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Behind the Cod Curtain: A Perspective on the Political Economy of the Atlantic Groundfish Fishery

D Leslie Burke
Department of Fisheries and Oceans

Leo Brander
Department of Fisheries and Oceans

D. Leslie Burke*
Leo Brander**

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This article addresses the collapse of Atlantic groundfish stocks in terms of its significant social and economic impact. How had so many people become dependent on this modest resource? What circumstances contributed to creating a hidden underemployed class in the fishing industry? The analysis adds to the thesis that public support of unproductive industry and income support systems underlie the current crisis, creating barriers to a viable future for the Atlantic Fishery. The authors draw on comparisons with the economy of the former Soviet Union where central planning of an economy based on state owned common property failed to harness market forces and proved unsustainable. They suggest that the common property problem can be addressed by enhancing the security of access to the resource that individuals or groups enjoy, and by increasing user group responsibility for conservation and sustainable exploitation practices. They also advocate the elimination of direct and indirect subsidies to capital and labour which support excessive capacity and ultimately undermine the industry.

No one knows what caused the simultaneous and sudden collapse of so many groundfish stocks over thousands of miles of ocean after decades of hard fishing.[1] As usual, in the face of inexplicable catastrophe, science and sorcery have become entwined. Evil lurks everywhere!

This article will not focus on the causes for the disappearance of the groundfish but on the reasons why this has had such an impact. The paper identifies two changes to public policy which would help to secure a viable future for the Atlantic fishery. *To stimulate discussion, the analysis is presented by drawing parallels between the demise of the Soviet economy and the collapse of the Atlantic groundfish fishery.*

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* Graduate of St. Mary's University and the School of Community and Regional Planning at the University of British Columbia.

** Leo Brander has degrees in economics from Acadia University and McMaster University. Both are with the Program Coordination and Economics Branch of the Scotia-Fundy Region of the Department of Fisheries and Oceans (DFO).

The views expressed are those of the authors. They do not necessarily reflect the views or policies of DFO. The paper is offered to encourage public discussion on how to improve the industry.

1. Annual groundfish landings in Atlantic Canada peaked in 1982 at 820 thousand tonnes. The annual average was around 700 thousand tonnes during the next decade and fell off abruptly to 460 thousand tonnes in 1992, dropping below 300 thousand tonnes in 1993. Preliminary figures for 1994 show a further decline to 140 thousand tonnes. Department of Fisheries and Oceans statistics.

The most remarkable aspect of this crisis may not be the disappearance of cod stocks but the exposure of a false economy based on fish. The extent of that economy is reflected in the large number of individuals who have emerged to claim compensation from the income assistance programs mounted to respond to the emergency.

How had so many people come to be reliant on these relatively modest groundfish resources? The answer lies partially in the fact that wages earned from fishing and fish processing provided about half of the incomes (reported to Revenue Canada) of those who worked in the Atlantic fishery in the late 1980s. Most of the remainder of their incomes (37%) was provided through transfer payments, primarily Unemployment Insurance (UI) from other Canadians.[2] The dependency was greatest in areas where groundfish species predominated. There, transfers exceeded half of the reported income. This was before the collapse.

This income structure is indicative of large-scale underemployment, or hidden unemployment. Sectors of the economy which are less regulated and subsidized tend not to exhibit this problem. Industries which carry too much unproductive labour or capital are out-bid by those which carry just enough, especially in today's global marketplace.

The economy of the former Soviet Union was directed by central planners whose main aim was to support the military. Their plans provided basic commodities and services but giving consumers what they wanted was low on the priority list. The state had a policy of full employment which it achieved by hiding its underemployed in state-owned factories and farms. While there was *apparent* full employment, many workers added nothing to total production. The output of these factories and farms bore the cost of carrying all those labour inputs, productive or not. The result was hopeless inefficiency. Everyone was busy but no labour was available to provide consumer products, or to invest in pollution abatement, or generate many of the services available in the free-market world.

