

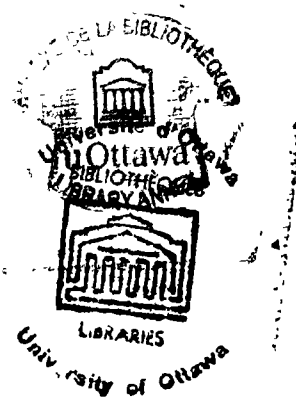
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THE INFLUENCE OF ECONOMIC FACTORS  
ON NEWFOUNDLAND'S ENTRANCE INTO CONFEDERATION

by Brother Christopher

Thesis presented to the Faculty of Arts  
of the University of Ottawa through the  
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fillment of the requirements for the  
degree of Master of Arts.

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## INTRODUCTION

The Fathers of Confederation hoped and planned for the union of all of the British North American Colonies. In the forty years following the Confederation of the first four colonies, Canada was enlarged and strengthened by the addition of new provinces. By 1905 only Newfoundland, Britain's oldest colony, remained aloof.

The Island is located at the entrance to the Gulf of St. Lawrence and guards the approaches to Canada's eastern gateway. Only eleven miles of the Strait of Belle Isle separate Newfoundland from its dependency, Labrador, and the North American continent.

Besides the geographical relationship that exists between Canada and Newfoundland, the settlers of these areas had a common origin. They are, for the most part, of English, Irish, Scottish and French stock. Canadians and Newfoundlanders shared a common allegiance and fought side by side for the same causes in the field of battle. The linking of the railways of the two countries and the development of aviation resulted in even closer ties between the people of Newfoundland and those of Canada.

At the Quebec Conference in 1864 delegates from Newfoundland were present to study the question of Confederation, but Newfoundland refused to join with the other provinces in

1867. The continual interest of the leaders of Canada and the revival of the Confederation issue by the Government of Newfoundland in 1895 failed to change the status of the Island.

To the geographical, racial and imperial ties already mentioned might be added common religious, educational and political interests, all of which might have eventually contributed to influence Newfoundland to accept Confederation. We shall, however, limit this study to the economic factors in Newfoundland that, in 1949, determined the unification of Canada and Britain's oldest colony.

In the opening chapter of this report the principal industry of Newfoundland, fishing, is described. It is seen that following World War I the fishing industry was no longer remunerative.

Chapter II points out that Newfoundland, in spite of its attempts to develop the Island's other primary industries, failed to stabilize the country's economy.

The following chapter shows that Newfoundland's economy, its instability aggravated by the world economic depression around 1930, collapsed and the Island faced bankruptcy.

The fourth chapter discusses the effects of the collapse of the economy of Newfoundland on the people and on the Government. Newfoundland reverted to colonial status,

but, in spite of the new system of government, living conditions in Newfoundland did not improve to any extent until the beginning of World War II.

In the last chapter it is made evident that it was in an effort to guarantee a sounder economy for their country that Newfoundlanders voted for union with Canada.

## CHAPTER I

### FISHING, THE PRINCIPAL INDUSTRY

#### 1.- The Pre-Columbian Discovery of Newfoundland

Authentic annals of the New World commence from its discovery by Columbus in 1492. Prior to this great adventure nearly every country of Europe had stories of voyages and discoveries. The Spanish Basques, the Bretons, the Italians, the Irish St. Brendan, all had tales that are interesting, some, perhaps, being authentic.

The Atlantic voyages of the Northmen stand on quite a different basis. The discovery of North America by the Icelanders in the tenth and eleventh centuries A.D. is now recognized. After discovering Greenland, the most northern part of North America, in 982, the Icelanders arrived on the shores of Labrador and Newfoundland. In the year 999 Lief Ericson reported that, on his way from Norway with missionary priests to convert the Greenlanders to Christianity, he was driven far to the south-west and came upon lands of which he had previously no knowledge. Two years later an Iceland merchant is reported to have set out to the new land in search of trade. He came to a cold, stony land, probably Labrador, that he called Helluland (i.e. land of slate) and thence to a wooded coast that he called Markland (i.e. land

of wood), commonly accepted as the eastern coast of Newfoundland. The discovery of Helluland and Markland is an historic fact. From the Icelandic annals we have confirmation of the Northmen's visits to Markland as late as 1347.

## 2.- Newfoundland, a Fishing Station

The important result of Cabot's voyages in 1497 and 1498 sprang not from his discovery of land, but from the revelation of probably the most prolific fishing grounds of the world, which he discovered in the shallow waters on the banks lying to the south and east of Newfoundland. To take advantage of the seemingly inexhaustible supply of fish, particularly cod, the fishing fleets of the nations of western Europe made annual voyages across the Atlantic from the sixteenth to the nineteenth century.

The sixteenth century was characterized by Spanish supremacy on the Atlantic. Although the claims of Spain, under the Treaty of Tordesillas with Portugal, (1494) included Newfoundland, she did not exclude from the Newfoundland waters Portuguese, French, and English fishermen before 1550. Nevertheless, they all respected Spanish claims and were in no position to obtain possession of any part of the Island. When Spain lost control of the seas in 1588 nothing had been done to provide for Newfoundland's development although its harbours had been used regularly by Europeans

for nearly a century. The significance of the period of Spanish supremacy was, not only that it prevented the development of Newfoundland, but also that it was the period during which several nations, through long participation in the fisheries, were able to lay claims to rights in Newfoundland which were to complicate the Island's problems for generations to come.

England's formal claim to Newfoundland was made by Sir Humphrey Gilbert in 1583, but recognition of complete British rights to the colony was not gained from France until the Treaty of Utrecht in 1713. The English colonial policy, which discouraged settlement where it appeared to be against England's interests, seriously retarded Newfoundland's economic development.

After the first part of the nineteenth century the prevention of settlement was no longer a fixed policy, but colonization was still hampered by restrictions imposed for the benefit of rival fishermen. As a result of a long and gallant struggle by the colony, the Anglo-French Convention of 1904 brought the surrender of French claims to an exclusive right of fishery in Newfoundland waters along what was called the French shore. The western and northern coasts were then open to unrestricted settlement and development by Newfoundlanders. United States still had extensive port privileges and inshore fishing rights, which were based on the Treaty of

Versailles of 1783. The dispute that arose out of these claims was settled by the Hague Tribunal in 1910 which gave Newfoundland reasonable regulation over all fishing in the colony's territorial waters. In spite of these difficulties settlement did take place gradually, and by the end of the nineteenth century the population was over 160,000.

### 3.- The Credit System

The many discouragements suffered by the early colonists were greatly responsible for the fact that the organization of the fisheries on the Island became largely feudal. Under this system the merchants or exporters employed fishermen to catch the fish, and in return for their services gave them sufficient food and the other essentials to maintain them and their families throughout the year. While the fishermen were little more than serfs, the merchants ordinarily acquired large fortunes. In such a system, the one virtue was that the merchants or exporters who employed the men were obliged to support them even in bad times.<sup>1</sup>

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<sup>1</sup> Newfoundland, Royal Commission Report,  
London, His Majesty's Stationery Office, 1933, p. 79.

By the middle of the nineteenth century, the feudal system gave way to a credit system that continued till the end of the century. The fisherman, who at first was unable to outfit himself in the spring on a cash basis, became accustomed to obtain from the merchant, on credit, his supplies for himself and his family for the fishing period. At the end of the season the fisherman returned to the merchant with his catch, and turned it against his account. In good years the balance was paid to the fisherman, but in seasons when the catch was poor the obligation to support the fisherman was no longer the duty of the merchant but of the government.<sup>2</sup> One might conclude that a large majority of the people were permanently in debt because even in prosperous times the fishermen had difficulty in earning sufficient during the summer to provide for their families during the whole twelve months.<sup>3</sup>

Under the credit system, the merchants were given a chance to make a double profit, first on the supplies they sold to the fisherman during the course of the year, and secondly on the sale of fish to the foreign market. All

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<sup>2</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 203.

<sup>3</sup> Newfoundland, Report by the Commission of Government on the Unemployment Situation, London, His Majesty's Stationery Office, 1935, p. 2.

prices were set by the merchant and the quality of the fish was determined by "cullers" employed by the merchants.<sup>4</sup> Instead of being looked upon as friends whose co-operation was necessary if the industry was to prosper, the merchants were apt to be regarded as enemies whose sole object was to exploit the fisherman for their personal gain. Because of the absence of mutual confidence between the producer and the exporter, the industry rested on a basis of distrust and suspicion.

In the perpetual struggle between these partners, the country's primary industry was bound to stagnate, and the morale of the people to be undermined. Such conditions tended to breed, among large sections of a naturally well-endowed and hardy people, dishonesty, carelessness, extravagance, reckless disregard for the future, and dependence on others.

The report of the Commission on Fishery Matters, 1915, provided conclusive proof of the evil effects on the economy of Newfoundland as the result of inefficient and corrupt systems of control of the main industry:

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<sup>4</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 78-80.

The deterioration in the cure of Newfoundland codfish, so noticeable in recent years, is one of the most serious factors -- if not the most serious factor -- in the commercial life of the colony today. The effect upon the production and value of the Labrador fishery is already lamentable in the extreme. 5

Previous to the first world conflict, Newfoundland's dried fish went to the following countries: Brazil, Italy, Portugal, Spain, Greece, and the West Indies. To the first four went over fifty per cent of the Island's fish in the years 1906-1910. Because of decline in morale, the quality of fish exported was poor. Therefore in these countries Newfoundland fish were usually sold last and then only to the poorest people.

#### 4.- The First World War

During the war Newfoundland's competitors in the dried fish industry were unable to maintain their pre-war production levels and Newfoundland's catches were the largest in the Island's history. The sale of dried cod at prices up to fifteen dollars per quintal (112 pounds) was out of all proportion to the previous returns for the product, so that fishermen as well as merchants prospered. With the prices high and the competition negligible the merchants were

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5 Service Bulletin, No. 1, St. John's, Newfoundland, Natural Resources, Dept. of, Fishery Section, 1935, p. 13.

more concerned with the quantity than with the quality of the fish. Instead of paying a price according to quality, the merchants dispensed with the "cullers" and adopted the practice of fixing an average price per quintal.<sup>6</sup> Since no compensation was made to the conscientious fisherman who cured his product well, he felt that he was penalized by the system, and as a consequence succumbed to the temptation to ignore his standards of curing. Thus the quality of the fish exported was even lower than before the war.

Another weakness in the industry was the inefficient manner of marketing the product. No serious effort was taken on the part of the exporters to assign no more than adequate shipments to the markets; consequently half a dozen cargoes of unsold Newfoundland fish might be in the same foreign port at one time.

Because of this further deterioration in quality and this inefficient marketing, after the war when competition revived, the demand for Newfoundland fish in the market countries fell off sharply and the price collapsed.

These difficulties in the markets brought about a third factor in the decline of the industry. At the same time there was a realization in Newfoundland that the poverty in the previously mentioned countries contributed to the

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<sup>6</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 105.

instability in the Island's economy. It was argued that, as long as Newfoundland's chief export was fish and that product was being sold in countries that were neither rich nor prosperous, the Island could not hope to become economically sound. This lack of confidence in the fishing industry was the third factor in the decline, and led to a movement to escape the insecurity as the following quotation will show:

The markets to which we sent our fish in the Mediterranean were in a state of chaos, and fish prices were dropping steadily. The countries from which Newfoundland imported her necessities — Canada, the United States and Great Britain principally — were countries in which high prices prevailed. This meant that fishing was ceasing to be a remunerative occupation in Newfoundland. Thousands of fishermen were quitting the fisheries and emigrating to the United States and Canada; many of them were pouring into St. John's seeking work. Then there were hundreds of soldiers and sailors, back from Europe, who were highly disinclined in any case to go back to the fisheries. St. John's, and the country generally, were in the grip of unemployment. 7

Thus with the end of the war came a sharp collapse of the boom, but its effects had a lasting influence on the history of the Island. When employment and business had risen to unprecedented heights, a spirit of optimism, combined with a generous patriotism, had induced the Newfoundland Government to undertake the financial responsibility for her troops overseas. The public debt was increased by

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7 Smallwood, J.R., The New Newfoundland, New York, Macmillan, 1931, p. 7.

\$10,000,000 and provision for war pensions proved to be a continued burden.<sup>8</sup> There can be little doubt that this addition to debt and overhead was an important factor in bringing about the financial crisis after 1930 and, eventually, confederation with Canada in 1949.

#### 5.- The Decline of the Fisheries

In the first session of the new Parliament that went into office in 1919, a Bill was introduced to bring a measure of order into the codfishery. This Bill included a provision for price fixing. It was charged later that the manner in which this provision was operated contributed to the grave depression that struck the country the following year. In the years between 1921 and 1923 the Government of Newfoundland was faced with a serious financial and economic situation. While revenue took a precipitous drop as a result chiefly of falling purchasing power, expenditure soared to new peaks by reason of the financial commitments arising out of the war, the demand for relief works which was countrywide, the higher cost of debt service due to new borrowings to meet these unprecedented conditions, and the shifting of the burden of

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<sup>8</sup> Newfoundland, Canada's New Province, Ottawa, External Affairs, Dept. of, 1950, p. 32.

railway maintenance from private to public ownership.<sup>9</sup>

When prices fell, the business establishments of the country collapsed. Many millions of dollars in assumed assets disappeared and this wiping out of capital brought about a sharp decline in industrial operations. All over the world prices collapsed, and Newfoundland found herself thrust into a crippling economic depression just at a time when many new changes had to be met and civil re-establishment was a vital issue.

