



Royal Commission on Renewing and Strengthening Our Place in Canada

Small, Isolated and Successful: Lessons from Small, Isolated Societies of the North Atlantic

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The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

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Executive Summary

The small, isolated societies of the North Atlantic are frequently suggested as a useful basis of comparison for the Canadian province of Newfoundland and Labrador. Given the considerable economic success many have achieved, there is great temptation to ‘borrow’ useful programs and policies of potential relevance to this province. The sociologist Peter Berger once described a society as the collective walls of a people’s imprisonment in history. This paper takes a less limiting approach seeking to simultaneously instill an appreciation of these societies’ diverse histories and the potential constraints this poses while attempting to glean possible ‘lessons’ for this province. Following an abbreviated social, cultural, political and economic history of each, the paper cautiously concludes with a number of potentially relevant areas for change both within the province of Newfoundland and Labrador as well as between this province and the Canadian society of which it is a part.

The paper outlines 15 potential ‘lesson areas’ in its conclusion, preceded by the caution that their utilization cannot be a simple ‘cut and paste’ but requires an adaptation consistent with the ‘walls’ of our own society. I have not listed perhaps the most obvious lesson since it is more an observation than an area for policy or program consideration. This is, of course, that small populations, geographic location or even limited natural resources need not impede successful growth and development. This is not to say that these factors will not provide some initial areas of comparative advantage from which different development paths might grow. Icelandic and the Faroese fish as well as Åland’s strategic location were critical to these societies’ initial development even though each has diversified extensively over the last 30 years. Iceland, in particular, has demonstrated considerable success in its movement into expert service industries and technologically driven manufacturing in support of marine resource development.

The 15 lessons of potential relevance are listed in the table below. No attempt has been made to rank or order them beyond perhaps the first one. All societies reviewed possess export-driven economies greatly affected by changes in the global marketplace, be it a market place for fish or tourists. As such, a clearly identifiable and superior product able to compete favorably in an increasingly global context drives each society’s quest for higher standards of living for its citizens. How such a condition is met varies considerably across the societies. Some of the proposed lessons probably require minimal change in Newfoundland and Labrador; others may require some level of institutional and cultural change of a level to pose significant challenges for past and present policies. Ultimately, only the people of this province can choose which lessons are relevant and what changes, if any, are acceptable.

The lesson conclusions are contained in the Table below. The paper provides an appropriate context and commentary for each in terms of its potential relevance for the province.

Conclusions/Lessons from Small North Atlantic Societies

Conclusion 1. 'Competitiveness' and market performance are critical determinants of success.
Conclusion 2. Promote smallness.
Conclusion 3. Control over marine resources is necessary but not sufficient.
Conclusion 4. Capacity to negotiate external trade agreements is essential.
Conclusion 5. Control over fiscal and monetary policy is important though not essential.
Conclusion 6. Tariff protection is an ineffective and impractical development strategy.
Conclusion 7. Stronger local government with a wide mandate is important.
Conclusion 8. High literacy levels are essential.
Conclusion 9. Re-conceptualize issues surrounding migration.
Conclusion 10. Control over transportation policy is important.
Conclusion 11. Selectively developed 'niche' manufacturing and service industries are important.
Conclusion 12. Extensive consultative structures are important.
Conclusion 13. 'Duty free' enclaves and related trade zones are useful strategies.
Conclusion 14. Short and medium term 'penalties' for economic success should be removed.
Conclusion 15. Citizens and governments alike must believe in their capacity to do things.

Table 1: Demographic, Political and Economic Characteristics of Small North Atlantic Societies, 2000

	Newfoundland and Labrador	Ireland	Iceland	Greenland	Faeroe Is.	Åland Is.
Population	539,214	3,840,838	283,361	56,352	46,196	25,776
Area Km²	112,299	70,283	103,256	2,175,600	1,399	1,526
GDP/per capita^a	\$21,274	\$29,165	\$28,658	\$21,100	\$25,143	\$31,883
Household Income^b	\$31,731	\$59,271	\$56,821	\$ N.A.	\$44,861	\$54,708
Unemployed	16.7%	4.1%	3.2	7.0%	2.5%	1.8%
Literacy^c	71%	98%	100%	72%	78%	95%
Labour Participation Rate	59.8% M 56.2% F	78% M 69% F	83% M 74% F	74% M 59% F	77% M 63% F	81% M 72% F
Debt as % GDP	62%	43.1%	96.4%	51.1%	89.2%	3.2%
Primary^d Employment	Services	Services	Commerce services	Fishing and related	Fishing and related	Shipping services
Secondary Employment	Trade	Industry	Manufac.	Gov't.	Construct.	Tourism
Tertiary Employment	Gov't.	Agric. Forest/fish	Fishing related	Tourism	Gov't.	Services
Government	Federation Canada	Independ.	Independ.	'Home Rule' ^e	'Home Rule'	'Special Status' ^f
Infant Mortality	5.2/1000	5.53/1000	3.01/1000	17.7/1000	1.7/1000	3.9/1000
Life Expectancy	75(M) 81(F)	74(M) 80(F)	78(M) 82(F)	65(M) 72(F)	75(M) 81(F)	79(M) 85(F)
Per Cent Urban	58.7%	62.3%	78.2%	48.5%	52.1%	67.8%

^a All incomes has been converted to \$US at Purchasing Power Parities (PPP).

^b Household income is calculated somewhat differently in different countries. Should be treated as a 'rough estimate' only. Converted to \$US but NOT at PPP.

^c There is no one universally accepted definition of literacy. Proportion of adults with greater than Canadian Grade 8 or equivalent is used here.

^d Definitions may vary from country to country regarding definition and categorization. Rough estimates only.

Sources: Canadian Global Almanac, 2002, Toronto: Macmillan Canada; Canada Year Book, 2002 Ottawa: Statistics Canada; The World Factbook 2001: Washington, D.C. Country Reports.org 2002. Retrieved from www.countryreports.org/links/canada.htm; Statistical Year Book of Ireland 2001: Dublin: Ireland; Statistics Canada 2002 retrieved from www.statcan.ca/english/Pgdb/; The World Almanac and Book of Facts 2002: New York: World Almanac Books. Statistical Yearbook of Åland, 2001; Statistics Iceland, 2002 retrieved from www.statice.is/, tables 15.1, www.statice.is/news/iceland.htm; Expo 2002 Greenland, retrieved from www.expo2002Greenland. Economy 2002: Newfoundland and Labrador; Estimates 2001: Newfoundland and Labrador; OECD (2002), National Accounts of OECD Countries, Main Aggregates, 1989/2000, Volume 1 and OECD (2001).

“ The enhanced mobility of capital, finance and labour in McWorld, a symbolic landscape of transnational corporations, seems to render territorial boundaries and distinctiveness increasingly meaningless.

Yet, from a most unlikely grouping of North Atlantic, cold water islands have come modest evidence of countervailing trends, of successful adaptive behaviour by small and apparently insignificant polities.”

Lessons from the Political Economy of Small Islands. p. 241.

Introduction

Twenty years ago it was fashionable to see the march towards a world dominated by sophisticated networks of multinational corporations as relentless and unstoppable. Resisting was futile, if not undesirable. Better to embrace than be swept away! In more recent times, research and collective experience suggests relationships where globalizing processes and individual societies intersect are far more complex. Juxtaposed with homogenizing and integrating effects are emergent opportunities for economic advantage while preserving cultural, social and political independence. The term ‘glocalization’ (Courchene, T. 1995) has been offered to explain the complex interplay of local and global processes in a particular jurisdiction and the resulting array of economic constraints and opportunities that result.

The cold water, North Atlantic societies discussed in this paper have all experienced this global reach to varying degrees. While sharing important geographical, climatic, resource and demographic characteristics, some have achieved greater success than others in using their location and resources to create economic opportunities without significantly forfeiting those qualities which distinguish themselves from other places. Thus, comparisons focusing upon their respective approaches to social and economic development as well as responses to global challenges and opportunities can potentially provide advice and guidance to similar societies in their respective quests to build modern societies consistent with their histories and cultures.

The North Atlantic and its adjacent waters such as the Barent and North Seas are home to numerous small, geographically isolated societies. These vary from politically autonomous societies such as Iceland and Ireland, through an array of ‘home rule’ arrangements such as Greenland and the Faeroe Islands with Denmark, the Åland Islands with Finland to more integrated, federal units within larger states such as Newfoundland and Labrador. This paper examines a sample of seven such societies possessing sufficient jurisdictional capacity to meaningfully plan and implement their own economic development to some reasonable degree. These seven include Newfoundland and Labrador, Iceland, Åland Islands, Greenland, Faeroe Islands and Ireland. While six are island societies and the seventh, Newfoundland and Labrador, has an island portion, arguably their important shared characteristics are isolation, small size and North Atlantic location rather than their islandness per se. Table 1. summarizes several important political, demographic and economic characteristics of these societies.

Organization of Presentation

The presentation begins with a brief historical overview of Newfoundland and Labrador from Confederation with Canada in 1949 to the present. Her recent history is divided into several interrelated and to some degree overlapping phases emphasizing important social, cultural, political and economic features. Following this overview, each society is profiled starting with a brief historical overview, moving through important social, economic and political elements enabling and/or constraining their particular path to the present. The presentation cautiously concludes with an attempt to extract important similarities and differences between societies and examines whether useful lessons can be learned for Newfoundland and Labrador as a result of the comparative exercise.

An important caveat is here in order. The configuration of a society is a result of numerous factors, many of which are deeply embedded in its past and culture. Over the years, it has been all too fashionable to send ‘fact finding’ trips to North Atlantic societies perceived to be similar in order to discern ‘what works that we could bring back here’. When prospects for oil and gas development arose in the early 1980s, seats on planes to Aberdeen or the Shetland Islands were at a premium as Newfoundland politicians, business people and policy analysts rushed there to look for lessons. In more recent times, Iceland’s tourist industry has benefited from visiting delegations wanting to emulate their fishery policies. There may very well be potentially important ‘lessons to be learned’ from such visitations. Having said this, it is crucial to remember that societies are NOT interchangeable, standardized creations. Each is a product of a specialized history and culture reflecting the subtle interplay of internal and external processes (Sider, 1986 for an illustration for the island portion of Newfoundland and Labrador). Thus, what ‘works’ in one is far from a guarantee of success in the other. To give but one illustration, Iceland has experienced substantial **internal** migration to the larger major urban areas of the society over the last 90 years without conscious policy direction. The result is that its fishery has a decidedly urban presence with the largest plants found in Reykjavik, Akureyri and some of the larger settlements in the North West fjords. This concentration has been largely driven by governmental policy supporting efficiency, high productivity and economies of scale even if a result was greater urban growth and concentration. This poses a significant constraint when looking there for ways to revitalize and sustain a rural-based fishery in Newfoundland and Labrador.

Newfoundland and Labrador, 1949-2002

Any attempt to divide the history of a place into small, manageable ‘chunks’ is simultaneously useful and misleading. The intellectual gains of ‘pulling out’ a section of time for careful analysis are counterbalanced by the obvious observation that people, events and their temporal linkages are continuous, overlapping and recursive. Segmentation of an ongoing, recursive process is best considered an heuristic strategy with the hope that insights and understandings will outweigh distortions. With this warning, let me offer one potential characterization of a ‘staged’ history of Newfoundland and Labrador since Confederation in 1949. I use the term ‘stage’ rather than the more general ‘period’ to suggest that in some sense succeeding stages evolve from earlier ones. The sequence has three stages, each with different actors, events and development policy choices with varying degrees of articulation. The stages are: a) Patrimonial Development (1949-1970); b) State Building and Balanced Development (1971-1986); and, c) Crisis and Hope (1986-present).

The Folly of Patrimonial Development (1949-1970)

The Constitution of 1855, which provided for the province’s first meaningful self-government, created a highly centralized regulatory regime in which power was concentrated in St. John’s, political party organization was limited or non-existent between elections and

elected politicians acted more like feudal patrons distributing spoils to their supporters. Newfoundland and Labrador's first Premier following Confederation, Joseph Smallwood, while incessantly decrying the excesses of this 'merchant dictatorship' was surprisingly adept at using such a system while simultaneously attempting to impose policies of modern infrastructural expansion and industrial development (Noel, 1974). Indeed, perhaps the most important lesson of the Smallwood era was the folly of trying to modernize social and economic institutions while maintaining political control through a quasi-feudal system. While it is obviously an exaggeration to characterize Newfoundland and Labrador as feudal in 1949, critical political and economic features more closely resembled that than an emerging modern state. Amongst these were a highly personalized and centralized political system characterized by 'patron-client' relationships (Cohen, 1967), a 'cashless' inshore fishery based on credit (Sider, 1986; Faris, 1972) and, aside from St. John's and the single industry towns of Grand Falls and Corner Brook, a highly rural population connected primarily by boat scattered amongst upwards of 1,200 settlements ranging from twenty-five to a thousand people.

Smallwood believed passionately in creating a modern industrial economy (Gwyn, 1972). Using funds flowing from her new status as a Canadian province, ambitious initiatives were undertaken initially in road construction. These were later extended to water and sewage facilities, school construction and other public buildings. After 1968, the infrastructure initiative was supported through emergent Canadian government programs designed to reduce regional economic inequality. So extensive were these public works that actual labour shortages emerged in many areas of the province with construction employment readily available in most regions of the province.

Another critical infrastructural component was electrical power. In the government of the day's view, stable and relatively inexpensive electricity was essential for any hope of industrial progress. Thus, in the early 1960s a substantial hydro development was initiated on the island portion of the province at Bay D'espoir. Shortly thereafter construction began on the mammoth Churchill Falls project (Smith, 1975), completed in 1972.

Efforts to promote both smaller manufacturing activities as well as mega projects at Come by Chance, Long Harbour and Stephenville during this period are well known and require little commentary here. It is useful, however, to briefly examine changes to the fishery during this period. While the oft-quoted statement by Smallwood to the effect that fishermen should 'burn their boats' is quintessential Smallwood hyperbole (if in fact it was ever said), the Premier of this period could also hardly be called the fishery's defender. His burning passion, espoused whenever the opportunity arose, if not to burn boats was to bring benefits of a modern, industrial society to the province. While Letto (1998) has maintained that Smallwood saw little role for the fishery in the future, this is something of an overstatement. To the extent that an industrialized, capital-intensive fishery could contribute, it was welcomed and sometimes even promoted as in building several modern fish plants at La Scie and other locations.

