact, however, the Dominions Office's view of actual conditions in Newfoundland and of the intentions and interests of mining companies was structured by the way in which the Commission of Government presented the "realities" of the Newfoundland policy context. Though influenced by the Commission of Government, the Dominions Office was crucial to the policy process both formally and informally. It drew upon the huge bureaucracy of Whitehall and policy advice on such matters as duration of leases, rentals, royalties, expenditure clauses and depletion allowances was presented to the Commission. The Dominions Office had greater autonomy from Canadian capitalists in mining and impressed upon the Commissioners the merits of short-term leases as opposed to long-term ones, high rentals, high royalties and commitments from mining companies for the actual development of Labrador resources as opposed to speculative activity

only. The Commission of Government, on the other hand, were engaged in face to face negotiations with mining company directors and were inclined to present the views of the companies to the Dominions Office as "realistic" for the Newfoundland environment. What was most interesting about the process was the perennial disintegration of Dominions Office positions on specific issues under negotiation as a result of the influence of the Commission of Government. While the negotiations which resulted in the agreement, which structured the development of Labrador's mineral wealth spanned an eight year period, the agreement which LMECL reached with the Commission was not much more onerous for the company than that initially proposed by the company in 1936 and vetoed by the Dominions Office.

The distortions of the politics of underdevelopment during the Commission of Government went beyond a dependent mineral policy outcome to include externally propelled regime change. In the regime change of 1949, Newfoundland's external dependency is crucial to an understanding of the process through which the regime change was accomplished. In the 1949 change of regime, the machinations of external governments and their embassies during the economic crisis of World War II and the post-war period of economic readjustment established the institutional mechanisms for a democratic change of regime - the National Convention and the referenda - but, throughout, the Canadians, the British and the Commission of Government acted in a way to nurture the desired outcome - Newfoundland's federation with Canada.

In 1941, Canada established a High Commission in Newfoundland to encourage closer ties between Canada and Newfoundland. During this period, the defence of Newfoundland was an important aspect of Canada's war effort. Particularly sensitizing Canadian officials and politicians was the need to protect the Wabana iron ore mines

which were significant suppliers for the Canadian steel and munitions industry. Further, trade with Newfoundland was important to Canada. As this dissertation has revealed, Canada had important economic and political interests in Newfoundland since the turn of the century. As a result of Newfoundland's economic development policies, Canadian railway magnates and industrial entrepreneurs in mining were important political actors. The Canadian government and banks had been involved in attempts to prop up the Newfoundland economy during the financial crisis of the international depression. In 1944-1945, Canada exported \$43,034,879 of goods to Newfoundland resulting in Newfoundland being Canada's 11th best customer among the countries of the world and 5th best customer within the British Commonwealth. The Commission of Government in fact, by 1942, was itself advocating greater economic integration between Newfoundland and Canada - the inclusion of Newfoundland in Canadian-negotiated trade agreements was advocated and the possibilities of a joint fishery board for Newfoundland and Canada was explored. Trade considerations with Newfoundland had become so important that in June of 1942 a Trade Commissioner was appointed, who with the High Commissioner provided advice and insights on Newfoundland conditions to the Canadian government. R. P. Bower, the Trade Commissioner, advised the negotiation of a trade treaty with Newfoundland but the Canadian High Commissioner in Newfoundland advocated that trade and other problems be disposed of in a wider political union. Canada had a wide range of interests in Newfoundland and when these concerns were accompanied by overtures from the British government to include Newfoundland in the Canadian federation, British and Canadian policy coalesced on bringing Newfoundland into confederation.

While the Dominions Office of Great Britain favoured the partial restoration of responsible government in Newfoundland with grants-in-aid from the British government

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for reconstruction, the ministry deferred to the more nationally compelling demands of the British Treasury. The Treasury argued that the Dominions Office plan to provide aid to Newfoundland would prejudice the post-war financial arrangements which Britain wished to make with Canada. It was also known by British officials that Canada would not be prepared to lend Canadian dollars to Britain for any purpose other than the purchase of Canadian exports to Britain. After Dominions Office consultations with Canadian officials, the British Undersecretary of State for Dominion Affairs reported to the British cabinet that as Britain could not help Newfoundland financially, that union of Newfoundland and Canada be the preferred policy.