After the war Newfoundlanders showed a strong disinclination to return to the industry that, as late as the disastrous bank failure, 1894, was responsible for about ninety per cent of the Island's exports. From his personal experience in the fishing industry as well as from statistics such as those revealed in Table I, the Newfoundlander knew that the average annual production for fishermen of all kinds was about fifty quintals, and that the average sale price for dried cod was too often unlikely to exceed \$4.50 per quintal. The inshore fishing season extended from June to September or early October. Employment for fishermen during the remainder of the year was available to no more than four or five thousand, and

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<sup>9</sup> The Wayfarer, Politicians and Depression, feature in The Daily News, St. John's, January 8, 1946, p. 4, col. 4.

TABLE I.- Products of the Sea  
(Yearly Averages)

Year	Total Exports	Total Exports of Dried Cod	Number of Quintals of Dried Cod
	\$	\$	
1936-40	7,445,383	5,479,930	1,056,703
1931-35	7,912,250	6,390,684	1,172,599
1926-30	15,175,682	12,982,926	1,415,260
1921-25	13,334,241	11,610,526	1,373,739
1916-20	23,514,450	20,613,506	1,656,068
1911-15	10,045,935	8,233,659	1,264,207
1906-10	9,778,243	8,077,442	1,529,479
1901-05	8,073,450	6,177,063	1,301,705

McKay, R.A., (Editor), Newfoundland,  
Economic, Diplomatic and Strategic Studies, Toronto,  
Oxford University Press, 1946, p. 518-21.

to that small number only for part time. Since the fisheries did not guarantee a livelihood for the fisherman and his family, it was hardly surprising that in such circumstances the general standard of living should be low and even primitive. Because the income of its inhabitants has a direct bearing on the financial status of a nation, there could be no stability in Newfoundland's economy when it depended on one principal industry, fishing.

Diversification of industry seemed to be the solution to a more balanced economy and prosperity. In 1923 the world economic conditions, which had been undergoing post-war developments, began to stabilize. Newfoundland's trade, sensitive to foreign financial trends, soon was on the increase. When a new Government took office in 1924, it embarked upon the development of a number of new enterprises. But its chief handicap was that two-fifths of its revenue had to be devoted to debt service. That meant that the Island's constructive programme had to be financed chiefly by new loans.

While Newfoundland was embarking on her ambitious schemes of industrial expansion in the 1920's, her fisheries were practically neglected. Out of the tremendous debt of over \$50,000,000 that the country contracted, (the debt at the end of World War I, after seventy years of responsible government, was in the neighbourhood of \$43,000,000) less

than \$1,000,000 was spent on the stimulation of fishing.<sup>10</sup> As a result the Newfoundland fishing industry stagnated at the same time that Norway was rehabilitating her industry by modernizing her equipment. During the same period British capital became interested in the Iceland fishery, and developed it to nearly three times what it had been before the war. As a consequence of Newfoundland's lack of organization and interest in the fisheries, deterioration in the quality of the product continued. Of the country's total exports of \$26,689,476 in 1931-32, the returns for the products of the fisheries amounted to \$6,393,548 which was nearly \$10,000,000 less than the amount earned three years before, when, as was the custom, fish led all other exports.<sup>11</sup> By 1933, when Newfoundland had lost first place in the European markets for heavy salted fish, real concern over the situation was evident:

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<sup>10</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 113.

<sup>11</sup> Ibid., p. 240.

It is not a question of competing with lower-priced products, produced at the expense of a lower standard of living. The consumers will pay a higher price, and there is a greater demand, for a product of a quality superior to or more reliable than the Newfoundland product. The competition is becoming more one-sided as time goes on, and goes against Newfoundland. It is only recently that this has become alarmingly apparent. 12

Although the fisheries exports were of less importance than they had been in 1920, that industry still employed the greatest number of workers. The loss of markets, aggravated by a succession of bad fishing seasons, had, as is shown in Table II, more serious consequences on the returns for exports from products of the sea than for those of the mines or of the forests.

#### 6.- Attempts to Revive the Industry

According to the opinion of the Royal Commission, appointed when Newfoundland found itself in extreme financial difficulties in 1933, one of the most serious blows to the economy of the Island resulted from the stagnation of the fisheries. To achieve the recovery of the principal industry, the Commission of Government, which took office in February of 1934, directed its immediate attention to revival of the fisheries.

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12. Service Bulletin, No. 1, St. John's, 1935, op. cit., p. 15-16.

TABLE II.- Exports (Natural Resources) for  
the Four Years Ending 30th. June, 1932

	1928-29	1929-30	1930-31	1931-32
Classification	\$	\$	\$	\$
Products of Fisheries	16,031,735	14,963,004	10,469,856	6,393,548
Products of Agriculture	25,928	40,892	20,140	10,811
Products of the Forest	1,193,130	895,372	573,747	314,421
Products of the Mines	4,102,618	7,232,388	4,371,288	3,408,008

1933, op. Newfoundland, Royal Commission Report,  
cit., p. 240.

During the year 1934 three thousand fishermen were outfitted by the Commission, which also established seven cold storage plants from which bait was distributed to various depots. Other aid consisted in the building of over sixty fishing schooners, and in forming fishery boards to improve the curing and marketing of fish. Despite the assistance that was given to the industry, the annual report of 1935 revealed that conditions had not improved:

The returns from the fisheries, as a whole, have been much smaller than those of 1934-35. The Italian market was virtually closed. While the Portuguese market absorbed more than 100,000 quintals of fish over the total sales to that market the previous year, the price was very low by reason of the operations of the Portuguese Government-controlled importing groups, and the desire of local exporters to increase sales, irrespective of price, from Newfoundland. The Brazilian and Spanish markets were handicapped by exchange restrictions, and payments for fish have been tied up for lengthy periods. Generally it may be said that the 1935 fishery season has been very bad, and considerable apprehension is felt as to the matter of supply for next year....

A study of the industry in its present stage makes it increasingly clear that there are too many individuals engaged in the codfishery and that the returns from it, even in the past years, are insufficient to provide the producers with anything approaching an adequate living. 13

By referring again to Table I it will be noted that the returns from the fisheries showed no improvement prior to World War II. This lack of improvement was due primarily

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13 Newfoundland, Commission of Government,  
London, His Majesty's Stationery Office, 1936, p. 15.

to the repeated failures in the catch in the inshore cod-fishery where the majority of the fishermen were engaged. In 1938 the effects of larger catches were counteracted by adverse conditions in the markets. Increased competition from other producing countries, as well as the almost complete collapse of the very important Spanish market owing to the civil war in that country, contributed to Newfoundland's difficulties. The situation became even worse as a consequence of the imposition of very high duties on the importation of fish into Brazil, the largest single market for Newfoundland fish. The depreciation of sterling in terms of the Canadian dollar was one other factor which resulted in the general lowering of prices paid to fishermen.

The average price received by the inshore fishermen in 1938 was seventy-five cents per quintal less than the previous year, or \$3.50 per quintal as against \$4.25 per quintal.<sup>14</sup> A large percentage of fishermen, being still quite unable to earn sufficient from the industry to provide for themselves and their dependants throughout the year, were forced to seek Government relief during the winter months.

While there was practically no decrease in payments to the Bank fishermen in 1938, prices paid for the products of the

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<sup>14</sup> Newfoundland, Commission of Government, London, His Majesty's Stationery Office, 1938, p. 11.

Labrador codfishery were \$3.00 per quintal for No. 1 quality and \$2.70 per quintal for No. 2 quality, as compared with \$3.00 for both Nos. 1 and 2 qualities in 1937.<sup>15</sup>

The decline in the demand for Newfoundland's dried cod was followed after 1939 by a growing emphasis in the Island on the marketing of frozen fish. During 1946 over sixteen per cent of the total fish exports came from the cold storage industry.<sup>16</sup>

Although the United Kingdom was an important market for Newfoundland's frozen fish during the war, the revival of the British fishing industry and the exchange difficulties virtually ended sales there by 1948 when the total amount for Newfoundland's fish and fish products was only \$219,000 as compared with \$1,933,000 the previous year.<sup>17</sup>

Exports of fishery products comprised forty-three per cent of Newfoundland's total exports in the fiscal year 1946-47 and thirty-six per cent the following year.<sup>18</sup>

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<sup>15</sup> Newfoundland, Commission of Government, 1938, op. cit., p. 12.

<sup>16</sup> Reference Papers No. 44, Newfoundland, Ottawa, External Affairs, Department of, 1949, p. 8.

<sup>17</sup> Province of Newfoundland: Statistical Background, Ottawa, Statistics, Dominion Bureau of, 1949, p. 82.

<sup>18</sup> Ibid., p. 44.

However, with the ending of war-inflated demands and prices, the future of the industry was still determined by the availability of markets and by Newfoundland's ability to keep pace with its competitors in price and quality.

#### 7.- Economic Uncertainty Prevails

Economic conditions in Newfoundland preoccupied the minds of the people for more than half a century prior to Confederation. In 1894, as a result of unsound banking practices by the directors, the Commercial Bank was compelled to close its doors and suspend payments. This led to a run on the Union Bank and finally on the Government Savings Bank, both of which were forced to refuse payment to depositors. As a result the credit and financial reputation of the mercantile houses and banks suddenly collapsed. So dependent was the Island's economic stability upon its single industry, fishing, that scarcely any individual or firm, even one that had been established upwards of one hundred years, was saved from bankruptcy. General financial ruin overtook Newfoundland.

The existing crisis forced the Government to appeal to Great Britain for financial aid. This was offered on conditions which implied the possible application of financial control of the Island by Imperial authorities. Since the terms were unacceptable, the Newfoundland Government investigated the possibility of reopening talks on Confederation

which had been abandoned eight years previously. The Canadian and Newfoundland delegations met at Ottawa in April 1895, but the financial terms offered by the Canadian Government were not sufficient to meet Newfoundland's estimate of its fiscal needs.

Despite the failure of these negotiations, one more step was taken to draw Newfoundland closer to Canada. No longer did the Newfoundlanders trust their savings to local banks; as a result Canadian banks were established on the Island and the Canadian dollar was adopted in 1895 as the currency of Newfoundland to replace the notes of the local banks which had been the universal currency of the colony.

As the result of loans from Canada and Great Britain, the financial situation on the Island was saved in 1895. Through other financial reverses and periodic fluctuations of its basic industry -- the fisheries -- Newfoundland struggled on through two world wars and one disastrous depression. To the more than 31,000 persons engaged in the fisheries, who, according to the census of 1945, comprised about thirty-three per cent of the gainfully occupied, the prevalence of economic uncertainty was a problem of vital importance. Consequently in the years 1946-48, when agitation for a new form of government arose, their desire to find a solution to their problem assured the keen interest of the fishermen in the question.

## CHAPTER II

### DIVERSIFICATION OF INDUSTRY

#### 1.- The Development of Railways

Recurring periods of distress and destitution which resulted from Newfoundland's dependence on the fisheries caused much anxiety to those called upon to administer the affairs of the country. The need for new outlets which would serve both to widen the activities of the people and to absorb the growing population was for a long time the dominant consideration in the minds of successive governments. Newfoundland's salvation was thought to be assured by the coming of the railway, at the end of the nineteenth century, which promised to open up the interior of the Island that had hitherto lain neglected.

Unfortunately, however, the crippling lack of capital and credit for development, following the financial crisis 1894-1895, led the Winter Government in 1898 to sign a contract with Mr. Robert Reid, under which it was provided that the contractor, Mr. Reid, should operate the entire railway system for fifty years. The contract further provided for the purchase by the contractor, at the end of fifty years, of the reversion of ownership of the whole system for certain specified considerations. The contractor, moreover, was to buy St. John's Dry Dock from the government, and at the option of

the government, was to purchase the whole telegraph system.<sup>1</sup>

This contract resulted in bitter opposition, and led to the defeat of the Winter Government in the Assembly in 1900. A Liberal Government, under the leadership of Robert Bond was then formed, and won a general election on the issue. Under a new agreement Mr. Reid surrendered the right to own the railway at the end of 1938, and promised to sell back to the government the rolling stock and equipment, and also the telegraph system.<sup>2</sup>

The cost of the construction of a railway in Newfoundland's rugged terrain, one-eighth of which is lakes and rivers in addition to the large areas of marsh lands, was of necessity heavy. More than seven hundred miles of railway were constructed to serve a scattered population. The main line, which runs from St. John's on the east to Port aux Basques on the west, is 550 miles long. This railroad crosses the Island like a crescent in its effort to serve the communities along the north and west shores. While the shortest distance between St. John's and Port aux Basques is only 330 miles, a direct route would consist of two termini with a very barren region between. Several branch lines amounting to approximately 160 miles were also constructed.

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<sup>1</sup> Newfoundland, Royal Commission Report,  
London, His Majesty's Office, 1933, p. 32-33.

<sup>2</sup> Ibid., p. 36.

With the railway came the economic benefit of employment for a considerable working force during its construction followed by a permanent source of income for many. Year-round service between the east and west coast was offered for the first time. New areas were opened up, and the development of the pulp and paper and mining industries was stimulated.

In 1908 Sir Robert Bond was replaced by Sir Edward Morris, the leader of another group of Liberals. The new Government was led by the prevailing prosperity to attempt improvements in public services. The Morris Government introduced a comprehensive agricultural programme, and sought in other ways to improve the lot of the people. It reduced taxation on fishing supplies, established the first old age pensions, and increased the money granted for educational purposes.<sup>3</sup>

However, the total benefits from the railway were less than anticipated, and the Island's debt was substantially increased. In proportion to the mileage and equipment required the freight rates were low; thus profitable operation was hampered. From 1904 to June, 1921, the railway, controlled by the Reid Newfoundland Company, cost \$5,750,000 more to

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<sup>3</sup> The Wayfarer, Unwritten History, feature in The Daily News, St. John's, January 13, 1950, p. 4, Col. 4.

operate than it earned.<sup>4</sup> In 1923 the Newfoundland Government was obliged to assume full responsibility for the railway and to run it as a publicly-owned service. During the next ten years the railway cost the governments an average of \$1,000,000 a year and its net cost since its inception was estimated at \$42,500,000, which was, in 1933, equivalent to over one-third of Newfoundland's public debt.<sup>5</sup> Although the railway operated on a profit basis during the war, the average annual deficit from 1945 till 1949 was more than \$1,500,000.<sup>6</sup> Besides the excessive costs of the railway, the duplication in the settlements of Postal, Telegraph, Telephone and Customs Offices as well as officials to operate these Government services added to the economic burden. After so many years of operational losses, many Newfoundlanders thought that the Island's financial burden stemming from the Railway and connecting steamship services would be lightened if Newfoundland should become a province of Canada.

