

## Experiences Within Canada, 1949-2003

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Newfoundland and Labrador has been shaped profoundly by its evolving place in Canada, and the people have been shaped by their identity as Canadians. By most social and economic indicators, they are wealthier, healthier, and live in a much more developed and sophisticated society than their parents and grandparents who lived through the 1930s and 1940s. There can be no doubt that, in absolute terms, this place has progressed since it joined Canada and, to an uncertain extent, because it joined Canada. A more sombre assessment arises when this province is compared with the rest of Canada. Here it becomes clear that our relative position as the poorest province has not changed since 1949.

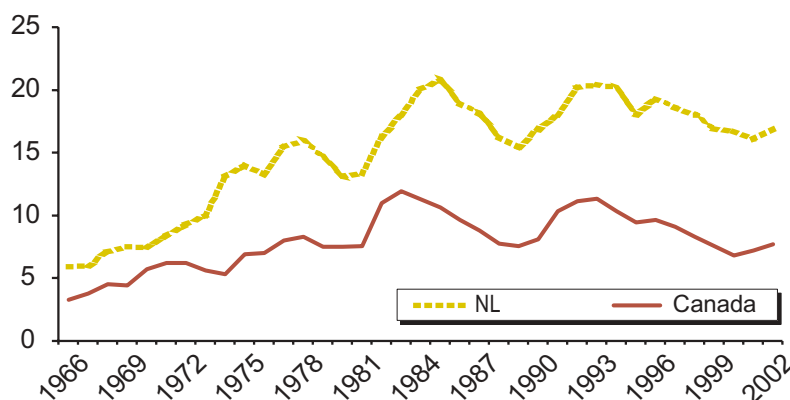
### Measuring Economic and Social Progress

At the time of Confederation with Canada, and despite a strong economic recovery over the 1940s, Newfoundland and Labrador seriously lagged behind Canada in terms of economic performance. Since 1949, this province has made enormous progress, but compared to the rest of Canada, and despite having more than half a century to catch up, the gaps have remained persistent.

The most troubling economic disparity continues to be unemployment. For the first two decades after Confederation the province's annual unemployment rate was volatile, ranging from a low of 5.9 per cent to a high of 20.5 per cent. Since 1973, the rate has not fallen below 13 per cent. Figure 3.1 compares the Canadian and Newfoundland and Labrador rates for the years 1966 to 2002.

Figure 3.1

### Unemployment Rates



Source: Statistics Canada; Economics and Statistics Branch, Department of Finance.

Note: Due to a change in methodology, rates for 1966 to 1975 are not directly comparable to those of later years.

How strange that they hadn't made today a holiday – after such an epic battle surely some celebration was in order but no, they were afraid, my father said, there might be riots if people were given time off. He had ruffled my hair on his way downstairs at seven o'clock, comforting me, or perhaps himself, for I didn't need comforting. "It may not be so bad... anyway it's done now and we're Canadians, we'll have to make the best of it!" He'd gone off to work, wearing the same overalls and carrying the same scraped, black lunch tin. What would change for him, I wondered.

Bernice Morgan

From the short story "To Mark The Occasion"



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Over that 36-year period, the unemployment rate in this province was always higher than the national figure by a wide margin. In 2002, it was 16.9 per cent compared to the national figure of 7.7 per cent. This is a significant difference and a much larger one than existed in the late 1960s. Unfortunately, there is no obvious trend to suggest that the gap is narrowing.

Moreover, the province's unemployment rate has been the highest among the provinces. Prince Edward Island had the next highest rate at 12.7 per cent, followed by 10.3 per cent in New Brunswick; all other provinces had rates below 10 per cent.<sup>1</sup>

The unemployment problem is shared by both men and women. Table 3.1 below shows a breakdown of the unemployment rates by gender for 1966 and 2002, comparing this province's outcomes with the national averages.

Table 3.1

| Unemployment Rates for<br>Males and Females in 1966 and in 2002 |       |       |
|---|-------|-------|
|   | 1966  | 2002  |
| <b>Newfoundland and Labrador</b>                                | 8.6 % | 16.9% |
| Males   | 10.5% | 18.1% |
| Females   | 2.9%  | 15.4% |
| <b>Canada</b>   | 3.6%  | 7.7%  |
| Males   | 4.0%  | 8.1%  |
| Females   | 2.6%  | 7.1%  |

**Source:** Economics and Statistics Division, Department of Finance, Government of Newfoundland and Labrador

**Note:** Rates in 1966 and 2002 are not directly comparable due to different methods of measurement that were used in those years.

Table 3.2 shows the labour force participation rates of men and women for 1966 and 2002, comparing Newfoundland and Labrador with Canada as a whole. The participation rate is the percentage of the adult population considered to be in the economy's labour force, whether employed or not. As the table shows, the provincial and national participation rates in 2002 were much higher than in 1966, rising from 55.1 per cent to 66.9 per cent nationally, and from 44.1 per cent to 58.6 per cent in the province. In both cases, the increase is largely due to the increase in women's labour force participation rates. A comparison of the national and the provincial rates shows, however, that those of Newfoundland and Labrador still lag considerably behind. It is reasonable to suggest that, if the participation rates in this province had been

the same as the national ones, the gaps in unemployment rates would have been even higher than shown in Figure 3.1.

Table 3.2

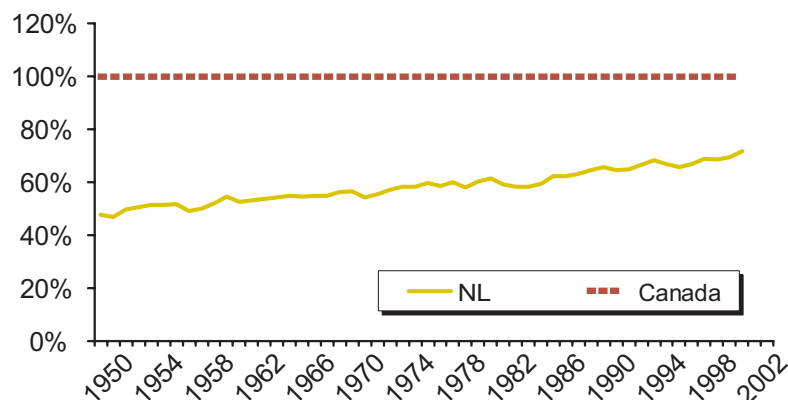
| Labour Force Participation Rates for Males and Females in 1966 and in 2002 |       |       |
|--|-------|-------|
|  | 1966  | 2002  |
| <b>Newfoundland and Labrador</b>   | 44.1% | 58.6% |
| Males  | 64.8% | 64.1% |
| Females  | 22.2% | 53.4% |
| <b>Canada</b>  | 55.1% | 66.9% |
| Males  | 77.8% | 73.3% |
| Females  | 32.8% | 60.7% |

**Source:** Economics and Statistics Branch, Department of Finance, Government of Newfoundland and Labrador

There are other disparities of concern relating to income. Figure 3.2 shows earned income per capita in this province relative to earned income in Canada. Earned income means income from wages and salaries, investments and business earnings. It excludes pension plan income and any “transfer payments” from any level of government (e.g., employment insurance, social assistance, old age pension) and, as such, is an important measure of income, since it incorporates the notion of self-reliance. As illustrated in Figure 3.2, earned income per capita in Newfoundland and Labrador was only about 48 per cent of the national figure in 1950. By 2001, it had risen to just under 72 per cent. That is a marked improvement, but achieved only after 50 years. Yet, there is still a substantial disparity. A gap of 28 percentage points remains. If future progress were to be no better than in the past, it would take another half century to fully catch up.

Figure 3.2

### Newfoundland and Labrador's Earned Income Per Capita as a Per Cent of Canada's Earned Income Per Capita

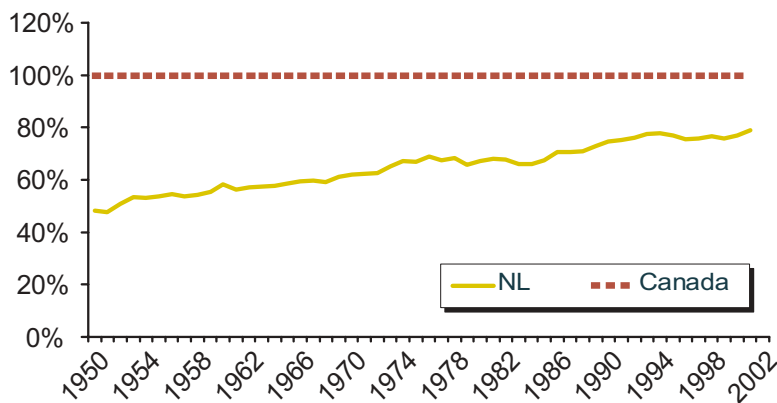


**Source:** Statistics Canada; Economics and Statistics Branch, Department of Finance.

A broader measure of income is personal income. It encompasses all sources of a person's income including transfer payments from government. Personal income per capita, expressed as a percentage of the national average for the years 1950 to 2001, is displayed in Figure 3.3. In 2001, average personal income per capita in Newfoundland and Labrador was 79 per cent of the national figure. That compares favourably with 48 per cent in 1950, but the progress has been slow and a large gap still exists, namely 21 percentage points.

**Figure 3.3**

### Newfoundland and Labrador's Personal Income Per Capita as a Per Cent of Canada's Personal Income Per Capita



**Source:** Statistics Canada; Economics and Statistics Branch, Department of Finance.

This personal income gap is not as large as the one for earned per capita income, reflecting the importance of social programs such as old age pensions, employment insurance and social assistance in the incomes of people in this province. In 1961, 16.8 per cent of personal income in Newfoundland and Labrador was due to government transfers to persons, while for Canadians generally it was only 8.5 per cent. By 1991, the provincial and national figures were at 24.4 per cent and 14.1 per cent, respectively. Ten years later, in 2001, the disproportionately greater dependence on transfers was little changed: 22.2 per cent of personal income in Newfoundland and Labrador was from government transfers while the national figure was much lower at 13.8 per cent.

This reliance on transfer payments underlies a difficult debate, namely, the extent of dependence on unemployment insurance (now called employment insurance or EI). That dependence has been largely seasonal and recurring year after year: it has become part of the annual income of large parts of the workforce. Our dependence on employment insurance, expressed in per capita terms, greatly exceeds that of workers in other provinces. In 2001, average employment insurance benefits per capita in the province was \$1252 compared to \$418 for Canada.

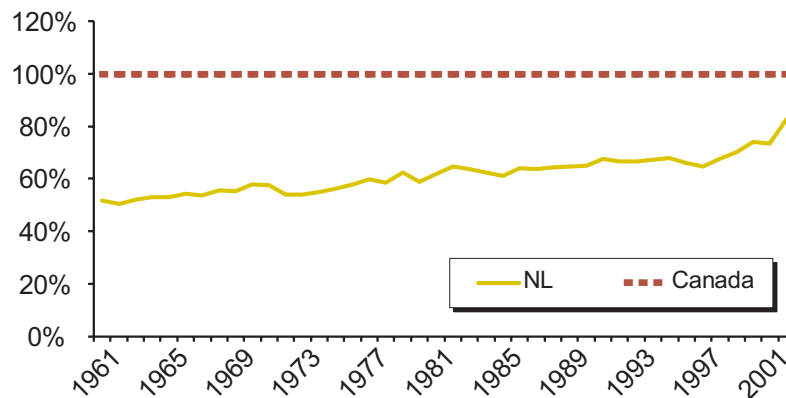
Our dependence on employment insurance is in decline, which reflects both positive and negative changes in our economy. The number of persons receiving employment insurance peaked in 1992, but by 2001 it had declined by 36 per cent in all industry sectors (except fish harvesters). The total of employment insurance benefits received in the province also peaked in 1992 at \$1.06 billion, but had declined by 23 per cent by 2001. Several factors contributed to these declining employment insurance numbers. A downturn in the economy in the early 1990s, the effects of the groundfish moratorium after 1992 on fishery sector employment, out-migration and the tightening of eligibility rules after 1996 all meant that fewer people

qualified for employment insurance benefits or for the same level of benefits. As a whole, these trends impacted women more seriously than men, in particular a number who worked part or full-time in the fish processing industry, many of whom had no alternative employment. More positively, in recent years employment insurance benefits have dropped as a result of increasing full-time employment, especially among younger workers. In summary, the overall trend of a declining dependence on employment insurance, while on the surface encouraging, hides the fact that so many still do not have enough work. Merely reducing access to employment benefits is not a solution to unemployment.

A broader measure of how well an economy is performing is gross domestic product (GDP), which is the value of all the income generated within the geographic boundaries of an economy. By that measure, this province also lags behind the rest of the country. Figure 3.4 shows that in 1961, the first year for which GDP data are available, our GDP per capita was only about 51 per cent of the national figure, leaving a gap of 49 percentage points. In 2002, 41 years later, our GDP per capita was almost 83 per cent of the national figure, still leaving a gap of about 17 percentage points.

**Figure 3.4**

### Newfoundland and Labrador's GDP Per Capita as a Per Cent of Canada's GDP Per Capita



**Source:** Statistics Canada; Economics and Statistics Branch, Department of Finance.

Figure 3.4 shows there has been a dramatic reduction in the gap since 2000. Indeed, much has been made in the media of the province's recent GDP growth. This province has led the country in growth in three of the past five years. In 2002, growth was at an unprecedented rate of 13.4 per cent. These GDP growth figures should not be overemphasized, as the growth rate obscures the fact that the level of our GDP per capita is well below the national figure. A significant portion of the growth in our GDP must cover the substantial capital costs of oil companies. In 2002, corporate profit (a component of GDP) in this province grew by more than 80 per cent and was the single most important cause of that year's unusually high growth in GDP. Overwhelmingly, that growth reflects the higher earnings of oil companies due to sharp increases in oil production and prices in 2002. Those companies are not owned by residents of this province so, other than for provincial corporate income tax revenues, the profits go to investors outside the province as a return on their investment. Under these unusual circumstances, GDP growth is not as good an economic indicator as it normally is. This can be further demonstrated by the disconnect between our GDP growth and the unemployment rate in 2002 – while GDP grew by 13.4 per cent in 2002, the provincial unemployment rate actually went up from 16.1 per cent to 16.9 per cent.<sup>2</sup>

While progress has been made and earned income, personal income and GDP are moving toward the Canadian average, the remaining gaps are still large. Some of the per capita improvements, especially since 1991, were due to out-migration; even if an income measure does not change, the per capita value will increase if the population goes down. Even more troubling is the stubborn persistence of unemployment. Our unemployment rate has yet to even show any discernable trend toward the national rate, despite out-migration.

