

Bureacracy, Policy, Economics: The Pathology of Fisheries¹

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Abstract. After declining rapidly because of low fish stocks in the early 1970s, the Newfoundland fishery — harvesting and processing facilities, and employment — expanded severalfold during the four years following adoption of the 200-mile limit. The expansion collapsed into bankruptcy during the 1981 recession. Through government intervention the industry was saved, only to collapse again, through stock decimation, a decade later. The growth of the 1970s bore the seeds of the collapse of the 1990s. How did the fishery bureaucracy, politics and economics interact to permit the expansion when it was recognized by nearly everyone concerned that the fishery was already overcapitalized and that more factors, capital and labor, were not required to catch and process the increased anticipated harvests?

Keywords: fisheries management, overcapacity, 200-mile limit

1. Introduction

Why did the federal government of Canada, which knew better, allow the fishing industry in Newfoundland to grow enormously during the period immediately following the declaration of the 200-mile fisheries control limit, effective January 1, 1977?

The question is an important one. The major consequence of this growth was the addition of capacity to an industry already suffering from overcapacity. The building in of excess capacity at this time was a major cause of the overfishing which in the early 1990s led to the collapse of Newfoundland's groundfisheries. With that collapse came income support expenditures in the billions of dollars. The dislocation to people's lives and to the economy of Newfoundland were enormous. Even now, nearly a decade after the collapse, there are still far too many fishermen in the industry and, desperate to continue making a living from the sea, they constantly put pressure on the federal government to allow them to fish weak stocks which, they say, are recovering. The scientists often disagree.

Newfoundland was not the only jurisdiction to see a major expansion of its fishery after 1977. It was not the only jurisdiction to have seen a collapse of its stocks. Reflection on the events of Newfoundland may provide some insight into what happened elsewhere.

2. What Happened

Was there, in fact, a large expansion after January 1, 1977?

Did the federal government know better than to allow the expansion?

First, there was such an expansion. Between 1976, when the fisheries department, now and throughout this paper known as DFO, was planning for the 200-mile limit, and 1981 when the fishery, which was totally dependent on US markets, collapsed financially in the wake of the Reagan recession, the number of fishermen, the value of inshore vessels, the freezing capacity of fish plants, unemployment insurance benefits paid to fishermen, and outstanding loans of the provincial Fisheries Loan Board (which lent money to inshore fishermen for vessel construction) all tripled. The number of inshore vessels and the value of offshore vessels doubled. There can be no question that the expansion occurred.

Second, the government knew better. Actually, two federal departments play a role in my story. The first, of course, is DFO. The second is DREE, the Department of Regional Economic Expansion, part of whose job it was to grant money to businesses under the *Regional Development Incentives Act* (RDIA) to encourage investment and employment, primarily in the poorer regions of Canada. Each of these departments in 1976 issued reports on the anticipated benefits of the new fishery control limits. DFO,

¹ This paper is a brief synopsis of a highly annotated and much longer draft report that is largely based on files located at the National Archives of Canada in Ottawa.

in its *Policy for Canada's Commercial Fisheries*, emphasized that overcapacity already existed in the industry, making it clear that there were too many boats and too many fishermen in the harvesting sector and too many plants and too many plant workers in the processing sector. DFO had long been aware of the problem. In 1970, DFO had asked the Canadian Cabinet for authority to reduce the number of eastern Canadian fishermen by half. The authority was refused. The 1976 policy concluded that "the prospect of Canada achieving extended offshore jurisdiction does nothing to lessen the urgency of the matter [of rationalizing the fishery to render it economically viable] ... even with extended jurisdiction, it will take years to restore fish stocks to a point where Canadian catches may be improved significantly." This sounds to me like a warning that Atlantic Canadians should not expect increased employment in the fishery in the near future. DREE agreed. In a report, *Community and Employment Implications of Restructuring the Atlantic Fisheries*, which also appeared in 1976, DREE focused on the excess capacity that existed in the industry, concluding that the anticipated industrial restructuring was likely to reduce, not increase, total employment in the industry.

There can be no question about whether or not DFO and DREE understood the economic state of the Atlantic fishery and knew that what was required to create a viable fishery were reductions in employment and physical capacity.

Were there reasonable prospects of creating a viable industry at that time? The mid- and late-1960s saw Newfoundland's fish stocks, particularly its northern cod stock, decimated, largely by foreign distant water fleets. A substantial drop in catch followed, and between 1969 and 1974 the number of licensed fishermen was reduced by one-quarter, not because of government policy, but because of the economic state of the fishery.