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4. Smallwood, J.R., The New Newfoundland, New York, Macmillan, 1931, p. 85.

5. Newfoundland, Royal Commission Report, London, His Majesty's Stationery Office, 1933, p. 68.

6. Newfoundland, Canada's New Province, Ottawa, External Affairs, Department of, 1949, p. 128.

## 2.- The Expansion of the Pulp and Paper Industry

Newfoundland's forests covered an estimated 20,000 square miles. Fir, spruce and white birch, the principal species of commercial importance, covered about one-half of the total area. The forest lands comprised a broad belt extending along the north and west sides of the Island from the Avalon Peninsula to Port aux Basques on the southwest corner.

These forests provided some solution to Newfoundland's unemployment problem when the Island's first pulp and paper mill was erected at Bishop's Falls in 1907. Two years later the owners of the Daily Mail, an English newspaper, constructed a pulp and paper mill at Grand Falls, and a few years later took over the operation of the mill at Bishop's Falls. Newfoundland's pulp and paper industry, together with new developments in the iron ore mines at Bell Island, provided more employment and a wider range of products for export. By 1914 the relative importance of the incomes from the principal industries was as follows:

In 1894 about 90 p.c. of Newfoundland's exports consisted of fish and fish products; in 1914, though the value of fish exports had doubled, they made up less than 74 p.c. of the total. Exports of iron ore had risen in the same period from about \$500,000 to more than \$1,500,000. Exports of forest products, in 1894 less than \$85,000, had increased by 1914 to about \$2,300,000. 7

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7 Newfoundland, Canada's New Province,  
op. cit., p. 31.

After the war the modern town of Grand Falls was a flourishing centre, better laid out than any on the Island, with a well-constructed railway to the port at Botwood twenty-two miles from the mill. The better living and working conditions and higher income of the employees provided one oasis of prosperity which was in sharp contrast to the uncertain lot of the fishermen.<sup>8</sup>

In order to solve the Island's economic problems in the early 1920's, the Prime Minister, Sir Richard Squires, directed his attention to the erection of another pulp and paper mill to be located at Corner Brook. After lengthy negotiations the Newfoundland Power and Paper Company, Ltd., was formed with equal financial backing from the British Government and the Newfoundland Government.

What was envisaged and provided for in the contract was the construction, at Corner Brook, of a newsprint paper mill having a producing capacity of 400 tons; a town for the mill employees at Corner Brook; and a power house at Deer Lake, some thirty-two miles away, with the current carried by transmission wires thence to the mill at Corner Brook. The paper was to be made by four paper machines having each a daily capacity of 100 tons of newsprint. The power to be generated was 98,000 horsepower.<sup>9</sup>

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<sup>8</sup> Lodge, T., Dictatorship in Newfoundland, London, Cassell, 1939, p. 127.

<sup>9</sup> The New Newfoundland, op. cit., p. 32.

At a cost of over \$45,000,000, the mill at Corner Brook was completed, and the first newsprint was produced in it in July, 1925, just two years after the construction was begun.<sup>10</sup> The doubling of the anticipated construction costs and the Company's failure to obtain suitable markets to ensure full production resulted, within two years, in the Company's inability to pay the interest on its bonds. In 1928 the Newfoundland Power and Paper Company Limited, sold out to the International Paper Company of New York.

From the time the Corner Brook Mill came under the management of the International Paper Company, production took a steady upward turn. Although the mill was designed for a daily production of four hundred tons of paper, the amount per day by 1930 sometimes was close to six hundred tons. While permanent employment was provided for about 1,500 people, more than 4,000 workers were employed in the mill and power house and woods operations at the height of the season's activities.<sup>11</sup> The effect of the industry on the economy was encouraging:

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<sup>10</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 146.

<sup>11</sup> The New Newfoundland, op. cit., p. 48.

The pulp and paper industry has had far-reaching effects upon the economic life of Newfoundland. The industry was initiated with the aid of nuclei of skilled labour from the United Kingdom, the United States and Canada. For a time it was felt that the industry was in, but not of, Newfoundland. But as Newfoundlanders began to take more of the skilled operations and more of the responsible positions the value of the industry to the economy generally came to be appreciated. The development of the industry has led to the permanent transference of many workers from the hard-pressed fishing industry to total dependence upon the forest industries. 12

Exports of forest products jumped from 2.54 per cent of the total exports in the 1906-1910 period to 41.09 per cent twenty years later.<sup>13</sup> Besides providing a livelihood for hundreds of Newfoundlanders who otherwise would have been forced to migrate to Canada or the United States, the pulp and paper industry meant the difference between destitution and survival for Newfoundland.<sup>14</sup> The same author writes:

We . . . The departure of so many people would have worked great hardship upon those who were left; for the governmental expenditures in Newfoundland must remain, in outline, a fixed charge, and had there not been those millions from which to collect taxes, it is difficult to imagine how the Governments since 1923 could ever have found the money with which to carry on the public service, especially with a depleted population. 15

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12 MacKay, R.A., (Editor), Newfoundland, Economic, Diplomatic and Strategic Studies, Toronto, Oxford University Press, 1946, p. 101.

13 Newfoundland, Economic, Diplomatic and Strategic Studies, op. cit., p. 511

14 The New Newfoundland, op. cit., p. 49.

15 Ibid., p. 49.

Because of a lack of export markets for their products in the early 1930's, the pulp and paper mills at Grand Falls and Corner Brook had to curtail operations in spite of the low cost of production. Drastic reductions in wages and employment resulted in the fact that average weekly earnings of the mill workers were cut fifty per cent. The reduction of the output in the mill was naturally reflected in the amount of timber required and consequently in the earnings of the woodsmen:

In one district, where no less than 50,000 cords were cut in 1931, no cutting took place in 1932. Numbers of men have, therefore, been unable to obtain employment while, in the case of those who have been fortunate enough to do so, reductions in the rates offered have been such as to deprive them of all hope of earning a livelihood for themselves and their families. The average price per cord last season was \$1.00 - \$1.30, as compared with \$1.20 - \$1.50 in 1931 and \$2.50 in normal times. The average cut per man was 1.3 cords a day. Each man, out of his earnings, was required to pay 66 cents a day for board and was subject to other incidental expenses. The margin thus left to him at the end of many weeks' hard work was insignificant. 16

Relatively little improvement in conditions was experienced during the following six years when the export value of forest products rose from \$12,000,000 in 1933 to only \$13,000,000 in 1939. During the war the expansion of markets in Latin America and Australia resulted in a jump in the export value of forest products to \$32,000,000 in

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16 Newfoundland, Royal Commission Report,  
1933, op. cit., p. 150-151.

in 1948.<sup>17</sup> Although the pulp and paper industry appeared to be enjoying a strong position in Newfoundland's economy, woods operations and forest products manufactures gave employment to only about twelve per cent of all gainfully occupied males.

### 3.- An Increase in the Production of Minerals

Newfoundland's policy of diversification gained strength in the 1920's through the development of a second mining operation located in the interior of the Island, at Buchans. Previously the Wabana iron ore mines at Bell Island, controlled by the Dominion Steel and Coal Corporation of Nova Scotia, produced most of Newfoundland's mineral exports. Shipments of lime to serve as a flux in the blast furnaces in Sidney, and a small amount of copper to the United Kingdom and to the United States constituted the remainder of Newfoundland's mineral exports before the first World War.

In 1925, after years of experimentation by many of the world's best qualified metallurgists, an economic method was found for the separation of the zinc, lead and copper sulphide ore in the mine at Buchans which was owned by the Anglo-Newfoundland Development Company. Since the discovery for the separation of the sulphide ore was made by the American

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<sup>17</sup> Newfoundland, Canada's New Province,  
op. cit., p. 91.

Smelting and Refining Company, it was necessary that the two companies enter into an agreement in order to achieve the successful operation of the mine.<sup>18</sup> The agreement was reached, and the American Smelting and Refining Company began operations in the spring of 1926. Between 750 and 850 employees were engaged in the mine when it reached its objective in production in 1928.<sup>19</sup> Two years later a modern town had replaced what only a few years before had been a wilderness twenty miles from the nearest settlement.

Mineral products, which constituted 3.35 per cent of Newfoundland's exports in the period 1916-1920, rose to 10.87 in the 1926-1930 period.<sup>20</sup> In the same ten years, the output of iron ore at Bell Island was increased by three hundred per cent, and Newfoundland's total mineral exports rose from \$669,000 to over \$6,000,000.<sup>21</sup>

As a result of the loss of markets, the iron ore shipments from the Wabana mine dropped from 1,547,895 tons in 1928 to 148,485 tons in 1932. As a consequence, reduced employment resulted in the iron ore mine at Bell Island which

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18 The New Newfoundland, op. cit., p. 75.

19 Parker, John, Newfoundland, 10th Province of Canada, London, Lincoln-Prager, 1950, p. 69.

20 Newfoundland, Economic, Diplomatic and Strategic Studies, op. cit., 511.

21 Province of Newfoundland: Statistical Background, Ottawa, Statistics, Dominion Bureau of, 1949, p. 53.

retained approximately one-half of its 2,200 workers, and even then offered them employment for only one-third of the normal time.<sup>22</sup> Since Bell Island was a one-industry community whose prosperity depended on the demand for ore, great hardship was inflicted on the people of the area during the depression period. The absence of alternative employment in the community meant that the miner had to rely upon Government aid.

In 1931 the operators of the mine at Buchans were impressed with the realization that as a result of the reduced prices they received for their products, the mine was not profitable at its small rate of production. Survival depended upon an increase in sales which could only be accomplished through the obtaining of a wider market for the ores. The acquisition of new markets, in turn, demanded new installations in the mines which resulted in doubling the output. Thus, in spite of the low prices obtainable for the minerals, the mine at Buchans continued to operate.

During the period 1936 to 1940 mineral exports made up more than twenty-six per cent of the value of the total exports.<sup>23</sup> With the rise in the prices of fish during the next five-year period and the decline in the production of iron ore due to wartime conditions, and the loss of German

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<sup>22</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 158.

<sup>23</sup> Newfoundland, Canada's New Province, op. cit., p. 94.

markets, mineral exports dropped to less than twenty per cent of the total. Mining, which ranked third among Newfoundland's basic industries, employed only three per cent of the gainfully occupied Newfoundlanders in 1947-48.<sup>24</sup>

#### 4.- Attempts to Exploit the Tourist Industry

Newfoundland possessed another asset which she desired to develop, the tourist industry. A combination of scenery of exceptional beauty, a summer climate with a special charm, and wild life of great abundance and variety were enjoyed by too few tourists. Surely, it was thought, thousands of tourists from Canada and the United States would appreciate the opportunity to vacation in Newfoundland.

An enthusiastic effort in the development of the tourist industry began with the construction of roads. During the last half of the 1920's, Newfoundland built 1,826 miles of good motor roads.<sup>25</sup> At the same time that the road program was being conducted, the Newfoundland Hotel, a new million-dollar building was erected in St. John's. These activities necessitated the borrowing of large sums of money at a time of improvident administration. The business interests in

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<sup>24</sup> Province of Newfoundland, Statistical Background, op. cit., p. 48

<sup>25</sup> The New Newfoundland, op. cit., p. 55.

St. John's showed their realization of the danger of the Government's easy borrowing policy in the following observation:

Borrowing of money by the Government is usually a popular step as its expenditure brings temporary prosperity, but only in so far as the works created are economically productive, either directly or indirectly, will the borrowing be justified. It is in the hope and expectation of increased revenues from the tourist traffic that better highroads and a new hotel are being built, and time will tell whether this policy is justified. If all work together to make his stay enjoyable, there is every reason to believe the large expenditures in this connection will be amply repaid. 26

For highway development, so essential in the effort to bring tourists to the Island's exceptional attractions, \$10,700,000 was borrowed.<sup>27</sup> Excessive road developments were carried out in the populated areas such as the Avalon Peninsula, but little was added to the interior's communication system, with this result:

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26 Seitz, D.C., Newfoundland, London, George Allen & Unwin, 1927, p. 116.

27 Newfoundland, Canada's New Province, op. cit., p. 34.

On the American continent the average tourist wants to move in an automobile, and there are 20 million car-owners, a fair percentage of whom are only too anxious to find somewhere new to visit. Most of them live in the states where the summer temperature varies between being too hot and being unbearably hot. Every year a few score of adventurous souls arrive at Sidney with their cars, but without having taken an elementary lesson in the geography of Newfoundland. They discover that it would be useless to transport their cars to Port-aux-Basques because they would be immobilized in that settlement, and so they go somewhere else. 28

Because the attractions of the interior were still unveiled, the Island's potential tourist trade failed to materialize, and Newfoundland's financial burdens were increased. Newfoundland attracted 8,347 tourists in 1929, a number which was an increase of 1,447 over the number that visited the Island two years before.<sup>29</sup>

St. John's modern hotel, the Newfoundland Hotel, which was erected by means of Government assistance, met financial difficulties and went into liquidation in 1930. In order to protect its interests, the Government bought the hotel, the losses in the operation of which amounted to \$17,000 during the first year.

During World War II Canadians and Americans who served in Newfoundland became attached to the country,

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28 Dictatorship in Newfoundland,  
op. cit., p. 204-205.

29 The New Newfoundland, op. cit.,  
p. 60-61.

made its charms known to their friends and were anxious to return for holidays. The development of air travel and the improvement in the railway encouraged an increasing number of tourists to visit the Island.