Any path toward economic progress must entail a substantial reduction in both the unemployment rate and in the gap between the provincial and national rates. Progress must also be made in terms of income, especially earned income. And, importantly, achieving these objectives must be done through greater prosperity in the province, not by out-migration.

Apart from economic indicators, there is less precise measurement available about social progress since Confederation. Statistics on social factors have not been collected as rigorously until recent years, and the notion of what constitutes an effective indicator has also changed. The provincial government, through its Strategic Social Plan,<sup>3</sup> has, in recent years, been amassing comprehensive social audit indicators. Despite the lack of historical statistics, the social improvements since 1949 are obvious to any observer. These include social program benefits such as old age pensions, mother's allowances and unemployment insurance. As well, there have been major federal contributions to provincial infrastructure, such as the Trans-Canada Highway, Memorial University of Newfoundland, schools and hospitals. In later years, there has been universal medicare and the equalization program. Apart from programs, there has been measurable progress in terms of social outcomes such as life expectancy, infant mortality, family income and educational attainment. For such social indicators as home ownership, family stability and community safety, Newfoundland and Labrador continues, as it did at the time of Confederation, to exceed the Canadian average measures.

### *Development Challenges 1949 to Today*

In his research paper for the Commission, sociologist Lawrence Felt categorizes post-Confederation development in three stages.<sup>4</sup> The first stage, from 1949 to 1970, was the Smallwood era, which was marked by strong economic growth and social improvements, but also by failed efforts at industrialization on a North American model, controversial efforts to centralize and resettle the rural population, and weak political development. The second stage, from 1970 to 1986, was a period of aggressive provincialism, with a renewed focus on natural resources, including oil and the promise of fisheries resurgence; yet it was also marked by an increased dependence in the rural economy on unemployment insurance. The third period, since 1987, has seen some degree of economic diversification and the steady growth of the oil sector, but also the collapse of the groundfish fishery and accelerated out-migration.

What these three stages underscore is a perennial preoccupation with certain significant development challenges: diversifying the rural economy, increasing productivity in resource industries, reducing unemployment, and sustaining and improving public services across a widely dispersed territory. In the first decade after Confederation, the province enjoyed steady economic growth due to continued American military spending and a construction boom for highways, hospitals and other public infrastructure. Nevertheless, the Smallwood government faced a huge task: develop and diversify the rural economy, reduce dependence on the fishery, and provide better services to the scattered population. Part of its strategy, in cooperation with the federal government, was to undertake three successive programs for community resettlement in the 1950s, late 1960s and early 1970s. The province also undertook several small scale efforts at industrialization (many of which failed) followed by an emphasis on large scale projects such as the iron ore development in Labrador, the Stephenville linerboard mill, the Churchill Falls hydroelectric project, and the Come-By-Chance oil refinery.<sup>5</sup>

Following the defeat of the Smallwood government after 23 years in office, Progressive Conservative governments under Premier Frank Moores (1972-79) and even more so under Premier Brian Peckford (1979-1989) placed their emphasis on rural revival and development and on natural resources. The key sectors targeted for growth were the fisheries and offshore petroleum – the former promising better economic prospects for rural coastal communities than there had been in decades, the latter promising to create an entirely new sector with significant potential for spinoff jobs and government revenues. The retrospective analysis of both attempts is sobering. Excess fishing effort, by ourselves and by others, doomed the fishery revival and led to the collapse of the cod and other fisheries. And the offshore oil, while significant, has come nowhere near to transforming this place into the mini-Alberta predicted in the early 1980s. Moreover, the fisheries' failure since 1992 has brought the province full circle to the out-migration from rural communities experienced in the 1950s and 1960s.

There have been much quieter developments in the past decade, which have resulted in progress. The economy is much more diversified than before; most resource sectors are now as productive as the rest of the economy and as productive as any industry in Canada (e.g., oil production, newsprint, mining, some parts of the fishery sector, and business and consumer services generally). As elsewhere, small and medium size businesses are increasing, and many Newfoundlanders and Labradorians now own and operate their own businesses and are responsible for the largest share of new employment. In particular, businesses producing cultural products and tourist services continue to grow in number and sophistication. As a whole, the St. John's and Avalon peninsula economy is more stable, more diverse and has a higher average income than at any point in its history.

As in all parts of Canada, and indeed the western world, our society has been dramatically transformed. Our employment is much less in primary or manufacturing sectors (mines, mills, fish plants), and more in tertiary sectors such as business and personal services (retail stores, restaurants, computers, consulting) and in public administration (schools, hospitals, government). Labour standards have improved significantly, and organized labour's role is strong. Cultural and recreational aspects of life are now major economic and social activities in their own right, and have become important ways in which Newfoundland and Labrador contributes to the wider Canadian life. Transportation and communications technology and infrastructure (roads, planes, phones, television, the Internet) have ended the isolation of one community from another and transformed patterns of living and working.

Another major social trend is, of course, that Newfoundlanders and Labradorians have become more Canadian, while still retaining their identification with their province. After 1949, some bitterness remained amongst those who strongly opposed Confederation, but within a few years most, if not all, could see real advantages in Canadian citizenship. Nonetheless, several factors have contributed to a resurgence in the past twenty-five years of what has been called "neo-nationalism."<sup>6</sup> Our political identity as Newfoundlanders and Labradorians has never been subsumed by our Canadian identity, but coexists with it. Public opinion polling over several years has found respondents in this province thinking of themselves "first" as Newfoundlanders or Labradorians rather than as Canadians, although there is no evidence that the two are seen as incompatible.<sup>7</sup>

### *Our Relations Within Canada*

In 1949, the province had to adjust to a new political system although, fortunately, it was to a federal system in which sovereignty and power is shared between two levels of government. Still, Newfoundland and Labrador was initially ill-equipped to compete in the political world of postwar Canada. Democracy had been stunted by the loss of responsible government in the 1930s. Gradually, the public has become more demanding and more critical of government, and the province has become more self-conscious as a political community.

From the perspective of political development, becoming part of the Canadian federation held both advantages and disadvantages for Newfoundland and Labrador.<sup>8</sup>

The advantages:

- we became part of a country with a growing influence in the international community and an increasing ability to promote our interests abroad.
- we received the evolving benefits of the Canadian social security system. Indeed, we were the only part of Canada to join the federation on the explicit promise of social security, which makes the cutbacks of the past decade all the more serious to this province.
- we received a significant form of continuing political autonomy as a Canadian province – which, as a form of decentralized power, provides much greater policy and financial autonomy than do most other federations.

The disadvantages:

- we had to adjust to a new political system with some familiar features, such as parliamentary democracy, but many unfamiliar ones, such as the federal constitution and its system of fiscal federalism. For most of our 54 years in the federation, people have been more comfortable with their provincial democracy, turning out at a higher rate for provincial elections than for federal ones.<sup>9</sup>
- we had to suffer the loss of much of our independent ability to plan resource management and industrial development. We lost control over trade and monetary policy, the fisheries and – after contestation – control over offshore petroleum resources.
- we have been cast into a grouping as an “Atlantic” province along with the “Maritime” provinces, with the resulting implied assumptions – not always true – that we have the same interests, and even identity with, the older grievances and conservative political culture of the Maritimes.
- we inherited a whole set of “family feuds”, such as the French/English divide and a tendency to anti-Americanism, to which we had not been a part to any great extent.

This pattern of advantages and disadvantages has been played out in different ways over the years and through some rather dramatic turns in federal/provincial, and interprovincial relations. Premier Smallwood set the initial tone by making a close partisan linkage between his provincial Liberal party and the Liberal Party of Canada. This worked extremely well to ensure that the federal Liberal government was rewarded for listening to our concerns and for distributing the benefits of Confederation. This arrangement broke down, somewhat, when the federal Liberal party lost office to the Diefenbaker Conservatives in 1957. However, it is noteworthy that, unlike some other provinces, the political party system in Newfoundland and Labrador remains tightly integrated with its federal counterparts.

Even in the best of circumstances, the Smallwood government and its successors have found an extremely limited appetite in Ottawa for special arrangements to deal with the unique needs and interests of Newfoundland and Labrador. Instead, appropriate change to meet our needs have come mainly as a result of more general constitutional or policy trends. These have included the gradual development of national social programs, many through intergovernmental financing, and federal programs for regional development and equalization. Yet, in this evolution, the key political considerations for the federal government have not been over the specific circumstances of this province, but over those of more populous provinces, particularly Ontario and Québec. The chief example of a bilateral arrangement that did acknowledge our unique circumstances is the Canada-Newfoundland Offshore Petroleum Board, established by the 1985 Atlantic Accord. The most stark example of a lack of flexibility in federal



arrangements has been with our fisheries, a resource that has been managed directly from Ottawa, without significant differentiation from the entire Atlantic fisheries and without meaningful input from the provincial government.

One way of compensating for the one-size-fits-all fixation of the Canadian federal system is for Newfoundland and Labrador to have effective representation, both within the central institutions of the federal government and in intergovernmental relations.<sup>10</sup> Over the years, the province has been represented by many capable leaders who have helped this place to “punch above its weight” in national political affairs. However, leadership has also been put to the test, such as in the tense relations over fisheries and the offshore in the Peckford years, and in the Wells administration’s opposition to the Meech Lake Accord. Similarly, strong representation in the federal cabinet has been important.

Despite a record of effective intergovernmental relations in the past, there is a prevailing sense in the province today that the federation is failing us. Two specific events, in which the federal government played a leading role, have contributed to this malaise. The first of these was the cod moratorium announced in 1992, which has had a devastating effect on the province. While the federal government did deliver a major adjustment program, that program had many flaws. What is more, there is a widespread view that, through the lack of a long-term rebuilding program, Ottawa appears to have now written off the large segment of our economy and society that is based on the fisheries. The second was the federal budgetary cuts since 1995, which have had a significant negative impact in this province, further complicating provincial finances and undermining our ability to maintain national social standards.

More broadly, our provincial government shares with other provincial and territorial governments in Canada the sense that the federal government has lost interest in cooperative and collaborative relations. Our relations with Ottawa and with the other provinces have been influenced both by the general climate in intergovernmental relations in Canada as a whole, as well as by our own pursuit of intergovernmental goals. More collaborative intergovernmental policy has been possible when the federal government takes the lead and provides the political will to work together. Alternatively, competitive and combative relations arise when the federal government sets a centralizing or dismissive tone, or avoids cooperative approaches. As for the province’s approach, it has been more effective when it develops its positions carefully, acts strategically to make common cause with other governments and communicates clear priorities to the federal government.

### *The Balance Sheet Issue*

Throughout the Commission’s consultations, there were calls for the tabulation of a balance sheet showing the relationship between the financial benefits Newfoundland and Labrador brings to Canada and the financial benefits Canada brings to this province. In responding to these requests, the Commission was uncertain about what should be included in such an exercise and what forms of analysis should be used.

Tabulation of the financial benefits the province receives from the federal government would have to include equalization and other intergovernmental transfer payments as well as payments to individuals, including old age pensions, employment insurance, wages and benefits for federal government employees, and payments to businesses for purchases and services. Financial benefits the federal government receives from the province would have to include corporate and personal income tax and other tax payments, employment insurance premiums, and interest payments on loans, fees and other sources of revenue. If these are the only benefits recognized, federal spending in Newfoundland and Labrador since 1949 has exceeded the amount of revenues the federal government has collected in this province by a wide margin. In the past decade, that gap has been very large, ranging between \$2.5 billion and \$3.5 billion a year. In 2000, federal spending was approximately \$4.8 billion, against revenues of about \$2.2 billion, a difference of some \$2.6 billion.<sup>11</sup>

A balance sheet, however, must also address lost revenues because of barriers and policy failures (e.g., the failure of the national energy policy to allow the transmission of hydroelectricity across provincial boundaries), or economic benefits that the rest of Canada has already enjoyed as a result of this province joining the country. It must also address issues such as the financial returns that the federal government will receive in the decades ahead from offshore oil and gas development. As part of the Commission's efforts to address this balance sheet issue, an independent analysis was commissioned.<sup>12</sup> That analysis explored some of the crucial issues involved. One of its most important findings was a confirmation of the extent to which others benefit from the hydroelectricity generated by Churchill Falls. Focusing on the years 1991 to 2001, it was found that the estimated windfall gain from that resource averages about \$850 million a year.<sup>13</sup> Effectively none of that windfall has been shared with this province. It is a benefit to Hydro-Québec, and therefore to its electricity consumers and its owner, the Québec government. Overall, the 65-year Churchill Falls arrangements will result in tens of billions of dollars in cumulative benefits to others in Canada. These benefits are not counted in the fiscal spending statistics that characterize our province as being highly dependent on the rest of Canada.

This study also identified some of the other ways by which the rest of Canada gains as a result of Newfoundland and Labrador's presence in the Canadian economic union. There are the benefits arising from trade in goods and services; the economic benefits generated by Newfoundlanders and Labradorians working elsewhere in the country; and the profits from our province's natural resources that enhance corporations that operate here, but are owned by Canadians outside this province.

Beyond those identified in this study, there are other ways by which the rest of Canada gains economically from Newfoundland and Labrador. Among the most prominent of these is the locational value of this province. Locational value encompasses a range of considerations including the value of air space, the potential resources of the continental shelf, the province's strategic location, and the value of security of oil supplies. It is difficult, perhaps even impossible, to express this locational value in terms of dollars, and the Commission has made no attempt to do so. Nevertheless, there can be no disputing the fact that Canada values the lands and offshore waters of Newfoundland and Labrador. As Gwynne Dyer writes:<sup>14</sup>

Pro- and anti-confederates come up with different balance sheets on the union of Canada and Newfoundland at the time and continue to do so today, but it's clear that nobody in Ottawa in 1948 saw Newfoundland as either an economic bonanza or a crippling drain for Canada ... Ottawa's strongest motive for supporting the confederate cause in Newfoundland and offering reasonable terms to the prospective new province was a fear that a Newfoundland which regained its independence might pass into the control of the United States ... In a free vote in 1948, Newfoundlanders might well have chosen some kind of link with the United States leading to statehood – and Canadians both official and unofficial would have regarded that outcome as a disaster.

Indeed, as was noted in Chapter 2, in 1946 Canadian officials did undertake a balance-sheet forecast of a union of Newfoundland with Canada. Needless to say, having considered that forecast, Canada's decision was to proceed.