With the 200-mile limit, foreigners for the most part would be removed from the fishing grounds. True, the stocks were low, but it was anticipated that they would recover and with the recovery would come an increased domestic catch. Had the number of fishermen been held constant and the vessels and plants been modernized with capacity not substantially expanded, then I suspect that an economically viable fishery could have been created at that time.

3. What Went Wrong

What, then, went wrong? First, in the context of the chronic desperate economic state of Newfoundland, the

public, if not the public officials, saw salvation in the anticipated expansion of the Canadian fishery. And the public were in a hurry to see improvement in their economic state.

The unemployment rate in Newfoundland consistently runs at twice the national rate, and the relatively low rate in the city of St. John's is counterbalanced by higher rates in the rural areas of the province. Therefore, it stands to reason that every fishing village wanted a plant for its employment potential. The provincial government tended to encourage the building of such plants. Since it was federal and bank money that was financing the projects, and federally subsidized unemployment insurance benefits that made them "viable," it cost the provincial government nothing and the provincial government garnered votes for having offered the community its support.

The second driving force was the local reaction to the expansion in Newfoundland of a "foreign" firm from Nova Scotia. H.B. Nickerson and Sons was seeking to become a major participant on the world stage in the growing international trade in fish products. The only potential major new source of fish for Nickerson's to sell was the expanding northern cod fishery of Newfoundland. But Nickerson's could not simply send its trawlers to the Grand Banks and bring the fish back to Nova Scotia for processing. Since Newfoundlanders had a claim to fish that were in adjacent waters, there would have been serious negative political repercussions if the federal government allowed non-Newfoundlanders access on a large scale to fish stocks in those waters. A federal government that permitted such exportation of Newfoundland fish could kiss away Newfoundland's seven seats in the House of Commons. To avoid these anticipated political repercussions, Nickerson's formed joint ventures with Newfoundland companies. Thus were born such companies as Triton Seafoods Ltd., Jackson's Arm Seafoods Ltd., and St. Barbe Seafoods Ltd. Nickerson's would handle the marketing of the products of the plants that these companies proposed to build with RDIA money. As the Nickerson empire in Newfoundland grew, the local firms not affiliated with Nickerson's, knowing that there already was overcapacity in the industry, panicked at the thought of their diminishing relative role in the Newfoundland fishery that they had long dominated. They then played catch up by increasing their capacity, although they were well aware that in economic terms this was a dangerous game for them, as it ultimately proved to be. The public, needless to say, encouraged and were encouraged by the local firms' expansion.

The net effect of these two factors, unemployment and the expansion of Nickersons's, was that both the business and working classes of Newfoundland pushed for as great and as rapid expansion of the fishery as possible. The federal and provincial governments had the legal power to control the expansion but they would have had to resist actively the pressure being exerted by the populace. The provincial government was not inclined to resist at all. The federal government was inclined to resist but it tread warily. The situation was not helped by jurisdictional issues.

First there was the question of federal and provincial jurisdiction. Under the Canadian constitution, fish harvesting matters come under federal, not provincial, control. Canada therefore had a department of fisheries from its inception in 1867 and this federal department was responsible for all things connected to harvesting. Jurisdiction over fish processing was not decided until a 1929 British Privy Council decision that, rather than processing being incidental to fishing, and thus subject to federal control, landed fish became property and therefore fell under provincial jurisdiction. By the 1970s, fish processing plants required a provincial license to operate. Yet, private fish processing firms could apply to DREE for federal RDIA grants. Since the existence of such funding often determined whether a plant would be built or expanded, the federal government at this time gained a considerable influence over the processing sector. Further, because expanding fish processing capacity requires increased supplies of caught fish, DFO as the guardian of the fish stocks also came to have an influence on RDIA funding and therefore on the expansion of the processing sector.