As the War drew towards its close a good deal of discussion took place in Newfoundland about the possibility of developing the country's tourist trade and a number of reports were prepared on the matter. The Commission of Government, however, did not feel that it could spend any considerable sums of money in developing the tourist trade, with the result that those persons who had voluntarily agreed to serve on the Tourist Development Board lost interest and resigned their positions.

#### 5.- The Neglect of Agriculture

Because for centuries the people had taken a harvest from the sea without the preliminary exertion required for a harvest from the soil, they had shunned the difficult task of clearing the land. Although unfavourable soil and climatic conditions generally were blamed for the lack of development of Newfoundland's agriculture, the west coast alone could produce enough food to supply Newfoundland's population. In climate, natural resources and terrain, Newfoundland is similar to Norway and Finland that have a prosperous agriculture.

Newfoundland's failure to possess reasonably productive farm land rested in the Newfoundlander's attitude towards money. The Newfoundlander was the perfect example of the international trader who held to the belief that only when he received money for his commodity did it possess utility. Since the Newfoundland grown lamb could not successfully compete with the New Zealand lamb on the British market, the Newfoundlander refused to consider the raising of sheep for the domestic market.<sup>30</sup> Canadian farm products could be produced more cheaply and therefore could undersell those grown in Newfoundland; consequently agriculture, on a scale great enough to supply the home market was disregarded.

Beginning in 1934 the new Government undertook to stimulate public interest in farming:

In the past fifteen years, an active policy of encouragement of agriculture has been carried on, making use of field advisors, soil surveys and subsidization of livestock improvement. A laboratory and a demonstration farm are maintained in the St. John's area and a personnel training scheme for general and fur farming has been introduced. 31.

Despite the encouragement given to agriculture, the total area in crops in 1945 was only 62,642 acres. This was approximately one-half the area of improved land in 1911.

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30 Dictatorship in Newfoundland, op. cit., p. 166.

31 Province of Newfoundland: Statistical Background, op. cit., p. 56.

During the same period, 1911 to 1945, a marked decline in the production of crops and in the livestock population took place. Although the human population increased in those same years from 243,000 to 322,000, the total number of persons cultivating the land decreased from 42,900 to 35,570.<sup>32</sup> Of this total, the 1945 Census discloses, only eight per cent were full-time farmers, the remainder being fishermen and others.

The absence of a large farm population, which never exceeded one-sixth of the total population at any time in the history of the Island, ruled out the necessity for the production of farm machinery. The low income of the people permitted them to purchase only the most necessary and cheapest articles; consequently the range of commodities that could be manufactured with a fair prospect of sale was very curtailed. Restricted, then, by the nature of the home market, manufacturing on an extensive scale was never possible.

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<sup>32</sup> Province of Newfoundland: Statistical Background, op. cit., p. 56-62.

## 6.- A Colonial Economy

Newfoundland, after years of frantic effort by successive governments to diversify the Island's industry and thus stabilize its economy, failed to achieve its goal because her economy was colonial; that is, it was geared chiefly to an export market, and hence it had to be prepared to face trading difficulties. Its principal exports, fish, iron ore and newsprint, had to be sold at competitive prices on a world market. While Newfoundland's exports went to less prosperous countries, well over ninety per cent of her imports came from the protected markets of Canada, the United Kingdom and the United States and were less subject to violent price fluctuations. Since the 1890's, Canada, the principal source of Newfoundland's imports, ordinarily took less than ten per cent of the Island's exports, mostly in the form of iron ore for the blast furnaces at Sidney. (See Tables III and IV)

Such a situation points to the vulnerability of Newfoundland's economy that was aggravated during the 1930's by the breakdown of international exchange. Newfoundland sold about two-thirds of its exports in countries other than the United States and Canada, principally in the sterling area. At the same time about seventy per cent of her imports were from the United States and Canada. The difficulty of many of Newfoundland's overseas customers in finding dollars to

TABLE III.- Exports: Percentage to Principal Countries

Year	United Kingdom	Canada	United States	All Other Countries
Quinquennial Averages-				
1901-05...	20.4	9.8	12.8	56.9
1906-10...	12.8	13.7	9.8	63.6
1911-15...	21.9	12.8	10.2	55.0
1916-20...	15.5	7.9	17.1	59.4
1921-25...	31.3	7.1	9.4	52.1
1926-30...	22.0	7.4	28.5	42.0
1931-35...	36.9	5.9	25.4	31.8
1936-40...	35.4	9.1	27.2	28.3
1941-45...	21.5	16.1	33.9	28.5
Year				
1946-47...	16.0	12.6	33.9	37.5
1947-48...	16.9	13.8	33.6	35.7

Province of Newfoundland: Statistical Background, op. cit., p. 80-81.

TABLE IV.- Imports: Percentage from Principal Countries

Year	United Kingdom	Canada	United States	All Other Countries
Quinquennial Averages-				
1901-05...	27.0	35.3	30.8	6.9
1906-10...	23.8	34.4	35.6	5.2
1911-15...	24.5	33.5	36.9	5.1
1916-20...	10.5	40.0	44.7	4.8
1921-25...	19.9	44.0	31.7	4.4
1926-30...	19.0	42.4	34.4	4.2
1931-35...	23.1	39.1	29.0	8.8
1936-40...	19.3	41.1	33.6	6.0
1941-45...	3.9	63.3	30.5	2.3
Year				
1946-47...	5.6	57.6	34.5	2.3
1947-48...	5.9	52.4	38.4	3.3

Province of Newfoundland: Statistical Background, op. cit., p. 80-81.

pay for imports from Newfoundland had, in the 1930's and again after World War II, adverse effects on the demands and on the prices for its products. Following is a pertinent passage:

Moreover, a colonial economy is always highly vulnerable to external shocks, and the economies of few countries are more vulnerable than that of Newfoundland. So long as it was dependent on a single staple for export, namely, dried cod, the failure of the market for this one commodity, or the failure of the catch, tended to rock the economy of the whole Island, as, for example, in the 1890's. The greater diversification of industry in recent years has helped to develop a more balanced economy, but the basic facts are that the new industries, mining and pulp and paper, are also export industries, and that the prices of their products have been quite as sensitive to the business cycle as those of dried fish, if not more so. If Newfoundland no longer has her export eggs all in one basket, all her baskets are fragile. 33

This account of the diversification of industry was intended to reveal the weakness of Newfoundland's economy. In addition, it should be pointed out that this diversification strengthened the economic links between Newfoundland and Canada. The completion of the railway, and the establishment of a regular steamship service between Port aux Basques and Sidney linked Newfoundland with the railway system of Canada. Operations in the Wabana Mines began in order to supply the iron ore for the growing steel industry at Sidney. The International Paper Company, operating at

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33 MacKay, R.A., (Editor), Newfoundland, Economic, Diplomatic and Strategic Studies, Toronto, Oxford University Press, 1946, p. 18.

Corner Brook, had interests in Canada also. Newfoundland was tied to the continent economically; it was almost impossible to remain isolated politically.

## CHAPTER III

### THE COLLAPSE OF NEWFOUNDLAND'S ECONOMY

#### 1.- The Population Problem

Although Newfoundland's total area, including Labrador, is three times that of England, the population according to the census of 1945 was only 321,819. Since the people were chiefly engaged in fishing, the settlements grew up in places from which the work could be conducted most easily. The Avalon Peninsula, on which St. John's, the capital, is situated, is one-twelfth the area of the island, but has forty-seven per cent of its population. The other fifty-three per cent is scattered in some 1,300 small settlements along the country's 6,000 miles of coastline. Such a dispersal of its population added greatly to Newfoundland's economic problem.

Newfoundland's inability to guarantee freedom from want to her people resulted in her receiving practically no immigrants in the century prior to Confederation. Instead Newfoundlanders emigrated to Canada and to the United States as may be observed in Table V.

The rate of emigration depended largely on the demand for workers in these countries. In addition to the large number of Newfoundlanders who became permanent residents,

TABLE V.- Newfoundland-born Residing in Canada  
and the United States

Canada	United States
1911 ... 15,469	1910 ... 9,311
1921 ... 23,103	1920 ... 13,342
1931 ... 26,410	1930 ... 23,971
1941 ... 25,837	1940 ... 21,361

MacKay, R.A., (Editor), Newfoundland,  
Economic, Diplomatic and Strategic Studies, Toronto,  
Oxford University Press, 1946, p.57.

many others took seasonal work. While emigration provided an outlet for the unemployed, the returning Newfoundlanders brought back with them tastes for the standard of living enjoyed by their neighbours in Canada and the United States. Despite the fact that the Island was an area of emigration rather than immigration, the high birth rate placed Newfoundland among the countries with rapidly increasing populations:

The conjunction of a high rate of natural increase, emigration, and low incomes for wage-earners and primary producers working on their own account, points to a serious problem—pressure of increasing population on employment opportunities. For this problem no easy solution is in sight. Freedom of migration to Canada or the United States, or to both, would help to relieve pressure, as it has in the past, but the post-war immigration policies of both countries are uncertain. 1

Since one of Newfoundland's fundamental problems was the pressure of an increasing population upon less rapidly expanding job opportunities, the surplus population had to find work elsewhere. In opening the door for emigration to Canada, confederation offered to Newfoundland one of its greatest economic advantages.

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1 Newfoundland, Economic, Diplomatic and Strategic Studies, op. cit., p. 134

## 2.- Optimism Prevails

A spirit of optimism predominated in Newfoundland in the second half of the 1920's. Already the Island had two paper mills as well as lead, zinc, copper and iron mines which gave to the Newfoundlanders sufficient proof of their country's release from its dependence upon a single industry. Labrador, with its vast potential resources of timber, minerals and water power, was awarded to Newfoundland in 1927 by the Privy Council. In the previous year, by virtue of the decision of the Balfour Committee, Newfoundland achieved dominion status. That overconfidence possessed the leaders of the country, as well as the people in general, may be seen from the following quotation from J.R. Smallwood, the present Premier of Newfoundland, who wrote in 1930:

All the talk these days is of the land wealth of the Colony. Not fish, but minerals and timber and water power. Already it can be said that the exploitation of these resources, small though the development be in comparison with the prospects for the next decade, has reached and passed in actual dollars and cents the cod and all other fisheries combined....

Where in former days Newfoundlanders thought of industry in terms of thousands of dollars they are now talking in millions. Where before they admired the courage of the capitalist who laid out fifty or a hundred thousand dollars on an industrial undertaking, they scarcely blink an eyelid to-day at schemes involving twenty-five, fifty, or even seventy millions. 2

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2 Smallwood, J.R., The New Newfoundland, New York, Macmillan, 1931, p. 2-3.

This optimism was unjustified. In 1928 and 1929 the country experienced a temporary recovery from the post-war depression. But increased revenues were not sufficient to meet the growing cost of debt service for all the capital improvements during the years after 1920. Unfortunately no way of curtailing expenditures could be found without reducing the general efficiency of the social and economic systems. During the period, 1921 to 1932, Newfoundland's average annual revenue was \$9,250,000 and her average annual expenditure was \$11,250,000, thus leaving an average annual deficit of \$2,000,000. In the same time loans were raised amounting to over \$50,000,000 or half the country's public debt in 1933.<sup>3</sup> These loans were made by financial houses in London, New York and Canada, as well as by one of the four Canadian chartered banks operating on the Island, which should have known the financial condition of the country. The borrowed money was used to meet the annual deficits of the governments and to provide them with funds with which to carry on costly schemes of capital expenditure. If the governments of the period were to be condemned for their reckless borrowing, so also were the financial houses that encouraged it by their unwarranted lending.

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<sup>3</sup> Newfoundland, Royal Commission Report,  
London, His Majesty's Stationery Office, 1933,  
p. 45-46.

### 3.- Disaster Overtakes the Economy

Since Newfoundland produced only a small portion of its food and other necessities of life, the country was no less dependent on external sources of supplies than it was on external markets. Moreover, although Newfoundland's products went to many different markets, the great bulk of its supplies was obtained from two sources, Canada and the United States. For this reason Newfoundland had not only to export to live; it had also to export largely to countries whose currencies were convertible to dollars if Newfoundland's citizens were to procure the bare essentials of life.

When the first effects of the world depression began to manifest themselves in 1930, Newfoundland had little or no power of resistance. The Government's failure to obtain a loan in 1932 brought home to the country the realization that it could not pay its debts, and that it was heading swiftly for bankruptcy. With its credit exhausted and all its major resources dependent upon foreign markets, the country was in an extremely vulnerable position. The bottom seemed to fall out of the markets for all Newfoundland's exports. They dropped from approximately \$40,000,000 in 1930 to \$23,200,000 in 1933.<sup>4</sup> The blighting effect of the

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<sup>4</sup> Newfoundland, Economic, Diplomatic and Strategic Studies, op. cit., p. 71.

economic depression on Newfoundland stemmed from her precarious economy as is stated in the following quotation:

We have been faced during the past eight months with a grave crisis in our economic affairs. That crisis is in large part a reflection of the wider economic upheaval from which almost every country in the world is suffering; but it is also in a special degree a domestic crisis due to local conditions and to the need for the reorganization of the administrative and financial machinery in our country. Among these local conditions I would mention particularly the unprecedented fall in the price of codfish that has taken place, the decline in the price of newsprint, and the falling off in the export of iron ore which mainly goes to Germany. This has inevitably reacted upon our revenue, in particular upon the Customs Revenue which forms over three-quarters of the estimated revenue of the year. Those countries are suffering most whose prosperity has depended in a high degree upon their export trade; that is particularly the case with Newfoundland. 5

During the winter of 1932-33, for at least twenty-five per cent of the people there was no alternative but to claim relief, to which the Government had to devote more than one million dollars.<sup>6</sup> To the Newfoundlander's lot of misery, caused by the most abject poverty, was added the bleak prospect of government bankruptcy.