Though the political agenda of regime change was largely established by the colonial state, that agenda called for a democratic transformation of the political process. This agenda mobilized the fundamental cleavages and contradictions within Newfoundland and the process of the regime change of 1949 clearly displays Newfoundland's politics of underdevelopment. The procedural mechanism established by the British government to promote debate within Newfoundland - the National Convention and two referenda - created a cataclysm of controversy, conflict and, finally, the regime change which had been favoured by British and Canadian policy.

Though in the latter stages of the regime change the politics of underdevelopment had a high-charged public political context in the National Convention and the referenda, the regime change continued to be influenced by the external aspects of Newfoundland's dependency. The British government defined the terms of reference of the Convention and its electoral procedure. The Dominions Office was cognizant of the opposition of business interests in Newfoundland to confederation and attempted to design an electoral mechanism for the National Convention that would not give these

interests undue influence on the Convention. While an occupational basis of representation was considered, the difficulties in controlling the elections by such a procedure led to the choice of a geographic basis of representation whereby a residency requirement was designed to ensure that St. John's businessmen were not parachuted into rural ridings ~~for the election~~. The British government, knowledgeable of Canadian interests in the process, consulted the Canadian government about the terms of reference for the Convention and assured the Canadian government that the terms of reference did not exclude the consideration by the National Convention of federation with Canada as an option for Newfoundland's future. Despite the residency requirement for election to the National Convention, the Convention was not representative of the Newfoundland population in terms of occupation. It was overwhelmingly merchant class and middle class in composition.

The Commission of Government subtly influenced the outcome of regime change. In its information to the National Convention, the option of constitutional and economic independence was discouraged. The Commission also decided to broadcast the proceedings of the Convention on the state broadcast system. The proceedings were followed closely in even the remotest settlements and the confederate advocate, Mr. Smallwood, had a strong advantage in his oratorical skills. Further, the Chair of the Convention and its constitutional advisor, Professor Wheare, were appointed by the colonial government and they gave the opinion, against strong opposition from National Convention members, that the Convention had the authority to send a delegation to Ottawa. On November 5, 1946, the Convention defeated a motion to send a delegation to Ottawa. Despite this setback, the British government was informed on November 12 that Canada was ready to receive a delegation from the National Convention and throughout the autumn of 1946 a Canadian interdepartmental committee met to consider

the terms under which Newfoundland might enter into the Canadian federation. The appointment of a second Chairman for the Convention was discussed by the Canadian government with the British government and Canada, through its High Commissioner in Newfoundland, had some impact on the proceedings. Macdonald, the High Commissioner, was in contact with Bradley and Smallwood. During the Convention's sitting, matters of timing relating to a Newfoundland delegation to Ottawa were discussed and, later, substantive issues in the referenda campaign were brought to the attention of the High Commissioner, who asked that the Canadian government make statements within a particular time-frame to have an impact on the campaign. Furthermore, the Canadian government was informed of the discussions of the delegation to the United Kingdom prior to the arrival of the delegation to Ottawa. Finally, despite the fact that the Convention decided not to put confederation on the ballot, the Commonwealth Relations Office in consultation with the Canadian government chose to do so.

After the failure of either option to secure a majority on the first referendum, the options were reduced to two on the second referendum, with confederation winning a bare majority. Throughout the campaign period, the Commission of Government was involved with negotiations with the Canadian government and the Dominions Office on the means through which Newfoundland would enter Canada, and, during the second referendum campaign, three of the members of the Commission of Government publicly supported confederation in radio addresses.

From the examination of the regime change of 1949 presented in Chapter 8, it is clear that not only did fractions of capital have interests in Newfoundland's form of government, but governments themselves were important political actors in the regime change. Most clearly, Chapter 8 demonstrates the repercussions of external dependency

for the indigenous Newfoundland social formation. The referenda results clearly reveal the dualism of Newfoundland society and politics, a dualism which was largely produced by Newfoundland's dependence on foreign capital and political dependence on foreign governments.

