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## “Develop or Perish”: Joseph R. Smallwood and Newfoundland’s Quest for German Industry, 1949-1953

IN ITS FIRST FIVE YEARS as a Canadian province, Newfoundland embarked on a spectacular course of government-subsidized rapid economic development which led to the establishment of some 20 new secondary industries, 16 of them built by firms or businessmen from Germany. Five of these “German” industries failed within five years for a variety of reasons. Five of them survive today, although under different ownership.<sup>1</sup> Compared with the experience of secondary industries in the Maritimes or in Newfoundland’s earlier history, the overall record of these industries does not appear particularly unfavorable. At least ten of the industries from Germany and their spinoffs contributed notably to the rapidly changing economy and the modernization of life in post-Confederation Newfoundland. Moreover, the international publicity surrounding the recruitment of these industries put Newfoundland on the map for foreign investors and helped make subsequent resource development, such as the Churchill Falls hydro-power project, possible.<sup>2</sup> Today, the existence of successful cement and

The research for this study was facilitated with financial assistance provided by Multiculturalism Canada. Among the persons interviewed and consulted I am particularly indebted to Dr. Bobbie Robertson, former Canadian Trade Commissioner for Newfoundland, who has generously shared her wealth of information with me. Without the help of Nancy Grenville of Memorial University of Newfoundland’s Centre for Newfoundland Studies, who enabled me to examine its collection of Joseph R. Smallwood’s personal papers before these had been properly ordered and indexed, this study could not have been undertaken. Most of my references to documents from this collection are according to the original order in which the Smallwood papers were received (file titles and box numbers), which has since been changed by the Centre. The credit for translations from Latvian-language sources belongs to Arnis Lucis, St. John’s. All translations from the numerous German-language sources are my own unless indicated otherwise. The identity of some of the interviewees is confidential due to the sensitivity of certain issues.

- 1 The 16 industries, including one from Austria and three initially managed by Latvians who had fled to Germany in 1945, were in the following sectors of production: cement, gypsum products, machinery and construction, cotton products, shoes, films and electronics, general construction, textiles, knitwear, chipboard, leather goods, leather tanning, leather garments, batteries, rubber products, gloves. The latter five folded within five years while the first five still exist today.
- 2 Philip Smith, *Brinco: The story of Churchill Falls* (Toronto, 1975), pp. 15 ff. relates that in September 1952 a decisive breakthrough in negotiations with the Rothschilds in London was achieved only when Smallwood threatened he would be “off to Germany right away to offer his concession to companies there...no doubt he would get a better reception there than he had in London”.

gypsum industries in the province enables the present government of Newfoundland to base its offshore strategy on the construction of concrete platforms.<sup>3</sup>

Yet Premier Joseph R. Smallwood's "new industries" programme, or whatever little is known about it,<sup>4</sup> has become as controversial as the slogan "develop or perish", by which it is remembered. Originated by the Leader of the Opposition in July 1949 as a taunt, the words were eagerly appropriated by Smallwood as a banner for his new strategy of economic development.<sup>5</sup> Posterity's attention has become riveted on those of the new industries that failed conspicuously, and the "new industries" of the early 1950s have become a favorite whipping boy for Newfoundland's growing rate of unemployment, indebtedness, economic stagnation and dependency.<sup>6</sup> This negative image is the result not only of Smallwood's inability to fulfill his exaggerated promises of rapid industrialization that was to change radically Newfoundland's fortunes within Confederation, but also of the trial of Latvian-born Alfred A. Valdmanis, who from May 1950 to February 1953 was Smallwood's director of economic development. Valdmanis' conviction in September 1954 on a charge of having defrauded the Newfoundland government of kickbacks extorted from a German firm triggered speculations about the complicity of the managers of Newfoundland's "German" industries.<sup>7</sup> It gave rise to never-ending questions about Smallwood's tactics of industrial development, his reliance on outside experts, his fiscal policies, his system of patronage and ultimately about the very wisdom of establishing secondary industries in Newfoundland.<sup>8</sup> Today, it is assumed that Smallwood's decision in 1949-1950 to launch new industries was an unnecessary and avoidable gamble and that he rejected other options. It is also assumed that the Germans' and Latvians' reason for coming was to exploit Newfoundland by demanding

3 Premier Brian Peckford in "Crosstalk on Radio Noon", CBC St. John's, 12 February 1985, explained that he preferred concrete over steel platforms because Newfoundland already had a cement industry and didn't have a steel industry, and concrete platforms would thus provide many more jobs.