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5 Budget Speech, Delivered by Richard A. Squires, Prime Minister, St. John's, Newfoundland, House of Assembly, March 1, 1932, p. 1.

6 Newfoundland, Royal Commission Report, 1933, op. cit., p. 89.

## 4.- The Government Faces Bankruptcy

For its revenue the country depended chiefly on indirect taxation, seventy-five per cent of which was derived from customs duties, seven and one-half per cent from income and other taxes, and two and one-half per cent from liquor profits. As the result of the pressing need for additional revenue, the level of duties became so high by 1933 that the point of diminishing returns seemed to have been reached.<sup>7</sup> Despite the severe increased in taxation, Table VI reveals a deficit of more than forty per cent of the revenue in 1932-1933.

With its revenue cut and its relief burden increased, the Government was faced with imminent default of the interest payments on the public debt due on January 1, 1933. Newfoundland was saved from bankruptcy in January only by a joint loan of \$1,250,000 from the governments of the United Kingdom and Canada, and an additional loan of \$1,850,000 to meet the interest payments falling due six months later.<sup>8</sup> The facts

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<sup>7</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 58-59.

<sup>8</sup> Ibid., p. 55.

TABLE VI.- Revenue and Expenditure

Year (1)	Revenue	Expenditure	Deficit (-) or Surplus ( )
1 Millions of Dollars			
Average-- 1920-32	9.2	11.2	-2.0
1932	7.9	11.9	-4.0
1933	8.0	11.3	-3.3
2 1935	9.6	11.6	-2.0
1936	9.8	13.0	-3.2
1937	11.0	13.0	-2.0
1938	12.3	14.1	-1.8
1939	11.2	15.3	-4.1
1940	12.6	17.4	-4.8
1941	16.2	15.8	0.4
1942	23.3	16.1	7.2
1943	19.8	15.8	4.0
1944	28.6	25.2	3.4
1945	33.3	26.3	7.0
1946	33.4	30.2	3.2
1947	37.2	37.1	0.1
1948	40.6	40.9	-0.3

(1) 1920-1942, years ended June 30; 1943, nine months ended March 31; 1944-1948, years ended March 31.

1 Newfoundland, Royal Commission, Report, 1933, op. cit., p. 45.

2 Province of Newfoundland, Statistical Background, Ottawa, Statistics, Dominion Bureau of, 1949, p. 91.

were only too clear that Newfoundland's public debt and financial obligations were beyond the country's capacity to bear:

The debt of Newfoundland increased with the debt of other governments, but she had neither the diversity of resources nor the political ingenuity, e.i. resort to repudiation, which enabled other governments to survive. 9

Repeated loans since 1930 when the first effects of the depression began to manifest themselves, the cutting of expenditures to a minimum at the same time, and the assistance of financial advisers loaned from the United Kingdom failed to avert the economic crisis facing the country. In return for the promise of loans to be advanced in 1933 by Canada and the United Kingdom, the Government of Newfoundland agreed to the appointment of a controller of the treasury, which concession meant that the Island no longer possessed the full control of its finances.

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9 Plumtree, A.F.W., et. al., "Newfoundland, Economic and Political", in The Canadian Journal of Economics and Political Science, Toronto, 1937, Vol. III, p. 84.

## 5.- The Appointment of a Royal Commission

In the midst of the extreme financial difficulties that faced Newfoundland, a Royal Warrant was issued on February 17, 1933, to appoint a Commission "to examine into the future of Newfoundland and in particular to report on the financial situation and prospects therein."<sup>10</sup>

The Commission consisted of one member selected by the Newfoundland Government, one by the Canadian and one by the United Kingdom Government. Immediately upon their arrival in Newfoundland, the members, under the presidency of Lord Amulree, began their investigations and continued them during the summer. Extreme care was taken to see that every interest in the Island was consulted in an effort to gain the approval of the Government and of the people of Newfoundland as well as of any Government or people concerned. In November of the same year the results of the extensive study of all phases of the Island's activities were published in the Report.

Its authors summarized the existing situation thus:

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<sup>10</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. ii.

Our investigations have shown clearly that Newfoundland is unable in present circumstances to support unaided the existing burden of the public debt; that the condition of the people generally, already nigh desperate, will be still further depressed as a result of a fourth consecutive season in which the fishery has failed to yield them a livelihood; that the business houses of the Island have been faced with heavy losses; that the point has been reached where crippling taxation is yielding diminishing returns; and that prompt measures are needed if the country is to be saved from the imminent peril of financial collapse. 11

The Royal Commission was convinced that the difficulties with which the country was faced, while accentuated by the effects of the depression, were in reality the result of persistent extravagance and the neglect of proper financial principles on the part of successive governments in the ten years prior to 1931. The Commission failed to appreciate the strength of economic factors, especially the breakdown of world trade, which led to the collapse of Newfoundland's economy. 12.

In a time of economic depression and financial crisis, inefficiency in government serve to aggravate the situation. But if the politicians of the time were many times worse than was alleged, the fact still remained that Newfoundland could not have avoided the disaster that overtook her economy.

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11 Newfoundland, Royal Commission Report, 1933, op. cit., p. 177.

12 Newfoundland, Economic, Diplomatic and Strategic Studies, op. cit., p. 32

## 6.- A Consideration of Alternatives

In their examination of the possible alternative methods of dealing with the situation, the Commission first considered the measures that Newfoundland herself might take to assure her a chance of recovery. If Newfoundland chose to rely on her own resources she had these two possibilities: the country might default on the full payment of the interest charges on its public debt, or it might sell or lease Labrador.<sup>13</sup> But one thing Britain did not want at that time nor did Canada was a default by a dominion which might be viewed out of all proportion with its actual importance.

The Commission rejected the scheme which favoured default because of the consequences that such a policy would have on the country and on its people. It was pointed out by the Commission that the first effect of a default by Newfoundland would be to shatter the credit of the country. Consequently, as a second effect, trade would decline, development would be checked, and prospects of increased employment, higher wages and improvement of social conditions would be jeopardised.<sup>14</sup> Such further damage to the country's economic structure, the Commission was fearful, might lead to a complete financial collapse.

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<sup>13</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 178.

<sup>14</sup> Ibid., p. 179-180.

The confirmation of Newfoundland's sovereignty over Labrador led most Newfoundlanders to believe that they possessed in the territory an invaluable asset. In an effort to transfer the existing public debt of Newfoundland or such part of it as would ease the Island of its unduly heavy burden, some suggested the sale of Labrador to Canada. Such a suggestion in 1933 was not practical. Two years earlier the question of purchasing Labrador from Newfoundland was engaging the attention of the Canadian Government. When the economic depression set in, the same government felt that no good purpose would be served by considering the proposal until there was a general improvement in world conditions.<sup>15</sup> Since no other scheme concerning the disposal of Labrador offered any immediate prospect of solving Newfoundland's difficulties, this solution was rejected.

Thus both proposals involving independent action by Newfoundland — the default of the payment of interest on the public debt, and the sale of Labrador — were discarded as possible solutions to the problem.

Regarding the alternative possibilities that would be dependent on external assistance, the Commission first considered the suggestion that Newfoundland negotiate some form of political union with Canada. The attainment of such

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<sup>15</sup> Newfoundland, Royal Commission Report, 1933, op. cit., p. 185.

a union was, in the opinion of the Commission, impossible. The Commission members realized that, as a result of Newfoundland's increasing contacts with Canada, such a proposal would receive more enlightened discussion and consideration than it would have twenty years earlier. However, despite this realization of the increasingly close relationship, they were unable to visualize any arrangements for union with Canada that would be acceptable to the majority of Newfoundlanders.

After the examination of all the possible solutions that were proposed during the various discussions, the Commission was left by a process of elimination, with only those courses of action which were dependent in some degree on assistance from the United Kingdom. Lord Amulree and his associates recalled that Newfoundland's requirements were twofold, financial and political. If the existing situation in the Island was to be effectively remedied, measures designed to alleviate the financial burden would not in themselves provide a solution. A complementary requirement, which the Commission deemed to be of the utmost importance, was that the existing form of government should be temporarily modified to promote the rehabilitation of the Island on sound principles.

In their consideration of the political and constitutional aspects of the proposals submitted to them, the

Commissioners felt that some system should be devised which would ensure the execution of a constructive policy designed to improve the condition of the people. A continuation of responsible government with modifications to ensure the permanence of the existing form of control over expenditure, the Commission maintained, would prove inadequate because the form of "Treasury control" was not designed for positive purposes. Should such modifications of the constitution be made to include any system of control over expenditure there always remained the possibility that any government which so desired might successfully initiate procedure for a release from such control. In order that the people might be freed from the demoralizing influences of party politics and that they might be trained anew to a spirit of self-reliance, the Commission concluded that a radical change in the political and constitutional system was essential.

Under no circumstances did the Commissioners feel justified in putting forward recommendations designed to enlist the assistance of the Government of the United Kingdom if such assistance was to be directed solely to the financial relief of the Island. Their plan of reconstruction therefore was of a dual character, containing closely related financial and constitutional measures. The joint proposal recommended that a reduction of the existing burden of debt was essential to the recovery of the Island, and that self-government should

be suspended for an indefinite period. The Commissioners proposed that the Newfoundland Government should make an immediate appeal for the co-operation of the Government of the United Kingdom in the execution of a joint plan of reconstruction containing these main features:

(1) The suspension of the existing form of government until such time as the Island may become self-supporting again.

(2) The creation of a special Commission of Government, which would be presided over by the Governor, would be vested with full legislative and executive authority, and would take the place of the existing Legislature and Executive Council.

(3) The Commission of Government would be composed of six members, exclusive of the Governor, three of whom would be drawn from Newfoundland and three from the United Kingdom.

(4) The Government Departments in the Island would be divided into six groups. Each group would be placed in the charge of a Member of the Commission of Government, who would be responsible for the efficient working of the Departments in the group, and the Commission would be collectively responsible for the several Departments.

(5) The proceedings of the Commission of Government would be subject to supervisory control by Your Majesty's Government in the United Kingdom, and the Governor-in-Commission would be responsible to the Secretary of State for Dominion Affairs in the United Kingdom for the good government of the Island.

(6) Your Majesty's Government in the United Kingdom would, for their part, assume general responsibility for the finances of the Island until such time as 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 Newfoundland a reduction in the present burden of the public debt. 16

The findings of the Royal Commission were received by the people of Newfoundland with mixed feelings. On the one hand, there was general satisfaction at the prospect of better times and generous assistance in the task of recovery from their desperate position. On the other hand, perhaps for the first time many became fully conscious of the humiliation and national shame involved in the publication of the existing state of affairs. But the country was bankrupt, and could do nothing save accept the friendly administration of Britain until the Island was in a position to resume control of her own affairs.

In Britain the reactions to the work and the recommendations of the Royal Commission were more varied and more severe. The London Times had this to say:

There are good grounds for expecting the Government and Parliament at St. John's will declare themselves ready to abdicate their function for the time being. What is now needed is financial aid accompanied by the introduction of an administrative system able to relieve the immediate necessities of the people and carry through a program of economic reconstruction; but this task is impossible if the Government remains exposed to political party influence. The public of Britain and Newfoundland will note with satisfaction that the British Empire is sufficiently elastic to adjust itself to any development, however unforeseen and unprecedented. 17

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17 Newspaper Comment on the Royal Commission Report, editorial in The Daily News, St. John's, November 29, 1933, p. 4, col. 1.

While the Times supported the recommendations of the Royal Commission, the Manchester Guardian commented thus:

"Is this claim to suppress the Dominion constitution in order to avoid default on external debt payments to be confined to Newfoundland?" the newspaper asked. "If so, on what peculiar theory of Empire relationships is the claim based? Are the financial arguments strong enough to justify such interference? In a word is no less a measure possible that would equally well secure the necessary reforms in the Dominion?" 18

Such strong implications were not evident among Newfoundlanders who realized they must weigh in the balance the two alternatives: the acceptance of the proposals made by the Royal Commission or refusal and inevitable default.

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18 Newspaper Comment on the Royal Commission Report, op. Cit., p. 4, col. 1.

## CHAPTER IV

### GOVERNMENT BY COMMISSION

#### 1.- Newfoundland Reverts to Colonial Status

The first step towards bringing the two-part plan of reconstruction into operation was taken by the Newfoundland Legislature in the second session of the assembly in 1933. The vast majority in the Legislature was confident that the Report had been commended by all classes of people all over the country; consequently a referendum on its proposals was rejected on the grounds that it would involve unnecessary expense.

At the House of Assembly on November 28, 1933, the resolutions for an address to His Majesty the King, petitioning for the suspension of the old constitution and the establishment of a new form of government was moved by Mr. Alderdice, the Prime Minister. It was not an easy task to ask the country to surrender its independence, or the people to give up control of their own affairs, and yet it was a task that under the circumstances could not be avoided. Mr. Alderdice felt both the seriousness and the responsibility of the situation when he went before the Legislature with the request that it vote itself out of power and lay down the responsibilities of government.

The resolutions failed to gain the support of only two members of the Opposition who put forth several amendments. Following the defeat of the amendments all of which were voted for only by Messrs. Bradley and Starkes, these two left the House and were not present when the resolutions were passed.

On December 2, 1933, the Newfoundland Legislature was officially closed by His Excellency the Governor. This was the final step in the decline and fall of Responsible Government which had been won with such difficulty just seventy-eight years before by a small group of Newfoundland patriots. The newest term in the vocabulary of Imperial expedients was Commission of Government. Commenting on the closing of the Newfoundland Legislature, The Daily News in its editorial had this to say:

Possibly apart from active politicians and those who had political aspirations there may be some who see with great regret the passing of responsible government. But they are difficult to find. In all ranks of life, and especially among diligent and hard-working citizens who ask no favours but the progress of the country and the opportunity to earn their own living, the most frequently heard expression is one of thankfulness that party politics has been thrown into the discard for a period. 1

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1 No Aladdin's Lamp Is This, editorial in The Daily News, St. John's, December 4, 1933, p. 4, col. 1.