Newfoundland business was not cohesive in its opposition to federation; in fact, many significant members of the ruling class supported federation either in both referenda or, minimally, in the second one. In the campaign for the second referendum vote, some of the major fish exporters came to support federation and some of the Commissioners actually publicly supported federation shortly before the July 22 vote. For the most part, foreign capital in the resource sector was not overtly involved in the referenda campaigns. All in all, the most significant political actor in the regime change was the colonial state which was cohesive and constituted by the governments of Great Britain, Canada and Newfoundland.

Newfoundland in 1949 saw the resumption of party politics after a fifteen year hiatus at a time when the Canadian provinces were beginning to assert themselves in Canadian federalism. Social and economic development, particularly development accruing from foreign direct investment, was beginning to facilitate the expansion of provincial bureaucracies, party treasuries and the significance of provincial legislative powers. Newfoundland had narrowly contracted its entry into a federation very different in form from that which the other provinces had entered and in a position, as far as economic development was concerned, considerably behind the other provinces.

While most federal bargains have been struck with the support of business interests within the contracting units, the available literature suggests that this was not

unanimously the case in Newfoundland. The merchant component of the business community, perhaps fearing increased taxation or a challenge to their competitive position, favoured responsible government or economic association with the United States. It would appear that the merchants engaged in retail trade in Newfoundland have lost their dominant position as a result of the expansion of Canadian companies into the small Newfoundland market. The effect of federation on the resource sector is, however, somewhat more complex. Trends in other provinces, as well as contemporary analyses of Canadian federalism, suggest that the resource industries have benefited from federation and been an important influence in the adjustments to Canadian federalism. The question, therefore, of the immediate impact of federation on the behaviour of resource interests remains an important research lacunae. In the analysis of the political activities of the resource industries in the post-1949 period, a major thrust of the inquiry should be an assessment of the contribution of the resource sector to internal provincial, interprovincial and federal-provincial conflict and upon the recent trend towards decentralization as exhibited in the 'free trade' negotiations and the Meech Lake accord.

The resource base of the province is real, and not what some observers have called "the myth of El Dorado". The road to El Dorado, however, must be paved with sound resource management by the public sector. The benefits accruing to the Newfoundland economy in terms of economic diversification, employment and income redistribution are dependent upon answers to a number of political questions. At the moment, the most important of these is the level of government which would provide for efficient and equitable management of resources. A subsidiary question, though an important one for Canadian federalism in general, is one that relates to Newfoundland's position in Confederation. If interprovincial and federal-provincial disputes were resolved in

Newfoundland's favour, Newfoundland could conceivably be a "have" province in Canadian federalism. Such a situation might result in the questioning of a union that was only narrowly achieved in 1949. The roots of attachment to Newfoundland, not Canada, as a cultural and political entity run deep. The Newfoundland question may, as much as the Quebec or Alberta questions, relate to the potentiality of Canada's survival as a federal state in its present form.

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Appendix A-1.

1920 Contract Negotiations:
Principal Terms of Draft Contracts and of Final Agreement

Principal Provisions,	Terms, Draft 1 Oct. 11, 1920	Terms, Draft 2 Oct. 13, 1920	Terms, Final Agreement, Nov. 1920
<u>EXPORT TAXES</u>	Canada: 25¢ a ton Other: Free for 3 years provided blast furnace constructed.	Nova Scotia: 25¢ a ton Other provinces: Free for 5 yrs if development under-taken and 1 million tons/yr exported to Nova Scotia after 5 yrs tax of 12.5¢ per ton. Other countries: Free for 5 yrs if development under-taken. Free for 20 yrs if plant turns out 100,000 tons/yr of ingots & no exports to Germany	Nova Scotia: 25¢ a ton. Other provinces: Free for 20 yrs if development under-taken & 1 million tons/yr exported to Nova Scotia. Other countries: Free for 20 yrs if development under-taken & exports to Nova Scotia.
<u>INDUCEMENTS TO COMPANIES</u>		Exemptions from property and corp. income tax & duty-free imports of raw materials & eqpt.	Tax & import duty exemptions as in draft 2 plus rights to water power in St. Mary's Bay.
<u>COMMITMENTS BY COMPANIES</u>	Construction of blast furnace, operation of coal depot, sale of houses to miners & compliance with Labour Board decisions.	Same as draft 1.	Same as draft 1.
<u>DEVELOPMENT PROVISIONS</u>	\$3 million over 3 yrs. Smelter operational by 1923.	Same as draft 1.	\$3 million over 5 yrs. Smelter construction begun by 1926 & operational by 1928.