4 So far, the new industries programme has been reviewed in some detail only by Richard Gwyn, *Smallwood: The Unlikely Revolutionary* (Toronto, 1972). His judgement, summed up on p. 168, is the prevailing view today: "Had Smallwood literally taken \$10-15 million and burnt it in a bonfire atop Signal Hill, the end result, in terms of Newfoundland's progress, would not have been greatly different". According to Smallwood (in a letter to E.A. Leja, 20 November 1968, Personal Papers of E.A. Leja, in private possession) Gwyn's book "contains over two hundred inaccuracies, mis-statements and/or misquotes".

5 *Proceedings of the House of Assembly of Newfoundland*, 20 and 28 July 1949.

6 See Ralph Matthews, "The Smallwood Legacy: The Development of Underdevelopment in Newfoundland, 1949-1972", *Journal of Canadian Studies* XIII, 4 (1978-79), pp. 89-108, and Brian Peckford, *The Past in the Present* (St. John's, 1983).

7 Gwyn, *Smallwood*, Chapters 14 and 15.

8 See Herbert F. Pottle, *Dawn Without Light: Politics, Power and the People in the Smallwood Era* (St. John's, 1979), and David G. Alexander, "Development and Dependence in Newfoundland, 1880-1970", *Acadiensis*, IV, 1 (Autumn 1974), pp. 3-31.

subsidies and by importing antiquated equipment and "no dollars".<sup>9</sup> The validity of this harsh verdict needs to be reexamined in the light of the available primary evidence which allows an analysis of the background to the recruitment of industries from Germany and the circumstances under which they were introduced.

Few would deny that Newfoundlanders opted for Canada in 1948, not because they liked Canada or Canadians, but because Smallwood had managed to convince them that Canada stood for a much higher standard of living than the economic and social order of pre-Confederation Newfoundland could ever provide. In the populist vein of William Coaker, Smallwood articulated this desire of the forgotten people from the outports, the "toiling masses", as he called them. In the rhetoric of his political symbolism the stark contrast between the promise of vast material progress under Confederation and the dire prospects under the traditional order of the dominant fishocracy were two sides of the same coin.<sup>10</sup>

In his campaign for Confederation, Smallwood advertised the advantages of union primarily as the extension of the material benefits of the Canadian welfare state, as well as the lowering of the cost of living resulting from the abolition of Newfoundland's high protective tariff. But he also envisaged the likelihood of a self-sustaining prosperity based on the systematic exploitation of Newfoundland's undeveloped natural resources and the processing of these in Newfoundland. As early as February 1947, Smallwood criticized the Newfoundland Industrial Development Board, an agency of the local business community, for not encouraging the production of Portland cement when all the ingredients for it were available on the island.<sup>11</sup> Furthermore, he refused to view the local possibilities of manufacturing birch, limestone and sawdust products and of processing seal skins, seaweed, fish offal, and wool from sheep, for instance, merely from the vantage point of Newfoundland's self-sufficiency. "We must export or die", was Smallwood's message to the National Convention on 10 February 1947. "We must export our fish, our paper and our minerals. Whatever lies in our power we must do to help industries bringing money into this country".<sup>12</sup>

The roots of Smallwood's conviction that Newfoundland's salvation lay in industrial development can be traced to the beginnings of his political career. The outside observer of Newfoundland's economic and social history is struck by the lack of faith that the island's political leaders, in contrast to those of Iceland and Norway, have persistently displayed in the fishery as the obvious economic base.

9 Gwyn, *Smallwood*, p. 149 ff. and Pottle, *Dawn Without Light*, p. 105.

10 See Robert Paine, "The Persuasiveness of Smallwood: Rhetoric of *Cuffer* and *Scoff*, of Metonym and Metaphor", *Newfoundland Studies*, I, 1 (Spring 1985), pp. 57-75.