Newfoundland's address was submitted to the King, petitioning for the suspension of the old constitution and the establishment of a new form of government (the Commission of Government), and requesting the proposed financial arrangements concerning the public debt.

In December, 1933 the Newfoundland Bill was introduced into the British House of Commons where it received severe criticism from the Labour party. The main reasons for opposition were these: that its financial clauses imposed a considerable strain on the already overburdened taxpayer in the United Kingdom; that those same financial clauses were designed in the interests of the holders of Newfoundland bonds, and that they did not afford any appreciable measure of relief to the impoverished people of Newfoundland; and that its political clauses provided for the abolition of democratic government and for the establishment of a virtual dictatorship.

In the attack on the financial clauses of the Newfoundland Bill, one of the most prominent among the Opposition was Clement Attlee, who maintained:

We on this side are not opposing the Bill from any lack of desire to help the people of Newfoundland, but we are opposed to giving money to bondholders and moneylenders who have made certain investments,... and who, having made a bad bargain are now to be placed in a favoured position by having their interest provided by the masses of the people of this country. 2

At another stage in the debate on the same subject Mr. Aneurin Bevan added:

We are going to pay some of the money, but we are going to collect the revenues and hand it over to the bondholders. We are putting the bailiffs in to distrain upon the Newfoundland people in order to pay the bondholders, and, if the bailiffs cannot get enough, the generous people will pay the rest of the bondholders. That is the situation. 3

Of far greater interest was the debate which began on December 12, 1933, when the members of the British House of Commons hotly debated the principles involved in the Bill to suspend the parliamentary institution of Newfoundland for an indefinite period of time. Even more interesting was the sixteen-hour debate two days later on these same principles. Sir Stafford Cripps in his plea that the Newfoundland Bill be amended to provide that the democratic constitution be suspended for a period not exceeding three years declared:

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2 "Newfoundland Acts" in the Parliamentary Debates, House of Commons, London, His Majesty's Stationery Office, 1934, Vol. December 11-21, 1933, p. 224.

3 Ibid., p. 579.

"We are as a matter of fact, taking a step here which is going to put them completely out of touch with all methods of democratic Government."<sup>4</sup>

During the debate Mr. Aneurin Bevan asked the Dominions Secretary, Mr. J.H. Thomas, to give the Committee an assurance that some instrument be found by means of which the initiative for the restoration of the Constitution might be taken by the people of Newfoundland.<sup>5</sup> To the forceful plea previously put forth by Sir Stafford Cripps, Mr. Thomas replied, objecting to the fixed period but declaring that "temporary is written all over this Bill, because we believe it is a temporary measure."<sup>6</sup>

When the opposition failed to gain some provision by which the request of the people of Newfoundland could be made either to the House of Commons of Great Britain or to the Crown, Sir Stafford Cripps said:

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<sup>4</sup> Parliamentary Debates, House of Commons,  
op. cit., p. 567.

<sup>5</sup> Ibid., p. 587.

<sup>6</sup> Ibid., p. 569.

We are forcing upon them, as a condition of the financial assistance we are giving, a dictatorship, because, apparently, the argument runs that the particular type of democracy that they have had in Newfoundland has been unable to resist the temptation of the capitalists who have been offering money corruptly.

Therefore, because that particular type has failed, we give up all hope of instituting any better type or any alternative type of democracy and say that our only resort lies in dictatorship. <sup>7</sup>

Despite the obstructionist tactics of the Opposition party the Bill was passed in the House of Commons in its original form. The Commission of Government took office on February 16, 1934, and continued until March 31, 1949, when Newfoundland became the tenth Canadian province.

The suspension of complete political independence which went with dominion status was accepted practically unanimously by the Newfoundland legislature and by the people. Newfoundlanders saw in the repression of responsible government an escape from the unknown fears of default, a hope for political stability and a prospect of rehabilitation. At last the possibility of a sound government seemed to present itself, and the people were at least prepared to give the new system a fair and sympathetic trial.

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<sup>7</sup> Parliamentary Debates, House of Commons,  
op. cit., p. 676.

At the beginning of its term in office the Commission of Government had in its favour definite advantages which are noted in the following observations:

The Commission started with the great advantage that none of its members were committed in advance to any doctrinaire theories. They had been elected on no political platform. They had behind them no inconvenient election addresses. Consequently, if maturer reflection modified a first opinion, modifications in policy or action could be made without the resentment which is caused by having to haul down colours publicly nailed to the mast. 8

Further advantages were recognized by another author who later held the post of Parliamentary Secretary for the Dominions, but he noted disadvantages as well:

Newfoundlanders had the big advantage of continuity, whereas the British suffered from the fact that appointments were made for three years and few were willing to stay away from their home for more than one period of office. 9

The administration of the Commission of Government falls into two periods, divided by the advent of World War II. In the first years the Commission was faced with abnormal times, which in turn restricted development. The second period was one of prosperity, which began with the building of the Canadian and American defence bases and continued throughout the war and afterwards.

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8 Lodge, T., Dictatorship in Newfoundland, London, Cassell, 1939, p. 35.

9 Parker, John, Newfoundland, 10th Province of Canada, London, Lincoln-Prager, 1950, p. 27

## 2.- Achievements of the Commission Government

Under the terms of the Newfoundland Act the British Government was generally responsible for the finances of the Island. The first measure taken by the British Government was to redeem part of the public debt. Almost the whole of the remainder was converted into sterling stock, bearing interest at three per cent, and fully guaranteed as to principal and interest by the United Kingdom Treasury. Thus, the annual cost of the debt service was reduced by more than \$2,000,000.<sup>10</sup> Despite this saving the financial year 1933-4 ended with a deficit of approximately \$2,000,000, as may be noted in Table VI. This sum was met by a grant-in-aid by the Government of the United Kingdom.

During their investigations in Newfoundland the Royal Commission found the Customs tariff to be unscientific, complicated and oppressive. In an effort to remedy the situation the Commission of Government, with the assistance of experts from England, studied the existing problems. On October 6, 1934 the Government passed the Revenue Act which brought a revision and simplification of the tariffs. The reduction in smuggling, which resulted from the more

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<sup>10</sup> Plumtree, A.F.W., et al., "Newfoundland, Economic and Political", Canadian Journal of Economics and Political Science, Toronto, University of Toronto Press, February, 1937, p. 74

efficient work of the Customs Department, contributed to an increase in revenue during the next year.

Since Newfoundland was essentially a producer of primary products, her economic recovery was bound up with the successful development of her natural resources. None of these was neglected, but an attempt at the revival of the fisheries engaged the immediate attention of the Commission. Their efforts to bring about the successful revival of the Island's industries, and their difficulties prior to the war have been studied already in this work.

In his appraisal of the early achievements of the new Government, Thomas Lodge, who later in the 1930's was a Commissioner himself, had this to say:

It is unquestionable that the Commission gave the island an efficient instrument of technical government. It administered law without fear or favour. The coalescence of legislative and executive functions in the one body may be open to all sorts of academic objections in more complex communities, but in Newfoundland, at any rate, it worked. It worked so well in its first year or so as, on the whole, to surprise its own members. The proof would be found in the fact that if the specific decisions of the first year had been reviewed at the end of that year, very few indeed would not have been unanimously re-endorsed by the Commission in the light of the fuller experience and knowledge furnished by twelve months' working. 11

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11 Dictatorship in Newfoundland, op. cit., p. 34-35.

As a consequence of the serious decline in exports resulting from the added difficulties which Newfoundland began to experience in 1935, came a serious reduction in revenue. At the same time the new Government was forced to increase its expenditures. The Newfoundland Government had economized to rock bottom during its last years in office; consequently, the time had come when it was essential, in the interest of public service, to increase expenditures at many points. The burden of costs reached even greater proportions because of the rise of unemployment relief, especially among fishermen and loggers.

### 3.- Criticism of the Government

One of the first actions of the new regime, while meant as an economy measure, was an affront to the people of Newfoundland. This was the immediate closing of the Colonial Building which was a symbol of responsible government and long the home of Newfoundland's parliament. The insignia of parliamentary authority was banished and the building was turned into offices. At the same time, and on the same ground of economy, the National Museum in St. John's was closed and its contents dispersed, many valuable objects being lost, perhaps for all time.

From its earliest days the Commission of Government made a determined effort to improve the employment situation. Subsidization of such industries as the fisheries and agriculture was recommended as an emergency measure. This artificial means which was increasingly used in the following years in an effort to stimulate the economy of the Island, received the following denouncement:

In the autumn of 1938, the Commission of Government took a further step down the slippery road of subsidization. The fish merchants, on the market prospects, could see no justification for paying the fisherman a higher price than \$2.50 for his Labrador fish. The Government could see that this was bound to increase the discontent of the fishing population and add to the cost of relief over the winter of 1938-39 which was already alarming in prospect. They therefore took the plunge and instructed the merchants to raise the price of Labrador fish to the fisherman to \$3. They gave the merchants not only a guarantee against actual loss on the transaction but even a promise to contribute a proportion of the merchant's overhead expenses. 12

Even more severe criticism is directed at the subsidization policy in the following passage:

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p. 91. 12 Dictatorship in Newfoundland, op. cit.,

In deference to public opinion, the Commission of Government might give a subsidy on salt to the fishermen, might begin the construction of a breakwater at Bonivista, might placate the judiciary and the school-teachers with an increase in salary and might relieve St. John's of the burden of part of the municipal debt. The beneficiaries and the public generally were not ungrateful, but the small thinking section of the people saw, more clearly perhaps than the Dominions Office and Commission realized, that the Government was following exactly the same opportunist line which their own Governments had followed in the past, and that, while the danger of default no longer existed, real progress towards economic rehabilitation had not yet been achieved. 13

According to the same author Newfoundland's difficulties stemmed not only from world conditions but from the country's lack of sound Government policy. Since the Commission was formed of a collection of individuals each looking after his own group of departments, no definite policy in which all the members were in agreement was pursued after 1935.<sup>14</sup> After five years of Commission Government, Newfoundland was not only economically poorer than she was before its advent, but she was politically poorer because there was almost complete lack of sympathy between the Government and the people.<sup>15</sup> To support this criticism is the following extract from The Daily News:

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13 Dictatorship in Newfoundland, op. cit., p. 39-40.

14 Ibid., p. 248.

15 Ibid., p. 3

On the economic side, the Commission must be adjudged a failure. It has contributed little or nothing to the establishment of a stable economy.... Expedients are still necessary to maintain some kind of economic equilibrium. That inspired leadership which was the one thing above all others that the people of Newfoundland had a right to expect has not materialized....

The final disappointment has been the unwillingness of the Commission to acknowledge the fundamental truth that temporary abandonment of responsible government did not create also a forfeiture of democratic rights. The public is told only what the Government desires to tell it, which is little. Public opinion has been ignored in matters of the most vital importance to the present and to future generations. From an oligarchy in name only, the Government has blossomed into an oligarchy in fact. 16

During its first eight years in office the Commission Government's glaring inadequacy lay in its failure to capitalize on the extraordinary advantages it had over its predecessors. Since it was free of political obligations and under no compulsion to adjust its expenditures to its revenues, it could not be adjudged by standards of the past. The Commission of Government was set up to rescue the country from recurrent depression, to develop its economy and its political thought, and to inculcate efficiency by word and example. The fact that no serious attempt was made at any time to bridge the gap between promise and performance was a great disappointment to the people of Newfoundland.

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16 Six Years of Commission Government, editorial in The Daily News, St. John's, February 16, 1940, p. 4, col. 1.

In 1943, a Mission composed of three members of the British Parliament, was sent to visit Newfoundland. Concerning the continuation of the Commission Government in its existing or in a modified form, Lord Ammon, one of the members of the Mission, advanced the following opinion:

Criticism of the Commission of Government is general throughout the country. Any government after ten years' continuous tenure of office is likely to lose its popularity, but in this case dissatisfaction is undoubtedly deeper rooted, for the following reasons:

(1) The people feel out of touch with the personnel and policy of the Government — they have neither information about them, nor constitutional means of expressing dissatisfaction, nor a safety-valve for grievances.

(2) Generally speaking, the wrong type of Commissioner is selected; there is a feeling that they are mostly men nearing the end of their official career, having spent their lives administering backward colonial dependencies.

(3) When a good man, who wins the confidence of the people is sent out, it is not long — for some unexplained reason — before he is withdrawn and sent home.

(4) There has been little or no attempt by the Commission to instruct and train the people in local government.

(5) Social services have been undeveloped or left neglected. 17

Newfoundland's loss of responsible government which forced her to accept once more colonial status, coupled with the failure of the Commission of Government to achieve the desired goal, paved the way to a more ready acceptance of

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17 Ammon, Lord, Newfoundland, The Forgotten Island, London, Fabian and Gollancz, 1944, p. 10.

union with a political unit having a greater economic stability as a means of securing the return and continuance of democratic self-government.

4.  
4.- An Artificial Prosperity

Because of Newfoundland's highly strategic position on the sea and airplanes from North America to Europe, United States as well as Canada felt compelled to fortify Newfoundland following the military collapse in western Europe in 1940. In the winter of 1941 two of the Newfoundland Commissioners went to England and on behalf of the Government of Newfoundland agreed with the terms that had been entered into between the British and American Governments in September, 1940 with regard to the lease of bases in Newfoundland. This agreement, known as the "Base Deal" which was enacted into legislation by the Commission of Government on June 11, 1941, surrendered the sovereignty of these bases for a period of ninety-nine years.<sup>18</sup> Newfoundlanders believed that the transfer of these bases should have been only for the duration of the war and that such assets certainly called for recompense.

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<sup>18</sup> Report of the Committee of Finance on the Financial and Economic Position of Newfoundland, St. John's, Newfoundland National Convention, 1946-1948, Unpublished, p. 51-52.