Throughout the 1950s and early 1960s, the inshore fishery continued though with somewhat smaller participation levels until 1978 as wage employment in construction and emergent industries provided higher paying alternatives. Profound changes in product, markets and technology transformed the industry (Alexander, 1977). The traditional export, 'saltfish' was rapidly replaced by frozen fish, particularly frozen block; household-based production increasingly superseded by industrialized fish processing plants with freezing equipment and small inshore 'trap skiffs' increasingly competed with first 'side' and then 'stern' steam-driven

trawlers, both domestic and foreign. With the change to fresh and frozen fish, Europe and Caribbean product markets were supplanted by North American, particularly United States, ones. Neither provincial nor Canadian governments seemed disposed to modify this shift and, in fact, largely embraced it. Indeed, Alexander (1977) has argued that the Canadian government, in particular, fluctuated between benign neglect of the fishery to promotion of this new, 'modern' one.

Foreign interest, particularly by France, Portugal and Spain, in East Coast stocks of groundfish, particularly cod, increased dramatically during the latter 1950s and 1960s. While these European nations had fished at various times and with varying intensity off the coast for over 500 years, beginning in 1954 effort and catch began to increase dramatically. In that year, the first of the large 'factory freezer' ships, the *Fairtry*, appeared off the coast. By the 1960s, stern trawlers had increased substantially in number. As a result, catching capacity and harvests grew dramatically, with the latter peaking at 810,000 metric tonne in 1968 before falling dramatically thereafter to 142,000 m.t. in 1978 (Hutchings and Myers, 1995). It is important to note that these figures are almost certainly underestimates given alleged high levels of discarding, 'highgrading' and misreporting.

These economic changes would contribute to important social and political change. Two are particularly pervasive in their ramifications: the fall of the patron-client political system and the rise of a 'new middle class' eager to embrace the culture and material benefits of a modernizing society. Both of these processes, and their interrelationship, are powerfully captured in the study of Springdale during the 1960s (Cohen, 1967). Since its formal Constitution in 1855, the Newfoundland and Labrador polity has been characterized by its high centralization of power among a small elite. Municipal legislation did not come to the province until the very end of the 19th century. Even today, municipalities are highly constrained, compared to similar jurisdictions elsewhere in their capacity. Politics was personal with rights and obligations occurring at both ends. All civil servants, and there were relatively few of them compared to today, served at the discretion of their political masters. Party affiliation and platform were secondary; you voted for 'the man' and were either rewarded or punished as a result. Each community had their own 'intermediaries' linking citizens to their political leaders. Given the minimal level of organization at the community level, non-political elites such as merchants, ministers or priests often played this role. Smallwood inherited this political system but arguably developed it to its highest level.

For admirers of Smallwood, his ultimate mistake was to believe Newfoundland and Labrador could be economically modernized while retaining an increasingly obsolete and contentious political framework. The new schools, increased government services and general economy created increasing numbers of better educated, young Newfoundlanders who increasingly wrestled with what, to them, was an obsolete and unresponsive political system. Their growth in numbers, combined with an unrepentant Smallwood, led to his eventual defeat in the early 1970s (for what is still arguably the best overview of the early Smallwood era see Gwyn, 1968).

State Building and Balanced Development (1972-1986)

The succession of Progressive Conservative governments led by Premiers Frank Moores and Brian Peckford as well as the first administration of Liberal Premier Clyde Wells were characterized by their efforts in state building, creating a more balanced approach to development, particularly through expansion of oil and gas promotion, as well as efforts to craft a modern fisheries plan.

Despite the façade of an increasingly modern society, in many respects Newfoundland and Labrador as late as 1970 retained most of its cultural and structural links to its past. In no area was this more true than in its political organization. While the provincial public service had grown considerably during the 1960s in response to new federal programs and resources, clear lines of authority were frequently impossible to decipher and political intervention rampant. Jurisdictional boundaries were unclear and professionalism often sacrificed to political expediency. In the view of one analyst of the time, considerable erosion had occurred from the public service established under Commission of Government from 1932 to 1949 (late Hugh Whalen, personal communication).

The decade between 1975 and 1985 was an exceedingly optimistic one. New civil service legislation provided a legal basis for a modern state. Constitutional state-building, new efforts at economic diversification and the prospect of a revitalized fishery potentially offered new hope. The Churchill Falls Corporation, the actual producer of power, had been purchased at considerable cost by the provincial government. The government also initiated a court challenge of the original Churchill Falls power contract as well as its power recall provisions. In the late 1970s, sufficient discoveries of oil and natural gas was revealed in the offshore that ownership and control became a contentious issue. The province went to court to clarify its ownership of these resources. While the Supreme Court eventually sided with the federal government, it communicated a very clear message that a 'political' solution in which significant control and benefits should be negotiated. This led to the Atlantic Accord that continues to inform offshore development. Several challenges, legally and politically, were made regarding fisheries management as well. While the latter challenges were largely unsuccessful, the province was successful in its lobbying for jurisdictional extension to 200 miles as a result of severely depleted fish stocks and in 1977, Canada followed several other countries, most notably Iceland, in extending her management claims to that distance. Imbued with a newfound enthusiasm, both provincial and federal governments began fishery expansion and diversification initiatives directed towards creating a modern, sustainable fishery for the province (Wright, 2001).

In hindsight, the fishery initiatives appear to have been too much, too fast. The number of full time and part-time registered fishermen increased between 1974 and 1981 from approximately 7,500 to 10,250 and 9,000 to 14,000 respectively (Storey, 1993 p.96) or increases of 37 per cent and 56 per cent respectively. Groundfish licenses climbed from 5,800 to around 7,500 during the same period. Encouraged by various provincial incentive programs, fishermen were also using more and larger vessels. Smaller, inshore vessels less than 35 feet jumped in number from 12,500 in 1978 to 15,000 in 1980 before declining to between 11,000 and 12,500 throughout the 1980s and early 1990s. The midshore fleet, consisting of boats more than 35' and less than 65' also swelled from approximately 400 in 1968 to 1,200 in 1981 (Wright, 2001. p. 152; Sinclair, 1985). Particularly noteworthy was the growth in the larger vessels, 55'-64'. Even as late as 1987 only 34 vessels were registered in this class. Four years later this had climbed to 75 (Storey, 1993. p.103). This growth to some extent offset the decline in offshore stern trawlers utilized by Atlantic-based fishing companies which declined from approximately

118 in 1978 to 70 in 1991 (Storey, 1993. p. 105) though some of this latter reduction was also the result of a major reorganization of these companies in 1983 (Kirby, 1983).

Boat length alone is a misleading indicator of increased catch capability. Larger, more efficient engines enhancing mobility; electronic advances in sounders, net monitors, winches as well as new, more effective gear types such as Danish seines all greatly enhanced the 'fish killing' capability of all fleet sectors. As well, the ingenuity of fishermen led to common rebuilding of sterns and holds of vessels that allowed them to stay within length regulations while considerably enhancing catching and holding capacity. Overall, it is now generally acknowledged that the net result by the mid to late 1980s was to match harvesting capacity existent at the declaration of the 200 mile management zone. As a result, catches initially began to rise in 1978. Buoyed by what would later prove to be inaccurate stock growth estimations, catches, while displaying annual fluctuations (particularly in the near shore, <35' fleet) climbed to a high of 269,000 m.t. in 1989 (Hutchings and Myers, 1995. p. 58). Three years later, a moratorium was imposed on northern cod and several other stocks throwing estimates of between 22,000 and 37,000 harvesters and plant workers out of work.

Under the Terms of Union linking Newfoundland and Labrador to Canada, the province retains control over onshore processing of marine resources. As one would expect, similar patterns of growth are reflected in fish processing licenses for the province. Unfortunately, prior to 1980, statistics were not kept on species processed or type of processing i.e. whether primary or secondary. Nonetheless, substantial growth in the size, employment and processing capacity is visible from data available. In 1970, 53 plants were licensed to process fish; by 1985 they had increased to 212, peaking at 246 in 1992 (Kingsley, R. 1993. p. 127). Plants dedicated to groundfish processing had increased between 1980 and 1992 from 142 to 175 and processing throughput from 218,000 m.t. to 275,000 m.t. This increase in both harvesting and processing capacity reflected a growing general optimism flowing from the 1977 territorial extension as well as the Kirby Task Force (1983) struck to explore re-organization and expansion in Canada's East Coast fishery following a financial crisis of 1980-1982 (see also Sinclair, 1984).

Despite the collective enthusiasm and the real gains in oil and gas and the expanded fishery, all was not well in the province, particularly in the areas away from St. John's and the Northeast Avalon Peninsula. Several indicators revealed that Newfoundland and Labrador's capacity to create secure and reasonably-paying employment was not matching either government or public expectations. The province's official unemployment rate fluctuated between two and two-and-a-half times the national average; stock recovery, particularly of the valuable northern cod component, was not rebuilding as fast as expected, high levels of economic growth characterizing the 1970s had come to an end and careful analysis had revealed that employment growth between 1977 and the mid- 1980s resulted from expanded fishing employment (56 per cent) and the government sector (39 per cent) alone. In other words, 95 per cent of all job creation in the entire province had been a result of government and a single primary sector! (Carter, B. 1995. p.133). The millions of dollars funnelled through Rural Development Associations (RDA's) since the mid 1970s and the kaleidoscope of federal agency initiatives to create short and medium term employment had reaped precious few long term jobs.

Equally disturbing was the role of Unemployment Insurance (UI) in fishery-based incomes. Hollett and May (1993, p. 180) estimated that in 1988 as much as 46 per cent of fishing income was derived from UI benefits compared to 30 per cent from catching fish, approximately 17 per cent from income earned outside the industry and the remaining seven per cent from government transfers. Given government and public perceptions of unemployment insurance

as a temporary insurance program rather than a form of ongoing income support scheme, such findings were deeply disturbing. Newfoundland and Labrador, and in particular rural Newfoundland, was mired in low income, low productivity and high dependence upon government transfers.

In early 1985, at least partly in response to the continuing difficulties plaguing rural Newfoundland, then Premier Brian Peckford created a Royal Commission under the chairmanship of Dr. Douglas House of Memorial University. The Commission's mandate was to "investigate all aspects of employment and unemployment in the province of Newfoundland and Labrador" (Royal Commission, 1986). Following widespread consultation and the sponsoring of a wide array of research, the Commission tabled its final report in September of 1986. The 500-plus page report and its supporting research documents arguably represent the most comprehensive examination of employment in the province. Among its most compelling recommendations were a) the establishment of an income security program to partially replace UI and remove disincentives to seeking employment; b) a process of building employment strategies from the 'ground up' involving local residents and tailoring policies to the various strengths, human and resource, communities and regions possessed; c) a revitalized inshore fishery linked to local resources and market reality; d) a refocusing of tourist programs away from copying other 'exotic' destinations to a 'made in Newfoundland' solution; e) instilling a revitalized sense of confidence amongst the people in their capacity to change opportunities; and, f) a need for integrated, strategic and collaborative planning by government to assess, identify and realize opportunities in small and medium size resource development as well as 'mega project' concentration. In the report and subsequent venues, the Commission chair argued for a new, integrated appreciation of the social and the economic for enhancing the quality of life in rural communities as well as the interdependence of urban and rural economies with the need to strengthen both (House, 1993. p. 222).

As the 1980s closed and the last decade of the twentieth century commenced, government accepted the Commission's report, endorsed most of it in principle and implemented relatively little. The Peckford government was mesmerized by oil and gas and exotic high tech projects such as hydroponic greenhouses. Moreover, it was at the end of its term and there were clear indications of a collective electoral desire for change unless some 'catchy' accomplishment could be paraded before the electorate. With few exceptions, fish landings declined, unemployment increased and the government looked to oil and gas development, seemingly made more possible by the signing of the Atlantic Accord in 1985, to provide a future path to prosperity. Despite some signs of improvement and a multitude of federal and provincial initiatives, historians are likely to look back on this period as one of good intentions but relatively few concrete results.

Crisis and Hope, 1992-Present

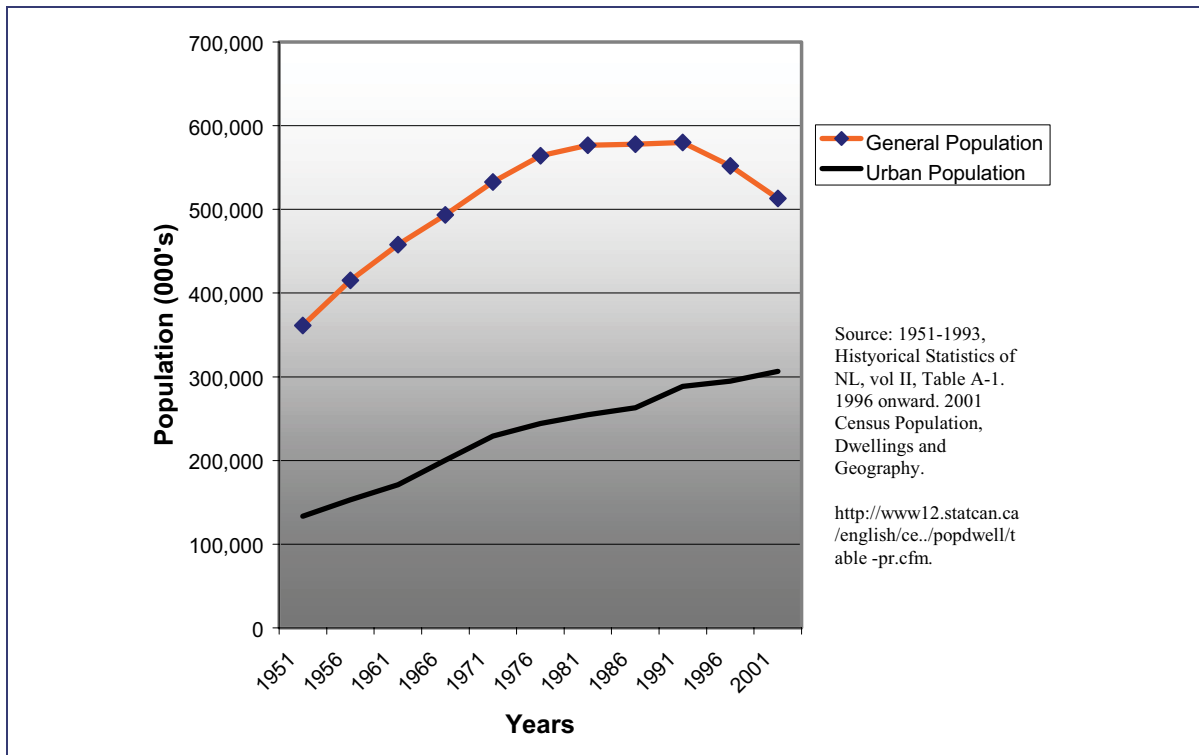
In 1988, lawyer Clyde Wells and the Liberal Party came to power. Within a year and a half, the government created the Economic Recovery Commission (ERC) to implement many of the ideas in the Royal Commission report. Reporting directly to Cabinet, both a benefit and a serious impediment in retrospect (House, 1999), the ERC was an innovative experiment in economic development policy. During its seven-plus year existence, it undertook a number of important initiatives and made numerous recommendations to government. Many of its ideas,

if not specific recommendations, seemed to be reflected in subsequent government initiatives including a Strategic Economic Plan in 1992 emphasizing 'bottom up' consultative planning and a Task Force on strategies to implement the plan in 1995 (Government of Newfoundland and Labrador, 1995).