11 "Proceedings of the Ninth Sitting of the Second Session of the National Convention, Friday, February 7, 1947", p. 3, Centre for Newfoundland Studies [CNS].

12 "Proceedings of the Tenth Sitting of the Second Session of the National Convention, Monday, February 10, 1947", pp. 2-6, 13, 16 ff., and "Report of Local Industries Committee", CNS.

Smallwood inherited this traditional yearning for land-based industrial development. Starting his political career as a newspaper reporter with socialist leanings, a union organizer and an ardent admirer of Prime Minister Sir Richard Squires, he stated his convictions as early as 1931 in his book *The New Newfoundland*. Hailing Squires' successful efforts to establish a second pulp and paper mill in Corner Brook, he regretted that the resulting industrial boom had not begun half a century earlier. Declining overseas markets made fishing increasingly unprofitable, he argued, and industrialization was the only alternative to depopulation, poverty and bankruptcy. By 1946, Smallwood had become convinced that only union with Canada would realize this dream of a "New Newfoundland".<sup>13</sup>

No evidence can be found to support a widespread local belief that Smallwood ever advised the fishermen to "burn their boats".<sup>14</sup> However, he left little doubt that any improvement of the fishery could result only from a general land-based economic development. As Smallwood stated in 1953, "The day is gone in Newfoundland when the only way to help the fisheries is to help the fisheries, that day is gone". And his Minister of Fisheries had spelled out the reasons for this in April 1952: "It will take millions to do what must be done in the fishing industry, and it will take many millions more to raise our standard in other directions. Where are these millions to come from?"<sup>15</sup>

Smallwood and his predecessors are often criticized for their preferences of economic development. Few have tried to inquire into the reasons why a strategy that seemed to build "on Newfoundland's weaknesses not her strengths"<sup>16</sup> received such wide acceptance. The undoubtedly formidable political, economic and social obstacles to a reform of the fishery provide only part of the answer. The more important half of the answer seems to lie in the realm of social psychology. To the extent that Newfoundlanders began to identify as North Americans, turned away from Europe and aspired to North American standards of living, they began to perceive the unreliable fishery as innately backward and as the cause of their deprivations and poverty. The advent of Confederation witnessed a large-scale, essentially short-distance, migration in search of better living conditions in larger urban centres. The movement appeared to be spontaneous and "without any directing force". According to *The Evening Telegram*, Newfoundlanders were abandoning hundreds of small secluded settlements, apparently not primarily to seek work, but rather for such amenities as "schools, roads, electric lights, water and sewer facilities, and for social life and entertainment". By June 1953, it was estimated that Newfoundland's 1,300 settlements had been reduced to 1,000 and hundreds more were

13 J.R. Smallwood, *The New Newfoundland* (New York, 1931), p. 8 ff., and *I Chose Canada: The Memoirs of the Honourable Joseph R. "Joey" Smallwood* (Toronto, 1973), pp. 235 ff.

14 F.W. Rowe, *The Smallwood Era* (Toronto, 1985), pp. 41 ff.

15 *Assembly Proceedings*, 9 March 1953, 8 April 1952.

16 Rosemary E. Ommer, "What's Wrong With Canadian Fish?", *Journal of Canadian Studies*, XX, 3 (Autumn 1985), p. 130.

about to be deserted. At the same time it was noted with alarm that "the traditionally frugal Newfoundlander was learning spendthrift habits, and becoming accustomed to living on credit. Not only cars, but washing machines and every imaginable household appliance was being bought on long-term loans".<sup>17</sup> It was obvious that Newfoundland's union with Canada had triggered a social, cultural and psychological revolution of unparalleled dimensions in the island's history. Since "the levels and patterns of North American consumption were the goal", David Alexander has suggested, "it is not surprising that development strategies to achieve it were imported as well".<sup>18</sup>