It is an extraordinarily complex task to construct a balance sheet showing all the sources and magnitudes of the financial gains to this province by Confederation, and the gains to the rest of the country. It is difficult to imagine, let alone measure, what would have occurred if Newfoundland and Labrador had not entered Confederation; or if the fisheries had been managed so as to maximize the economic benefits to the provincial economy; or if a power corridor through Québec had allowed the Churchill Falls arrangements to be negotiated on a level playing field. When provincial governments have engaged in balance sheet exercises, the results have been fruitless debates with the federal government over assumptions, use of data, methods of analyses and items to be included.<sup>15</sup> Battling over balance sheets is not constructive; it does not lead to progress. It should be avoided so as not to distract the provincial and federal governments

from focusing on what really matters – ensuring that the federation works for its constituent parts. This entails working in partnership to address the economic and social challenges facing this province and its people.

The Commission’s attempt to develop a balance sheet has highlighted issues addressed throughout this Report: (i) the current state of financial dependency in which this province finds itself; (ii) the frustration Newfoundlanders and Labradorians feel in being identified as “takers” in the federation, despite facing so many inequitable circumstances since 1949; (iii) the failure of the federal government and many Canadians to understand and appreciate this province and the contributions it has made to the country; and (iv) the significant challenges facing smaller provinces as they seek to find their respected place in the federation. The balance to be found is not so much in a balance sheet focused on dollars given and received; rather the balance is to be found in a new federal/provincial relationship focused on enabling this province to end its dependency and enabling this country to work for all Canadians.

### *Conclusions*

Newfoundland and Labrador is a very different place today than when it joined Canada. The Commission draws the following conclusions from its examination of the province’s broad experiences within Canada since 1949:

- While there can be no doubt that, as a people, Newfoundlanders and Labradorians are wealthier and enjoy a higher standard of living than they did before joining Canada, the relative position of the province within the Canadian federation has not changed.
- Unemployment remains the highest in Canada. Earned income and personal income were only 72 per cent and 79 per cent respectively of the national average in 2001, the biggest gap with national levels of any province. Recent strong economic growth due mainly to oil production has not overcome these basic disparities.
- As a society, Newfoundland and Labrador has advanced considerably, with a more diversified economy and more developed social services. Transportation and communications infrastructure has helped to end the isolation of our communities. In political terms, the province has adapted to the federal system of government and benefited from national values such as sharing and cooperation. In recent years, however the federal/provincial relationship has become strained and unproductive.
- A balance sheet that focuses only on dollars given and received is not only incomplete but, more importantly, diverts the attention of governments from building a new relationship directed towards enabling the province to end its dependency, and the country, as a whole, to work better for Canadians.

There is, therefore, a sense of disconnect, a feeling that within this country Newfoundland and Labrador must find ways to renew and strengthen its place. Our experience since 1949 confirms that the potential exists in Canada to allow renewal and strengthening to happen.

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“Let’s not fall into trap that some mis-guided souls may have by asking what have we done for Canada - the evidence is under our feet and in the Atlantic blue sky and on the broad ocean, and in the war graves of Europe and our proven generosity toward all, and in the skyscrapers of Ontario and Alberta and in the B.C. industries, and in the mainland universities and our music and stories... the time is past for a compulsory updated history course to be immediately introduced in grade 8.”

*Excerpt from the Public Consultations*

“Without federal support, Canada’s first major offshore oil project would not have begun. This is perhaps the clearest indication of the benefits of the federal-provincial relationship ... This federal-provincial energy development shows what progress can be made when the two levels of government work together, each bringing its own strengths.”

*Excerpt from the Public Consultations*



# Chapter 4

## *Population Loss, Out-Migration and Rural Newfoundland and Labrador*

The 10 per cent decline in this province's population between 1991 - 2001 due to massive out-migration is a shocking indicator that something has gone seriously wrong in the economy of Newfoundland and Labrador. The Commission, in its public meetings, in the written submissions it received, in its meetings with government officials, in its roundtables, and in its dialogues heard clearly and consistently that the most significant social and economic challenge facing the province is out-migration and its impact, especially in rural Newfoundland and Labrador. This chapter explores the demographic change in the province overall, the impact of out-migration, especially in rural areas, the policies and programs that have attempted to address the challenge, and the need for further action.

### *Background*

Long before joining Canada, Newfoundland and Labrador faced economic ups and downs. At times, it has prospered. During successful fisheries in the eighteenth and nineteenth centuries, as well as during the first decades of the twentieth century and throughout the 1940s, there were good times.<sup>1</sup> However, there were also difficult times, caused by market conditions, natural disasters or failures of fisheries. Hardship forced many people to leave, so out-migration is not a new phenomenon. It has been common throughout the province's history, with people emigrating mainly to the United States and Canada before 1949, and primarily to the rest of Canada since Confederation. However, from the early 1940s until the 1960s, thousands of women married American military personnel stationed at United States bases here and subsequently almost all moved to the United States.<sup>2</sup> Movement within Newfoundland and Labrador was also widespread. People moved to new frontiers throughout the Island as pressure on local fishing grounds increased, they went to the interior as mines and forestry industries developed, and they moved to work at American military bases. Initially, people went to Labrador for the coastal fisheries and later to the interior to build and maintain iron mines, military installations and hydroelectric sites. People have also moved seasonally: Aboriginal peoples traditionally moved seasonally; people went each year to participate in the summer fisheries in Labrador; seasonal workers went to work in the United States in construction and other trades; and, more recently, many other people from Newfoundland and Labrador participate in seasonal migration to other parts of Canada for work. People of this province are accustomed and willing to go where employment opportunities take them.

Confederation with Canada was seen as a way of creating more economic opportunities so that people would no longer have to leave. Since then, there has been minimal net in-migration to the province, mostly by Newfoundlanders and Labradorians returning home. But, as Figure 4.1 shows, since 1951, net out-migration has been the norm. A slightly higher percentage of those who have left are men – for the past thirty years, 51.9 per cent of the total have been males and 48.1 per cent, females. Since 1992, that percentage has increased to 53.9 per cent for males but decreased to 46.1 per cent for females.

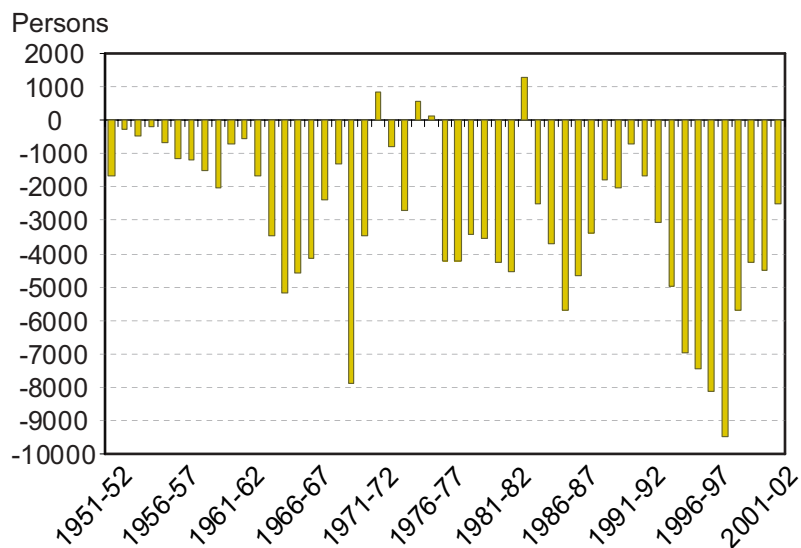
Coming home teaches me that I own nothing  
 that there is nothing in the world  
 I have a claim to  
 though this one place has a claim to me -  
 turning south onto the Buchans highway  
 I follow the Exploits River further into bush,  
 through Buchans Jct. buried in waves of spruce  
 and past the cold length of Red Indian Lake which has  
 forgotten me completely since I left

Michael Crummey, *The Road Home* here years ago...

Population Loss, Out-Migration and Rural Newfoundland and Labrador

Figure 4.1

Net Migration  
 1951-52 to 2001-02



Source: Economics and Statistics Branch, Department of Finance.

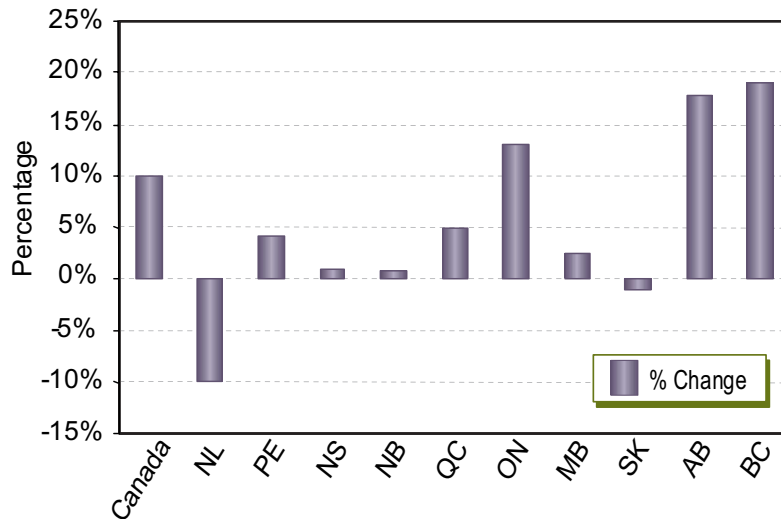
Despite these losses, the population and most communities continued to grow until the last decade, when double-digit unemployment rates and declining birth rates contributed to a stagnation of the population. The collapse of the groundfish fisheries in the 1990s worsened the situation, turning ever greater numbers of Newfoundlanders and Labradorians into economic migrants. The population of this province in 2001 was more than 10 per cent lower than in 1991, an unparalleled loss for any country or province, except perhaps during wars. Certainly, it is an anomaly in Canada. Figure 4.2 shows that all other provinces have had growing populations over this time, except Saskatchewan, whose population declined slightly.<sup>3</sup>

Figure 4.2

## Percent Change in Population

1991 to 2001

Canada and Provinces



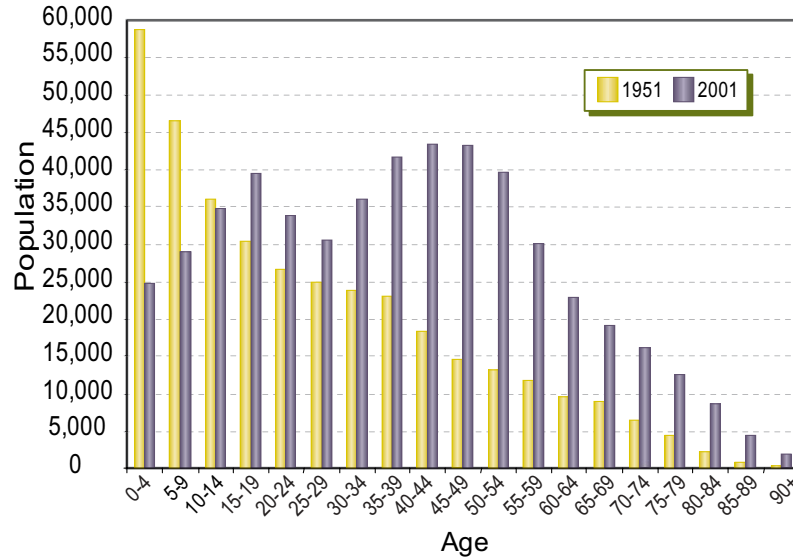
**Source:** Statistics Canada, Demography Division; Economics and Statistics Branch, Department of Finance.

It is important to emphasize that this 10 per cent population loss *understates* the out-migration. There was natural population growth over that ten-year period. Allowing for that, the data indicate that approximately 12 per cent of the 1993 population has left this province.

Compounding the problem has been the continuous and disproportionately large loss of youth. Migrants are typically young adults and families with young children. In the past, when birth rates were higher, natural population growth was sufficient to offset out-migration. More recently, with declining birth rates and the out-migration of so many young people, the age structure of our population has changed dramatically. Figure 4.3 compares age distributions in 1951 with 2001. The change is especially worrisome with respect to youth. There are fewer children aged 0-4 and 5-9 years in 2001 than in 1951; and, similarly, there are fewer 0-4 year-olds than 5-9 year-olds, fewer 5-9 year-olds than 10-14 year olds, and fewer 10-14 year-olds than 15-19 year olds. Consequently, the province of Newfoundland and Labrador is not only losing population, but the average age of the remaining population is rising.

Figure 4.3

### Population by Age 1951 and 2001



Source: Economics and Statistics Branch, Department of Finance, Government of Newfoundland and Labrador.

More alarming are the projections that, under current circumstances, people will continue to leave Newfoundland and Labrador. While projections to 2016 released by the provincial government show a slowing in the trend, the province will still have population decline and out-migration continuing until at least 2010. At that time, the population is projected to be 504,112, compared to a high of 580,195 in 1993.

### Impact of Out-migration

This population loss creates a serious social cost for the people of this province in both urban and rural areas. It is extremely difficult for people with close ties to their families and communities to leave, and it is equally difficult for those who remain to see their children leave. Distance makes it hard to maintain family and community relationships. With job losses in many parts of the province being so severe, and without sufficient growth in employment opportunities elsewhere in the provincial economy, people have been forced to choose between unemployment and out-migration. Many migrants are young adults, often with valuable technical skills and academic training.<sup>4</sup> The province needs youth to build a stronger and more prosperous economy. We cannot afford to see so many move to Alberta, Ontario, and so many other places to build prosperity elsewhere. To maintain our culture and identity, we cannot afford to have more people compelled to leave for economic reasons.

In addition to the negative aspects for those who stay, there are also significant implications for those who leave. In *Newfoundlanders: Home and Away*, Leslie Bella speaks about the vulnerability of migrants:

Living in a community with many of one's own background can be good for the mental health of new migrants. Some of those we talked to described living for a while in enclaves of Newfoundlanders. Here they enjoyed visiting with people from home, celebrating traditional events and keeping alive the contacts with home. Those not actually living in Newfoundland enclaves use other



opportunities to get together with other Newfoundlanders. The experience of being surrounded by Newfoundlanders, even those you did not know, was difficult to describe in words, but was clearly emotionally significant ... Through this togetherness, Newfoundlanders may inoculate themselves from mental health difficulties associated with isolation and loss of culture.<sup>5</sup>

There is a differential effect on families that leave. National studies suggest that the impact on men and women who migrate is different: men experience significant earning increases after changing provinces, but the earnings of women tend to fall.<sup>6</sup> This might reflect the effects of the family decision to move in order to further the career of the husband; it might also be influenced by the higher male unemployment rate.