Despite the considerable good achieved through the ERC in the first half of its existence, including not least a new and different way to think of the meaning and process of development itself, the province, particularly its rural communities which comprised a majority of all residents, was overwhelmed by other events of 1992. In July of that year, the government of Canada closed the cod fishery off the province's Northeast coast, historically her richest marine asset. Shortly thereafter, catch restrictions and closures were imposed on several other stocks and species. Upwards of 35,000 harvesters and plant workers were immediately added to unemployment statistics. Initially, the closures were proclaimed to be temporary and a support program known as NCARP (Northern Cod Assistance and Recovery Plan) was introduced. Within a couple of years, as the stock collapses deepened, the program was widened and extended to include most of the island and Southern Labrador. Now called simply TAGS (The Atlantic Groundfish Strategy), it combined income support, educational upgrading, retraining and a variety of other initiatives for qualifying residents.

For the first couple of years of NCARP and TAGS, the majority of displaced workers remained in their community waiting for scientists to confirm their predictions that stocks would rebuild in two to five years. As time progressed and scientific assessments painted a continuing gloomy picture, more and more rural residents moved, typically to St. John's or some other near-by larger community and then to Central or Western Canada. For the first time in the history of island, Newfoundland and Labrador's population as a whole began to decline.

Chart 1 - Newfoundland and Labrador Population Trends



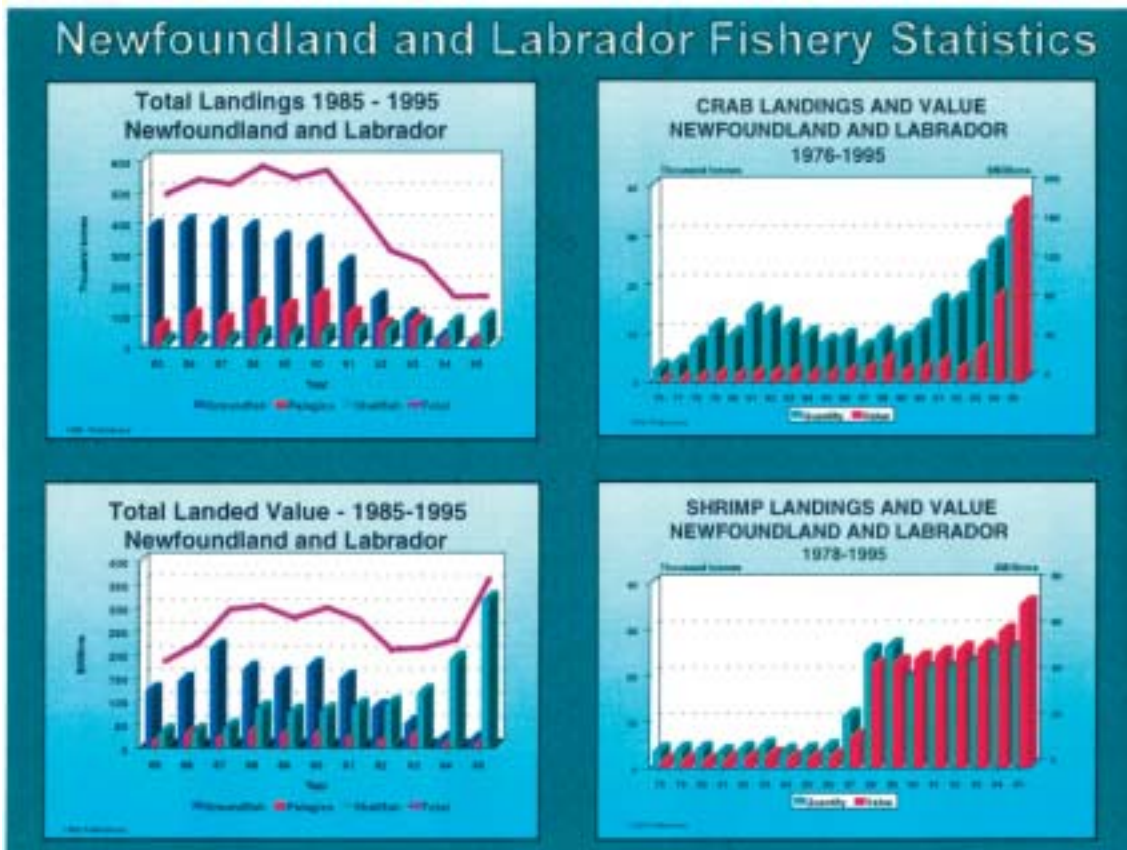
Further debilitating is the skewed age distribution of migrants who are leaving. The provincial figures conceal what may be an equally important or even more important trend. As the general population declined, the urban proportion has steadily increased. The Northeast Avalon, for example, has actually had a modest population gain during the exodus, most likely aided by the relatively strong economic performance of oil related activities. This intra-provincial shift is often overlooked in discussions of out-migration. As indicated earlier, large amounts of internal migration have characterized Icelandic demographic patterns over the last 80 years and it has been seen largely as an inevitable and necessary phenomenon. This is not to say that a certain regret has not also been present at the decline of many rural areas of the country.

Demographic shifts and intransigent unemployment, particularly in rural areas, do not tell the whole story of social change in the province as a whole over the last 10 years. A number of important and ongoing social, economic and cultural changes continue to transform the province as well. The increasingly urban nature of residence was noted above. In these areas, labour force participation rates for men and women have increased and employment growth has been significant, particularly for women in the service and retail trade sectors of the economy (the Newfoundland Economy, 2002). While labour force participation rates remain below the Canadian average and are marginally lower for women than men, unemployment rate differentials in urban areas between men and women have been largely removed and participation rate differences narrowing. Housing starts in the greater Avalon as well as most other larger communities on the island portion continue to grow substantially. Per capita and household incomes in these same urban areas continue to approach the Canadian average.

Since urban growth is fuelled almost exclusively by indigenous demographic shifts within the province, collectively, these changes reflect important social, economic and political changes. Cultural change is considerably more subtle and slower but it seems likely that important changes will also occur in Newfoundlanders' and Labradorians' sense of themselves as a people.

In rural communities, a number of changes are occurring as well. The fishery, long the economic backbone of most rural areas, continues to be so in many smaller communities but it is a quite different and more valuable one, earning greater export earnings than ever before. This is being done by targeting different species and employing considerably fewer fishermen and processing workers. With the failure of cod and several other valuable species to rebuild and the continuing decline of several other valuable, though supplemental, species such as capelin, fishing has moved down the food web to target 'lower' though more valuable species such as shrimp and crab. As a result of both demand-driven factors (high prices, open market niches, etc...) as well as extensive government encouragement and support, export earnings surpassed one billion dollars several years ago and hover between \$450 million and \$800 million annually with shrimp and crab dominating earning profiles. Chart 2 captures this 'prey switching' behaviour.

Chart 2 - Species of Interest, Newfoundland and Labrador 1985-1995



Since 1995, the same pattern has continued although continuing declines in cod stocks have meant fewer groundfish landings and a three month shrimp strike in 2002 reduced shrimp landings appreciably. Is fishing down the food web sustainable? Several authors have questioned its sustainability (Felt, 2000. p. 320-321). There is already tentative information suggesting certain populations of snow crab are at or beyond sustainable harvesting levels. Shrimp populations do not yet suggest any possible stock problems despite increased efforts. While both species are governed by quotas, political pressure increases to expand processing and harvesting licenses. Thus, the longer term sustainability for such fishing may be problematic. Augmenting these emergent fisheries are pockets of more traditional ones for lobster, lump roe, flounder and capelin with increasingly reduced numbers of cod (increasingly viewed scientifically as untenable pending further cod stock renewal). A range of aquaculture initiatives is also being explored. Indeed, the recently renamed Provincial Department of Fisheries and Aquaculture conveys the hoped-for role of a variety of aquaculture activities for various species.

Rural and urban areas of the province appear headed in opposite directions in their projected economic health. As urban growth increases significantly, though as yet unstudied, social and cultural changes are likely for those individuals and families who remain in large numbers in rural communities. As one travels through rural, fishing-based communities today, the material changes are clearly visible. Large expensive houses frequently stand adjacent to modest bungalows (and occasionally a much older 'saltbox' dwelling). Frequently built on land owned by the same family for generations, the housing reflects access to lucrative limited entry licenses (or at least employment as a crew member for those with licenses). While a majority of rural emigrants of the last 10 years are between 19 and 40 years of age, many more of these, particularly at the high end of this range, do not leave due to limited education and formal skill levels. Contemporary victims of choices made to 'go fishing' or 'work in a plant' in the 1970s and 1980s, large numbers struggle while brothers or other relatives earn incomes equal to, and in many cases far surpassing, Canadian averages. Despite substantial efforts at educational upgrading and skill acquisition under TAGS, they remain behind in hope of a better future, aware that only unskilled, insecure employment opportunities await them 'up along'.

Quite simply, levels of inequality in rural Newfoundland are now more extensive than ever. This is not a new process, of course, having started with first efforts to build an industrial fishery (Wright, 2000). The combination of traditional groundfish collapse with new, lucrative yet restricted, opportunities has greatly accentuated the process.

One final important social change promises to significantly affect the province generally and rural areas particularly and that is increased school retention and graduation rates. Mean levels of schooling completed have continued to increase over the last 20 years, particularly since the fishery moratorium of 1992. High school graduation rates now approach 92 per cent throughout the province. Research in Bonavista suggests that an important reason underlying this increase is recognition that the fishery no longer exists as an employer of last resort and that contemporary fishing requires higher, more specialized levels of education. Thus, even if one plans to stay in the community, education is increasingly important (Dr. P. Canning, personal communication). This recognition and, more importantly the consequences resulting from it, may be the most important long term benefit from the fishery collapses of the 1990s. Given the strong, if not necessarily direct, relationship between education and economic prosperity, Newfoundland and Labrador is thus in many important respects a qualitatively and

quantitatively different society today. Can experiences in other North Atlantic islands help inform choices, policies and decisions that will need to be made in forthcoming years as the striving for full benefits of a modern society continues?

Åland Islands

The Åland islands are an archipelago of approximately 6,500 islands distributed between Sweden and Finland in the Northern Baltic Ocean. More than 90 per cent of its 25,000 plus inhabitants and a majority of the 16 designated communities live on the largest island where its only city and capital, Mariehamn, is located (Beijar, 1997). One of the more vibrant economies in Scandinavia, inhabitants derive the overwhelming majority of their incomes from shipping, tourism and retail trade with lesser amounts flowing from agriculture and fishing (Lindstrom, 2000). Though politically aligned to the Finnish state, the islands are unilingually Swedish and possess a semi-autonomous relationship to Finland as a result of a formal declaration by the League of Nations in 1921, later ingrained in the Finnish Autonomy Act. The Act has been revised three times, each time providing for slightly enhanced powers to the Åland government (Beijar, 1997).

Åland was part of the Swedish empire until the War of 1808-09 after which Sweden was forced to relinquish the islands as well as Finland to Russia. With the disintegration of the Russian empire during WWI, Finland declared independence in 1917. Åland attempted reunification with Sweden given its slightly closer geographic proximity and linguistic/cultural connection. Finland opposed Åland's reunification and, following tense and unsuccessful attempts to settle the issue between Sweden, Åland and Finland, the issue was taken to a nascent League of Nations which ruled in June of 1921 that Åland should forever be demilitarized and neutral. Beijar suggests the League decision was a three-fold compromise: Finland maintained claims to sovereignty over Åland; Sweden received assurance that the islands would be neutral and hence not a military threat to Swedish territory and Åland provided autonomy and protection for its Swedish culture and language.

Åland is formally governed by a Legislative Assembly (Lagtinget) or approximate equivalent of a Legislative Assembly, which in turn appoints a government (landskapsstyrelsen). Appointment to government is based on democratic principles with the winning party or coalition (more often the latter) in legislative elections appointing from five to seven members. The government administers all areas mandated by the Autonomy Act including education, culture, commerce, municipal administration, healthcare, policing and postal services. These areas are first and foremost for the protection of Åland's linguistic and cultural autonomy. Fiscal and monetary policy, foreign relations, most civil and criminal law as well as the vast majority of taxing powers are national. Åland also has representation in the Finnish Parliament as a distinct constituency in national elections from which one representative is selected. To provide these services, the Åland government is enabled to levy a range of taxes and fees. Åland also possesses an interesting redistributive relationship with Finland to compensate for those tasks that would otherwise obligate the local parliament. Routinely, this constitutes an annual repayment of 0.45 per cent of national revenues. If, however, Åland's share exceeds 0.5 per cent, the *entire* amount in excess is returned (Lindstrom, 2000). In recent years this has amounted to a sizeable payment.