However, the only returns to Newfoundland were the heavy defence expenditures on the naval and air bases which brought unprecedented spending. In 1941, for the first time since 1919, the Island enjoyed a surplus of revenues over expenditures, which continued until 1948 (as is shown in Table VI) when its cumulative surplus was approximately \$25,000,000.<sup>19</sup> Some evidence of the resulting improved conditions is given in the following:

The successive surpluses have enabled the government to reduce the public debt considerably, with a consequent saving on current expenditure for debt service, to expand health and welfare services, and to vote larger sums for road and wharf construction and maintenance, despite greatly increased costs of other essential services. Public health and welfare expenditure increased by 88 p.c. from 1943-44 to 1947-48, public works expenditure increased by 146 p.c., and education by 55 p.c. 20

During the same period, 1941-48, the people also took advantage of the improved conditions to reestablish themselves after the depression, and to set aside about \$100,000,000 in savings.<sup>21</sup> At the same time Newfoundlanders did not receive the same rates of pay from the American and Canadian contractors as did American workmen for performing

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<sup>19</sup> Province of Newfoundland, Statistical Background, Ottawa, Statistics, Dominion Bureau of, 1949, p. 90.

<sup>20</sup> Ibid., p. 90.

similar work. The blame for this discrimination was charged to the Commission who, it was asserted, feared that higher wages to Newfoundlanders would upset the general economy of the country.<sup>22</sup>

In spite of the seemingly better times that Newfoundlanders experienced during the war, the future was obscure. Because the people still had to import practically everything they used and to export practically everything they produced, Newfoundland was essentially no more than a fishing and trading station. This fact was fully recognized as is shown in the following:

On a per capita basis, Newfoundland's foreign trade is higher than that of practically any other country in the world, and has more than trebled in the past ten years. Since 1941, the balance of visible trade has been unfavourable, but Government surplus revenues in the same period indicate that this has been more than offset by invisible exports chiefly in the form of local services purchased by foreign capital for the construction and maintenance of military establishments. 23

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<sup>22</sup> Report of the Committee of Finance on the Financial and Economic Position of Newfoundland, op. cit., p. 52

<sup>23</sup> Province of Newfoundland, Statistical Background, op. cit., p. 79.

Few countries were so utterly at the mercy of conditions in the outside world. A Newfoundland paper, Fisher-  
man's Advocate, recalled: "It was the same during the last war. And peace brought poverty, privation, and six cents a day for the unemployed to eke out a miserable existence."<sup>24</sup>

Newfoundland's standard of living in 1944, when the national income was \$150 per capita in Newfoundland as compared with \$500 in Canada, was reflected in the living conditions and health of the people:

Due mainly to economic factors, the standard of health in Newfoundland is generally below that of Canada or the United States, although considerable progress has been made in recent years. The greatest need for improvement in comparison with other countries is seen in the high incidence of tuberculosis and malnutrition, and in the high infant mortality rate.

The death rate for tuberculosis is about three times as high in Newfoundland as in Canada and is one of the chief concerns of health authorities of the Island. Recent formation of a Newfoundland Tuberculosis Association, expansion of sanatorium accommodation, and a vigorous educational program on the value of early X-ray have all contributed to the improvement displayed in the fall of the tuberculosis death rate from 191 per 100,000 in 1939 to 122 in 1946, comparable figures for Canada being 53 and 47. <sup>25</sup>

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<sup>24</sup> Fowke, E., "Newfoundland: Tenth Province?" in the Canadian Forum, Toronto, June, 1947, p. 59.

<sup>25</sup> Province of Newfoundland, Statistical Background, op. cit., p. 27.

Much concern about the serious housing and health conditions was expressed by Lord Ammon in these very critical remarks:

Bad housing conditions are responsible for much of the tuberculosis endemic in Newfoundland. A vigorous policy and propaganda against unsanitary ways of life are required to raise health to European standards. The evil conditions prevalent in some parts are almost indescribable — even in St. John's, there exist some of the worst housing conditions in the Empire, if not in the world, as also in Windsor, Cornerbrook and on Bell Island. 26

Lack of sufficient funds prevented the Public Health and Welfare Department from making any marked improvements in the existing unhealthy conditions.

In view of the surplus savings of the Government and of the people of Newfoundland, it would seem that a bold campaign should have been launched to attempt the eradication of the epidemics — particularly of diphtheria, typhoid, scarlet fever and tuberculosis — as well as to initiate the clearance of slums. Some improvements were being made, but the uncertainty of the financial position of the country forbade an attempt to provide public services on a North American standard.

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26 Newfoundland, The Forgotten Island,  
op. cit., p. 15.

## CHAPTER V

### UNION OF NEWFOUNDLAND WITH CANADA

#### 1.- The National Convention

In 1934 Britain's oldest colony surrendered her dominion status together with the political freedom of her people to the Government of the United Kingdom in return for financial assistance. The Royal Commission to Newfoundland in 1933 recommended that the existing form of government should be suspended until the Island again became self-supporting. Hence a Commission of Government under the watchful eye of the British Crown was established as the best way for Newfoundland to make a speedy and effective recovery from the economic disaster that hit the Island in the early 1930's.

Although Newfoundland had been self-supporting since 1941, the Government of the United Kingdom had brought the people of Newfoundland to realize that responsible government was not automatically to be restored to the country. It was no surprise in 1945 when the Imperial Government announced that a National Convention consisting of forty-five members was to be elected by the people of Newfoundland to study the conditions of the country and to make recommendations to the British Government as to possible forms of future government. The Convention was elected in June,

1946, and began its sessions in September.

In May, 1947, the Convention sent a delegation to London to ascertain what financial arrangements might be expected should Newfoundland revert to responsible government. The reply was that under self-government, Newfoundland would be responsible for its own finances. Upon enquiry the delegation was informed that the United Kingdom would continue to be responsible for Newfoundland's financial stability should there continue to be a continuation of the Commission Government, but that any revised form of it would necessitate an assumption of responsibility by Newfoundland for its finances.

A motion of the National Convention authorized a delegation to go to Ottawa "to ascertain from the government of Canada what fair and equitable basis may exist for federal union of Newfoundland and Canada".<sup>1</sup> The importance of economic factors in such a union was evident in the reply by the Chairman of the Newfoundland Delegation, Mr. F. Bradley, K.C., to the speech by the Prime Minister of Canada at the first meeting between the delegates from the National Convention and the representatives of the Government of Canada on June 25, 1947. He stated:

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<sup>1</sup> National Convention, feature in The Daily News, St. John's, March 1, 1947, p. 8, col. 1.

Newfoundlanders ... wonder whether our disaster in the early nineteen-thirties was not the inevitable result of our centuries-old economic isolation. This enquiry has led, in turn, to the thought that possibly the integration of our Newfoundland economy with that of a much larger, much more diversified, and more stable economy would be the real solution of our country's problem....Our trade is almost entirely external, and while we continue to be an independent country, the scattered nature of our trading connections makes our trade of relatively little importance to most of the lands with which we do business.

These are economic matters, and it may appear not altogether fitting on this notable occasion to lay emphasis upon them. But overshadowing as they do all political issues in our country, these economic aspects occupy a place of primary importance in the minds of our people.... I deliberately place the economics of Newfoundland in the forefront of our discussions. 2

During the discussions in Ottawa which continued until September 29, there was a comprehensive exchange of information so that both parties might gain an accurate appreciation of the issues involved.

When the work was completed by the committees, the Prime Minister of Canada enclosed in a letter to the Governor of Newfoundland, dated October 29, 1947, the Proposed Arrangements for the entry of Newfoundland into Confederation.

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2 Conference Series, No. 2, Report and Documents Relating to the Negotiations for the Union of Newfoundland with Canada, Ottawa, External Affairs, Department of, 1948, p. 55.

These were "terms believed to constitute a fair and equitable basis for union of Newfoundland with Canada should the people of Newfoundland desire to enter into Confederation."<sup>3</sup>

In January, 1948, the National Convention recommended to the Imperial Government to put before the people, in a referendum, two choices - namely, either the restoration of Responsible Government (i.e., as used in this context, independent self-government), or the continuation of Commission Government. A motion to include Confederation on the ballot had been defeated in the National Convention by twenty-nine votes to sixteen. Following the defeat, protests endorsed by about 50,000 voters were placed before the Governor in Commission to be forwarded to the Secretary of State for Commonwealth Relations. The Imperial Government decided to add Confederation to the ballot, and to limit Commission Government, if chosen, to five years.<sup>4</sup>

The decision of the Government of the United Kingdom was followed by a lively debate in Newfoundland between the supporters of Confederation and those for Responsible Government.

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<sup>3</sup> Conference Series, No. 2, op. cit., p. 58.

<sup>4</sup> Reference Papers No. 44, Newfoundland,  
Ottawa, External Affairs, Department of, 1949, p. 5.

## 2.- A Partisan Campaign

A newly formed Confederation Association set about to point out the reasons for and the advantages of Confederation. First, there were the existing links between the countries. The people of Newfoundland were reminded of their close association with Canada in causes arising from common allegiance and common national interest. In business they were even more closely associated through common banks and currency, which, together with the linking of their railroads with those of Canada, had in turn brought the development of increased trade between the two countries.

Newfoundlanders, particularly those outside the Avalon Peninsula, were convinced of the material advantages that would be derived from Confederation. More than fifty per cent of the Island's imports were from Canada, most of which were subject to high customs duties. Union with Canada would allow Canadian goods into Newfoundland duty free, and as a result a great decline in the cost of living would follow. A comparison of the cost of living in Newfoundland with that in any Canadian province showed that commodities could be bought much more cheaply in Canada.

Confederation also meant federal social services, especially family allowances, which appealed to the Newfoundlanders whose birth rate as is shown in Table VII is one of

UNION OF NEWFOUNDLAND WITH CANADA  
TABLE VII.-

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Live Births and Rates per 1,000 Population, Newfoundland,  
Canada and Specified Provinces, Calendar Years 1921-46

Year	Newfound- land	Canada	Prince Edward Island	Nova Scotia	New Brunswick	Quebec
Live Births						
1921 ..	7,151	257,728	2,156	13,021	11,465	88,749
1926 ..	7,163	323,750	1,752	10,980	10,340	82,165
1931 ..	6,551	240,473	1,879	11,615	10,801	83,606
1936 ..	7,342	220,371	1,977	11,808	10,513	75,285
1941 ..	8,288	255,317	2,049	13,903	12,272	89,209
1946 .	12,033	330,732	2,793	17,914	16,274	111,285
Rates per 1,000 Population						
1921 ..	27.2	29.4	24.3	24.9	30.2	37.6
1926 ..	27.0	24.7	20.1	21.3	26.1	31.6
1931 ..	23.3	23.2	21.3	22.6	26.5	29.1
1936 ..	25.2	20.2	21.3	21.7	24.3	24.3
1941 ..	27.3	22.2	21.6	24.1	26.8	26.8
1946 ..	36.3	26.9	29.7	29.3	33.9	30.7

Province of Newfoundland, Statistical Background,  
Ottawa, Statistics, Dominion Bureau of, 1949, p. 17.

the highest among the white peoples of the world. Old age pensions would increase to forty dollars a month from twelve dollars a quarter. Relief for the unemployed would be increased, and made more available under less rigid conditions. Besides, there would be federal public works, federal health grants that might combat tuberculosis, so common in Newfoundland, and grants for slum clearance. Veterans' pensions would receive a substantial increase to bring them equal to Canadian standards.<sup>5</sup> Federal social services gave the promise of personal security and a minimum standard of living.

A falling off in certain fish markets in 1948, (exports of fish to the United Kingdom dropped from \$1,933,000 in 1947 to \$219,000 in 1948)<sup>6</sup> and the large increase in the number of able bodied on relief, (an increase from 2,143 in 1945 to 166,680 in 1948)<sup>7</sup> shocked the Newfoundlanders into the realization that their economy was not sound. The supporters of Confederation argued that Newfoundland would enjoy a more stable economy if it became part of a large nation because it would have a stronger bargaining power in the world market.

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<sup>5</sup> Province of Newfoundland, Statistical Background, op. cit., p. 16.

<sup>6</sup> Ibid., p. 82

<sup>7</sup> Ibid., p. 31.

There was a comparison made between the conditions that existed during the depression in Newfoundland and those in some of the western provinces, particularly Saskatchewan. Although statistics indicated that conditions were even worse in parts of the West, the provinces survived without the loss of responsible government because they received Federal aid.

The case for responsible government was based chiefly upon an appeal to history and to feelings of independence. Criticism against Confederation was supported by a comparison of the rates of taxation that existed in Newfoundland with those in Canada where the rates were much higher at the time, particularly on the individual's income.<sup>8</sup> To counter this argument the supporters of Confederation showed that the taxation on income would affect only a few while freedom from customs duties on goods from Canada would help everyone. An attempt was made by the supporters of responsible government to indicate that Canada's larger national debt would have to be shared by the people of Newfoundland and hence, the cost of living would probably increase.

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<sup>8</sup> Mayo, H.B., "Newfoundland's Entry into the Dominion", in the Canadian Journal of Economics and Political Science, Toronto, University of Toronto Press, November, 1949, p. 512-513.

It was suggested that Canada wanted Newfoundland for its own scheming interests, some of which were the Island's strategic position, and the acquisition of Labrador with its resources of iron ore and timber. Besides, Canada's bargaining power with the United States would be strengthened to the advantage of Ontario and Quebec, because the United States would have defence bases on Canadian territory.

On the positive side it was said that responsible government would be able to enlarge the country's markets. The supporters of self-government claimed that the Island's financial position was strong, and that the country was able to take care of itself. It was admitted that confederation was irrevocable, but that a vote for responsible government still left a choice to join any country.