Smallwood was acutely aware of the fact that, once the fringe benefits of Confederation began to raise the standard of living in Newfoundland, an increasing number of fishermen would abandon the fishery. They would do so not only because fishing was unprofitable but also because the aspirations to a North American way of life appeared irreconcilable with a life centred around outport fishing. As Smallwood stated in 1954:

No matter how modern you make that fishery, no matter how attractive you make it for the people to live in such a settlement, what chance has the fishery there? I say the problem is largely a problem of people, their likes and dislikes...the standard of living they demand to have now is not the standard of living that seemed somehow to leave them fairly contented, fairly happy, thirty years ago.<sup>19</sup>

Smallwood and his colleagues worried what the young fishermen would do if the teenage girls decided to leave the outports and went off to St. John's or Toronto. They were haunted by the spectre of Newfoundland as a "collection of old people waiting for old age pension cheques to come from Ottawa".<sup>20</sup> In the 1940s a realization of the backwardness of Newfoundland was driven home to residents of the island as never before by contact with the wartime American bases and a growing number of friends and relatives abroad, by wartime service in the Allied forces and through the media and motion pictures. "As the social and economic standards of North Americans were improving drastically", concluded a comprehensive survey of Newfoundland's prospects by R.A. MacKay in 1946, "the people of Newfoundland...expect that their needs will receive full recognition".<sup>21</sup>

From hindsight it appears that for a number of reasons "never in Newfound-

17 *Evening Telegram* (St. John's), 5 May, 14 June 1953.

18 David Alexander, "Newfoundland's Traditional Economy and Development to 1934", *Acadiensis*, V, 2 (Spring 1976), p. 76.

19 *Assembly Proceedings*, 10 May 1954.

20 Smallwood, *I Chose Canada*, pp. 255 ff.

21 R.A. MacKay, ed., *Newfoundland: Economic, Diplomatic and Strategic Studies* (Toronto, 1946), p. 338.

land's history was there such an opportunity for new departures as in 1949".<sup>22</sup> But a closer picture reveals that the course of the new provincial government was determined as much by the challenges of a severe economic crisis that hit Newfoundland in the first year of Confederation as by the opening up of new opportunities. The severity of the crisis was due to the coincidence of several unrelated developments. The competition from Canadian goods and services had a disastrous impact on hitherto protected local industries. The repercussions of the British currency crisis in the fall of 1949 were severe. And there were substantial layoffs at the American bases and acute problems with the fisheries.

The year 1948 had already been rated by *The Newfoundland Journal of Commerce* as "one of the most difficult from a business standpoint, since the dark days of the depression".<sup>23</sup> Confederation terms were hardly signed when, as *The Daily News* put it, "the industries of the Maritimes descended on Newfoundland like a swarm of locusts in search of business". The rapidly spreading practice of mail-ordering caused particular apprehensions among the political opposition, who predicted massive unemployment and depopulation due to the closure of local stores and factories, unless the government intervened.<sup>24</sup> During 1949, industrial activity in Newfoundland dropped to its lowest level in ten years. By the end of November 1949, five of Newfoundland's 37 secondary industries were reported to have shut down and three others to be "on their last legs".<sup>25</sup> In order to survive, local industries were forced to expend large sums on modernizing their equipment to meet the new competition, and thus had to curtail operations and often freeze the wages of their remaining employees.<sup>26</sup> The president of the Newfoundland Industrial Development Board warned in his annual address of December 1949 that the outlook was "full of disquietude" and local industries needed the support of the buying public and sympathetic treatment by the government.<sup>27</sup> A programme of assistance announced by the federal government in September 1949, offering a premium of 15 per cent applicable to tenders for federal orders coming from Newfoundland, was of no help to industries which in their nature and scale of production were geared to local needs. Ironically, local products available in abundance, such as seal and whale oils, remained unsold, because Canadian manufacturers preferred to get their oils from the United

22 Peter Neary and S.J.R. Noel, "Continuity and Change in Newfoundland Politics", in Peter Neary, ed., *The Political Economy of Newfoundland, 1929-1972* (Toronto, 1973), p. 218. No evidence could be found in the personal papers of the Smallwood Collection at the CNS that in 1949 Smallwood was influenced or inspired by or even aware of, the economic development schemes drawn up by the Commission of Government in 1944, and discussed by Peter Neary, "Great Britain and the Future of Newfoundland, 1939-45", *Newfoundland Studies*, I, 1 (Spring 1985), p. 46.