Second, there was the structure of DFO towards the end of the 1970s. By 1979 millions of RDIA dollars were being spent on fish processing facilities in Newfoundland. The relationship between DFO and DREE was therefore of considerable importance and the need for clear lines of responsibility both between the two departments and within DFO should have been obvious. Yet, late in 1978, DFO was reorganized with the creation of two new positions: an Assistant Deputy Minister of the Atlantic Fisheries, the ADM Atlantic, and an Assistant Deputy Minister of Fisheries Economic Development and Marketing, the ADM Development. Should the ADM Atlantic be consulted on grant applications for plant expansions on the east coast, or should the ADM Development have this responsibility? After a flurry of correspondence, the matter was settled in June 1979 with control entirely in the hands of the ADM Atlantic. The ADM Development, in his last major memorandum to the ADM Atlantic on the subject, insisted that he play an active

role in approving the grant applications. With those determined words, he disappears from the picture. This minor turf war may have had significant implications. The ADM Development, who was an economist, had expressed an interest in the economic implications of approving the grant applications. Under the ADM Atlantic, who was a fisheries biologist, these implications of the RDIA proposals were given little attention by DFO, which focused almost exclusively on the implications for the fish stock. To do the ADM Atlantic justice, he was under pressure from DREE to limit his analysis in this way. One can only speculate on what would have happened had the internecine turf war within DFO been resolved differently.

Third, after provincial and federal jurisdiction issues, and the question of jurisdiction within DFO, there was the question of the relative importance of DFO and DREE in evaluating RDIA applications. Having gained power within DFO, the ADM Atlantic then tried to expand DFO's influence regarding RDIA applications. In March 1981, a formal agreement finally was signed between DREE and DFO concerning who had responsibility for what. But it is clear that long before this date, DFO had essentially gained veto power; if DFO reported that in its opinion there were insufficient fish resources for the plant to operate under the conditions specified in the RDIA application, then the DREE money would not be granted. From internal DREE memoranda, it is clear that DREE was prepared to defer to DFO.

How did DFO use its influence in deciding on RDIA applications? There were hundreds of fisheries RDIA applications during the period under consideration. Many of the applications were approved. Some were rejected. A number were withdrawn by the applicants when they were warned that their applications would be rejected, often because of technical violations of the regulations. Direct pressure could be applied to officials but, as we shall see in the St. Barbe case discussed below, direct pressure could be successfully resisted, at least in certain circumstances. Overall, however, DFO "bent over backwards" to find reasons to support most of the RDIA applications. Most were approved and the great expansion described above occurred. I will take two examples from the mass of available evidence to show how political pressure was applied in different ways, and how DREE and DFO responded to that pressure.

4. Case Studies

My first example shows how sympathy for the people of an area could be the predominant factor. St. Lawrence, a town in southeastern Newfoundland, was a

typical fishing outport during the first third of the twentieth century. After a tidal wave in November 1929, the fishery was destroyed and never recovered. A few years later a fluorspar mine opened and that industry dominated St. Lawrence until the last mine closed in February 1978. There was no local employment thereafter for hundreds of displaced miners.

A local development committee was formed to pressure the provincial government for economic assistance. Fishery Products Limited (FPL), the largest Newfoundland fish processor at the time, had eight plants in Newfoundland, two more or less in the neighborhood of St. Lawrence. There was no need for fish processing capacity in St. Lawrence, nor did FPL need the capacity. Yet with the prospect of federal funding and special access to offshore fish, FPL submitted an application and ultimately received a million dollar grant to help build a plant in St. Lawrence. The rationale for the project was that there was a short period during the summer when there would be a fish glut and the St. Lawrence plant would enable all of the formerly glut fish to be properly processed. This rationale for building a plant, which was used in many cases besides the St. Lawrence one, ensured that more overcapacity would be built into the system. The plant would only be useful for a very small portion of the year. Clearly, the "need" for a plant was non-existent. Because at senior DFO levels there was a belief that something had to be done for the people of St. Lawrence, the application was approved. All of the explanations used to justify the building of the plant were in essence excuses to ensure that employment would be generated for the displaced miners. While this is a worthwhile goal, it runs counter to conservationist and economic principles. If this were an isolated case of a single fish plant being built unnecessarily, then perhaps it would not matter from a conservationist standpoint. The case of St. Lawrence, however, is just an extreme and obvious example of what happened on a large scale throughout Newfoundland. Unnecessary plants were built with federal financial help, the grants being made under pressure from workers seeking employment and firms seeking subsidized capital. Ultimately there were too many plants, too much pressure on the fish stocks, and too many families dependent on the fishery. We have seen that the consequences were the collapse of the fish stocks, the human dislocation, and the very expensive income support programs of the 1990s.

My second example of the way political pressure worked concerns the community of St. Barbe. In 1978, a local development group requested support for the construction of a fish plant, citing two reasons: an unemployment rate of 70% in the area; and a periodic glut period of several days, most recently manifest in 1977,

when local inshore fishing had to stop. A new fish plant would provide employment and would render fish gluts a thing of the past.