While out-migration, population decline and the aging of the population have affected all parts of the province, the impact on rural Newfoundland and Labrador has been particularly devastating. Rural areas such as the Northern Peninsula, the South Coast, and Notre Dame Bay have fared the worst.<sup>7</sup> The general tendency of many young people to leave, especially those with post-secondary education, combined with declining birth rates and the devastating effects of the collapse of the groundfish fisheries, with no recovery in sight, has depopulated many rural areas of almost their entire younger generations. Many rural municipalities, especially those that have lost both their economic bases and their youth, have suffered to the point that they can barely provide minimal levels of service or pay their debts. The loss of people from rural communities makes it more costly, on a per capita basis, for the provincial government to provide adequate health, educational and other services in those communities.

The people of Newfoundland and Labrador spoke strongly to this challenge in the Commission's public consultations. Youth in all areas of the province, including major urban centres such as St. John's, spoke of the lack of job opportunities and their need to fulfill their ambitions in life by moving to other parts of Canada or the world. Women spoke of the increasing burdens they carry as needs for social support increase, while the availability of social supports decreases. Men and women spoke openly of the second wave of out-migration, when they would follow their children and grandchildren to wherever they might be living. Young adults spoke of the strong personal desire to stay and the strong economic forces that were pushing them to leave. Newfoundlanders and Labradorians in Fort McMurray, Alberta, home to many expatriates, spoke strongly of the desire to return, but only if they could earn similar incomes. Young professionals in Toronto spoke of their plans to return, but only if they could make a difference here.

### *Policies, Programs and Population Shifts*

Since Confederation, the federal and provincial governments have developed a myriad of approaches, policies and programs to reallocate population. Some initiatives have involved extensive (and expensive) cost-shared agreements between the provincial and the federal governments, while others have been developed and delivered by one government or the other.

The idea of implementing policy designed to shift population from one rural area to another with better facilities, or to urban centres, dates back to 1953. From 1954 to 1965, the provincial government's Centralization Program provided subsidies to households in smaller communities to relocate en masse to other communities. In all, 115 communities were abandoned under the Centralization Program, with 7,500 people relocated to other communities. In 1965, a more aggressive policy, the Resettlement Program, was put in place. It was a cost-shared program with the federal government. Unlike the Centralization Program, the Resettlement Program did not require the unanimous consent of all households in a community. In fact, there was implicit, and sometimes explicit, pressure from provincial authorities for communities to agree to be resettled. More than 200 communities were abandoned under Resettlement and approximately 6 per cent of the province's population relocated.<sup>8</sup> Since many people were forced to move, and because

some of the relocations caused economic hardship or were to places not of the people's choosing, the Resettlement Program, which ended in 1975, is remembered with bitterness in this province.

Due to the backlash against resettlement and, more probably, because of the extension of the offshore fisheries jurisdiction to 200 miles, the provincial government reoriented provincial policy toward rural Newfoundland and Labrador in the late 1970s and 1980s. During this period, unemployment insurance benefits provided incentives for people to seek employment in the seasonal fishing industry through harvesting and processing. More fish plants were built or expanded and fishery development initiatives undertaken, often with substantial public subsidies. More people entered the fisheries and became dependent on a fishery that eventually could not continue to support them.

There are those who have suggested that Newfoundland and Labrador had too many people relative to its economic base – an implicit support for policies that encouraged people to move out of the province.<sup>9</sup> For example, the economist Parzival Copes suggested that resettlement from isolated fishing outports was just a first step in a process leading ultimately to out-migration.<sup>10</sup> The Economic Council of Canada, in its 1980 study of the provincial economy, saw no basis for such a policy, pointing to Iceland's success in achieving prosperity despite similar challenges. The study also cited Japan's economic success despite its lack of natural resources. Nor did the Economic Council of Canada see out-migration as a solution, focusing instead on a "from bays to peninsulas" strategy.

The Council observed that, with the completion of the Trans-Canada Highway and with the road connections of many smaller outports on peninsulas to urban centres along the highway, there would be scope to concentrate economic activities. Workers and consumers in connected outports could commute. In this way, the Council suggested, businesses could increase the rate of utilization of their capital equipment and increase productivity. Resource-based businesses would generally have to remain close to the resources, but most businesses would gain. Similarly, provision of social services could be more efficient if they were located in urban settings within commuting distance of outports. The Economic Council also encouraged fisheries policies oriented toward limiting entry and augmenting economic gains.<sup>11</sup> The provincial government of the time did not support the main thrust of these recommendations, but rejected what it saw as resettlement in disguise and the Council's overly economic approach to the fisheries. Instead, government supported rural renewal, based on strong support for the inshore fishery.

### *A Search for Solutions*

In a further search for solutions of its own, the provincial government in 1983 appointed the Royal Commission on Employment and Unemployment, chaired by Memorial University of Newfoundland sociologist Douglas House. The Commission report, released in 1986, stated that there was untapped potential in rural areas. It presented a range of recommendations aimed at realizing that potential through community development and local entrepreneurship. The Commission attempted to strike a balance between sectors and between urban and rural areas; it also suggested that reliance on unemployment insurance had become problematic, creating a syndrome of dependency. The Commission argued for a different type of federal income-support program, which would change incentives inherent in the unemployment insurance program. That proposed replacement program was never implemented.

In 1989, the newly elected Liberal government under Premier Clyde Wells appointed Dr. House to lead an Economic Recovery Commission (ERC).<sup>12</sup> That group released a strategic economic plan, *Change and Continuity: A Strategic Economic Plan for Newfoundland and Labrador*, in 1992. The provincial government disbanded that commission in 1996, but not before substantial changes had been introduced. The ERC initiated two chief instruments. First, Enterprise Newfoundland and Labrador took on the roles of a former provincial development corporation, both to consolidate under one agency all services to small business and to decentralize those services to better serve rural clients. Second, the Enterprise Network was created to provide basic support for rural development communications using the Internet.

Much of what was achieved by the ERC came about through the close cooperation and joint funding of the federal government, in particular the Atlantic Canada Opportunities Agency, through its St. John's regional operation.

In 1994, a joint federal/provincial Task Force on Community Economic Development was appointed to work on a model for community-based partnerships. This task force released the report *Community Matters: The New Regional Economic Development*. It concluded that local people themselves should play the lead role in their region's own economic development, with government playing a supportive role. The province was divided into 20 economic zones, with a regional economic development board for each zone. These zonal boards remain in place today. They are community-based volunteer boards consisting of representatives from municipalities, business, labour, community development groups, education and training institutions, as well as other interests. The task force report also led, significantly, to the federal/provincial Strategic Regional Diversification Agreement, which spent \$36.8 million over five years to support the new zone structure.

In March 2001, the report *The Renewal Strategy for Jobs and Growth* was released by the provincial government. It was intended to provide guidance for continued economic growth, with an emphasis on (i) capturing strategic growth opportunities in traditional industries such as fisheries, in maturing industries such as tourism, and in emerging industries such as information technology; (ii) creating the right environment for economic development; (iii) investing in education, training and youth; (iv) adopting new partnerships for collaboration and cooperation; and (v) building stronger communities and stronger regions within the province. The extent to which the strategy is succeeding has yet to be determined. It has been suggested that the provincial government continues to place emphasis on two strategies to revive rural Newfoundland and Labrador. The first is that all departments of government consider rural renewal as part of their mandates. The second is the creation of a positive and stimulative business climate in which the private sector will generate considerable wealth and employment.<sup>13</sup>

In summary, the approaches taken to rural development and the rural sustainability issue have differed dramatically over the last 54 years. Initially, government policy stressed centralization and resettlement, because it saw a weakened inshore fishery and more promise in industrial development. That approach was abandoned by the 1970s in favour of rural renewal, based mainly on the fisheries revival. Yet government also drew upon efforts to diversify the rural economy, largely around small business.

The Commission, in its travels, saw impressive evidence of existing rural industries. There is a strong base of tourism business, including eco-tourism, the primary and secondary processing of seafood, the production of wine and other products from wild berries, the manufacturing of windows, cabinets and furniture, the manufacturing of industrial gloves and boots, the quarrying and polishing of dimension stone, the manufacturing of education software, the production of fibreglass boats, and the provision of aerospace services, among others. It can be argued, therefore, that the potential does exist for the creation of new businesses in rural areas.

The tremendous progress of these achievements is nonetheless overshadowed by two major realities. First, the mainstay of the rural economy has remained the fishing industry, which has been in serious decline for over a decade. Second, much of the rural economy has relied too much on employment insurance. Therefore, while many new jobs have been created in a myriad of new businesses and sectors in the past two decades, there simply have not been enough to counterbalance the loss of jobs in the fishery since the cod moratorium of 1992 and to prevent out-migration and economic decline.

### *The Challenge of Rural Sustainability*

Whatever else, the challenge of rural sustainability is a national, indeed, an international, issue, and in that sense is not unique to Newfoundland and Labrador. Globalization, urbanization and out-migration

are challenges shared by rural areas throughout Canada. The situation in Newfoundland and Labrador has its unique characteristics because it has been driven by the loss of the fishery in the last decade and by significant out-migration.

The Commission believes that debating rural challenges and realities, openly and truthfully, is a first step in dealing with rural sustainability. Government cannot stop people from getting older, cannot stop rural youth from seeking meaningful opportunities in urban environments, cannot prevent parents from following their children and grandchildren to urban areas, either in their own province or throughout the rest of Canada, and cannot raise expectations that modern services in all areas of rural Newfoundland and Labrador, regardless of their economic base or population decline, can be reasonably provided by a fiscally challenged treasury.

Not every community can have a manufacturing facility for industrial gloves or industrial boots, and there are only so many sawmills and ship yards that can be economically viable. Moreover, anyone interested in establishing a new industry or small manufacturing operation has built-in incentives to locate in areas such as the northeast Avalon, closer to the modern services provided by large health care centres, schools, airports, the university and the College of the North Atlantic, and major shopping malls. In other words, urban areas provide people with an opportunity to fulfil their urban expectations while living in rural settings. This is a strength which should not be ignored; indeed, it should be embraced, as the struggle over rural out-migration continues. The province is so much better when the people who leave rural Newfoundland and Labrador take advantage of opportunities on the northeast Avalon or Corner Brook or Gander or Grand Falls, rather than move outside the province.

Throughout the Commission's work, many people spoke of the benefit for this province of emulating the successes of our North Atlantic neighbors. While there are important lessons to be learned, it is clear that the configuration of a society such as Iceland or Ireland is a result of numerous factors deeply embedded in their past and culture. What works for one does not necessarily guarantee success in another.<sup>14</sup> Each is a product of a specialized history and culture reflecting the subtle interplay of internal and external processes. Iceland, for example, has experienced substantial internal migration to the larger urban areas without conscious policy direction. The result is a fishery that has a decidedly urban presence. This concentration has been largely driven by government policy supporting efficiency, high productivity and economies of scale, even if a result was greater urban growth and concentration.

Much potentially helpful research is underway on the rural society. The Commission in the course of its work has become aware of at least three substantial research projects underway in rural Newfoundland and Labrador. The project Coasts Under Stress is conducting an integrated analysis of the long- and short-term impacts of socio-environmental restructuring on the health of people, their communities and the environment. The Natural Resource Depletion and Health Project is studying how the health of people in coastal communities (Bonavista, Fogo, Arnold's Cove and Trepassey) has been affected by the fishery crisis since the end of The Atlantic Groundfish Strategy (TAGS). The New Rural Economy project is a five-year research and education project underway in 32 communities across Canada, including Winterton and Twillingate in this province. The research gathered will be analyzed and shared with rural people, policy analysts, researchers, the business community and government to assist in identifying and addressing important rural issues.<sup>15</sup> To support the longer term research needed and to ensure such dialogue is well informed, the Commission endorses the establishment of a Centre for Regional and Rural Development Studies at Memorial University of Newfoundland. The objective of this Centre would be the ongoing development and consolidation of the research and education base needed to analyze the complex matters related to the survival of rural Newfoundland and Labrador.

Newfoundland and Labrador is not alone in this struggle to address its rural issues. All rural areas across this country are asking the same questions and facing the same overwhelming lack of answers. At the moment, rural development appears to be low on Ottawa's priority list. The most recent attempt by the

federal government to support rural development is the Canadian Rural Partnership program which encourages federal departments and agencies to scrutinize their programs and policies through what they call the rural lens. The challenge for this process is that national programs are not always sensitive to regional needs and circumstances, even though rural development needs differ significantly from province to province.

How the provincial government eventually deals with the challenges of rural sustainability and, indeed, how Canada eventually deals with them on a country-wide basis will speak clearly to what this country values and how it envisions its future.

### *Insights Into a Rural Strategy*

Everywhere it travelled, the Commission was made aware of both the importance and the complexity of the issues related to the survival and sustainability of rural Newfoundland and Labrador. The loss of so many people from rural areas, the aging of the population remaining in many rural communities, the limited possibilities for economic development extensive enough to replace the jobs lost in the fishery, the realization of the new economy's focus on urban-based employment, and the move away from labour-intensive to technology-intensive industries, even those related to natural resources, are among the difficult factors to be considered in addressing the future of our rural society.

Rural sustainability emerged as an overpowering issue in all the Commission's deliberations, whether in rural or urban areas of the province, and in its hearings outside the province. While there is a stark realization that there are no obvious breakthrough solutions, there is also a very deep sense that the issue must be addressed. Although the Commission did not have the time to do the kind of in-depth exploration and consensus-building that would be required to appropriately address the matter, it did recognize that a failure at least to explore the rural situation would be a failure to consider a fundamental component of the renewal and strengthening of this province in Canada. Even though this Report has few answers, a number of insights can be identified:

1. Government has not articulated the ongoing consequences for rural residents as their communities shrink, the population ages and young people decide to leave. Neither the federal government nor the provincial government has articulated a rural strategy with clear goals and achievable outcomes.
2. All who met with or submitted reports to the Commission had difficulty in formulating the essence of the rural question and were more comfortable in addressing specific issues (e.g., out-migration, employment, education, community development) rather than the larger situation. Any efforts to openly address this question are complicated by memories of the 1960s resettlement program, by fears that even discussing the issue will signal the end of rural communities, or by mistrust that decisions will be imposed on people in rural areas.
3. The rural situation has very significant implications for public policies and expenditures. Yet there is a propensity for allowing the situation to unfold on the basis that the issues, somehow or other, will resolve themselves.
4. Any significant recovery in the groundfish fishery is more than a decade away, and it would be unrealistic to hold out such recovery as the ultimate solution to economic opportunities. Crab and shrimp fishing, sealing, forestry, small manufacturing, sawmilling, boat building, tourism and information technology, to name a few, all have great potential in allowing us to take the maximum possible advantage of rural settings and rural resources in order to sustain as much of rural Newfoundland and Labrador as is economically feasible. Even with that potential realized,

however, no one has the answers to where all of the jobs are going to come from to replace the number of jobs lost in the fishery.