Though international relations such as treaties and trade agreements are the sole prerogative of the Finnish state, Åland's Autonomy Act allows for certain important influences. Åland appoints one of the three Finnish members to the Nordic Council (a trade, cultural and funding association of Scandinavian countries). International agreements potentially affecting issues within Åland's legitimate domestic domain must also be passed by the Åland Assembly before they become enforceable in the islands. This power was tested in 1995 during Finland's negotiations to join the European Union (EU) (Beijar, 1997). At that time, the Åland government expressed concerns regarding the impact of EU membership on local autonomy and economic development policy. These concerns were included in negotiations as a condition of Åland legislative approval.

Åland's membership in the EU through Finland is regulated through a special arrangement. As a result, her jurisdiction over land acquisition, ferry licensing and requirement of a 'domicile' right to vote and hold office are maintained. Åland is considered under the terms of EU membership to be a 'third territory' to which EU rules regarding the standardization of indirect taxes does not apply (i.e. she, unlike Finland, is a member of the customs union but not the tax union). This distinction is particularly important because it allows the extensive tax-free shopping that is an important employment and foreign exchange earner for traffic to and from Åland as an important ferry terminus within Southern Scandinavia. **This exemption for duty free transactions is now unique within the European Union since it was removed elsewhere in 1999!**

Åland's initial claim to special status was derived from its linguistic and cultural history. As recently as 1997, approximately 94 per cent of Ålanders declared Swedish as their first language. Swedish is the only official language of Åland. Finnish has only been studied as a 'foreign language' (Beijar, 1997). Nonetheless, an increasing number, now approaching 90 per cent, of Åland children learn Finnish in their school curriculum. The archipelago has no universities and limited technical schools beyond high school. Approximately half of Åland youth move to Sweden to study while the other half move to the Finnish mainland, particularly the Swedish language university in Turku. While the original intent of the Autonomy Act was to allow protection and survival of linguistic and cultural difference, Ålanders have had some success in extending its jurisdiction into areas of more economic relevance for its citizens.

The Åland economy has been one of the more robust in Scandinavia over the last 30 years. If GDP per capita is taken as a reasonable measure of performance, levels during the last 10 years have varied between 20 and 40 per cent above Finland and 30 per cent and 50 per cent of the EU mean (Lindstrom, 1997). In 1998, she stood as the 18th richest out of 206 regions in the EU (ASUB, 2000, 1998). Unemployment remains low even by Scandinavian standards ranging between one and 3.4 per cent during the same period. Originally an agrarian and fishing society, Åland has transformed itself into arguably THE major player in modern, large high-speed ferry services for tourists throughout southern Scandinavia and in the process generated hundreds of millions of dollars for the economy. Combined with extensive shipping and transport support services (marine insurance, roll on/roll off services) plus its tax-free status for tourist shopping, Åland has been able to construct a highly successful economic environment for its citizens.

Is there a secret for Åland's success? The answer(s) most likely results from a series of purposive and fortuitous circumstances. These most likely include geographic location, cultural and linguistic features and commercial traditions linking Åland and Swedish upper commercial classes (Lindstrom, 2000). Geographically, Åland's location close to southern Sweden though part of the Finnish state most likely facilitated a 'broker' role in trade and

traffic. The fact that Swedish was and is the only official language spoken likely also played an important role. The strong sense of cultural identity and occasional tension with the Finnish state may have also aided. In retrospect, such tension was channelled in a ‘non-politicized’ (Lindstrom, 2000, p.115) manner towards economic opportunities made available by location and Finnish legislation. Åland’s successful commercial class is claimed to have prospered to some degree through its close linkages to Swedish counterparts.

Given Åland’s small geographic size, limited population and minimal control over the financial levers of a modern state, a strong and co-ordinated business sector to promote private entrepreneurship, create and maintain critical networks and possess strategic capacity to anticipate and then avail of emergent economic opportunities was an important prerequisite. The region’s long history in trade and shipping, located as it is to Swedish and Finnish main population centres and trading routes, enabled this to occur. Prior to the present century, Åland was home to substantial commercial interests involved in largely commercial trade. Following the second World War, Åland-based shipping and transport support services were resurrected and expanded. As large, speedy marine ferries began to emerge in the late 1950s on the Sweden-Åland-Finland route, Åland ship owners quickly grasped the opportunity, acquiring a large number of ships using largely Swedish capital which they had access to through educational, linguistic and cultural ties to Sweden. Over the next 50 years, Åland interests have expanded their tourist ferry business until today they are a dominant interest in Scandinavia. Additionally, a wide array of support services and tourist venues have arisen to take advantage of its ‘duty free’ status. In recent years, the islands have had to import temporary workers to staff their service activities during the busy summer months.

Faeroe Islands

The Faeroe Islands are an archipelago of 17 inhabited islands in the North Atlantic, approximately midway between Iceland and the Shetland Islands off Scotland. The largest settlement and capital is Torshavn with an estimated population of 17,200 on the southeast coast of Stromo (Streymoy) Island. Total population is slightly over 45,000. The island’s topography is characterized by high escarpments and plateaus separated by deep chasms. The islands are traversed by a number of deep fjords providing a long and highly indented coastline.

Islanders trace their ancestry to Viking era Norwegian-origin settlers. From the royal union between Norway and Denmark in the early 19th century to the present, they have been politically linked in one form or another to the Danish state (Olafsson, 2000). The Danish Constitution of 1849 formally incorporated the islands into the Danish state although a resurrected ‘advisory’ legislature, the *Logting*, was allowed. Governing capacity of the *Logting* was extended on several occasions up to World War II in response to Faeroese nationalist sentiment (Lyck, 1997).

During WWII, Denmark was occupied by Germany and the Faeroe Islands by Great Britain. At this time, increased nationalist sentiment expressed itself in a movement for sovereignty. The Danish administrator and a majority in the *Logting* reached a compromise governing solution whereby the islands would be governed through a tri-partite arrangement consisting of the Danish administrator, the *Logting* and its executive committee. In 1946 the Danish government offered legislation conferring limited self-government on the Faeroese.

This was rejected by the Faeroese and in 1948, following rather tumultuous negotiations, a compromise Home Rule Act was passed by Denmark and ratified in the Faeroe Islands. One of the immediate benefits of the new Home Rule Act was the extension of modern infrastructure to the islands. Roads, telecommunications, water and sewage, hydroelectric facilities, tunnels, bridges and schools were extensively built over the next 20 years with Danish funds.

Under the Home Rule Act, the Faroese are allowed to retain their own flag, protect their indigenous Faroese language and special citizenship rights. The latter is manifested in passports provided to all Faroese nationals indicating they are citizens of BOTH Denmark and the Faeroe Islands (Olafsson, 2000). Of more relevant economic implication are a number of transferred and shared powers with the Danish Parliament. Faroese authorities possess authority to levy direct and indirect taxes, build harbours and roads, telecommunications, hydroelectric and other infrastructure, regulate trade and industry and promote fisheries and other resource development. Health, education and social security have remained joint undertakings though specific program financial obligations remained largely Danish until 1988 when a 'block grant' system was initiated in which distributional decisions regarding these costly services were left largely in Faroese hands. Faroese authorities through the *Logting* are free to augment and modify any such programs though all costs for such changes must be covered entirely by island funds.

Foreign relations under Home Rule remain firmly in Danish hands though several 'advisory' processes are recognized. These include special attaches at Danish embassies, a Faroese advisory to the foreign ministry, participation in Danish delegations and, in limited cases where Faroese concerns are paramount, of direct Faroese-led negotiations supported by the Danish Foreign Service. This has proven particularly useful for participating in several North Atlantic multilateral fisheries management organizations such as NAFO (Northwest Atlantic Fisheries Organization), NEAFC (NorthEast Atlantic Fisheries Commission) and NASCO (North Atlantic Salmon Conservation Organization).

The Faeroe Islands have been reluctant to join the multilateral trading blocs that arose in the 1960s, 1970s and 1980s. Thus, while Denmark was a founding member of the European Free Trade Association (EFTA) in 1960, the Faeroes remained outside, negotiating bilateral arrangements until 1967 when trade liberalization rules were extended to include fish products. The Faeroes delayed withdrawing their protective import duties on fish until 1973, and shortly thereafter withdrew from the EFTA with Denmark. While Denmark then joined the EU, the Faroese rejected membership fearful that the common European Fisheries Policy (CFP) favoured the large trawler fleets of Britain, Germany and France. Moreover, forthcoming Law of the Sea rules were almost certainly expected to reduce access to distant waters making control of local fishing territory critical (Lindstrom, 2000).

From 1974 to 1991 trade between the Faeroe Islands and the EU was governed by numerous unilateral agreements. They generally provided for preferential customs treatment for some of the more economically important Faroese fish export products. In 1992, an EU initiative led to its replacement with a more general agreement on free trade. While it allowed for duty free trade in a wide range of Faroese fish products, it set quotas as well and removed island import levies as protection for local fish production. In place of the levies, a non-discriminatory Value-Added Tax (VAT) was instituted. In retrospect, Faroese acceptance of the agreement was most likely the result of precious few alternatives given that the proportion of fish exports destined for EU countries had rise from 39 to 79 per cent between 1970 and 1990 (Morkore,

1995. p.149) and a grudging realization that import protection was an ineffective strategy for creating sustainable export industries (R. Arnason, personal communication). The Faeroe/EU trade relationship continues to be ruled by this agreement though slight modifications have been made from time to time.

The Faeroes, along with Greenland, are by far the most fishery-dependent societies in this comparison. Since the 1920s, fish exports have represented in excess of 90 per cent of all export earnings (Arbok fyri Foroyar (Statistical Bureau of the Faroe Islands, 1995, 2000). During the last one hundred years, fish harvesting and processing has eclipsed farming, particularly fodder crops and sheep, as a predominant industry. The movement towards high fishery dependence began at the end of the 19th century with dried, salted cod—the major fish export. In the early years of the present century when fishing began to decline, at least partially the result of the emergence of steam driven British ‘side trawlers’, many Faroese fishermen and merchants responded by purchasing second hand trawlers from Britain (with Danish government loans and grants) and developing their own, high seas, distant water fisheries for both salt and, later, frozen cod (in many respects a pattern similar to Iceland). While the depression was devastating for the islands despite significant financial assistance from Denmark, so successful had this strategy become that by 1997, Faroese trawler fleets represented one of the 10 major high seas fisheries in the world (Morkore, 2000).

The Faroese fishing industry has been the primary engine of growth for most of the century, but especially so since the 1950s. Initially a dispersed, high seas one, it has been refocused since 1977 as a result of emergent territorial limits and controlled access. While ostensibly privately owned and controlled, the Faroese state has long displayed strong interventionist behaviour, particularly in times of crisis. Intervention has taken several different forms depending upon the historical period and particular circumstances. Predominant forms of intervention have been income support programs, minimum fish price guarantees, vessel and processing incentive grants and low interest loans. In response to regional pressures within the islands, efforts have been made to seek a ‘politically acceptable’ distribution of employment opportunities throughout the society (Lindstrom, 2000).

Hitching one’s economic future to fish has been something akin to a collective roller coaster ride. When fish prices were high, raw material available and capital costs relatively low, economic conditions in the Faeroes typically outpaced Denmark. For example, GDP per capita outpaced the Danish average in the years 1961-1970 and 1981 to 1989 by an average of six to 11 per cent. At the same times, unemployment levels ranged between one and four per cent (Arbok fyri Foroyar, 1995, 2000). In times of crisis, for example during the oil crisis of the early 1970s, the transition to a ‘home fishery’ after the 200 mile limit extensions and the over-capacity of 1992-1994, incomes fell as low as 25 per cent below the Danish average and emigration to Denmark reached dramatic levels. In 1993 and 1994, for example, outmigration numbered 2,831 and 3,284 individuals representing six and 7.5 per cent of the population respectively (Statistical Bulletin 2000 of the Faroe Islands, Table 4).

Due to its lack of control over monetary policy to pursue policies such as devaluation to maintain competitive export prices and without alternative sectors to help offset costs, the Faroese government claimed little choice but to raise taxes on importers of consumer goods to secure money for fishery-related costs. When a crisis passed, fishery-related supports all too often remained in place contributing to the overbuilding of the sector (Morkore, 1995).

The current crisis originating with the extension of jurisdiction by most nations to 200 miles illustrates this dilemma and reveals some interesting parallels with Newfoundland and Labrador. The adjustment associated with 200 mile extended jurisdiction was considerable. The Faroese fleet had developed largely as a distant water one. While local, inshore ‘cutter’ fleets of upwards to 1,500 boats did exist prior to 1977, their major competitors were British and German trawlers. Extended jurisdiction changed this dramatically. Until bilateral agreements could be established, more and more of this fleet was confined to Faroese waters. Highly optimistic scenarios for groundfish and shrimp stock growth led to both a rapid expansion of processing capacity as well as greater vertical integration (Mokore, 1995) funded with Danish as well as new ‘offshore’ capital often underwritten by the *Logting* in Torshavn. Arguably, the period 1981-1989 was the most prosperous recorded for island citizens.

During this period, attempts at diversification were undertaken as well though none have succeeded in remotely approaching fish harvesting and processing in employment or export earnings. Finfish aquaculture, particularly Atlantic salmon, began in the numerous fjords. While at one point contributing upwards of 20 per cent of fish related export earnings, the industry suffered from low prices and high costs in the early 1980s and substantial portions were taken over by Norwegian interests. In 2001 export earnings as a percentage of total fishery earnings finally returned to early 1990s levels of around 23 per cent (Hagstova Foroya, Table 6.5). In the subsequent ‘rationalization’ process, production and employment have declined (Arbok fyri Foroyar, 2001). Commercial shipping and marine ferry ventures have also been undertaken with marginal success. During the mid-1980s, an effort was undertaken to promote the Faroes as an ‘Atlantic Resource Centre’, a transshipment centre for fish products and other cargo—with modest success.

The Faroes have also tried to emulate Iceland in developing fishery-related capital goods production. Thus, extensive promotion of fishing gear and processing equipment has been undertaken with some success. Such ‘backward linkages’ (Felt, 1987, 1985), along with expanded and modernized ship building facilities were heavily affected by the crisis of 1992 and only in the last three or four years show signs of recovering. Success in non-fishing related industries has been more problematic. Some success has been achieved in a revitalized woollen industry for export in recent years though this has been far below expectations given several decades of duty free access to European markets.