Appendix A-1 continued

Principal provisions	Terms, Draft 1 Oct. 11, 1920	Terms, Draft 2 Oct. 13, 1920	Terms, Final Agreement, Nov. 1920
PENALTIES	Non-compliance with the development provisions would result in the imposition of a duty of 15ø a ton on ore to countries other than Canada.	Penalty of 12.5ø a ton duty on ore destined for any place besides Nova Scotia.	Penalty of 10ø a ton duty on ore destined for any point other than Nova Scotia.

Appendix A-2

Chronology of Newfoundland Government Loans

June 1931 - December 1932

June 1931

Amount of loan - \$2 million

Lender - Syndicate of Canadian banks (Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, and Royal Bank of Canada)

Major actors - Prime Minister Squires (Nfld.), Prime Minister Bennett (Canada), Dodds (general manager, Bank of Montreal)

Conditions - Appointment of a financial advisor, revision of Nfld. customs tariff, reorganization of Nfld. public services

Major outcomes - Appointment of Sir Percy Thompson & subsequent appointment of Penson, Magor, and Trentham, upward revisions of customs tariff, civil service cutbacks

December 1931

Amount of loan - \$2.2 million

Lender - Syndicate of Canadian banks

Major Actors - J.M. Penson (Deputy Minister of Finance - Nfld.), Sir Percy Thompson (Financial advisor to the Nfld. government), Richard Squires (Nfld. Prime Minister), representatives of the Canadian bank syndicate, Mr. Werlich (Manager of Bank of Montreal in St. John's), F. Alderdice (Leader of the official opposition in Nfld.), R.B. Bennett (Prime Minister of Canada)

Conditions - The more important of the 13 conditions specified were: customs duty proceeds to be deposited into a special account for the purposes of servicing the loan, export of gold prohibited, recommendations of Magor and Thompson to be implemented, government required to raise an internal loan, lease or sale of Labrador resources prohibited, Nfld. government to appoint a bank-nominated financial advisor, leader of Nfld official opposition to agree in writing with loan conditions

Major outcomes - Further civil service cutbacks with the implementation of Thompson and Magor's recommendations, 1932 Loan Act (internal loan), appointment of Stavert, Alderdice's compliance with loan conditions

May 1932

Amount of loan - \$2.5 million

Lender - Imperial Oil Co. Ltd., local business firms, and general public

Major actors - Sir Percy Thompson, Robert Magor, Victor Ross (Vice-President of Imperial), Board of Trade, Great Eastern Oil Co. Ltd., R.H. Spurr (Imperial's Nfld. representative)

Conditions - Monopoly for Imperial Oil in exchange for \$1.75 million loan and fee of \$300,000 to be deposited in Petroleum Products Fund for use in repayment of loan interest and capital

Major outcomes - Monopoly for Imperial, financial compensation to Great Eastern, local companies such as AND Co. became creditors of the Nfld. government, Board of Trade

agreement with government loan policies

December 1932

Amount of loan - \$1.25 million

Lender - Canadian and British governments

Major actors - Sir Percy Thompson, William Stavert, F. Alderdice (P.M. of Nfld.), R.B. Bennett (P.M. of Canada), Neville Chamberlain (Chancellor of the Exchequer, Great Britain), the British Secretary of State for the Dominions

Conditions - Appointment of a British Royal Commission on Newfoundland's financial circumstances

Major outcomes - Amulree Commission which reported in October 1933 and recommended the suspension of the Nfld. constitution

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