Soviet workers were not unproductive because they were lazy or undereducated. Many of them worked very hard indeed. However, it was wasteful to employ a dozen workers where only six were needed. Furthermore, economic development was impeded by uselessly occupying people who were compensated sufficiently to carry on where they

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2. Statistics prepared for analysis by the Task Force on Income and Adjustment in the Atlantic Fishery show that UI premium contributions by self-employed Atlantic fishers between 1986 and 1990 averaged 7% of benefit payouts. For plant workers, the contribution averaged 10%. Canada, *Charting a New Course: Towards the Fishery of the Future. Report of the Task Force on Income and Adjustments in the Atlantic Fishery* (Ottawa: Communications Directorate, Fisheries and Oceans, 1993) (Chair: R. Cashin).

were, doing what they did, living off the products and services of the rest of the country—until the economic system collapsed. It was the absence of incentives toward adjustment and efficiency which produced this result in the Soviet bloc.[3]

In some respects the experience of the Atlantic fishery has been remarkably similar. We too have witnessed the excessive stuffing of fishers and plant workers into an industry which could have achieved the same output with significantly fewer of them.

Why has this occurred? After all, the fishery operates within a global market economy. Eighty percent of Atlantic fishery products are exported into highly competitive markets. The industry is brimming with technological innovation supplied by that market. For decades, the productivity of fishing and fish processing has been increasing, reducing the labour and capital required to deliver products. In a properly functioning market, mergers or consolidations would occur so that surplus labour and assets could be retired. Not so in the fishery.

Marine fishery resources have traditionally been treated as common property, where all citizens may fish. Common property exists where a resource is shared by many users in a way that excluding others from it is difficult, and where any use by one diminishes the amount available to others. Though access to fishing has been restricted in recent years, the resource was still shared in common by licensed participants, where none "own" a particular share of the fish. This characteristic creates what is often referred to as the "common property problem". The problem has a number of key elements. First, harvesting is typically a race for fish characterized by increasingly effective fleets, increasingly shorter seasons, and a recurring cycle of investment in bigger, faster boats and gear. The race is futile since each effort to increase catching power is matched by others. Second, shared access can lead to over-exploitation of the resource. Without strictly enforced controls, overfishing is inevitable. The powerful fishing pressures which build as a result of the race for fish mentality remain a threat, especially to weaker stocks.

In the Atlantic fishery, limited entry licensing, quotas, and other forms of regulation have been used to control capacity and prevent overfishing. These measures were frequently introduced after capacity exceeded the levels needed for the harvest. The measures reduced the number of participants with common property interests but did not fundamentally address the problem. Enterprise and individual quotas were introduced to some fisheries to create a quasi ownership condition. Individual quotas did arrest, and even reduce, capacity in some fleets. But the security of

3. "Russia's Emerging Market" (1995) 335:7909 *The Economist* 52.

tenure of these quotas was uncertain; the accountability and responsibility for management and control was not placed on individual owners; and the publicly provided controls to monitor catches were so inadequate that misreporting and other forms of cheating occurred. As a result, the measures have only been a partial success.

While fisheries management aimed to protect resources and contain capacity, other forces, supported by public policies, were also in effect. Well-intentioned regional development programs invested public funds to create new opportunities in the industry. This was like adding fuel to a fire, contributing unnecessary assets to the harvesting and processing sectors. Income support programs, especially UI, served to attract and retain labour which could not otherwise have been supported by incomes from the fishery. Fisheries management measures were often tailor-made to maintain redundant capacity both on land and on the water. For example, some measures were introduced to slow the race by handicapping the most efficient operators. Quotas were frequently re-assigned and, in some cases, the number of licences was increased, thus exacerbating the common property problem and undermining the economic viability of all the participants.[4] A vicious cycle was at work in the Atlantic fishery.

What then are the parallels between the Soviet Bloc and the fishery? The fundamental similarity derives from the fact that common property was the underlying basis of both ownership systems.

In the former Soviet economy, decisions about what to produce were dictated by central planners. Market signals—incentives or penalties transmitted through prices and costs to yield profits or bankruptcy—were not present to draw the factors of production (labour and resources) to where they were most needed. Society was built upon a philosophy so preoccupied with the distribution of wealth that its creation, which would have provided a higher standard of living, was neglected.

In Canada, the state played a comparable paternalistic role in planning and controlling fisheries. The distribution of wealth became a major preoccupation. The need to be biologically and economically sustainable was frequently overtaken in policy and decision-making by distribution issues usually aimed at maximising employment. UI and other support programs obfuscated economic reality and created a false sense of security. Demographic patterns were artificially preserved. The need for change was lost. Most tragic of all, younger generations were lured away

4. A.W. May, "The Evolving Atlantic Fishery: A New Way of Life" (Address to Coastal Zone Canada, 1994—"Cooperation in the Coastal Zone", Halifax, Nova Scotia, 21 September 1994).

from education and real economic opportunity by the attraction of a life style consisting of a few weeks of work to qualify for months of state sponsored income. A much lower value came to be set on initiative and self-reliance, thus undermining the entrepreneurial spirit that self-sustaining communities must possess. Ultimately, good intentions aside, subsidies in the common property fishery promoted excessive development of an infrastructure that could neither be sustained nor controlled.