The most successful efforts in economic diversification have occurred in the tourism sector. Recent estimates place upwards of 2,500 jobs directly associated with tourism and eco-tourism representing approximately nine to 11 per cent of the labour force and perhaps as much as five to eight per cent of foreign earnings (Arbok fyri Foroyar, 2000). While most of these are seasonal, they represent a substantial new source of foreign currency and employment. There is also considerable optimism regarding offshore oil and gas reserves. In anticipation of commercial finds, the Faroese government has developed a framework for exploration and development to ensure maximal industrial benefits and employment are captured during exploration and later production phases.

The crisis of late 1992 in which several large fish companies were forced into bankruptcy and most others reduced catches in response to declining fish populations and lower prices revealed important structural weaknesses underlying the Faroese development strategy. Political ramifications were immediate and profound. The election of 1994 replaced half of the sitting members in the *Logting*. The new Parliament then went to Copenhagen to negotiate

assistance for the crisis. In Faroese eyes, according to local media stories, the price demanded by Denmark was excessive if not humiliating. They included the reorganization of Faroese banks, with one declared bankrupt and the other two amalgamated with their assets owned by a financing fund with Faroese ownership but Danish control. Most processing plants were declared bankrupt and merged into a single plant with funding and control vested in the same fund controlling the reorganized banks. Fish stock management in Faroese waters was restructured on the basis of Danish advice and included the introduction of Individual Transferable Quotas (ITQs). After two years of heated discussion and debate both within the islands and between them and Denmark, the Danish government established a Committee of Inquiry in early 1998 which was seen as highly unfavourable to Faroese interests.

In the election of May 1998, a coalition of nationalist parties committed to revisiting constitutional relations between the Faroes and Denmark formed a collation government. In a declaration issued shortly after forming the government they issued a proclamation confirming that the Faroese are a people with the inherent right to sovereignty. The new government released a document highly reminiscent of the relationship between Iceland and Denmark between 1818 and 1944 (Olafssen 2000). In early Fall of 1998, the coalition received majority assent from the *Logting* to proceed with a fact finding phase after which it was to be brought back to the Parliament for discussion. In 2000 a preliminary report was tabled and debate continues on both future relations between the Faroes and Denmark as well as the Faroese stance regarding the EU.

Economically, some recovery has occurred since the collapse of 1992. Buoyed by some signs of stock recovery for cod, there have also been a number of bilateral agreements involving shrimp, better international prices for fish exports, substantial expansion in ecotourism and considerable Danish financial assistance. Unemployment had been reduced from approximately 10 per cent to between three and five per cent for men and women respectively. Labour force participation rates have returned to historic levels of 80 per cent for males and 75 per cent for females. Emigration to Denmark and hence to the EU has also slowed significantly. Economic growth has returned to positive levels following the 1992-1994 crisis. Nonetheless, the Faroese economy remains heavily dependent upon fish products (approximately 95 per cent of export earnings) and deeply in debt to Danish and international creditors with a ratio of long and short-term debt to GDP of 1.16 (116 per cent) in 2000 (Hagstova Foroya, 2002).

Greenland

Greenland, situated between the Atlantic and Arctic Oceans, is the largest island in the world with an area of 2,175,600 km² with linear dimensions of approximately 2,600 km. north to south and 1,200 km. east to west. Situated mostly north of the Arctic Circle it is separated from the Canadian arctic archipelago on the west primarily by the Davis Strait and Baffin Bay and from Iceland on the east by the Strait of Denmark. The interior consists mostly of a glaciated ice plateau surrounded by mountains. The coast consists of numerous fjords, many with glaciers flowing through the valleys to the sea. Given its latitude, Greenland is extremely cold for much of the year though its extreme southern coasts are ice free due to the warming effect of the Gulf Stream. The short summers average nine to 12 degrees C. Terrestrial mammals are more

North American than European in origin and include musk ox, wolf, lemming and reindeer. The marine environment holds valuable resources of fish and mammal as well. Greenland's population stands at approximately 56,124 (Expo 2000 Greenland) of which approximately 85 per cent are of Inuit origin. The current labour force is approximately 24,500.

The vast majority of residents live in numerous small towns and villages in the most hospitable areas along the west and southwest coasts. The capital, Nuuk, is located in west-central Greenland with a population of 13,800 residents. Additionally, there are 17 small towns, 13 with populations in excess of 1,000 and another 65 smaller communities. Greenlanders are a people of mixed ancestry, though as indicated above, approximately (85 per cent) claim Inuit or Eskimo descent with a minority European, mostly Danish and Norwegian. Outside of Nuuk, livelihoods are based on fishing with subsistence hunting and farming.

As a part of the Danish state, Greenlanders enjoy numerous social welfare benefits associated with the modern Scandinavian welfare state. These include publicly funded infrastructure as well as free education, health care, pensions and a wide range of subsidies. Arnason and Friis (1995) have estimated that Danish transfer payments represented upwards of 30 per cent of per capita income of \$7,719 (Danish Krona) in the mid 1990s. Greenland's modern international history parallels that of the Faroes and Iceland. After World War II, Greenland became an integral part of the Danish state in the revised Constitution of 1953. In 1979 Greenland achieved 'Home Rule' following a Greenland national referendum and currently maintains a status similar to the Faroe Islands. In 1982 a second referendum was held to determine membership in the EU following Danish ascension. In February of 1982, Greenlanders voted by a narrow margin to withdraw from the EU. Withdrawal was formally completed in 1985.

The society is ruled by a Parliament (*Inatsisartut*) composed of 31 representatives who are elected every four years. It meets bi-annually in the capital of Nuuk. The Parliament appoints a Cabinet that forms the government. Since 1997, it has been composed of seven members drawn from political parties securing the most votes. Politics is an active pursuit amongst the approximately 20,000 electorate. As in all other jurisdictions except Newfoundland and Labrador, proportional representation (PR) is used to apportion seats. There are four political groupings: *Inatsisartut*, the *Siumut*, *Atassut* and *Inuit Ataqatgiit Parties* and a loose federation of independent members. Following the last election, standings were *Simut* 12, *Atassut* eight, *Inuit Ataqatgiit* seven and Independent members four. A fifth grouping, *Arnat Partiiat* (The Women's Party) was established at the end of 1999 but has yet to win a seat. The *Simut* party has been the largest party in Parliament since Home Rule government in 1979. It generally is the most nationalist and was the major political force behind securing Home Rule and the 1985 referendum to withdraw from the EU. The *Atassut Party* is the most conservative of the parties strongly supporting private enterprise and Greenland's re-entry into the EU. The *Inuit Ataqatgiit* is a party promoting the collective interests of Inuit. It advocates stronger co-operation between Inuit in Canada, Alaska and Siberia and is moderately socialist in its platform.

Greenland is arguably the most fishery-dependent society in the world. In recent years fishery related products have exceeded 95 per cent of export earnings, employed upwards of 10-12 per cent of Greenland's 24,500 labour force and contributed 17-20 per cent of Gross Domestic Product (GDP) (Arnason and Friis, 1995; Expo 2000 Greenland). These are among the highest values for any society and demonstrate the profound dependence upon fishery

related activities. Driven initially by fisheries management extension to 200 miles and Danish development programs, the Greenland harvesting sector expanded quite rapidly until the early 1990s when significant restructuring occurred amidst a period of negative economic growth (Expo 2000 Greenland) before slightly expanding again at the turn of this century.

The Greenland fishing fleet consists of three components: a large offshore dragger segment targeting primarily shrimp and some cod; an inshore/midshore fleet consisting of vessels between five and 80 gross registered tonnage; and, an undecked inshore one with open cockpits ranging from 15 to 30 feet. The largest expansion and subsequent contraction have occurred in the larger offshore component. Between 1976 on the eve of 200 mile expansion and 1990, this sector expanded 600 per cent to include 450 vessels with total tonnage of 60,000 g.r.t. before declining by a third in 1995 due to continued low levels of groundfish, failure to replace older, less efficient vessels and the move towards Individual Transferable Quotas (ITQs) as part of Danish and EU management policies. Since 1998, a modest increase has occurred directed towards distant water shrimping. Several boats currently operate in Canadian waters in the Davis Strait under bi-lateral agreements catching and processing shrimp. Now totalling 42 modern draggers, most with some on-board processing capability, this fleet operates within and extensively beyond Greenland waters. Ownership is distributed amongst the state-controlled Royal Greenland Company (35 per cent) and a variety of private and co-op interests.

The midshore/inshore sector is roughly equivalent to Newfoundland and Labrador's long liner sector, particularly the smaller, under 45' component. While the larger of these vessels can operate bottom and mid-water trawl gear, the predominant technologies are gill nets, long line and hand line. Where shrimp stocks exist close to shore, some are equipped for shrimp trawling as well. This fleet in 2000 consisted of approximately 304 vessels (Expo 2000 Greenland). Lacking on-board processing, these boats, along with the undecked fleet, supply the expanded number of processing plants found in numerous communities. Approximately 34 per cent of all landed volume was accounted for by this fleet in 2000.

The small, undecked fleet is by far the largest in number and employment and has traditionally been the foundation for economic life in Greenland's small communities. In 1999, this sector consisted of approximately 3,800 boats and accounted for six per cent of all landed volume consisting mostly of crab, tusk, Greenland halibut and cod. In 2000 total harvests by all fleet sectors of all species was approximately 157,230 metric tonnes with an estimated market value of \$ 397 million (\$US) (Expo 2000 Greenland). In excess of 90 per cent of this product goes either indirectly (through Denmark) or directly into the EU. The catches in recent years have been split between foreign nations operating under bilateral agreements (25 per cent) and Greenland-based boats (75 per cent). With the failure of Atlantic cod to substantially rebuild, approximately 70 per cent of the harvest is currently shrimp.

Due to the part-time nature of much fishing employment, particularly in the undecked sector, fishery employment is difficult to measure (Arnason and Friis, 1995). In 1992, Arnason and Friis estimated the number of full-time fishermen as 1,700 to 1,800. More recent estimates place the number between 2,080 and 2,400 or 8.5 and 9.8 per cent of the estimated 24,500 labour force.

In contrast, the processing sector is relatively undeveloped. The dominant processor is the publicly traded, though state-controlled (the state owns the vast majority of shares) Royal Greenland Company. It owns all but three of the 15 medium-sized plants dispersed amongst the smaller communities and Nuuk. Total current employment is approximately 1,400 people

in these plants, considerably less than during the early expansion period in the late 1970s and early 1980s. In addition, several villages have small plants dedicated primarily to ground fish. Their operation is intermittent, however, and several went bankrupt in the early 1990s as stocks of cod remained low, unemployment climbed to 10.5 per cent and economic growth was negative. There has been some improvement during the latter 1990s though there is still a precarious dependency upon three or four fish species for most export activity.

Several initiatives have been undertaken during the 1990s to address primary sector reliance on the fishery. Greenland is alleged to have important deposits of zinc, copper, tin and several other valuable minerals. A zinc mine in fact operated until 1990 when it closed due to mineral depletion and high recovery costs. Several initiatives have been undertaken in agriculture including greenhouse developments as well as expanded sheep and wool production. Niche foreign markets exist for woollen products but competition is extremely stiff. In the last six years Danish and Greenland governments have attempted to build an Information Technology (IT) sector based on marine communication. While a hundred-odd jobs are the current result, progress has been difficult. In the future, expectations are high that oil and gas will be found both onshore and in offshore areas under Greenland control. In a similar vein to the Faroe Islands, an exploration and production regime is being created to capture as many benefits as possible for local people.

Possessed of immense natural beauty in the glaciers, mountains and icebergs that dominate the area, Greenland has increasingly turned to tourism and eco-tourism as a source of employment and foreign earnings. Working largely through the Nordic Council, Greenland has undertaken a sizeable information campaign to attract foreign visitors. In 2000, for example, a total of just over 26,000 foreigners visited Greenland through tourist operators. While this pales in comparison to over 300,000 foreigners that visited Iceland in the same period (Statistical Yearbook of Iceland, 2002 Table 11.4; Expo 2000 Greenland), tourism is now the second largest earner of foreign currency. Expectations are high as well that the growth in tourists will continue. To this end, the Greenland government is developing grading systems for tourist accommodations, information booklets on important sites as well as proposing expanded airport facilities.

The frustrations of single resource dependency in an ethnically and culturally homogeneous and fairly nationalistic society continue to fuel long-standing tensions in Danish-Greenland relations. References to independence surface frequently in media reports and politicians and residents alike anxiously observe the train of events now occurring in the Faroes. Last elections occurred in 1999 so they will be held again sometime during 2003.