5. In the knowledge-based and high-technology economy, most jobs are being created in urban areas. Urban job opportunities in close proximity to rural communities, therefore, must be seen as part of the solution. All new economic activity, no matter where created, is essential to a strong future in Newfoundland and Labrador. It would be a mistake if we did not celebrate all the economic activity that keeps people in the province and keeps the economy moving. It would be a further mistake if government attempted to determine where such economic activity should take place rather than to embrace economic opportunities wherever they occur. Commuting from rural communities to work in urban centres is one of the key opportunities for rural youth. It would be important, therefore, as the provincial government articulates a rural strategy that it view the province as a total economic entity.
6. In developing a rural strategy, the provincial government will need to go beyond a focus on jobs alone to explore more fundamental questions about the kinds of possible futures which need to be considered. These futures could include the pursuit of (i) an urban agenda, (ii) a regional agenda, or (iii) a rural agenda. Each of these options presents its own difficulties and comes with its own costs. The pursuit of an urban agenda would involve developing a diversified economy based on five or six centres with the best economic potential. New services and highway development would be linked to these centres. The pursuit of a regional agenda would involve developing in the order of twenty to twenty-five regional centres around the province to serve as hubs for smaller surrounding communities. The hubs would be chosen for their business potential and their ability to connect with nearby small communities. The pursuit of a rural agenda would involve the provincial government undertaking to deliver health, education and other government services in most rural areas, with government agencies wherever possible being moved outside of St. John's to rural areas.
7. No one likes to wade into problems that appear to have so few solutions. One of the options, therefore, is simply to let the situation unfold. But this entails the greatest danger of all – that, in ten or fifteen years, the people of Newfoundland and Labrador will lament that a realistic strategy aimed at sustaining as much of rural Newfoundland and Labrador as possible was not pursued in an open and honest manner for the benefit of future generations. As Canadians and as Newfoundlanders and Labradorians, we will then have ignored the threat to our rural culture and tradition, and we will have done so at our peril.

These insights do not resolve the struggle that Newfoundland and Labrador is facing today. They do provide a basis for a clearer focusing of the issue and for the beginning of a public dialogue involving citizens in a matter that is so critical to our future. Building on these first steps, the provincial government must develop a rural strategy for this province. While the provincial government must take the leadership, it is imperative that the Government of Canada be included in this endeavor.

### *Conclusions*

The Commission believes that the time has come for the people of the province to become engaged in an informed, frank and honest public dialogue on the future of rural Newfoundland and Labrador and for the provincial government to use this dialogue as the first step in the development of a rural strategy. The provincial government must place priority on initiating informed public dialogue on future options, changing lifestyles and settlement patterns, and the public policy implications of meeting urban expectations in rural areas. There are many possible models of citizen engagement from which the government can choose as it initiates this dialogue. Its own processes related to the *Strategic Social Plan* and *Jobs and Growth* as well as the Commission's *Dialogues* are examples of models which have been

effectively used in this province. Building from the public dialogue, the provincial government must then begin to formulate a strategy related to rural Newfoundland and Labrador.

It is clear from the Commission's deliberations that people are seeking a new way of thinking about this issue; that there is a realization that we must find a healthy balance of rural sustainability with strengthened urban growth centres; that the province and its people are evolving in a new way of relating between the "bays and towns"; and that the time for such dialogue is now. It is time to move the discussion from the kitchens, wharves and boardrooms to become an integral part of public discussion and policy-making in this province. Such dialogue will be healthy and will help forge a new vision and strategy for the future of rural Newfoundland and Labrador.

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"As for our young people, the problem is that no one is articulating the dream."

*Excerpt from the Public Consultations*

"Our goal is to change the relationship with Ottawa so that it allows Newfoundland and Labrador to reap the benefits of our most talented and passionate young persons today- a change that will reverse the trend of out-migration."

*Excerpt from the Public Consultations*

"...the heart and soul of Newfoundland was created and nurtured in the coves and inlets of this island. I do not mean to romanticize the spirit of Newfoundland. My intention is to ask you to think about the importance and beauty of the rural character of Newfoundland."

*Excerpt from the Public Consultations*

"If St. John's and the modern service centres have become Newfoundland and Labrador's economic engine since Confederation, outport communities remain its soul. The various expressions of Newfoundland culture are rooted there and in aboriginal communities, and we must reconnect with that culture, rekindle that sense of place and reawaken that identity if we are to prosper in the future."

*Excerpt from the Public Consultations*



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## *Social Inclusion in Newfoundland and Labrador*

Inclusion, collaboration, accommodation and transparency are principles underlying the envisioned partnership between the provincial government and the federal government, but they must also guide relationships within this province. Putting these principles into practice will ensure that all Newfoundlanders and Labradorians have a respected and equal place, both in the province and among other Canadians. Within this context and building on the assumption that economic development and social development are interdependent, this chapter explores the challenges to social inclusion and social cohesion in our province. Together with the assessment of the financial position outlined in Chapter 6, this reflection is necessary if the Commission is to understand the strengths and weaknesses of the province and its readiness to be a partner on the pathway to renewal.

There is increasing evidence to show that social cohesion and inclusion are critical in order for societies to prosper economically, for development to be sustainable, and for all citizens to enjoy a basic level of well-being. All of these elements are essential components of any plan to renew and strengthen our place in Canada.<sup>1</sup> In this context, social cohesion involves:

... building shared values and communities of interpretation, reducing disparities in wealth and income, and generally enabling people to have a sense that they are engaged in a common enterprise, facing shared challenges, and that they are members of the same community.<sup>2</sup>

Social inclusion repeats the theme of equality as it requires “... the social commitment and investments necessary to ensure that socially and economically vulnerable people are within reach of our common aspirations, common life and its common wealth.”<sup>3</sup>

The values underlying these concepts are reflected in the provincial government’s *People, Partners and Prosperity: A Strategic Social Plan for Newfoundland and Labrador*. This document provides a framework incorporating a long-term approach addressing social and economic development on a community and regional basis. The Plan has a vision for “... healthy, educated, distinctive, self-reliant and prosperous people living in vibrant, supportive communities within sustainable regions.”<sup>4</sup>

As part of the Plan, the government has developed a social audit, designed to measure strengths and weaknesses for the purpose of making necessary interventions.<sup>5</sup> These measures examine a variety of social and economic indicators such as health, education, employment and income and, where possible, delineate the differences between men and women, age, regional differences and make comparisons with the rest of Canada. It is not the mandate or intention of the Commission to repeat the work of this Strategic Plan.

However, in meetings throughout the province, in written submissions and through the research program, the Commission was made aware of two realities that must be addressed if we are to strengthen social cohesion and endorse social inclusion in the province: (i) among specific groups (women, Aboriginal

Dear Natash,

We have a lot of work to do in our community – our community is dying... Let us work together – we will be able to help our children and our grandchildren. We will be the ones to show them something beautiful about our lifestyle, our traditions – something beautiful that we can leave for them when we are gone.

Elizabeth Penashue  
Sheshatshiu, Labrador



## Social Inclusion in Newfoundland and Labrador

peoples, other minority groups and Labradorians) there is a feeling of not having found “a place in our place,” and (ii) Newfoundlanders and Labradorians sometimes perceive that they are misunderstood or stereotyped in ways that prevent their being fully respected Canadians within their own country.

### *Equality and Inclusion for Women*

Women in the province made it clear to the Commission that their perspectives and experiences have not been taken sufficiently into account whether one looks at the fishery, the new economy, out-migration, volunteerism or decision-making processes.

A major review of the fishery found that one of its present shortcomings is the inadequate voice of women in the management of the fishery and in the fishing industry generally.<sup>6</sup> Little recognition was given to the historical role of women in the fishery either in the move to more formal professional credentials for harvesters, or in the adjustment program that was based on “historical attachment.” Although more than 30 per cent of the people who lost their jobs after the moratorium were women, they fared poorly, both in the support and retraining programs that did not take into account the differences between women’s and men’s experiences in the collapse of the fishery.<sup>7</sup> The retraining served to further entrench women in sectors of the economy where low pay and few opportunities are standard. All the evidence suggests, then, that in building a vision for the fishery of the future, women must be given a prominent role.<sup>8</sup>

In the attempts to restructure the provincial economy, women remain disadvantaged. While more women now participate in the labour market, they are more likely to work part-time, and labour in lower-paid, female-dominated sectors.<sup>9</sup> The divide between women and men related to average earnings remains. In 1960, women in Canada earned an average of 54.2 per cent of men’s earnings, while in Newfoundland and Labrador that number was 51.3 per cent. The numbers have improved slightly over the past forty years: women in Canada earn 63.6 per cent while the average in Newfoundland and Labrador is 62.7 per cent. The 1996 changes to the employment insurance regulations had a disproportionate impact on part-time workers, the majority of whom are women.<sup>10</sup> Accessing training opportunities has been especially difficult for women because training funds are tied to employment insurance eligibility, and many women in rural areas do not have that eligibility. As a result, too often they cannot afford to finance the career education available at colleges and universities. The Commission was told repeatedly about this inequity.

Negative stereotypes about women’s skills and roles continue to create barriers for women in entering the labour market, accessing training, and in availing of small business start-up funds. In the tourism industry, women are clustered in low-paying, seasonal work. Few women have gained access to higher paying jobs in technology and resource-based industries (e.g., in the construction phase of the Hibernia platform, women represented 4 per cent of the workforce).<sup>11</sup> Even in this new economy, women face the

absence of meaningful employment equity and family-friendly policies in the workplace. Removal of barriers to women's labour force participation and implementation of proactive workplace policies will allow women to bring the full benefit of their energy, knowledge and skills to our provincial economy.

The population decline in rural areas, out-migration and the aging of the population have had a disproportionate impact on women. Women are the primary caregivers of children and elderly relatives – work which is usually unpaid. Women are the ones left to fill the gaps as family support networks diminish and government services are withdrawn from small communities. Women make up a large proportion of the elderly population in small rural areas, and these elderly women are less likely to have economic security.

In many of our meetings, in one of our roundtables, and specifically in a study reported from the Bay St. George Women's Centre, women in rural areas reported that they are feeling a great deal of volunteer burnout. Many were already working as volunteers on several committees and felt they were being stretched to capacity; they feared the loss of yet more of their local committees. Some felt that government had "downloaded" more work on community networks and organizations than they could handle; this left people feeling tired and overburdened. This work often involves the provision of essential social programs, such as the staffing of women's centres which offer support for women who are victims of violence. The study reported that much of the emotional support and nurture roles had fallen on the women in the communities: "Women are feeling as if they can't do it all, volunteer, take care of family, sick relatives and work. Women of small communities are going through high amounts of stress. It is obvious that some are feeling burnout while others don't want to bother anymore."<sup>12</sup> Too often, these women felt that they were not only losing volunteers to out-migration, but that people had stopped caring.

While the economic impact of out-migration is devastating, the social challenges in sustaining family and community life as the population decreases, especially in rural areas, are becoming overwhelming. In our struggle to address these challenges, it is critical that we understand the differing impacts on women and men, and that we build on the differing insights of both genders in finding an effective response.

The continuing barriers to the inclusion of women in decision-making in the province mean that women's experiences are not being considered when policies are being developed, that women's knowledge and skills are absent in assessing complex issues relating to the social and economic survival of the people of the province, and that one-half of the population are too often excluded when steps are taken to shape a new vision for our future. Among such barriers are the lack of accessible and affordable daycare, discriminatory attitudes about the knowledge and skills women possess, and a failure to understand the different needs, roles, life experiences and economic and social circumstances facing women and men. The Status of Women report noted, "During the focus meetings many women described barriers to getting involved in leadership roles of the community. Women felt their traditional roles were not valued, they felt as if they were non-productive citizens. Because they felt undervalued, women could not see themselves accepted in any leadership roles."<sup>13</sup>

In the assessment of women in leadership, it is worth noting that, in all of the federal elections in this province since 1949, out of the 373 candidates only 30 have been women.<sup>14</sup> In the last federal election (2000), only three of the 32 candidates were women, two from the New Democratic Party and one Independent. Only two women have ever been elected to the House of Commons from this province.

Positive steps have been taken by the provincial government through the maintenance of the Women's Policy Office and the implementation of the policy on gender inclusive analysis for all policy and program development in government. However, if women are to see themselves as valued, respected and included citizens of the province, stronger policies must be implemented to facilitate the inclusion of women in decision-making, improve women's access to training and education, improve gender equality

in the workplace, encourage women as entrepreneurs and support women as they face daunting odds in the face of overwhelming out-migration. These issues are not specific to our province. Therefore, the Commission supports those who are calling on the Government of Canada to revisit the 1970 *Report of the Royal Commission on the Status of Women* in order to pursue the improvements needed to ensure the full and equal participation of women in social, economic and political life in Canada.

### *Aboriginal Peoples, Identity and Governance*

The Commission has been repeatedly told that Canada, Newfoundland and Labrador and Aboriginal communities all stand to gain if a renewed relationship of respect and dignity can be achieved. In its meetings with the Aboriginal men and women in the province, the Commission heard a consistent and familiar theme, stated in this way by Labrador Inuit President William Barbour in Nain: “... the essence of building a common future together requires dignity and respect. If Canada cannot treat Québec, Newfoundland and its Aboriginal peoples with dignity and respect, Canada cannot hold together as a nation.”<sup>15</sup>

This theme of respect and dignity heard all across the province is one the Commission shares with the Aboriginal community. These words are a signal of how renewed relationships should work, whether they are between the provincial and federal governments or between governments and Aboriginal peoples.

The Commission spoke to members of Aboriginal communities to get a sense of the issues facing them, to better understand the importance of the land to their spirit and sense of identity, and to learn from their experiences in dealing with governments on federal government recognition and relationship matters. If the Aboriginal community is indeed a microcosm of the province in that it is unique and confident in its culture, yet weak in its economy and image, and sees itself as struggling to gain the respect and dignity of governments, how does that speak to the province’s efforts to plan a pathway to renewal?

The first lesson the Commission learned, as it began its community consultation process by visiting the Conne River Reserve, is the value in having a strong self-image. The community worked very hard at successfully convincing governments of their Aboriginal status. And while they would admit it is only the start of a challenging process, the other Aboriginal communities in this province look to them as an example of what is achievable.

There are other Mi’kmaq groups on the Island. The Federation of Newfoundland Indians emphasized to the Commission the need for access to federal programs and services. The Commission is aware that the federal government has received but not yet responded to their commissioned report from former cabinet minister, the Honourable Marc Lalonde, concerning whether and how the members of the Federation of Newfoundland Indians can gain access to federal programs and services. The Commission encourages the federal government to give this Report the immediate and urgent attention that is needed.