23 *Newfoundland Journal of Commerce* (St. John's), XVI, 2 (February 1949), p. 28.

24 *Daily News*, 17 May 1950, *Evening Telegram*, 6 December 1949.

25 *Evening Telegram*, 26 November 1949.

26 *Evening Telegram*, 14 June 1950.

27 H.J. Russell and L.J. Harnum, eds., *The Newfoundland Industrial Development Board and Its Work* (St. John's, 1950), p. 141.

States and the Canadian government agreed to allocate a large sum of American dollars from Canada's restricted supply for this purpose.<sup>28</sup> Adjustment of local industries to Confederation appears to have been slow and painful. A survey by *The Newfoundland Journal of Commerce* revealed that as late as August 1955 many of Newfoundland's industries were on the road to recovery, "others are barely alive, and still others are in danger of dying".<sup>29</sup> With 4,000 Newfoundlanders employed directly and 30,000 people benefitting indirectly from local industries in 1949,<sup>30</sup> Smallwood had every reason to worry.

The spectre of unemployment on a scale reminiscent of the 1930s had been looming ever since the devaluation of the British pound in mid-September 1949 which had the effect of raising the prices of Newfoundland's exports to Britain. In conjunction with the general European dollar shortage, this spelled the loss of Newfoundland's traditional European markets for her fish, iron ore, newsprint and mining timber. As early as September 1949, "thousands" of loggers in Central Newfoundland found themselves out of work. These were joined by fishermen who, because of the poor fishing season, had been looking for alternative woods work. In October 1949, 600 Newfoundlanders were laid off at the American bases in the province.<sup>31</sup> In February 1950, Bell Island's population of 10,000 was faced with severe depression as the British, who had been buying half of the local iron ore, failed to place a new order; overnight, Bell Island slipped from being a prosperous industrial centre to a community with no future. There was a widespread feeling that "it had not been as bad since the last depression".<sup>32</sup>

For Newfoundland's saltfish industry, the marketing crisis of 1949-1950 marked the beginning of the end. "The devaluation of September 1949", wrote Raymond Gushue, chairman of the Newfoundland Fisheries Board, "may be characterized as the heaviest single adverse blow ever felt by the fisheries of this country or province".<sup>33</sup> David Alexander attributed the rapid decline of the fisheries thereafter to the federal government's complete disregard for this resource, and in particular to the neglect of market development and marketing organization.<sup>34</sup> Smallwood, however, who during his term in office ended up putting far more money and effort into revitalizing the fisheries than into industrial development,<sup>35</sup> was not afraid to blame the producers themselves for

28 *Daily News*, 13 January 1950.

29 *Newfoundland Journal of Commerce*, XXII, 8 (August 1955), p. 7.

30 *Evening Telegram*, 13 October 1949.

31 *Evening Telegram*, 20 September, 5 October 1949.

32 *Evening Telegram*, 6 February 1950.

33 *Newfoundland Journal of Commerce*, XVIII, 1 (January 1951), p. 69.

34 David Alexander, *The Decay of Trade: An Economic History of the Newfoundland Saltfish Trade, 1935-1965* (St. John's, 1977).

35 Rowe, *The Smallwood Era*, pp. 42-8, cites Ralph Matthews, Peter Neary and Parzival Copes in support of his contention that in the Smallwood era "nothing received so much attention as did the Newfoundland fisheries". From 1951-1966 fish plants alone received a total of \$19 million in



the loss of their markets and the "dire peril" of the fisheries in 1949-1950. In his 1950 New Year message he identified serious defects that could not be remedied overnight:

It is the peril of trying to carry on our fishing industry as our fathers and our grandfathers did. It just cannot be done. The fishing industry will fall on terrible times, and the fishermen will fall on terrible times if we do not change, if we do not develop. We should be the most energetic, progressive, up-to-date fishing country in the world. Instead we are the most slothful, the most unprogressive, and the most backward fishing country in the northern half of the globe...I am talking about our methods of producing fish, our boats and vessels, our fishing gear, our fishing premises.<sup>36</sup>