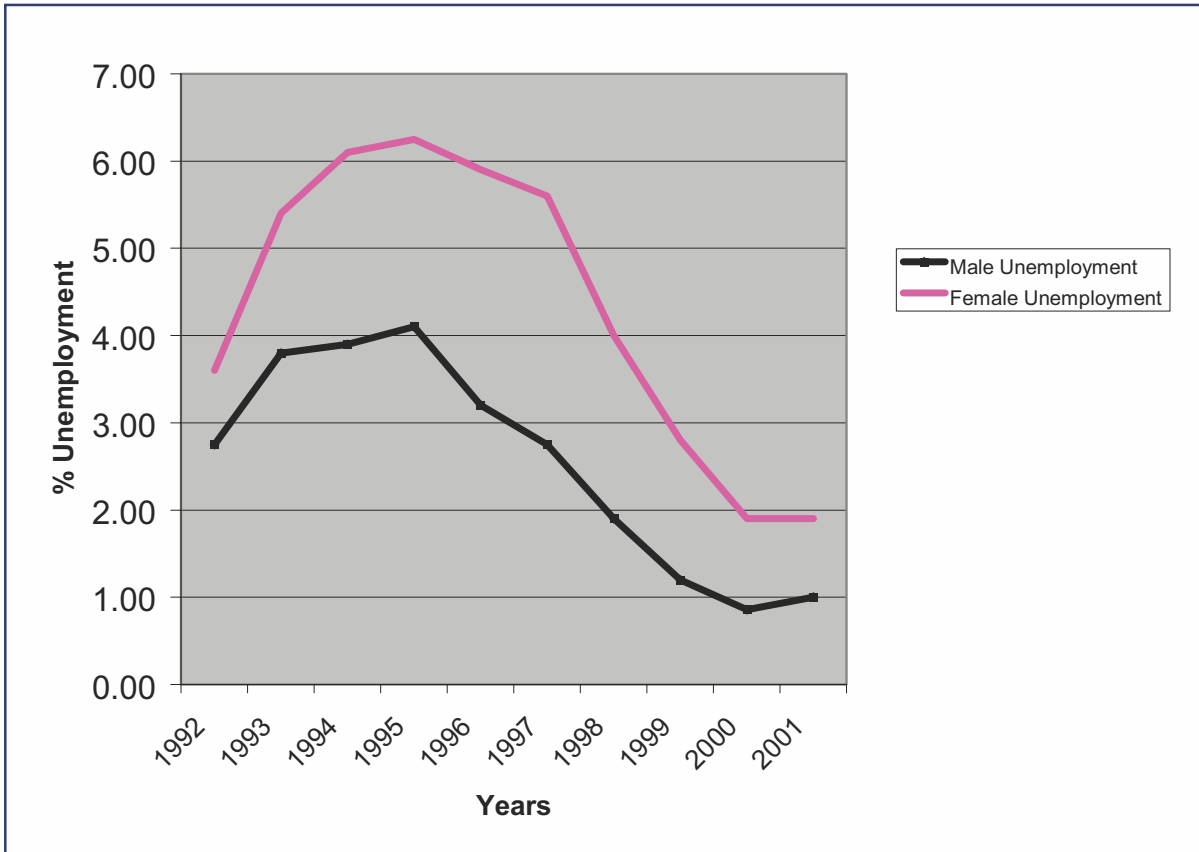
Iceland

Located between 60-63 degrees latitude and 13-23 degrees longitude in the North Atlantic, Iceland is usually considered the prototype of a successful small society. With a land mass of 103,000 square and a population of 282,201 (50 per cent less than Newfoundland), Iceland, since the second world war in particular, has constructed an economy within the top third to a quarter of the 28 OECD members in terms of the OECD's 'standard of living' indicators (OECD, 2000; Iceland Yearbook, 1998, 2002). These indicators include per capita income,

private consumption per capita, infant mortality rates, labour force participation rates and levels of selected consumer durables. Such levels place her within the more 'affluent' upper middle of OECD members including Belgium, Denmark, Australia, Norway and France.

This has been accomplished with a labour force of 162,700, a scarcity of natural resources other than marine and renewable energy (geo-thermal and hydro-electric), the majority of which is still untapped, and a market-driven export-dominated economy highly dependent upon fish related activities, particularly fish products. By various measures of yield and productivity, her fishery stands as the most efficient among all fishing states. In 2002 imports totaled 38 per cent and exports 31 per cent of Gross National Product and receipts on current account were 40 per cent of GNP (Statistics Iceland, 2002). These levels are among the highest of any OECD member and indicate an economy whose dominant characteristic is its import-export sector. Since the 1920s marine resources (fish) have contributed between 70 and 90 per cent of export earnings and in recent years, despite attempts to reduce this high level, between 55 and 74 per cent of gross export earnings have come from fish and fish products, depending upon volumes of fish and price levels. Since 1945 official unemployment has not exceeded the seven per cent level reached in January of 1970 and stood at 3.2 per cent in November of 2002 (Statistics Iceland, 2002).

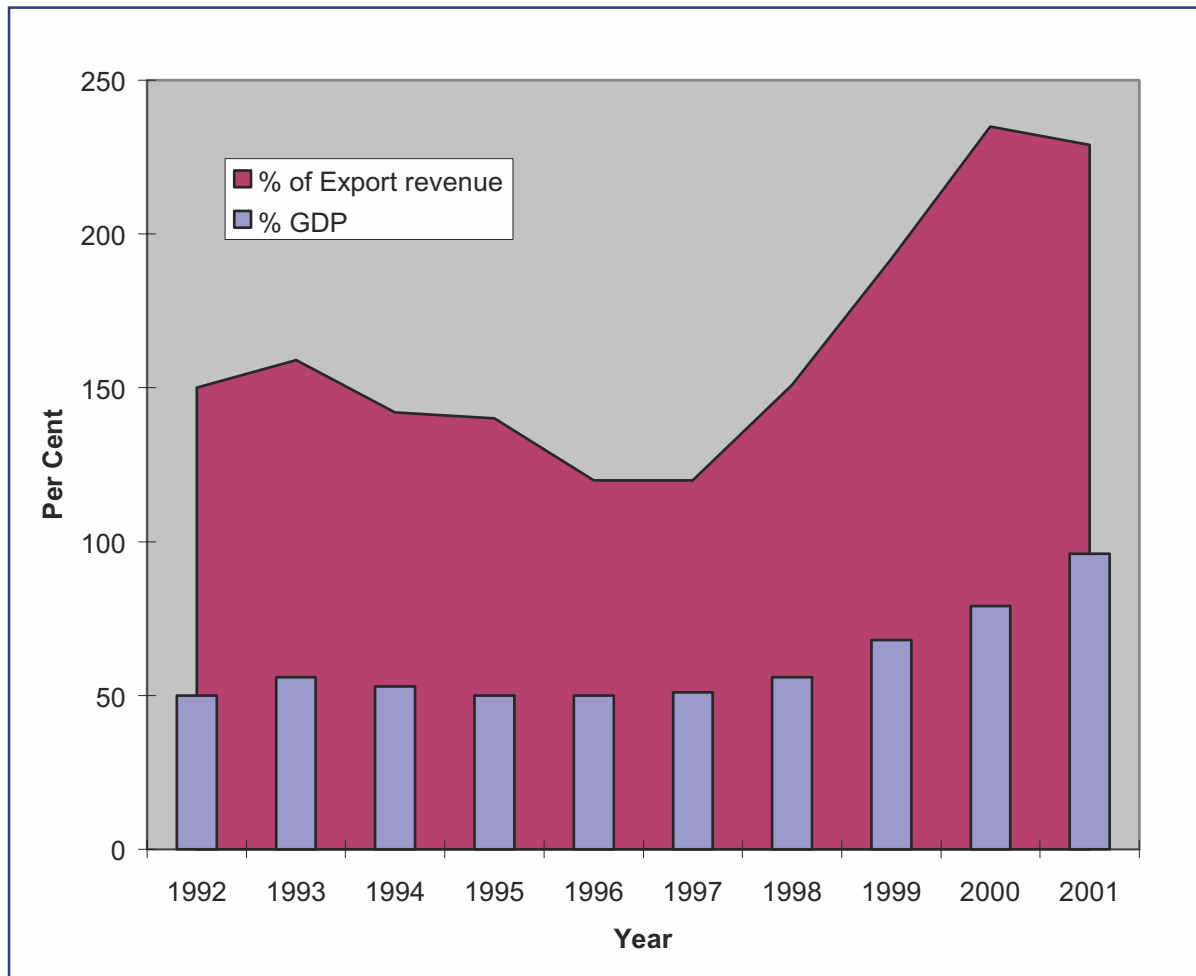
Chart 3 - Male and Female Icelandic Unemployment, 1992-2001



Labour force participation in 2002 was 82.8 per cent (men 84 and women 75 per cent respectively) and has averaged in the mid to low-eighties for men and mid-seventies for women for over 20 years. Finally, numerous quality of life studies have indicated Icelanders to be among the most satisfied nationals of any country in the world (Jonsson and Olafsson, 1991).

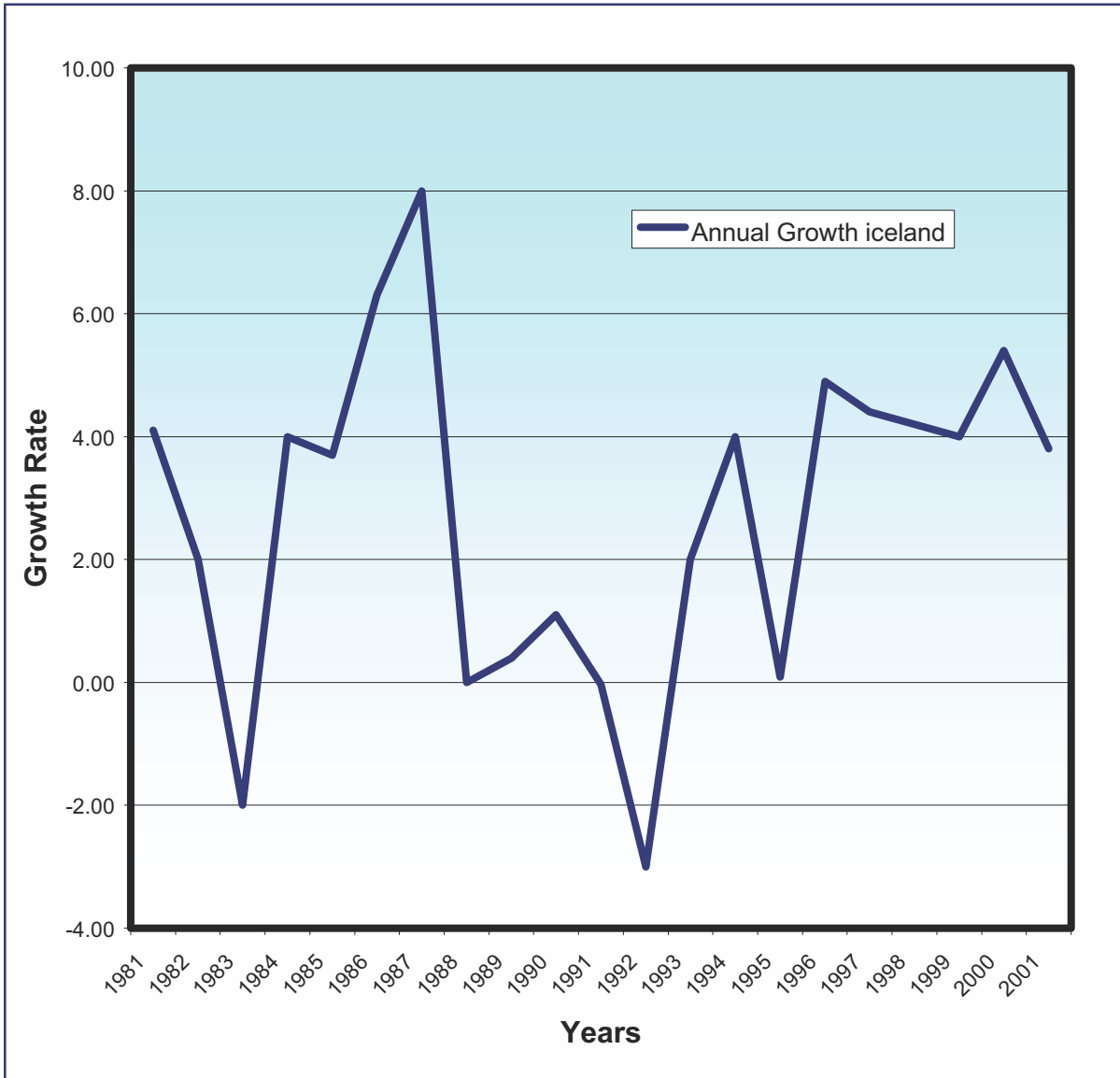
The challenges of building a modern, wealthy industrial society in such a small, geographically isolated location have not been without some economic costs for individuals and the nation. The ratio of total foreign debt to GDP remains extremely high at 96.4 per cent (Statistics Iceland, 2002). Debt service as a percentage of export revenue has consumed as much as 60 per cent of export revenue in any year (47.6 per cent in 2001)(see Chart 3).

Chart 4 - Iceland Long Term Debt as % of Export Revenues and GDP



The Icelandic state has eschewed direct intervention in business activities in the form of subsidies or direct ownership, preferring to define its role(s) in bi- and multi-lateral treaty negotiation, resource protection and establishing management regimes which both maximize resource rents while protecting stocks. Thus, for example, Iceland was one of the first states to introduce Individual Quotas (IQs) and Individual Transferable Quotas (ITQs) into many of its fisheries (and indeed economic activity more generally). Despite its achieved levels of efficiency and competitiveness, the national government has felt the need to periodically use currency devaluation as an ‘adjustment’ mechanism to maintain competitiveness for fishery exports. This has occasionally led to very high levels of inflation reaching 130 per cent in 1982-83 (Felt, 1985) and highly expensive imported consumer goods. Economic growth in the last 20 years has fluctuated from -3 to +8 per cent as can be seen in Table 4. (Statistics Iceland, 2002 Table 24.9).

Chart 5 - Annual Growth Iceland, 1981-2001



Iceland's social and political history parallels the Faroe Islands and Greenland in many general respects though distributed over a longer time. Settled by Norwegians in the 10th century, it was ruled by Norwegian and later Danish authorities for several centuries. In the late 19th and early 20th centuries a Home Rule movement was successful in 1918 (Kritstinsson, 2000). Among its provisions was the capacity to create an autonomous currency. Over the next several decades, an independent currency was gradually developed. During WWII Iceland, because of its strategic location, was occupied by British and American forces. A large air station in Keflavik approximately 60 kilometres from the capital of Reykjavik was constructed. In 1944, formal independence was declared, followed in 1949 by its membership in the North Atlantic Treaty Organization (NATO). Under a 1950 treaty with the United States, Iceland was guaranteed protection in exchange for US rights to maintain forces at the Keflavik base.

Politically, Iceland is ruled through a proportional representation-based parliamentary system. The legislature is called the *Althingi* and has its roots in the annual meetings of chiefs in the 10th and 11th centuries. The *Althingi* has 60 seats that are typically contested by five or more political parties as well as independent candidates. The five dominant parties are the Independence party, the Progressive party, the Social Democratic party, the People's Alliance and the Women's Alliance.

Icelandic national politics is a highly participatory and vocal activity. Most issues are hotly debated in public and private. Given Iceland's extensive media forms (largest number of newspapers and newsletters per capita in the world as well as largest number of published volumes per capita), politics is an incessant topic. Referenda are utilized to assist government in what are perceived as critical national questions and electoral participation through voting often exceeds 90 per cent of the electorate with an average since the 1950s in the low 80 per cent range (Tomasson, 1980).

Regional and municipal levels of government are extensive and important as well. Municipal governments have far more extensive powers than those in Canada, and particularly Newfoundland and Labrador, due to their important role before the development of a strong central state (Magnusson, 1990; Chamberlin, 1947). By themselves or in partnership, cities and towns often play critical entrepreneurial functions in economic development. Thus, for example, the municipality of Reykjavik borrowed money to build the first commercial port facilities early in this century and as late as 1985 was one-third owner (with private and union interests) of the largest fish processing plant in the society (Felt, 1987). As an illustration of economic activity, local government accounted for approximately 27 per cent of revenues and expenditures and approximately 21 per cent of all public liabilities (Statistics Iceland, 2002, Tables 17.6, 17.7). These numbers reflect a considerably more economically active municipal level than in Newfoundland and Labrador.