In the Soviet Union, many factors worked to weaken the Iron Curtain and undermine the totalitarian state. Internal structural disparities prevented the efficiencies necessary to sustain the system. Communication technologies informed citizens of the growing gap they faced with the west. Since the collapse, the state has moved to privatize communal farms and to divest itself of the ownership of businesses and factories. New legal frameworks have been developed to support a market based economy. The changes are on an unprecedented scale and have proved extremely disruptive. There have been setbacks and reversals but the movement away from a communal economy continues.

Will the "Cod Curtain" fall in Atlantic Canada? There is already evidence that public support for unproductive industry is diminishing. But success in building a biologically and economically self-sufficient fishery is dependent on two critical changes in public policy.

I. *The Common Property Problem Must Be Addressed*

The inevitability of human responses to market incentives must be recognized in fisheries management programs. Individuals will behave in ways that are beneficial or destructive to the common good, depending on the daily choices they are confronted with. Security of access[5] to the fisheries resource can be improved so that individuals and groups can behave more logically in response to problems and opportunities created by technological innovation and global markets. Increased responsibility for resource conservation can be placed on licence holders. They can be held accountable for using sustainable exploitation practices. These changes have been observed in fisheries with individual quota allocations. They may also be generated in fisheries managed at a local level through allocations to small well defined groups or co-operatives.

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5. Anthony Scott identifies six characteristics by which the quality of security of access can be measured: duration of tenure; flexibility; exclusivity; quality of title; transferability; and divisibility. A.D. Scott, "Conceptual Origins of Rights Based Fishing" in P.A. Neher, R. Arnason & N. Mollett, eds., *Rights Based Fishing* (Dordecht: Kluwer Academic Publishing, 1989).

II. *Direct and Indirect Subsidies Must Be Phased Out*

There are four major forms of subsidization to be addressed.

a) Capital subsidies for fish harvesting should be eliminated immediately. Excess capacity existed long before the current downturn in catches. Subsidies and low interest loans for vessels contributed to this capacity. Public funds merely add to the problems of capital accumulation in common property fisheries.

b) Capital subsidies for fish processing should also be eliminated immediately. Governments have regularly provided assistance to build, to replace, and to maintain facilities, often in direct opposition to market signals. If subsidies (including those to labour discussed below) are eliminated, government regulation of entry and exit from this part of the industry will not be required. Indeed such regulation is more likely to result in the failure of markets to allocate resources efficiently. If changes are made to the harvesting sector which address the common property problem, the processing sector will follow naturally, without the need for regulation.

c) Subsidies to labour, especially UI, must be phased out. It has become a permanent feature of the life style of many in the fishing economy. UI plays as full a role in personal and institutional decision making as do factors such as the state of the resource, work availability, prices and wages, and leisure preferences. UI is rarely used as insurance against unexpected job loss in today's fishery, as it was originally intended, but rather as a resource to be tapped, a set of rules to manage around. The current set of temporary assistance programs must be designed to ease the transition to another way of life, in spite of the difficulties of doing so. The danger is that these programs will come to be accepted as another part of the country's natural resources, as have UI, make-work, and similar programs in the past.

d) The last major form of subsidy, which is not often recognized as such, is public investment in infrastructure, especially in harbour facilities, and in resource management. There are long-standing and still-legitimate reasons for public expenditures on management. Frequently, however, the public has been too willing to accept government provision of services where a little ingenuity would have enabled users to pay their own way. Public funding inevitably results in more investment and service than is really required, meaning that some other needs, public or private, go underfunded elsewhere in society.

A comprehensive examination of public spending is underway in Canada. The exercise is accompanied by a review of the role of government and an emphasis on market-based decision making in the economy. The approach faces rough water in the fisheries. Although there is much talk of change in this sector, there is still a strong inclination to resolve problems by dictating access and redistributing allocations, whether by government directly, or through administrative boards, which is government-once-removed.

The unfortunate collapse of the resource has badly damaged the Cod Curtain. A new course must be charted for a sustainable fishery to emerge.