The strongest cause for the support of responsible government was found in the British North America Acts:

It shall be lawful for the Queen, by and with the Advice of Her Majesty's Most Honourable Privy Council, on Addresses from the Houses of Parliament of Canada, and from the Houses of the respective Legislatures of the Colonies or Provinces of Newfoundland, Prince Edward Island, and British Columbia, to admit those Colonies or Provinces, or any of them, into the Union ... on such Terms and Conditions in each Case as are in the Addresses expressed. 9

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9 British North America Acts, 1867 to 1951, Ottawa, Queen's Printer, 1952, p. 40.

This provision was the basis for the conviction, held in 1946-1948 by many supporters of responsible government, that Newfoundland should return to dominion status, and elect a legislature, which would, as an official body, negotiate the terms of union with Canada. Responsible government would give to the Island a status equal to that of Canada, would take the process of confederation out of the control of the Commission of Government and London, and thus provide Newfoundland with a stronger basis of bargaining.

One other feature of the campaign was the work of a group, led by Mr. C.A. Crosbie, that advocated economic union with the United States.<sup>10</sup> The group urged Newfoundlanders to vote for responsible government which alone would be able to carry out such negotiations. The prestige of the leader was credited with swinging a great many votes to the side of responsible government, but this was countered by the unpatriotic flavour of the group itself. The advocates of economic union included some former members of the National Convention whose resolution to send a delegation to Washington to seek terms of federal union with United States had been defeated in 1947. The proposal of some supporters of responsible government to withdraw from Britain provided

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<sup>10</sup> "Newfoundland's Entry into the Dominion", in the Canadian Journal of Economics and Political Science, op. cit., p. 513.

the supporters of confederation with an appeal to patriotism. Besides, confederation offered a more practical appeal because it guaranteed a reasonable assurance of economic stability as against the further uncertainty of experimentation.

### 3.- The Referendums

On June 3, 1948, at the first poll of the National Referendum, the keen interest of the people in the debate and in their country's future was shown when eighty-eight per cent of the registered voters cast their ballots. The result was 69,400 votes for responsible Government, 64,066 votes for Confederation and 22,311 for the continuation of Commission Government. Because the result of the first referendum was indecisive, one of the three alternatives, Commission Government was eliminated, making a second referendum necessary. The final result of the voting on July 22, 1948, was Confederation, 78,323 and Responsible Government, 71,334.<sup>11</sup>

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11 Conference Series, No. 2, Report and Documents Relating to the Negotiations for the Union of Newfoundland with Canada, Ottawa, External Affairs, Department of, 1948, p. 74-75.

Eighteen of the twenty-five electoral districts in the country gave a clear majority for Confederation. Out of these eighteen districts the vote for Confederation in nine of them showed over seventy per cent in favour and in three of these nine over eighty per cent in favour. Only three of the seven that supported Responsible Government did so with a vote of over seventy per cent. The supporters of Confederation cast 78.5 per cent of their votes in the eighteen districts and 21.5 per cent in the other seven districts. On the other hand those who expressed themselves for Responsible Government gave 57.6 per cent of their votes in the seven districts and 42.4 per cent in the eighteen districts.<sup>12</sup> Thus we see that the vote for Confederation was more strongly pronounced in the eighteen districts than the vote for Responsible Government in the other seven. While the overall percentage does not indicate an overwhelming approval or acceptance of Confederation, a further examination discloses a rather general approval throughout the greater part of the Island.

It was on the basis of such an examination and not on the strength of the 7,000 majority that prompted Prime Minister Mackenzie King on July 30 to say:

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<sup>12</sup> Conference Series, No. 2, op. cit., p. 75.

It will be noted...that a very definite majority of the very high percentage of the electorate of Newfoundland which voted, has expressed its wishes in favour of Confederation. It would seem, therefore, that the result of the plebiscite in favour of union between the two countries is "clear and beyond possibility of misunderstanding." 13

The "outports" voted almost solidly for Confederation, St. John's just as solidly for Responsible Government. This serious split substantially supports the following observations made by Lord Ammon when he was a member of a parliamentary mission in Newfoundland in 1943. He stated:

St. John's, which supports about one-seventh of the population of the island, virtually controls its trade and political destiny, but is too little in touch with popular opinion outside the Avalon Peninsula. I formed the impression at St. John's that we were amongst people who although generous--in the social sphere to an almost overwhelming degree--were entirely lacking in communal spirit when the interests of their country were concerned. This hard judgement does not, of course, apply to every inhabitant of the capital, but, by and large, its moneyed classes are more concerned with personal than national advancement. 14

Many of those who voted for responsible government were in favour of confederation in principle, but believed that as a matter of procedure, union was a step which ought to have been taken only by a self-governing Newfoundland.

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13 Conference Series, No. 2, op. cit. p.76

14 Ammon, Lord, Newfoundland, The Forgotten Island, London, Fabian and Victor Gollancz, 1944, p. 5.

#### 4.- The Final Negotiations for Union

Canada accepted the result of the referendum as a definite desire on the part of Newfoundland to enter Confederation, and the Prime Minister of Canada, on July 30, 1948, stated that the Government of Canada would be glad to receive representatives from Newfoundland to negotiate terms of union on the basis of the proposals of the former year.<sup>15</sup>

Newfoundland's delegation under the chairmanship of Hon. A.J. Walsh, K.C., arrived in Ottawa on October 5, and the formal opening of the negotiations for the entry of Newfoundland into Confederation was held in the Senate Chamber the following day. On December 11, a memorandum of agreement was signed by six of the delegates representing Newfoundland and by the Prime Minister and the Acting Secretary of State for External Affairs on the part of Canada.

The solutions to the problems confronting the representatives of Canada and Newfoundland in 1948 were not all found in the British North America Act, which anticipated confederation in 1867. It was admitted by the Canadian Government that the provisions for the debt settlement and other financial terms of the Act of 1867 were inadequate, although the future economy of Newfoundland depended on

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<sup>15</sup> Conference Series, No. 2, op. cit., p. 10.

these terms. It was only to be expected that in the Terms of Union of Newfoundland with Canada the first of the financial agreements dealt with the payment of Newfoundland's external debt, constituting approximately ninety per cent of the total. This debt was assumed in its entirety by Canada.

In order that the economy of Newfoundland should remain healthy, the natural resources and public services of the Island had to be developed. Newfoundland was permitted to retain its total cumulative surplus of \$25,200,000, two-thirds of which were to be spent on the development of its natural resources and one-third, on the maintenance and improvement of its public services.<sup>16</sup>

Another of the financial problems dealt with the matter of subsidies. In recognition of the sparsity and dispersion of the population of Newfoundland, Canada promised to pay to the new province an annual subsidy of \$180,000, plus an annual subsidy equal to eighty cents per head on a population of not less than 325,000.<sup>17</sup>

To facilitate the adjustment of Newfoundland to the status of a province, transitional grants were to be paid at the rate of \$6,500,00 per year for the first three years,

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16 Conference Series, No. 2, op. cit., p. 20

17 Ibid., p. 20

and then decreased annually to \$350,000 in the twelfth year, when they would cease.<sup>18</sup>

The Government of Canada promised to appoint a royal commission within eight years to review Newfoundland's financial position and to recommend what assistance, if any, might be required. It was considered essential that the Government of Newfoundland continue to provide the provincial public services at the prevailing rate, without resorting to burdensome taxation.

Canada also agreed to take over Newfoundland's public works and services, including the railway, and to relieve the new province of the cost of such services as were customarily provided by the Federal Government.<sup>19</sup>

The importance of economic factors had been stressed by Mr. F. Bradley, K.C., Chairman of the Newfoundland Delegation, in Ottawa in 1947. Through the efforts of the representatives of Newfoundland and the sympathetic understanding of those of Canada, the solutions to the many problems which were involved in the Terms of Union drew expressions of satisfaction from Mr. Walsh, Mr. Bradley's successor, when the Terms were signed by the representatives of Canada and Newfoundland on December 11, 1948:

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18 Conference Series No. 2, op. cit. p. 21.

19 Ibid., p. 22.

In signing the Terms of Union today we, as representatives of Newfoundland, do so with the knowledge that they make more adequate provision for the needs of the proposed new province than those before the people at the referendum, and in our opinion assure to the provincial government a period of financial stability. 20.

As provided by the Terms of Union, Newfoundland joined Canada as the tenth province at midnight March 31, 1949. The union of Newfoundland with Canada marked the final realization of the great dream of the founders of Confederation and completed the work that was begun more than eighty years earlier.

## CONCLUSION

Newfoundland's economy was dependent on three basic industries fishing, forestry, and mining. The latter two were financed by outside capital (Canadian, American and British) and were therefore exploitive in character. The one internal industry, agriculture, was never adequately developed to supply the home market.

After World War I Newfoundland, in her effort to relieve her dependence on the fisheries, attempted by means of loans to diversify her industry. In 1933, because of the vulnerability of her economy in the world economic depression, the Government of Newfoundland was on the verge of financial collapse. On the advice of the financial advisors from the United Kingdom Treasury, the Newfoundland Government requested the appointment of a Royal Commission to investigate the country's financial, economic, and political affairs.

The Commission recommended that the Island relinquish dominion status and self government in return for financial aid and the acceptance of a Commission of Government. After seventy-eight years of responsible government, the Newfoundland legislature, as a result of the Commission's proposals, voted itself out of office, and on February 16, 1934 the government of the Island was placed in the hands of six commissioners. Not only was this an unrepresentative form

of government, but it failed to establish a sound economic program.

With the collapse of the military power of the Allies in France in 1940, Newfoundland became a strategic bastion of defense. The construction of military bases resulted in the restoration of the economic stability of the Island; consequently, agitation against the unpopular Commission of Government led the United Kingdom Government in 1946 to suggest the election of a National Convention to investigate the economic conditions of the Island and a future form of government. Commission of Government and Responsible Government were approved by the Convention as forms of government to be put before the people in a referendum, but as the result of a petition placed before the Governor the Imperial Government announced that Confederation would be added to the ballot.

Subsequently, on June 3, 1948 the voters of Newfoundland went to the polls to determine their choice of government. Because the result of the first referendum was indecisive, Commission of Government was eliminated. In a second referendum, held on July 22, 1948, Confederation was approved by a majority of about 7,000 votes. A study of the distribution of the vote indicated that the Avalon Peninsula favoured Responsible Government while the remainder of the Island supported Confederation with Canada.

As a result of the electorate's decision to unite with Canada the final terms of union were drawn up by representatives of Newfoundland and Canada in a series of meetings during the close of 1948. The Canadian and Imperial Parliaments ratified the terms of union, and Newfoundland became the tenth province of Canada on April 1, 1949.

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## Periodical Articles

"Canada's New Province", in the New Statesman and Nation, London, May, 1950, p. 598.

This brief account stressed the benefits that Newfoundland stood to gain by union with Canada.

Fowke, E., "Newfoundland: Tenth Province?" in the Canadian Forum, Toronto, June, 1947, p. 59-61.

The reasons for Newfoundland's union with Canada from a geographic and an economic standpoint are outlined in this article.

Harris, C.A., "Newfoundland", in the Quarterly Review, London, April, 1934, p. 326-340.

A pessimistic account is given here of the conditions in Newfoundland at the time of the country's loss of self-government.

Mayo, H.B., "Newfoundland's Entry into the Dominion", in the Canadian Journal of Economics and Political Science, Toronto, University of Toronto Press, November, 1949, p. 505-522.

How events since 1930 brought Newfoundlanders to accept Confederation is well shown in this work.

"Newfoundland", in the Round Table, London, September 1934, p. 256-269.

The economic situation in Newfoundland in the early 1930's as well as the findings and proposals of the Royal Commission in 1933 are related here.

"Newfoundland Looks at Her Future", in the Round Table, London, March, 1948, p. 551-558.

This article points out that Newfoundland was experiencing an artificial prosperity as a result of the heavy defence expenditures by Canada and the United States during World War II.

"Newfoundland; the Vote for Confederation with Canada", in the Round Table, London, December, 1948, p. 62-67.

An explanation is put forth in this article for the decision of Newfoundlanders to vote for Confederation.

Plumtree, A.F.W., et al., "Newfoundland, Economic and Political", in the Canadian Journal of Economics and Political Science, Toronto, University of Toronto Press, February, 1937, p. 58-85.

A criticism is given of the conclusions and recommendations of the Newfoundland Royal Commission, 1933, as well as an account of the administrative achievements of the Commission Government.

Wuorio, Eva-Lis, "New-Found Province, A Break for the Poor", in Maclean's Magazine, Toronto, October 1, 1948, p. 8-9, 68-69.

The author points out how, by Confederation, Newfoundland stood to gain a higher standard of living and a sounder economy.

#### Newspaper Articles

National Convention, feature in The Daily News, St. John's, March 1, 1947, p. 7, col. 1-7, p. 8, col. 1.

This detailed account describes the debate by the members of the National Convention which led to delegations going to London and to Ottawa in 1947.

Newspaper Comment on the Royal Commission Report, editorial in The Daily News, St. John's, November 29, 1933, p. 4, col. 1.

In this article is given a cross section of the views expressed in British newspapers with regard to the proposals of the Royal Commission.

No Aladdin's Lamp Is This, editorial in The Daily News, St. John's, December 4, 1933, p. 4, Col. 1.

The Legislature's action which brought to Newfoundland a temporary suspension of its parliamentary institution is given whole-hearted support.

Six Years of Commission Government, editorial in The Daily News, St. John's, February 16, 1940, p. 4, col. 1.

The deep disappointment of Newfoundlanders in the Commission of Government is voiced here.

The Wayfarer, Politicians and Depression, feature in The Daily News, St. John's, January 8, 1946, p. 4, col. 4.

Newfoundland's post-war economic difficulties in the period 1921-23 are recalled.

-----, Unwritten History, feature in The Daily News, St. John's, January 13, 1950, p. 4, col. 4.

A period of social reform in the history of Newfoundland was terminated with the advent of World War I.