Among the reactions of Newfoundlanders to these economic difficulties, two are noteworthy in the context of this analysis. There appeared to be a substantial increase in mass migrations to other parts of Canada in search of jobs and a growing demand, across the dividing lines of political and economic interest, for new economic development. "It was this situation", Albert Perlin recalled in 1958, "that sparked the vigorous drive to diversify the economy through government financing of secondary industries".<sup>37</sup>

No statistics are available about the exodus of Newfoundlanders,<sup>38</sup> but some indication of the nature of the movement can be obtained from contemporary observations. The anti-Confederates, of course, had contended all along that Newfoundland would be denuded of its population in the event she joined Canada. They had charged that in 1948 a lot of people had voted for a "suit-case government", i.e. a constitutional setup that would allow them to move freely to Canada.<sup>39</sup> By mid-November 1949, it was reported in *The Evening Telegram* that "many hundreds of Newfoundlanders had moved out of the Province, if reports from railwaymen and others are to be believed". The exodus of New-

loans, which is far more than the total spent on new industries during that time and does not include "the significantly large amounts" in loans granted to 1,700 individual fishermen. According to Rowe, "largely because of pressure from the Newfoundland government, Ottawa spent \$110 million directly on the Newfoundland fisheries and, indirectly, another \$200 million for a total of over \$300 million".

36 *Daily News*, 3 January 1950.

37 *The Newfoundland Story* (Halifax, 1958), pp. 7 ff.

38 Kari Levitt, *Population Movements in the Atlantic Provinces* (Halifax and Fredericton, 1960) and Ralph Matthews, "The Smallwood Legacy", p. 97, arrive at the following estimates for net migration of Newfoundland's population (in thousands):

	1935-1945	1945-1951	1951-1956
Levitt	-15.6	-11.9	+ 1.9
Matthews	-15.6	-15.0	+35.0

39 F.G. Hollohan, *Albert Perlin: A Biography* (St. John's, 1985), pp. 64 ff.; *Daily News*, 22 May 1950.

foundlanders, most of them carrying one-way tickets for Toronto, was apparently observed on the train connecting with the gulf boat. Starting in March 1950, Bell Island miners were reported departing for jobs in Ontario mines.<sup>40</sup> By June 1950 the federal Department of Labour was arranging for a systematic transfer of unemployed Newfoundlanders to farms, track work, mines and other jobs in Ontario.<sup>41</sup> In May 1950, the Newfoundland Board of Trade Council became so concerned about the reports of "almost wholesale migration from Newfoundland" of people who were characterized as "the most ambitious and the most industrious", that it asked for a statistical check on this movement. They were the kind of people, *The Daily News* commented, "that no country can afford to lose in large numbers without a progressive impairment of its economic prospects".<sup>42</sup>

In the provincial legislature, the five members of the Opposition did not outline any alternatives to the strategy of economic development put forth by Smallwood. Opposition member R.J. Fahey agreed "that industrial development is a good thing" and his colleague F.D. Fogwill even endorsed the Premier's dictum that "we must develop or perish".<sup>43</sup> In March 1950, the retiring president of the Newfoundland Board of Trade, L.M. Ayre, called on Newfoundland businessmen not to underestimate the possibilities for further development, but instead to embarrass the government with the number of proposals for Newfoundland's betterment. "To hold our population we must develop", he stated. And the president-elect, George G. Crosbie, stressed the need of obtaining local or outside capital to bring about full and gainful employment as "the only means by which Newfoundland can be self-supporting and provide a higher standard of living for all of our people".<sup>44</sup> With increasing impatience the two daily papers in St. John's demanded industrial development. On 27 January 1950, *The Daily News* commended Smallwood, controversial as he might be, on the enthusiasm with which he was tackling the overdue job of industrial development, while "a blueprint of projects aimed at making unemployment nothing more than a spectre of the past" was awaited by *The Evening Telegram* "with intense interest". By 2 June 1950, *The Daily News* was chiding the government for not implementing its pre-election promises of industrial development: "This is the Government's most severe test. It is a test it must accept...Now the demand is for action and the need was never more urgent". At the same time the usually detached and critical editor of *The Evening Telegram* was clamouring that "this island has been crying for development for decades now. The day is past when 30,000 people can live off one branch of the fisheries. Regardless of

40 *Evening Telegram*, 16 November 1949, 5 and 25 March, 10 May 1950.