The Chiefs of the Sip’kop and Ktamukuk Bands made it abundantly clear to the Commission that their bands are far from satisfied with the state of discussions and progress with the federal and provincial governments, and have initiated legal action to confirm their status.

The Commission heard from many Aboriginal leaders and through its own and other research that Aboriginal people were omitted from the Terms of Union. The negotiations under the Terms of Union resulted in the federal government subsequently making an agreement that the new province would administer some of its programs; this resulted in the federal government effectively failing to carry out the constitutional and fiduciary responsibilities that it had accepted for Aboriginal people in other parts of Canada.<sup>16</sup>

Inuit leaders have told the Commission that formal recognition from governments is painfully slow. The Inuit in Labrador described the awakening of the spirit of self-image that captured so many other people,

including Newfoundlanders, in the 1970s. There was a pan-Aboriginal reaction to federal government policies, and in that time period Inuit leaders began to take steps to address what they felt were threats to their identity. Although the changes since the 1970s have come with many sacrifices for individuals and communities, today the Inuit can proudly assert that progress is being made toward negotiating self-governance and concluding a comprehensive land claims agreement with the two levels of government.

The Innu Nation, having recently achieved status under the Indian Act, is trying to advance its land claim and is working with the two levels of government to establish reserves at Sheshatshiu and Natuashish. The new community of Natuashish presents an opportunity for the Mushuau Innu to deal with the tremendous social challenges they face and to build a healthier and more prosperous life. The Innu leader told the Commission that reserve creation and eventual resolution of the Innu land claim are vital components of the Innu Healing Strategy. While progress has been made, the federal government must continue to work with the Innu to help them through the healing process and build the capacity to run their own affairs.

The Labrador Métis (descendants of contact-period European men and Inuit women) do not have access to the full range of programs and services available to many other peoples of Aboriginal descent. They have submitted land claims documentation with the federal government, but, as of yet, have been unsuccessful in having it accepted for negotiation. The Labrador Métis Nation President told the Commission that these two factors make the membership feel they are being treated unfairly when compared to their neighbours, the members of the Labrador Inuit Association and Innu Nation. The federal government must bring clarity to questions surrounding the status of the Labrador Métis Nation and the acceptability of their land claims application.

Women in Aboriginal communities told the Commission that the voices and experiences of Aboriginal women are not being given adequate consideration as land claims and economic development are being addressed. They spoke about the negative social impact of events such as the forced settlement of the Innu in the 1950s and the forced resettlement of the Inuit from Hebron and Nutak during the same time period. They expressed concerns that current approaches are not addressing their desire to protect their connections to the land, their family structures, their values and their culture.

The Commission has realized from its meetings that the issues are complex, and no single solution or template works for everyone. As Maura Hanrahan states in her paper, confirming what the Commission has learned from its discussions with Aboriginal peoples and their representatives, “Government-Aboriginal relations in Canada are a patchwork quilt; there are many kinds of arrangements ...”<sup>17</sup> In recognizing this complexity, the Commission is of the view that the federal government must place greater emphasis on bringing clarity to the rights and entitlements of the Aboriginal peoples in this province, with priority being given to: (i) concluding land claims negotiations with the Inuit and Innu, and the creation of reserves at Natuashish and Sheshatshiu, (ii) finding a way to enable all Mi’kmaq and the Labrador Métis Nation to access federal Aboriginal programs and services, and (iii) making a final decision on the Labrador Métis’ land claims application.

The Aboriginal peoples in this province have waited many decades for government action. Progress has been made, but it is slow in coming and is not at the same rate for all groups. The federal government must realize the sense of urgency which accompanies the concerns expressed and, with the support of the provincial government, must find ways to work more effectively with the Aboriginal leadership to ensure a strengthened future for all Aboriginal people in the province.

### *Other Minority Groups*

Ensuring that people know that they are members of the same community and are engaged in a common enterprise is especially challenging for members of minority groups in a province which has not had a

history of broad diversity of culture, religion and language. A commitment to enhancing social inclusion must include an approach which addresses this challenge.

Many of the province's Francophone population are descended from Newfoundland's earliest French settlers on the west coast of the province. More recent French-speaking immigrants have come to St. John's, western Labrador and Happy Valley-Goose Bay. Concerns have been raised about the loss of the French language, the assimilation of the culture and the disregard for the historical tradition. However, the rebirth of interest in the culture and heritage which began in the 1960s has resulted in more federal funding for the promotion of French identity and language, the availability of French media such as *Le Gaboteur*, the establishment of a separate Francophone school board, and a strengthened appreciation of our province's French heritage. Continued support for this development is an important step in achieving the goal of social inclusion.

The province has now become home to immigrants from all over the world, including countries not traditionally recognized as our places of origin. Our culture and economy have benefitted from the participation of people from Asian, Africa, Latin America, the Mediterranean and the former Eastern Bloc. It is important that the people of the province become more aware of the presence and contributions of these new citizens, that we find ways to celebrate their presence and that we work together to facilitate the integration of new Canadians into our society. The continued work of the Association for New Canadians and the opening of the English as a Second Language Adult Training Centre and Employment Resource Centre are positive steps in this direction. The continued partnership of the Association with the federal and provincial governments will be a critical element in ensuring that our province grows in appreciation of the strengths that flow from a multicultural and diverse society.

As we become more sensitive to the value of diversity and more open to its presence in Newfoundland and Labrador, we will also become a more welcoming and supportive society for those who have too often been marginalized or deemed "different". Differences in race, colour, ethnic origin, sexual orientation, physical ability, mental ability, religion and age must come to be seen as sources of strength in our province. This can only result in a province which gives our traditional values of community, generosity and hospitality a new expression in this twenty-first century.

### *Labrador and Newfoundland*

Through its public consultation process, the Commission came to understand that an undercurrent of alienation continues to exist in Labrador.<sup>18</sup> Given the enormity of the challenges they must face together, Newfoundlanders and Labradorians cannot afford to be divided, but must turn greater attention to strengthening their relationship.

The first step is the building of a greater level of understanding in the rest of the province for Labrador's significant contributions and ongoing frustrations. Polling conducted for the Commission suggests that such an understanding does not presently exist.<sup>19</sup> While Labradorians and the provincial government must lead in this area, this Report offers an opportunity for the Commission to assist, albeit in a small way.

Labradorians sense that the provincial government continues to primarily view Labrador through the lens of what Labrador can do for Newfoundland or the provincial treasury. This frustration is not limited to matters concerning the fairness of local benefits from the development of Labrador resources. It is a feeling that the provincial government sees a future *because* of Labrador as opposed to one *in* Labrador. Labradorians appreciate that Labrador will play an increasingly important role in the economic and fiscal health of this province. They do not resent or resist this role. However, what they want to see is a greater commitment on the part of the provincial government to facilitate growth in Labrador for the benefit of the province as a whole. Timely completion of the Trans-Labrador Highway and the utilization of cheap Labrador hydroelectric power to facilitate new industrial development in Labrador are just two examples

of the investments many Labradorians want to see the provincial government make in this province's future.

Labradorians also believe that they do not get the respect they deserve from the provincial government, and that their priorities are often ignored. This is particularly frustrating because of the significant contributions Labrador has made and will make to the province. The message "Labrador feels as ignored by the government in St. John's as Newfoundland and Labrador feels ignored by the government in Ottawa" was conveyed to the Commission by many Labradorians. Progress has been made to better include Labrador's voice and perspectives in decision making. There is a separate Department for Labrador and Aboriginal Affairs, which is headquartered in Happy Valley-Goose Bay. Labrador, with only 5 per cent of the population, presently has two representatives in the provincial cabinet. In the view of the Commission, the Department of Labrador and Aboriginal Affairs must continue to work toward ensuring meaningful and ongoing consultation between Labradorians and relevant federal and provincial departments and agencies on key issues of concern. For this to work, the commitment to greater consultation must be government-wide and not just with the Department of Labrador and Aboriginal Affairs.

One issue that is of ongoing concern is the future of military air training at Goose Bay. Low-level flight training drives the local economy and makes an enormous contribution to provincial and government revenues. The future of air training in Labrador, however, is clearly uncertain. The flights and presence of the allies who train at Goose Bay is in decline. There is an urgent need for the federal government to work with Labradorians and the provincial government to position, enhance and market Goose Bay's air training strengths. Failure to direct immediate and appropriate attention to the future of Goose Bay could be devastating. The Commission appreciates that efforts are already underway, but believes that efforts need to be significantly enhanced with strong leadership from the federal government. On this issue, and many others involving the use of the land, airspace and water in Labrador, governments must be mindful of the interests of Aboriginal peoples and of social and environmental matters.

The Commission believes that there is a growing respect for Labrador and Labradorians in the rest of the province, and that Labradorians sense a changing of attitude and approach toward their needs and aspirations. The frustration in Labrador centres mainly on the pace of that change. The challenge now, for the province as a whole, is to work to ensure that every citizen, whether they live in Labrador or on the Island, is treated with respect.

### *Newfoundlanders and Labradorians as Fully Respected Canadians*

Throughout the Commission's work, there was a great affection expressed for Canada and a great pride about being Canadian. Newfoundlanders and Labradorians are fully cognizant of the enormous contribution that Canada has made to the well-being of their province since Confederation. Canadians have great affection for Newfoundland and Labrador. There exists a strong foundation of respect for the province and empathy for its place in Canada. Polling reveals a positive attitude toward Newfoundland and Labrador; Canadians feel that it is a vital part of the country and that the federal government does not give it the respect it deserves or the financial support to which it is entitled.<sup>20</sup>

While Canadians hold these positive images of our province and its people, it is clear that Canadians do not know Newfoundland and Labrador very well:

Newfoundland's recognition factor in the rest of the world is quite low, and barely extends past the four topics of seals and codfish (both bad these days), oil (mostly good), and nature untamed (very good). This should not be regarded as an unmitigated failure – how high is the recognition factor for Manitoba or Maine? – but investment and tourism would both benefit greatly from an improvement in this area.<sup>21</sup>

Canadians are indeed familiar with outdated stereotypes and past realities. They are much less familiar with the contributions of the province to the Canadian federation.<sup>22</sup> When asked “What is the greatest contribution of Newfoundland and Labrador to Canada?”, an alarming 34 per cent stated “Don’t know.” Not surprisingly, 26 per cent stated that the fishery was our greatest contribution to Canada.<sup>23</sup> The lack of familiarity that Canadians have with Newfoundland and Labrador is particularly striking on the economic front, where the province’s recent growth and diversification have gone largely unnoticed. The province’s economy is viewed largely as one dimensional (the fishery).<sup>24</sup>

During the Commission’s work, many Newfoundlanders and Labradorians expressed concern about the misunderstanding of our province and its people. In the words of Ross Reid, “There is no doubt that if we as Canadians could see ourselves as others see us we would have a completely different attitude toward Canada and what it means to be Canadian; there is no doubt that if we as Canadians could see what it means to be a Newfoundlander and Labradorian we would have a completely different attitude.”<sup>25</sup>

Of particular concern was the persistence of negative stereotypes. The Commission heard countless stories during its visits with young people in schools about the ignorance they faced as part of their cross-cultural experiences with other Canadians. Similar stories were heard from roundtable discussions such as the Expectations Roundtable where participants, who were young adults at the time of Confederation, spoke of enduring numerous acts of misunderstanding over their many years of meeting with other Canadians. Through the Commission’s public hearings, submissions and other interactions with the public, it was one of the subjects which compelled people to speak passionately about our place in Canada. As one participant stated, “The ignorance is not only expressed in Newfie jokes, the repetition of which consolidates an already dismal view of our people, but in the surprise often expressed that someone from Newfoundland is so educated, articulate, and not wanting to party all the time.”

It is true that Canadians are familiar with outdated stereotypes. But what is also clear is that those who *know* the province are least likely to believe that these stereotypes hold any truth. Those who know Newfoundland and Labrador will hold the most favourable view of the province.<sup>26</sup>

So, while residents of Newfoundland and Labrador feel pride in being part of Canada, it is tempered by the consistent feeling that there is a lack of respect on the part of the federal government and other Canadians for our people, and for the contributions we have made to Canada. The poll showed that 84 per cent agree that the province is often ignored by the federal government, 42 per cent feel we are not treated with respect and 47 per cent say we are treated with “a little respect.”<sup>27</sup>

Most worrisome for many is that this lack of understanding and level of ignorance go beyond the Canadian public to become imbedded in the business community and the federal bureaucracy. People from educational institutions, businesses and public servants, both past and present, stated that the negative attitude toward Newfoundland and Labrador is ingrained and difficult to overcome. Worse, many feel there is an overwhelming sentiment, frequently expressed openly in the national media, and quietly echoed by the civil service and the national business community, that Newfoundland and Labrador is a hopeless case.

But there are mixed signals. The Commission also heard from Canadians, and from Newfoundlanders and Labradorians, including those who have moved away, that the province has a strong, positive reputation:

Among English-Canadians, at least, Newfoundlanders have come to be seen as a slightly different breed of human beings who add interest and value to the Canadian mix. This has little to do with the tedious ‘stage Newfoundlander’ phenomenon; Newfie jokes notwithstanding, there is a clear perception among urban Canadians in particular that both the place and its people are in some sense special ... If your most important possession is your reputation, then



Newfoundlanders have not done badly over the past half-century – or at least we have done well at distracting attention from what we have done badly.<sup>28</sup>

Further, it is suggested that we are misplacing our energies in addressing misinformed stereotyping: “Too much time ... is spent on these negative perspectives, and talking about them only reinforces the stereotypes ... accentuate the positive.”<sup>29</sup>

We have strength in this place. We have a distinct culture that empowers us to communicate and build community. We will not dispel negative stereotypes with a massive public relations campaign. Rather, by ensuring we have a strong, confident society, based upon respect and equity for all, we can reshape and build an understanding with each other as Newfoundlanders and Labradorians and as Canadians. It is a renewed understanding and respect that will enable this province to truly pursue a new partnership with Canada. The Commission is confident that there is a foundation of respect and empathy with Canadians; the opportunity is to better educate ourselves and Canadians on the challenges and opportunities that face us.