Whether St. Barbe Seafoods Ltd., one of Nickerson's joint ventures, was in any way responsible for the earlier petition is unknown, but in April 1979 the firm filed an application with DREE requesting RDIA assistance to help build what would have been, with 80,000 square feet of floor space, a cost \$10M, and with a capacity to process 31 million pounds of fish a year, the largest fish plant in Atlantic Canada.

DFO unequivocally recommended rejection on the grounds that there were not, and would not and could not be, adequate fish for processing. DFO rejected an imaginative argument of Nickerson that northern cod migrated through the Strait of Belle Isle to the St. Barbe area, an idea not heard before, or since. The provincial government, always pleased to have a source of employment in an outport at no cost to itself, and with no obligation to rationalize its actions in relation to federal policies, of course licensed the plant.

Suspicious that his application was in danger of a DFO veto, Nickerson in August 1979 sent a blistering letter to the new DREE minister, explaining what a major employer his company had become (\$20M annual payroll), the role of DREE ("the purpose of the program is to create jobs and encourage capital investment"), and warning against placing too great a reliance "on other departments [meaning DFO] which appear to have a negative attitude toward our projects." Nickerson went on to attack the quality of DFO science since DFO's stock assessments were the main justification offered by DFO for rejecting RDIA proposals. Despite the implied threats, and the condescension, there is no evidence that Nickerson's intervention had any effect on either DREE or DFO.

At just about the time when this letter was sent, Nickerson's was warned that the proposal in fact would be rejected. Nickerson's then submitted a modified proposal that also received a negative recommendation from DFO. After DFO's negative response had been sent, the ADM Atlantic wrote to his DREE counterpart that "notwithstanding the negative result of the analysis of our regional office, our departmental position is that we would not be opposed to funding under RDIA if the applicant otherwise meets RDIA criteria."

Why would a senior official act to sabotage his own department's decision? Obviously, he had come under pressure. To its credit, DREE held the line in face of DFO's wavering. I do not have time to go into the various forms of

pressure on DREE and DFO to approve the project which were exerted by Nickerson, by the local community, by certain federal agencies, and by the provincial government. Nonetheless, DREE finally rejected the application.

In response to the rejection, there was a mass protest meeting. DREE and DFO were represented at the meeting, which was attended by “a large number of fishermen,” the local M.P., Brian Tobin (now premier of Newfoundland), H.B. Nickerson and some of his senior executives and local businessmen. As a result of this meeting, DREE, which had previously stood firm when DFO weakened, now weakened itself and essentially asked DFO to reconsider. DFO now held its ground and the plant was never built.

So, under pressure, DFO could resist. Direct pressure was clearly not as effective in St. Barbe as it had been in St. Lawrence in gaining approval for the fishery expansion projects.

Yet the political ambience assured that DFO accepted enough marginal projects so that it did not have to face too many St. Barbe type imbroglios.

The nature of the St. Barbe affair suggests yet another reason why the projects were usually accepted and the great overexpansion was permitted to occur: the civil servants’ incentive structure was awry. If a civil servant, and his or her department, rejected a proposal, they could expect to be subject to a barrage of attack, an unpleasant and potentially career damaging experience which was to be avoided. Yet if a marginal project were approved, proved unviable, and failed with a loss of even millions of federal dollars, there were no dire consequences for either the civil servant or the department. Such an incentive system encourages approval rather than rejection of projects, regardless of the economic consequences.

I do not have time now to review other RDIA applications. Of the two diverse cases that I have selected, one was approved for reasons of charity. The other was rejected despite terrific pressure which, at various times, caused either DREE or DFO to waver. Fortunately, in that case, both never wavered at the same time.

5. Conclusion

I asked the former ADM Atlantic about his response to pressure. He claimed that he usually could resist direct pressure, that was not the major problem. What I found most interesting in his comments was not what he said about direct pressure, but what he said about the political ambience in which he worked: he recognized that given the state of the Newfoundland economy, DFO was predisposed to accept the applications. The general political ambience was such that most of them simply had to be approved. No additional pressure was necessary.

As economists, we develop optimal policies and then often wonder why they do not get implemented. DFO and DREE understood the situation in the late 1970s and yet they permitted disaster to occur. Knowing is not enough. What is required is an understanding of the political ambience surrounding the policies and the ability to modify the policies to address adequately the political concerns. That is the pathology of fisheries. It is often impossible to balance the requirements of politics and optimal policy. Politics will win every time.