Iceland is increasingly a society of cities. In 2002 approximately 70 per cent of the Icelandic labour force resided within 100 kilometres of Reykjavik on the Reykanes peninsula. Officially, the society is now listed as approximately 80 per cent urban (Iceland Statistics, 2002). The capital city of Reykjavik has grown from a small harbour, fishing port of approximately 5,000 in 1912 to a metropolitan area of 104,000 in 2002. Less sensational but steady growth has also occurred in the country's second largest city, Akureyri (population 15,361) in the north and a dozen other smaller centres. The urbanization process has been reasonably steady, particularly since World War II, and has not been driven by any formal government initiative. As fast and efficient highways link more and more towns, considerable commuting time is increasingly a fact of economic life.

Iceland's economic development from a marginal, agriculture-based rural society in the 1880s to a largely urban modern industrial society has been adequately documented in several places (Chamberlin, 1947; Jonsson, 1995, 1980; Felt, 1985, 1987; Tomasson, 1980; Magnusson, 1990). The foundation of today's modern, industrial society was laid between 1880 and 1950 and resulted from the interrelationship of several factors. These include: the absence of illiteracy due to an oral cultural tradition since at least 1735; strong 'Calvinist' ideologies of work and independence; rapid transformation from 'truck' market exchange to wage labour at the turn of the 19th century; locally owned and controlled financial institutions including the first national bank in 1885; state commitment to the fishery as the primary 'engine of growth' after 1920; access to and embracing of modern technology in harvesting and processing; controls and limits on direct foreign ownership; strong local government; utilization of multiple entrepreneurial and ownership forms including joint private, public and co-operative ventures; significant capital inflows during the second World War as a result of

British and, especially American, occupation; early use of integrated marketing and quality control to increase quality and uniformity across fishery outputs; and, governmental decisions to avoid high levels of subsidization to individual enterprises.

Since the 1950s Icelandic efforts have focused upon three objectives. The first was building a modern, market-driven fishery in order to capture maximal, sustainable rent from marine resources. The second was to diversify around the marine staple resource through what have been termed 'backward' and 'forward' linkages². The third is the creation of non-fishery alternative industrial opportunities. At times, policies addressing one or more objectives have been in conflict and success has been greatest for the first objective, followed by the second and third.

The general economic strategy following the conclusion of WWII consisted of a wide variety of export subsidies to keep export production and general economic growth expanding while imposing a wide range of import duties to protect and encourage import substitution. Exceptions were made on a number of capital goods deemed essential for the fishery. Where more drastic measures were required, direct restrictions on imports and exchange transactions were imposed. While such a strategy kept export industries going, from 1956 onward, economic growth slowed down, balance of payments further deteriorated and internal inflation continued at a much higher level than other European countries (Felt, 1985).

By 1960 it had become clear that a change in emphasis was needed to ensure long-term, stable growth. Therefore, between 1960 and 1963 economic re-organization was introduced. Key ingredients included a devaluation of the Krona, the abolition of the complex export subsidy and import duty system and liberalization of import licences.

The management plan of 1960 and its follow up in 1963 remains the foundation of current Icelandic government strategy. It was/is predicated on the belief that new, non-fishing industries need to be developed for both the home and export market if economic stability and long-term growth prospects were to be assured and that past efforts to protect Icelandic industry behind tariff walls had its limits. To that end, negotiations were begun with foreign firms regarding an aluminum smelter at Straumsvik, near Reykjavik, a diatomite filter plant, in the north near Lake Myvatn and several other ventures including a fertilizer plant, originally constructed in 1951, a cement plant and a ferro-alloys plant. In the late 1960s the aluminum plant, for a long time the only foreign owned and controlled operation in the country, and the diatomite plant, jointly owned with the American firm, Johns-Manville, were completed and began operations. Combined with expanded efforts in woolen exports, fishery dependency was reduced to approximately 70 per cent of export earnings, a level that has remained fairly constant since.

In order to create new employment for a labour force growing at two to three per cent per year, the Icelandic government in 1970 sought membership to the European Free Trade Association (EFTA). Through membership, Iceland gained duty-free access to EFTA markets in exchange for gradual removal of most domestic tariffs over a 10 year period. Additionally, Iceland was allowed to retain her bilateral links with the Soviet Union, the source of most of her petroleum supplies. As a 'sweetener', the Nordic Industrial Fund provided for a (US) \$14 million loan for transition adjustments. Shortly thereafter, in 1975 and 1977 fisheries jurisdiction was expanded to first 50 and subsequently 200 miles.

The combination of tariff protection removal and jurisdictional extension led to considerable expansion in fishing output as well as considerable growth in harvesting, processing as well as several fishery-related manufacturing enterprises. Expanded output in direct fishing activity was accomplished while employment in these sectors only slightly increased. Actual harvesting and processing employment rose in the late 1970s, stabilized in the early to mid-1980s and has

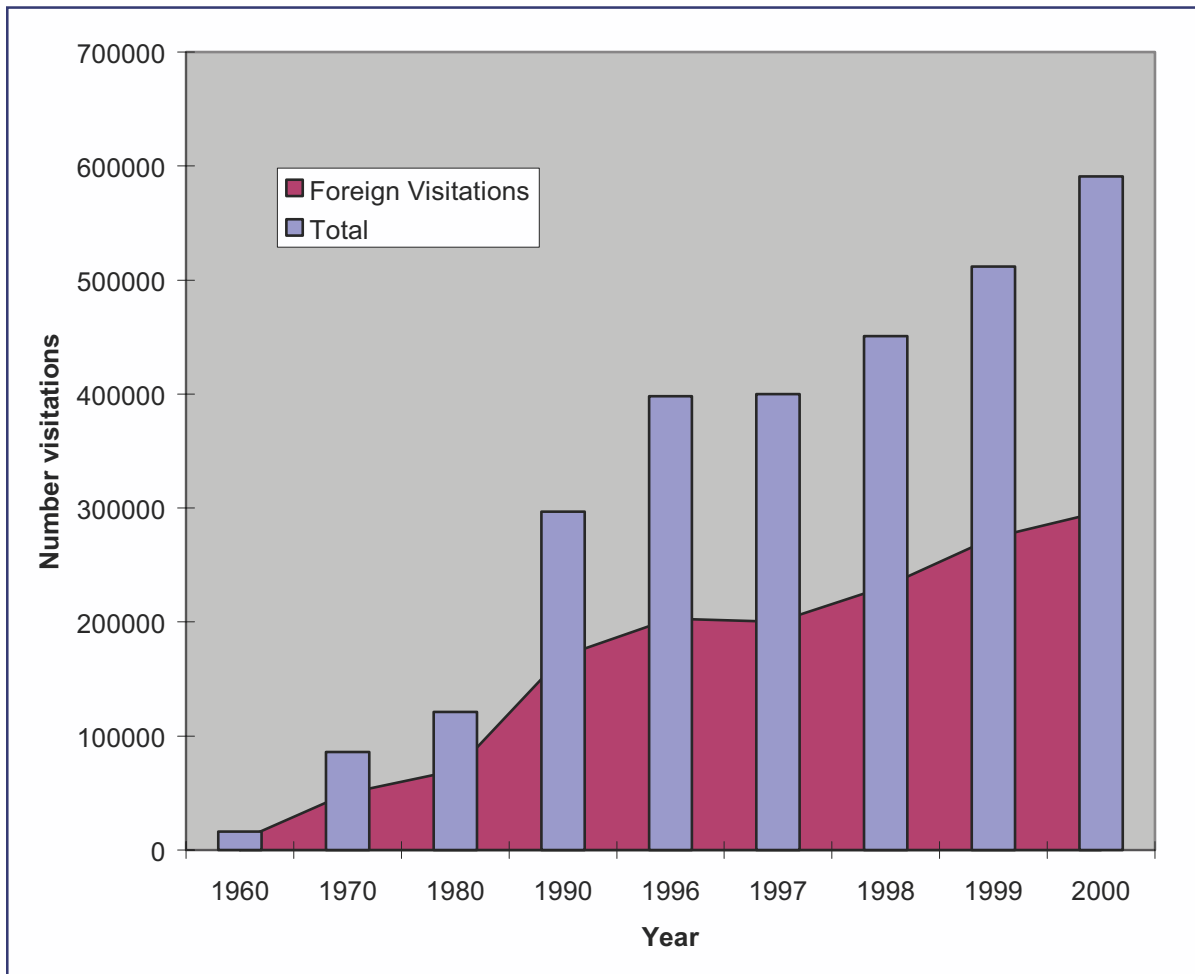
declined since (Felt, 1985; Statistics Iceland, 1990, 1995, 2001). As a rough comparison, Iceland in 2000 harvested roughly 30 per cent more fish (including over 200,000 metric tonnes of cod) with approximately 60 per cent of our post-moratorium fisheries employment (personal calculation from Icelandic and Canadian fishery statistics).

While Iceland had a limited amount of manufacturing in support of fishing dating back to the 1930s including artificial dryers for saltfish, shipbuilding (though few modern stern trawlers were built locally), long liner reels and limited container packaging, the development of these and other products into internationally competitive ones proceeded rapidly during the late 1970s and 1980s along with a range of new, more extensively processed fish products. A number of Icelandic companies including Hampidjan (trawl nets), Kvik SF (fish head splitters), J. Hennriksson (Poly-ice trawl 'doors'), Marel electric (computerized fillet weighing scales) and Oddi HF (70 and 90 litre plastic fish containers for 'boxing' catches at sea) have become highly competitive often exporting more than 50 per cent of output (Felt, 1987, 1985). As with virtually all other economic endeavors, this has been done through promoting non-equity foreign investment and thereby retaining largely Icelandic control.

Icelandic economic policy in the 1980s and 1990s has largely been a continuation of this general policy of harvesting expansion where possible, new product development where possible as well as pursuing those initiatives, old and new, where it was felt to possess a comparative advantage. When Icelandic vessels began to over-fish several domestic stocks, including lucrative cod, within her extended jurisdiction, her response was to move to quota systems, develop aquaculture where feasible AND negotiate bilateral arrangements with other nations (for example, access to Alaskan Pollak off the Gulf of Alaska) and increase the value of those fish harvested through improved quality standards. In this latter vein, a novel, computer-based fish auctioning system was put in place by which fish prices were determined at time of catch through communicating amount, size and condition of fish electronically to major European and Icelandic fish buying houses. The fish were subsequently landed at source of the highest bidder, regardless of whether Icelandic. While considerable debate and controversy ensued since the frequent result was foreign processing of 'Icelandic' catch, the decision was largely justified by the national government on the basis of increasing rates of return on the fish.

In the 1990s Iceland made a major initiative to attract more tourists given its scenery and location. Promotional packages were offered through Iceland Air, the national airline. So successful has this activity become that 300,000 foreign visitors were recorded through air and sea in 2002 as well as another 286,000 Icelandic national arrivals.

Chart 6 - Growth in Icelandic Tourism



Currently, secretive and potentially controversial negotiations are ongoing regarding a second aluminum smelter requiring further hydroelectric expansion and heavily subsidized electricity rates. This, along with the continuing exploration for non-fishing sources of gainful employment reinforce a recognition that there are limits to marine resource growth and that increasingly new, most likely highly diversified economic opportunities must be identified and pursued.

Ireland

While Ireland shares an island status with the other societies reviewed, it's substantially larger population base (seven times that of the nearest society in the sample) makes direct comparisons difficult. The primary basis for Ireland's inclusion in this comparison is its recent past during which it has been transformed from a relatively impoverished society with high emphasis on lower wage, primary sector industries and tourism to what has been termed the 'Celtic Tiger' in economic growth and performance (Jackson, 1999; Sweeney, 1998, MacShary

and Padriac, 2000; House and McGrath, 2003). Since there is substantial literature on the more immediate fiscal and monetary causes for its recent dramatic performance, our emphasis here will be on introducing some less publicized, though arguably highly important, non-economic factors as well. In particular, the potential importance of consensus-building, corporatist structures will be examined. Such a discussion is not meant to detract from the more visible explanations such as drastic state expenditure reductions to achieve a balanced budget, labour markets 'liberalized', business taxes pared back extensively and streamlining the approval process from government.

On a number of macroeconomic indicators, the Irish transformation has been substantial. The Irish deficit has been reduced from between \$1.5 billion to slightly more than \$2 billion Irish pounds in the early and mid-1980s to a surplus of \$2.497 billion by 2000 (House and McGrath, 2003. P.14). Similarly, national debt has fallen from a high of 130 per cent of GDP, one third higher than Iceland, to under 50 per cent of GDP by 2000; inflation reduced and unemployment, despite a nearly 30 per cent reduction in the Irish public service, reduced from the mid to high teens to around six per cent in the last two years. Labour force participation rates have expanded, particularly for women, to the high 60 and low 70 per cent levels. The importance of the primary sector, particularly agriculture, has declined and manufacturing and service sectors increased. Substantial new levels of foreign direct investment have occurred in electronics technology as reflected in major investments by Microsoft and Intel (MacShary and Padriac, 2000). Collectively, these changes have led to a reversal in migration flows and the shifting downward of the population's age distribution (Jackson, 1999).

While monetary and fiscal policy as well as massive government reductions in spending and employment have received the bulk of commentary (see Sweeney, 1998), House and McGrath (2003) make a persuasive case for the importance of active attempts to forge partnerships amongst various parts of the society based, at least initially, on Scandinavian 'corporatist' structures of recent years as an additionally important factor.

In contemporary Ireland, the 'social partnership', to use their words, operates in various forms and at multiple levels. The process has become institutionalized, as well as routinized while simultaneously being reinvigorated as new negotiations occur and new conclusions and compromises achieved to new challenges. The authors claim the process has even moved beyond its structural presence to become embedded in an emerging Irish culture (a 'culture of social partnership', p. 29).