## Conclusions

The Commission has listened to the concerns expressed by women, Aboriginal peoples, members of other minority groups and Labradorians, and makes the following conclusions:

- Social and economic circumstances which have differing impact on men and women must be recognized and accommodated. Stronger policies must be implemented to facilitate the inclusion of women in decision-making, improve women’s access to training and education, improve gender equality in the workplace, encourage women as entrepreneurs and support women as they face incredible odds in the face of overwhelming out-migration. The Commission supports those who are calling on the Government of Canada to revisit the 1970 *Report of the Royal Commission on the Status of Women*, in order to pursue the improvements needed to ensure the full and equal participation of women in social, economic and political life in Canada.
- Aboriginal peoples must get the respect that can only come from the knowledge of belonging, recognition and legitimacy. For too much of this province’s time in Canada, the federal government has avoided its constitutional and fiduciary responsibilities to the Aboriginal peoples of Newfoundland and Labrador. The federal government must place greater emphasis on bringing clarity to the rights and entitlements of the Aboriginal peoples in this province; priority should be given to concluding land claims negotiations with the Inuit and Innu, creating reserves at Natuashish and Sheshatshiu, finding a way to enable all Mi’kmaq and the Labrador Métis Nation to access federal Aboriginal programs and services and making a final decision on the Labrador Métis’ land claims application.
- Members of other cultures must have the assurance that the diversity they bring is recognized and appreciated as strengthening the social fabric of this province. Only tangible recognitions and the wholehearted celebration of historically disenfranchised people can signal that everyone in this province recognizes that the strengths of this place are no longer primarily the property of traditional power groups.
- The undercurrent of alienation which exists in Labrador cannot be ignored or dismissed by the provincial government and Newfoundlanders. While progress is being made to bridge this divide, the Commission is of the view that government departments and agencies, with the assistance of the Department of Labrador and Aboriginal Affairs, must demonstrate a strong commitment to meaningful consultations with Labradorians on key issues. The Commission further recommends that attention be directed toward access to Labrador energy for domestic and commercial use in Labrador, timely completion of the Trans Labrador Highway, and the future of the Goose

Bay air base. On these issues, and many others involving the use of the land, airspace and water in Labrador, governments must include the interests of Aboriginal peoples and social and environmental matters.

- An integrated approach to social and economic development and strategic cooperation and collaboration among business, labour, the voluntary sector and government is vital. These groups must be meaningfully included in the deliberations and decision-making process concerning the economic future of this province.
- We must ensure that other Canadians understand Newfoundland and Labrador, its challenges and opportunities, and the important contribution it makes to Canada. They need to hear and understand *our* story to know who we are. Therefore, we ourselves must know our own story. Celebrating our culture and working to educate and inform Canadians of this distinct place are vitally important if we are to dispel stereotypes. All expatriate Newfoundlanders and Labradorians are key ambassadors for broadening the base of people who hear our story and recognize the common humanity it reinforces. An improved image is a measure of the pathway to renewal's success more than a component of it. The province's image will improve as its place in Canada improves.

Newfoundland and Labrador society must embrace a common purpose leading to respect in its workplaces, communities and political institutions, so that all groups know that their experiences are valued and their voices heard. That same sense of common purpose and respect must be reflected in Newfoundland and Labrador's place in Canada if the people of this province are to truly feel that, finally, they have found their place.

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“Just as Canada may appear to be treating Newfoundland unfairly, so too Newfoundland treats its aboriginal communities in ways that seem unjust.”

*Excerpt from the Public Consultations*

“The Labrador house has often been divided into apartments, not rooms... each apartment has its own entrance way to get to the landlord who is never home. There are two landlords – one is in St. John's, one in Ottawa.”

*Excerpt from the Public Consultations*

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“Respect for the languages and cultures of aboriginal people is essential to their survival.”

*Excerpt from the Public Consultations*

“Two parent families are now living the life of a single parent family as the men have gone away to work, therefore placing extra burdens on the women who are struggling with everyday issues with children, finding bits and pieces of employment. They are care-givers for the elderly with little family support in place to help them. As well, some families have both parents working away and the children are being cared for by other relatives. One can only imagine the effects this has on the family unit. Seniors are struggling on their own as many of their family members have migrated to other parts of the country.”

*Excerpt from the Public Consultations*

“When I said I was coming to NL, more than one person said “what did you do wrong?”. I wish they could experience what I have experienced ... the quality of life, emphasis on spirituality, the education system. We need to somehow raise our profile in the rest of Canada.”

*Excerpt from the Public Consultations*



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## *Financial Position*

The fiscal position of any province reflects its ability to provide reasonable services to its citizens within a reasonable tax regime while maintaining a reasonable credit standing. Long-term fiscal soundness, in a country like Canada, is a prerequisite to being able to maintain a relatively favourable competitive standing among provinces. The stronger the fiscal position of any province, the greater its ability to attract and retain people and business and in turn to generate economic activity through higher levels of public services and lower levels of personal and corporate taxation. In other words, one of the key measures of any province's prosperity and self-reliance and, therefore, of its position in Canada is its fiscal strength. In the case of Newfoundland and Labrador, its relatively weak fiscal position, characterized by high levels of both taxation and debt, speaks to the need to renew and strengthen its place in Canada.

Newfoundland and Labrador started out in Confederation with a balanced budget and a \$40 million (1949 dollars) accumulated cash surplus. Unfortunately, it also started well below national levels in terms of infrastructure, health services, education services and social services. It has been struggling to catch up ever since. While much has been accomplished, this process of catching up, even with substantial federal fiscal transfers, has been very costly to the province. Furthermore, over the years, some of the strategies of various governments aimed at accelerating economic development proved to be both ineffective and financially burdensome. Overall, the fiscal history reflects persistent budgetary deficits, a virtually uninterrupted accumulation of debt and relatively high levels of taxation.

At various times throughout the past decade, public service cutbacks, wage freezes, layoffs and service reductions have been the order of the day in Newfoundland and Labrador, as elsewhere. Sustained fiscal balance, however, has not been achieved, despite these cutbacks. Much remains to be done and, as in most provinces, there is ongoing pressure to maintain and improve social services. But this province's fundamental financial constraints make it difficult to do so. In order to move forward in terms of achieving its economic and social objectives, the province must strengthen its financial position – a fiscal imperative and a major challenge.

The challenge stems from four fiscal realities: (i) a high and continually mounting debt burden; (ii) relatively high taxes, with limited practical scope to raise significantly more revenue from existing sources; (iii) persistent budgetary deficits; and (iv) insufficient net gains from offshore oil revenues to put the fiscal house in order.<sup>1</sup> The challenge has also been exacerbated by the ongoing population decline.

The purpose of this chapter is to explain these fiscal realities. It is important that these issues be understood and imperative that the renewal strategy reflects them.

### *The Debt*

First, it is necessary to consider the debt situation. The provincial government has run budgetary deficits in almost every year since 1949. In addition, it has incurred debt obligations related to non-budgetary

It is when we compare Newfoundland of today, after a dozen years of what for us has been phenomenal progress, with the rest of Canada that we are brought up by a short turn to the realization of the fact that we have a quarter century at best, and even a half century at worst, to go before we catch up with today's general average in Canada.

Hon. Edward S. Spencer, Minister of Finance  
Newfoundland and Labrador  
Budget Speech, June 22, 1960

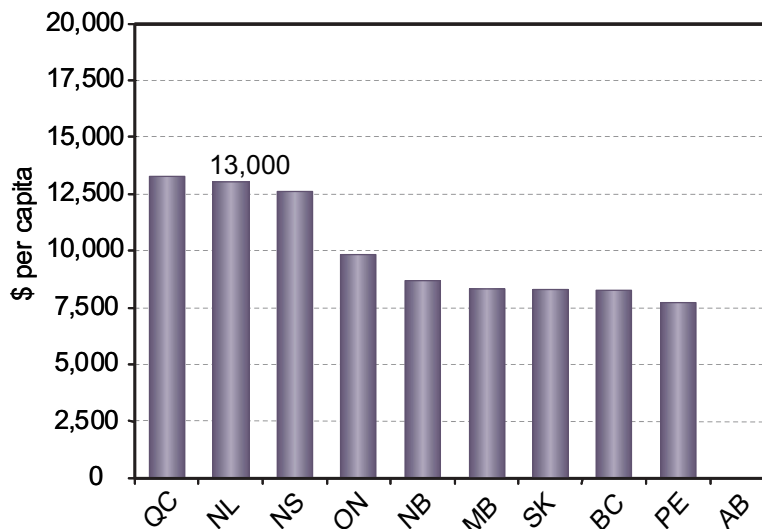


## Financial Position

items, including substantial borrowings in recent years to fund public sector pension liabilities. The result is a continuing escalation in the provincial public sector debt. One measure of the debt is “taxpayer-supported debt,” which is the debt of the provincial government and its agencies other than the debt of self-sustaining provincial Crown corporations, such as Newfoundland and Labrador Hydro.<sup>2</sup> As of March 31, 2003, that debt amounted to some \$6.9 billion. Figure 6.1 shows that the provincial government’s taxpayer-supported debt, expressed on a per capita basis, ranked with the highest in the country, slightly below but effectively tied with Québec’s, at approximately \$13,000 per person.

**Figure 6.1**

### Taxpayer-Supported Debt Per Capita Estimated as of March 31, 2003



**Source:** Data extracted from The Canadian Federal and Provincial Governments – 2002 Overview prepared by the Dominion Bond Rating Service Limited, January 2003. Comparative data based on projections in the respective 2002 budgets.

Compounding Newfoundland and Labrador’s overall debt obligations are the provincial government’s unfunded pension liabilities. These liabilities represent the monies to be paid into pension plans for provincial government employees, teachers and provincial elected officials in order to fund the current pension benefit provisions. The most recent estimate of the unfunded pension liabilities of the provincial government totaled approximately \$3.4 billion in 2002. In per capita terms, this was approximately

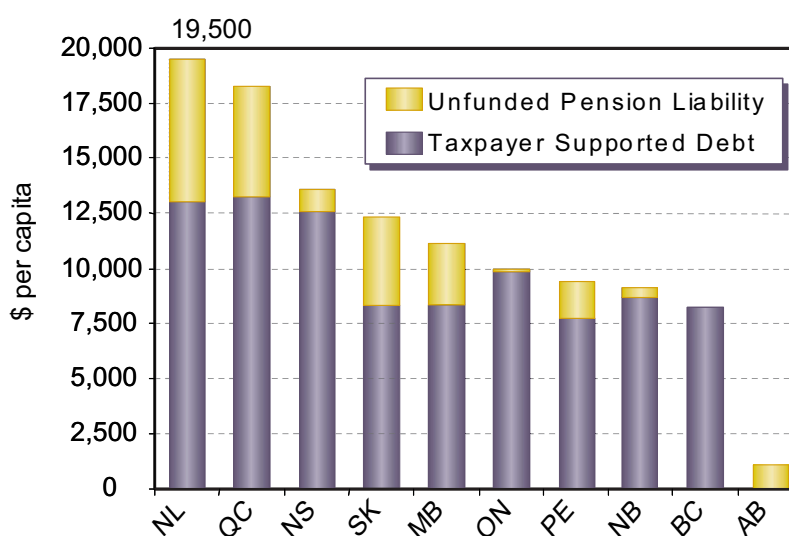
\$6,500, the highest in all provinces. In other provinces, figures range from a high of \$5,000 per capita in Québec to zero in British Columbia.

Adding these pension liabilities to taxpayer-supported debt gives a more complete picture of the provincial debt situation. In the case of Newfoundland and Labrador, that sum indicates a total debt in excess of \$10 billion, which is approximately \$19,500 per capita – an increase of 51 per cent since 1992-93 and the highest level of combined debt in all the provinces, as illustrated in Figure 6.2.<sup>3</sup>

**Figure 6.2**

## Combined Provincial Debt Obligations Per Capita

Estimated as of March 31, 2003



**Source:** Data extracted from *The Canadian Federal and Provincial Governments – 2002 Overview* prepared by the Dominion Bond Rating Service Limited, January 2003. Comparative data based on projections in the respective 2002 budgets.

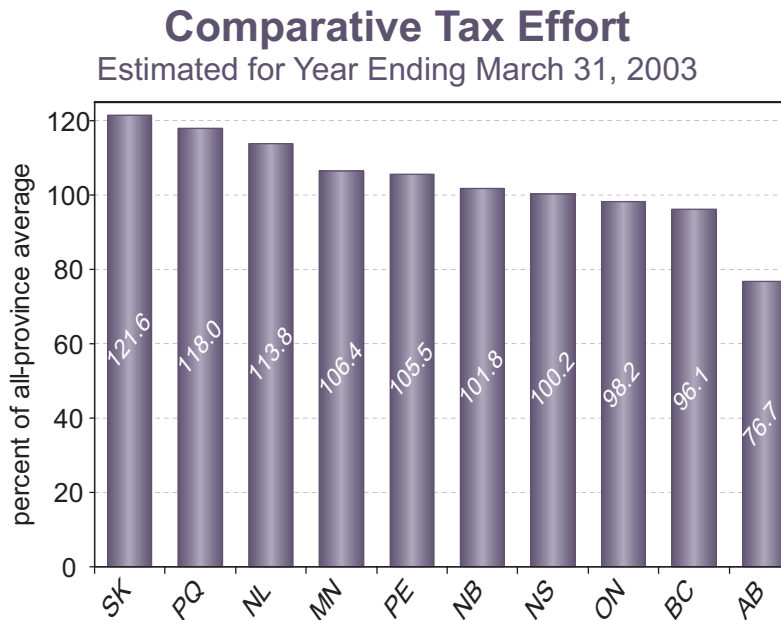
A key financial indicator which places the level of provincial debt in context with the size of the economy is the ratio of debt to GDP. Exclusive of the pension obligations, this province's taxpayer-supported debt-to-GDP ratio was estimated at 44.6 per cent as of March 31, 2003. By this measure, Nova Scotia had the highest ratio at 47 per cent, while Newfoundland and Labrador was next in line. However, in the overall context, when this province's substantial pension obligations are taken into account, our combined taxpayer-supported debt and unfunded pension liabilities amount to 66.7 per cent of GDP, the highest debt ratio of any province. Québec was second highest at 58.4 per cent, while Nova Scotia was next at 50.7 per cent. On a positive note, this province's ratio has come down in recent years, and the 2003 ratio represents a considerable improvement from the level of 82.8 per cent recorded in 1994-95.

The provincial credit rating has an impact on the provincial government's ability to borrow as well as on its interest costs. It is important to note that the province's credit rating has been upgraded in recent years. This reflects a number of factors, including improved debt ratios and key economic prospects. However, Newfoundland and Labrador still holds the lowest overall rating among the ten provinces.