The emphasis on crafted innovations in the structure and process of governance provides an important addition to the Irish explanation by expanding the range of relevant ingredients beyond more traditional economic ones while reminding us of the complex interplay of social, cultural, historical as well as more strictly economic factors in understanding growth and development. This message was also clear in our examination of the other societies and informs the conclusions to this presentation.

Conclusion and Recommendations

Are there ‘lessons’ from this brief overview of several small North Atlantic societies for Newfoundland and Labrador as it strives to achieve the social and economic rewards flowing from a developed and relatively prosperous society? Armed with the proviso that policies and programs from elsewhere cannot be simply imposed locally, at least 15 areas gleaned from this overview deserve more serious consideration for potential policy development (Table 2 lists them). I have not listed perhaps the most obvious conclusion since it is more an observation than an area for policy or program consideration. This is, of course, the observation that small populations, geographic location or even limited natural resources need not impede successful growth and development. This is not to say that these factors will not provide some initial areas of comparative advantage from which different development can occur. Fish in Iceland and the Faroes as well as Åland’s strategic location were critical to these societies’ respective development even though, Iceland, in particular, has moved far beyond these activities into expert service industries and technologically-driven manufacturing in support of marine resource development. Each developed modern, efficient firms around these advantages as well as, to varying degrees, built on such successes to diversify. The 15 are presented without any implied ranking.

Table 2. Conclusions

Conclusion 1. ‘Competitiveness’ and market performance are critical determinants of success.
Conclusion 2. Promote smallness.
Conclusion 3. Control over marine resources is necessary but not sufficient.
Conclusion 4. Capacity to negotiate external trade agreements is essential.
Conclusion 5. Control over fiscal and monetary policy is important though not essential.
Conclusion 6. Tariff protection is an ineffective and impractical development strategy.
Conclusion 7. Stronger local government with a wide mandate is important.
Conclusion 8. High literacy levels are essential.
Conclusion 9. Re-conceptualize issues surrounding migration.
Conclusion 10. Control over transportation policy is important.
Conclusion 11. Selectively developed ‘niche’ manufacturing and service industries are important.
Conclusion 12. Extensive consultative structures are important.
Conclusion 13. ‘Duty free’ enclaves and related trade zones are useful strategies.
Conclusion 14. Short and medium term ‘penalties’ for economic success should be removed.
Conclusion 15. Citizens and governments alike must believe in their capacity to do things.

In Newfoundland and Labrador, governments have too often justified extensive intervention in the development process with the rationalization that being small and geographically distant, extraordinary guarantees and subsidies (if not outright government ownership) were necessary to entice development. Combined with poor planning, the results of such government largesse

can be seen in failed enterprises and/or ‘sweetheart’ subsidies. This review points to at least two partially different government approaches. The Irish example suggests ‘getting the government house in order’ (reduced public spending, low business taxes, balanced budgets, etc...) legitimated through national consultative structures can drive immense changes in economic performance without significant foreign borrowing or direct transfers to firms. The Icelandic example utilizes a different focus, namely providing generalized, non-monetary assistance to promote higher productivity and efficiency combined with a willingness to use monetary policy in particularly acute circumstances. In both cases, the objective is to promote competitiveness internationally.

In the Irish case, an important result was the luring of large multinational firms such as Intel and Microsoft while in Iceland, the primary beneficiaries were Icelandic firms. Conclusion 1 emphasizes that the ultimate test will be market competitiveness in an increasingly ‘open’ market.

Conclusion 2 suggests that smallness be considered an asset rather than a liability. Armstrong and Read (1998), among others, have persuasively argued that small population size and geographic isolation are not necessarily impediments to modern economies. They cite numerous Atlantic and Mediterranean islands including Malta, Jersey, Mann and the Shetlands as examples of ‘successful’ small islands. In a recent book, Baldacchino and Milne (2000) have taken this idea and stood it on its head advocating the active promotion of smallness. In their view, small population can be an asset in negotiations since larger powers, political as well as corporate, may feel some combination of sympathy and unconcern of negative consequences resulting from such dealings. This can translate into opportunities not necessarily available to large, more potentially threatening political entities.

The third conclusion is one residents of this province will be highly familiar with. Effective control over marine resources, living and inert, emerges as a critical condition where marine resources play an important part in the economy. Control does not prevent mismanagement as Iceland’s depletion of cod and herring stocks indicates. Nonetheless, without a substantial role in management, maximal benefits are not likely to happen and the likelihood of unsustainable practices probably increased. Management, if not outright ownership and control, has been a vociferously contested issue here since Confederation in 1949. In commenting on the early years of Confederation when the spectre of greatly expanded foreign distant water fleets first appeared, the late David Alexander (1977) likened Canada’s response as not even worthy of a ‘paper tiger’. In Alexander’s words:

“ But Canada was not even a paper tiger on this (foreign fleet expansion and extended jurisdiction) ... For, at the Law of the Sea Conference in 1958 Canada astounded other coastal states by vigorously defending the then three mile limit”. (1977, p. 164)

Despite the hype of Brian Tobin’s crusade as ‘Captain Canada’ against Spanish and Portuguese vessels in the 1990s, little has changed. In short, Newfoundland and Labrador have not been well served by Canadian control of her marine resources. The solution may lie in some variety of a Memorandum of Understanding (MOU) in which formal and final jurisdiction lies with the Canadian state but meaningful participation, perhaps by having a formal seat, is accredited to the province. One obvious example would be the North West Atlantic Fisheries Organization (NAFO). The societies discussed provide several illustrations

of the forms this might take. Whatever the exact form, an essential recommendation flowing from the comparison is that Newfoundland and Labrador pursue and acquire more meaningful participation of marine management through viable co-management structures.

Conclusion 4: The clear majority of non-independent states surveyed possess some capacity to both negotiate bilateral and/or multilateral treaties of particular relevance to them and, as important, insulate themselves from the effects of treaties and trade agreements negotiated by their ‘mother’ states which are perceived as unfavourable to them. Thus, Greenland and the Faroe islands have either rejected membership in the EU despite Denmark’s membership or, in the case of Greenland, negotiated withdrawal from it. This is a complex issue in federated states such as Canada as can be seen in the subtle ways in which Quebec has tried to establish an ‘international status’ for itself in *Francophonie* and other international cultural associations. Newfoundland and Labrador should nevertheless actively pursue the capacity to both negotiate bilateral and multilateral trading agreements of perceived importance to them as well as possess the capacity to withdraw from those agreements duly entered into by Canada which are seen as harmful to the province’s economic interest.

Conclusion 5, meaningful control over monetary and fiscal policy, would likely require separation from Canada. While independence would allow the use of such policies, it would have serious social and economic consequences given the high dependency upon transfer revenues and grants and is presently politically unlikely. While it has become a critical element of Icelandic defense of its fishery, development of a modern fishery by the Faroese suggests it may not be essential. It is therefore unclear if any meaningful recommendation can be made relating to this conclusion. It is also unclear as to whether such capacity to set monetary policy is essential.

Conclusion 6 reflects a lesson widely learned throughout the world, namely that high tariff walls to shield local industry from foreign competition is an ineffective strategy to promote industrial development. Even if possible in an era of rapidly expanding free trading blocs and associations, the collective experience of these islands, particularly Iceland, suggests local industry must become competitive and international in its orientation. In recent years with membership in the North American Free Trade Agreement (NAFTA) and national and provincial governments espousing ‘market driven’ philosophies of varying degrees, this has become largely a moot point with regard to this province.

Municipal government is extensively developed across the societies discussed here. With the exception once again of Newfoundland and Labrador, municipal governments in all of the societies possess a greater range of revenue generating and economic development capacities. At times these may include assuming responsibility for economic infrastructure such as port facilities and even ownership, solely or in partnership with private and union interests, of specific companies. Certainly, Conclusion 7 recommends that careful consideration be given to addressing this issue through redrafting of critical municipal legislation.

While the link between level of school completion, literacy and economic well being is exceedingly complex, few, if any, societies exist in which there is not a strong correlation. The North Atlantic societies chronicled here, with the possible exception of Greenland, display extremely high levels of literacy. This is likely due, at least in part, to the observation that they are primarily written rather than oral cultures in which cultural meanings are inter-generationally transmitted through writing more than oral story. The Icelandic Sagas are the most conspicuous example. Low levels of illiteracy were likely an important factor in

the relatively rapid embracing of modern economic practices in these societies. As noted, educational attainment levels have risen dramatically since 1992 and this should be less of an obstacle in the future.

The North Atlantic societies surveyed make an important distinction between **internal** and **external** migration. Given market-based development strategies, all have experienced substantial migration within their respective jurisdictions. This is most obvious in Iceland though as we have argued earlier. Generally, government policy in these societies has been primarily directed towards reducing external or out-migration. Internal rural population decline is an issue in these societies but governments openly admit that market dynamics will lead to demographic shifts and that some, perhaps even most, rural communities may inevitably lose population. This may be a difficult conclusion to acknowledge in this province. Nonetheless, a recognition of the distinction and the difficulties (even undesirability) of preventing intra-migration seem a necessary recommendation no matter how initially unpalatable it may seem politically and socially. It might be added that this is not a particularly new insight for the province, having been recognized in the House Commission in 1986 as well as subsequent publications by the Chair of that Commission (House, 1993).

Control over transportation policy, Conclusion 10, has been and continues to be an important factor for several societies. Iceland has its own airline that continues to be used, profitably, to provide access and egress to and from the island at competitive rates and convenient times. Åland has built an immensely successful economy on tourism and ferry management as a foundation. The Faroe Islands, while lacking its own airline, does control ferry traffic between islands and to some extent with Denmark. It has also been successful in negotiating reasonable air schedules with Copenhagen. Control over transportation policy in this province compares unfavourably with these other jurisdictions. A greater and more effective voice in transportation policy would be extremely useful for a wide range of economic sectors, from manufacturing to tourism.

Conclusion 11 addresses the widely-practiced strategy of ‘niche manufacturing’ by most societies examined. In several cases, including Newfoundland and Labrador, regional networks have arisen between companies displaying ‘flexible specialization’ (Baldacchino and Greenwood, 1998) in an attempt to create what might be termed ‘quasi agglomeration’ benefits in a rural, dispersed setting. Building trust and co-operation between independent firms that potentially generate cost savings without requiring mutual inter-dependence is a primary objective. Can a firm’s vacant warehouse space be utilized by another firm? Is it possible to share machinery? Can waste products from one firm be inputs into another? None of the islands have yet capitalized on such strategies as fully as they might.

As Conclusion 12 suggests, widespread consultative mechanisms play an important role in government’s policy development as well as providing a cushion of legitimacy when controversial and potentially disruptive government actions are felt to be required. There are two mutually supportive ways in which extensive consultation occurs in the societies examined. The first is through high levels of formal political participation. Other than Newfoundland and Labrador, the societies surveyed practice Proportional Representation (PR) within a Parliamentary system. An important result is that all are multi-party systems with extensive citizen involvement. It is the exception for a single party to acquire majority control. As a result, there is the distinct impression that policy options are more thoroughly vetted and

elections represent an acceptance of certain policy approaches over others. Where extremely important decisions are required, 'national referenda' are often utilized.

Building a more prosperous society for all members appears to require extensive participatory structures outside the formal political arena. Through such structures, public consensus can potentially be created, alternative government policies publicly vetted and ultimate government decisions, including dramatic and controversial ones, accorded substantial legitimacy. Arguably, Ireland has moved furthest along this path. Ireland has developed elaborate consultative strategies around the National and Economic Social Council (NESC).

Newfoundland and Labrador has made real progress on these 'extra political' avenues through its Strategic Economic and Social Plans. More needs to be done. The province might also want to explore proportional representation as a political mechanism. The near-by province of Prince Edward Island has explored this possibility. Minimally, a review of their deliberations and their possible relevance to this jurisdiction seems a useful step to take.

Åland's considerable economic success resulted initially from a merchant marine plying the southern Baltic trade routes which later expanded into ownership of large, high speed ferries linking the highly populated areas of southern Sweden and Finland. Through creating 'duty free' shopping enclaves at its ports, it has built a modern tourist sector alongside its shipping and ferry services. From this foundation it has branched out into marine insurance and various support service companies dedicated to providing 'niche services' (Baldacchino and Greenwood, 1998). It seems clear that 'duty free' zones, though oft times difficult to negotiate (recall the unique status of Åland's within the EU) are viable and important strategies. The province should investigate where such possibilities exist for implementation.

Åland once again provides the best illustration of Conclusion 14. A preset percentage of tax revenues are established for the islands, based on population. When they are exceeded, the entire amount is redistributed to the Åland parliament. No society has a 'claw back' provision similar to Newfoundland and Labrador regarding resource development, even when substantial national monies are invested in the original development. A clear recommendation is that policies which siphon off substantial revenues from successful resource development, at least until such time as the region acquires economic performance equal to the larger nation state to which it is affiliated, should be removed.

The final conclusion is difficult to translate into concrete policy being essentially subjective, even cultural. Newfoundland and Labradorians must possess strong confidence and faith in themselves and their institutions to succeed. In more pronounced instances the confidence may appear almost brash or smug to foreigners. No society examined has avoided perilous downturns, often for extended periods. On more than one occasion a people's collective mettle is likely to be tested. Confidence is probably linked to a strong sense of distinctiveness as a people in very subtle ways. The route to developing and nurturing such a collective bravado is not well understood. Yet, it is probably analogous to glue in binding citizens and institutions in bad times and providing the collective will to make bold national decisions when needed. The finding that it is invariably present amongst the most successful islands suggests an important role. At the end of the day, it may very well be the first requirement for success, not unlike the fuel required by even the most sophisticated and powerful machinery to accomplish any objective.

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Endnotes

- ¹ Abstractly, the value of education has been important for some time. Until recently, it is more likely to have been held as an abstract hope easily rationalized if not achieved. ACTING upon the value is the important point.
- ² ‘Backward linkages’ are those economic activities which use value from a resource as ‘backward’ capital inputs into more efficient harvesting i.e. building bigger boats, nets, etc... ‘Forward linkages’ use value secured from a resource as an input for further economic action upon the resource before export i.e. developing the manufacture of fish processing equipment to increase yield and/or value, ‘secondary processing’, etc... See M. Watkins, 1969, “A Staple Theory of Economic Growth” in Easterbrook E. T. and Watkins, M. H. (eds.) *Approaches to Canadian Economic History*. Toronto: Carleton Library. 49-73.

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