## Tax Levels

Next, it is necessary to consider another fiscal reality: the relatively high tax burden in the province. A large debt and a low credit rating mean that a larger than otherwise share of revenues must be devoted to paying interest on that debt. At the same time, there is growing pressure to spend more on important social services such as health. Raising significantly more revenue through taxes to meet these challenges is not a practical option. Provincial tax effort in Newfoundland and Labrador is the third highest among the provinces, as illustrated in Figure 6.3. The chart indicates that the provincial tax effort is 113.8 per cent, which essentially means that tax levels here are generally 13.8 per cent higher than the average across the provinces.

**Figure 6.3**



**Source:** Department of Finance, Government of Newfoundland and Labrador, based on data derived from federal equalization estimates, February 2003.

It is important to note as well that the province's fiscal capacity, i.e., how much revenue it can raise through taxation, is relatively weak. As of 2003, its fiscal capacity was about 68.5 per cent of the national average.<sup>4</sup> In turn, a weak fiscal capacity reflects a relatively weak economy. It is important to note that, while the province has recorded particularly strong economic growth in recent years, its economic base remains far below the Canadian norm, as explained in Chapter 3. Given the already high levels of taxation, there is a real risk that further tax increases in existing major tax sources would be counter productive – too harmful to the economy to be worth it.

Moreover, other provinces are moving to lower tax rates, especially on income. As the tax rates of other provincial governments' decline, it becomes more difficult for Newfoundland and Labrador just to maintain its relative position, much less improve upon the competitiveness of its tax rates relative to other provinces. In fact, in recent years, budgetary pressures in this province have necessitated the deferral of planned reductions in personal income tax.



## *Budgetary Deficits*

A third fiscal reality is that the current fiscal path has produced persistent deficits and is leading to large deficits, on a “go-forward” basis. One-time revenues temporarily contained the province’s budgetary deficits during the mid 1990s to recent years. In addition, the provincial government’s past methods of budgetary reporting excluded large amounts of borrowing from the provincial deficit, thereby diminishing the reported shortfall.

In the March 2003 budget, the provincial government acted to improve its budgetary reporting by reflecting more of these borrowings directly in the budget. While under the previous method of reporting, the budget projects a \$212.7 million deficit for 2003-04, the budget also reports the “consolidated cash deficit,” which totals \$286.6 million, including a deficit of \$101.6 million on current account.<sup>5</sup> The consolidated cash deficit is a more comprehensive measure of the deficit since it includes provincial government borrowing to finance expenditures undertaken by certain government agencies. If we move away from this province’s traditional method of budgeting to an “accrual” basis of budgetary reporting, which is used by the Government of Canada and the other provinces (in various modified forms), Newfoundland and Labrador’s budgetary deficit for the fiscal year 2003-04 totals \$666 million.

For several years prior to 2003, the budgetary deficits, regardless of how they were reported, were lower than they otherwise would have been due to one-time revenues. Those one-time revenues helped cover increases in program expenditures for a limited time period. Yet the program expenditure obligations are ongoing, and the one-time revenues have now been largely depleted.

Over the past decade, provincial government per capita spending has moved from about 7 per cent above the average of the provinces to 17 per cent above it. Per capita expenditure comparisons with other jurisdictions are skewed by the divergent population trends – the 10 per cent decline in this province and approximately 10 per cent growth in the national population in the last 10 years. Nevertheless, maintaining the current spending patterns in Newfoundland and Labrador, along with the existing revenue regime, points to an estimated go-forward deficit of \$250 to \$500 million when measured on a “consolidated cash” basis. This is not sustainable.

The provincial government is therefore in a difficult financial situation. Its high taxes act as a drawback on the economy; there are strong pressures on the expenditure side of its budget, and its high level of debt creates an ongoing funding burden. It needs to put its fiscal house in order.

## *Offshore Oil Revenues*

The fourth fiscal reality is that it is imprudent to assume that, based on current fiscal arrangements, revenues from offshore oil developments will be sufficient to overcome the go-forward deficit and permit action on debt containment and tax relief.

Without doubt, there are some favourable economic developments and prospects for some positive relief to the troubling fiscal picture in the coming years. Huge investments are taking place in resource development projects such as Voisey’s Bay and the offshore, and there are many small-business success stories. Tourism is growing. The development of the Gull Island hydroelectric site on the Lower Churchill River is a possibility. Employment is growing, and some regions of the province, especially the northeast Avalon, have had much-improved circumstances. Lower interest rates encourage investment and marginally ease the province’s debt-financing burden. Oil production is expected to rise, and another offshore oil field, White Rose, is projected to come on stream in 2005. It is widely expected that, as a result of increasing oil production, GDP will grow at high rates, but likely at very volatile rates, over the next few years.

Yet, the implications of these positive economic events fall well short of providing the solution to the province's major fiscal challenges. A large component of GDP growth (as discussed in Chapter 3), albeit for legitimate reasons, will go to nonresident owners of oil companies; in 2002 more than 20 per cent of GDP consisted of corporate profit before taxes; in 1997, before oil production was significant, only 6 per cent of GDP consisted of corporate profit before taxes. Increases in tax revenues due to other improvements in the economy will, in part, be offset by consequent reductions in equalization. Any development of Gull Island, due to the time required for environmental assessment and construction, would not yield any revenue until perhaps 10 or 12 years after an agreement is finalized.

There is a widely held expectation, both inside and outside the province, that offshore oil developments, and the revenues that would go to the provincial government as a result, will bring financial prosperity to Newfoundland and Labrador. However, it is a totally unrealistic proposition to suggest that offshore oil will transform this province into an Atlantic Alberta. At present, there are only two producing offshore fields and just one other under development. Offshore oil is very costly to develop, which absorbs much of the revenue from commercial fields and makes it uneconomic to develop smaller fields on their own. (Smaller fields will eventually be developed as tie-ins to the infrastructure put in place for the larger projects.) In addition, after the early years of production, the provincial government's revenues from offshore oil will be mostly offset by corresponding declines in equalization payments. While the prospect of reduced dependency on the federal government is a positive development and an aim supported by this Commission, it does not do much to enhance the provincial government's financial flexibility and strengthen the overall net revenue position.

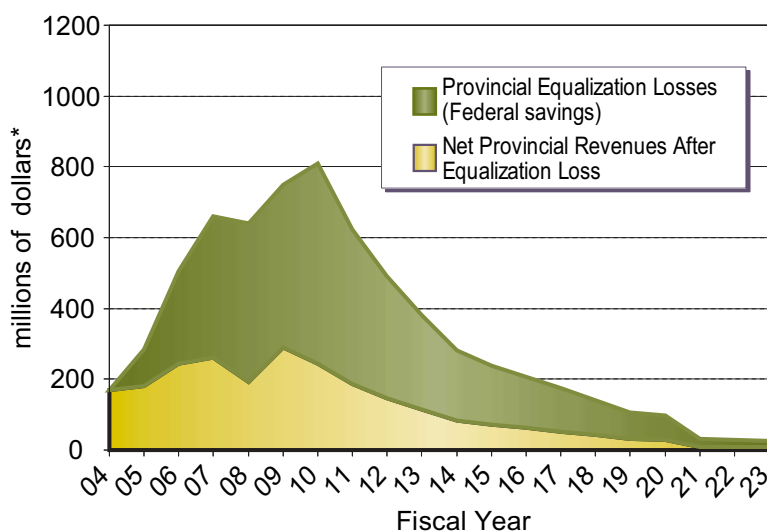
There will be some improvement in that position over the next few years. That is because oil production is expected to increase quite significantly and also because the provincial government has the option of invoking the "offset" provisions in the Atlantic Accord or the equalization program's "generic solution." Offset payments partially, and on a declining basis, compensate the provincial government for any year-over-year reductions in equalization. On the other hand, the generic solution reduces equalization losses arising from oil revenues to 70 cents on the dollar. Still, even these options do not assure the provincial government of either a substantial share of the total tax revenues generated by offshore oil or of sufficient revenues to address its fiscal challenges. The details of those two options will be discussed more in Chapters 9 and 11. For the purpose of the following discussion of the provincial government's financial position and outlook, it is assumed that these aspects of the Atlantic Accord and equalization remain in their current form.

Barring major new commercial discoveries and significant increases in world oil prices, under current sharing arrangements it is unrealistic to expect that net provincial oil revenues will be large enough to alter Newfoundland and Labrador's fiscal position to a material extent. Such a change would likely require (i) doubling the number of fields that are currently operating or under development; (ii) those new fields being brought into production before production in the existing fields begins to fall off significantly; and (iii) the long-term world oil price averaging US\$30 a barrel, in order for this province to have a reasonable chance of shaking the status of fiscal dependency. That would be a great outcome for all parties, including the federal government, which would no longer be paying any equalization to the provincial government and would likely be receiving substantial corporate income tax revenue from the oil companies. The Commission might like to join with others in hoping for and dreaming of this outcome, but reality must be the guide. There are good prospects for further development of offshore fields over time. However, the Commission knows of no evidence that the long-term world price of oil is likely to average US\$30 or more a barrel; and it knows of no evidence that there are three more large commercial fields in the offshore that would be developed before production in the existing fields begins to fall off substantially.

A profile of expected offshore revenues is illustrated in Figure 6.4. Those revenues consist of royalties and provincial corporate income tax revenues from the oil companies. This profile assumes the world price of oil to average US\$28 a barrel in 2003 and, thereafter, an average of US\$24 in constant dollars, i.e., adjusting upward for inflation. In addition, it is assumed that 25 per cent of the oil companies' corporate income tax will be attributed to and collected by this province.<sup>6</sup> This revenue analysis is not intended to be predictive as to the actual outcome, but to be indicative of the relative orders of magnitude based on mid-range assumptions for the key variables.

**Figure 6.4**

### Provincial Offshore Oil Revenues Before and After Equalization Losses



**Source:** Projections based on the existing projects (Hibernia, Terra Nova and White Rose). Data extracted from projections provided by the provincial Department of Finance.

**\*Note:** Constant dollars adjusted for inflation.

As shown in Figure 6.4, with these assumptions provincial oil revenues from the three commercial fields would be substantial; over \$400 million for the years 2006 to 2012. The projections indicate that provincial royalties and tax revenues would peak at over \$800 million in 2010, and then decline rapidly. In the peak year, the \$800 million is split between equalization gains to the federal government in the order of \$550 million and provincial net revenues of about \$250 million.

Figure 6.4 indicates that, with these assumptions and the current sharing arrangements, the province could anticipate receiving net revenues in the range of \$200 to \$300 million a year from offshore oil for the next seven or eight years.

Most significant, perhaps, is the fact that net oil-related revenues in excess of \$150 million are reflected in the 2003 budget. This means that, through the Atlantic Accord, the provincial government is already receiving an amount equivalent to a substantial portion of the net revenues it can expect to realize in the best years of production from the existing oil projects. While provincial revenues and royalties are projected to increase substantially in the coming years, the benefits of the Atlantic Accord diminish and the province's proportionate net share of the total provincial oil revenues will decline. The analysis indicates that the incremental "revenue upside" to the province from the levels budgeted in 2003 would

be in the order of \$100 to \$150 million a year – in the good years. In short, the revenue upside represents an amount roughly equivalent to one half of the consolidated cash deficit in the 2003 budget, and the peak revenues are projected to be short-lived.

By 2012, the net annual revenues from the existing oil projects could fall below the level in this year's budget. While it is possible that additional projects could come on stream in the future, by the time they are developed, only 30 per cent of the associated revenues would accrue to the province – provided, of course, the generic solution is still in place. Such developments might contribute to a moderate improvement in the fiscal projections presented herein, but, on balance, the outlook for the overall financial position of the province remains difficult.

It is crucially important to underline the uncertainty associated with these or any multi-year projections of oil revenues. Long-term oil prices in the order of US\$24 a barrel, in inflation-adjusted terms, are not at all assured. Many would argue that US\$19-20 is more realistic. At US\$19 a barrel, the picture of revenues given in Figure 6.4 would change dramatically and unfavourably. The provincial government's projected gross revenues would likely be approximately 40 per cent less. The provincial government's net revenue, after equalization losses, would fall accordingly, making it a rather modest amount indeed. Furthermore, currency fluctuations, the value of the Canadian dollar relative to the US dollar, will also impact on the revenue streams.

Overall, the financial analysis and budgetary outlook prepared for the Commission indicates that there is some moderate upside in net oil revenues in the coming years. In addition, favourable growth rates in other provincial revenue sources are expected, based on the ongoing high level of activity associated with various projects and developments. However, the analysis clearly concludes that, given the existing levels of government program spending and recent expenditure growth patterns, the provincial government's deficit predicament is not self-correcting. Furthermore, once the one-time revenues are depleted, the core deficit on a go-forward basis is likely to be in the order of \$250 to \$500 million – including a substantial shortfall on current account. (A deficit on current account is tantamount to a family borrowing money to buy groceries – a totally unacceptable situation for even the short-to-medium term.)

In summary, the provincial government's financial position is weak: there is a large deficit for 2003-04; and, barring major policy changes, a continuation of significant budgetary deficits can be expected. At the same time, there is a need to reduce the tax burden in the province; there is a need to address growing spending pressures; and there is a need to curtail the escalation in debt. Revenue from offshore oil will help, but, under current sharing arrangements, it is simply not realistic to expect that this revenue alone would be enough to substantially strengthen the provincial government's financial position.

## *Conclusions*

The Commission has concluded that the provincial government should take immediate action to put the province's fiscal house in order as part of renewing and strengthening its place in Canada. The Commission, therefore, is recommending that:

- the provincial government commit to achieving and sustaining a balanced budget within a specified time frame (such as three to four years), with particular emphasis on the immediate elimination of the deficit on current account;
- the commitment to fiscal prudence be re-enforced by the introduction of balanced-budget legislation; and
- the provincial government conduct an in-depth assessment of its high unfunded pension liabilities and determine if modifications are required in its long-term strategy to address them.

The Commission acknowledges that the restoration of fiscal balance will be a difficult process. It will require serious decisions that could lead, in the short term, to a further deterioration in Newfoundland and Labrador's relative position in Canada.

There are two overriding conclusions that follow from this analysis. First, there is no basis to expect that oil revenues and revenues from general economic growth will be sufficient to overcome the challenges of dealing with the large accumulated debt and the significant unfunded pension liabilities. Secondly, even if, to be optimistic, oil revenues and economic growth were to succeed in overcoming the go-forward deficit, there is still a need to address debt and to ease tax burdens. Sustaining the status quo should not be considered sufficient. Strong fiscal discipline is needed to ensure that revenues from the province's depletable offshore oil resources are used efficiently to strengthen the economy and society.

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“They say that “the Rock is on a roll”. What does that mean to us in outports on the Island if we have no jobs?”

*Excerpt from the Public Consultations*

“There can be no peace in a country or a province or a community where there is no economic justice.”

*Excerpt from the Public Consultations*



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