41 *Evening Telegram*, 3 and 16 June 1950, *Daily News*, 6 June 1950.

42 *Daily News*, 22 May 1950.

43 *Assembly Proceedings*, 6 December 1949.

44 Ayre continued: "With the Premier present, I hesitate to say develop or perish, I might be accused of plagiarism": *Newfoundland Journal of Commerce*, XVII, 3 (March 1950), pp. 15-16, 20 ff.

sentiment, the salt cod industry is on its way out...there is no better use for the surplus than to spend it on development".<sup>45</sup>

Economic development was Smallwood's top priority from his first day in office. Imbued with the faith in the viability of strategies for developing the economies of so-called underdeveloped countries that was characteristic of his era, he declared for the first time on 28 July 1949 in the legislature that "Newfoundland must develop or perish; we cannot stand still". Later he defined his economic strategy as "an offensive against underdevelopment".<sup>46</sup> Among the prevailing assumptions of such development strategies was the need to borrow the latest technology and apply the most efficient techniques, for government to play a prominent role as the driving force and propagator of a strong faith in an industrialized future, and for a fiscal regime characterized by "daring and generosity instead of parsimony". Industrialization was expected to be rapid.<sup>47</sup> The creation of a new Department of Economic Development headed by Smallwood himself, as one of the first acts of the new provincial government, was an indication of his commitment. The department was to be small, compact and highly efficient. According to the act authorizing its establishment, this department had the power to encourage and coordinate as well as to assist and guide economic development. Its initial task would be to undertake an overdue economic survey of the province's resources as a prerequisite for industrial development. That was expected to take one year or more. Smallwood had the choice of biding his time or searching for "possibilities that needn't wait for the surveys".<sup>47</sup>

When the first session of the new House of Assembly opened in July 1949, the Speech from the Throne contained no reference to any specific development project or new secondary industry. In September 1949, Newfoundlanders received a first glimpse of Smallwood's visions when, after examining Newfoundland seal skins at Bowring's exhibit at an Industrial and Trade Fair in St. John's, he wondered: "How long are we going to be content to send raw, untanned, unprocessed sealskins out of Newfoundland to bring prosperity to other parts of the world?" He indicated that next year the Fair's display would be enriched: "There will be products which have been manufactured for the first time in this country".<sup>49</sup> Discussions with Bowring Brothers Ltd. revealed that the establishment of a sealskin tannery in St. John's could be a successful venture only if a reasonable market for its products was found on the Canadian mainland. "In the meantime we must be satisfied with tanning in the United Kingdom", wrote the director of the firm to Smallwood, "as we can be certain of

45 *Daily News*, 27 January, 2 June 1950; *Evening Telegram*, 30 May 1950.

46 *Assembly Proceedings*, 30 March 1950.

47 See Bert F. Hoselitz, ed., *The Progress of Underdeveloped Areas* (Chicago, 1952), pp. 3-29, 252. As a professional journalist and radio broadcaster, and as a result of his search for advice from American development agencies, Smallwood appeared quite familiar with this thinking.

48 Smallwood, *I Chose Canada*, p. 345.

49 *Evening Telegram*, 13 September 1949.

maintaining our quality which is essential when filling any orders we may obtain".<sup>50</sup>

When in the fall of 1949 unemployment rose to 10 per cent of the population and one-third of the unemployed turned out to be ineligible for unemployment insurance, Smallwood instituted a temporary public works scheme for 9,000 men. The \$3.4 million it cost, as well as the \$3 million deficit of the first provincial budget which was tabled six weeks later, were to come out of the province's surplus account of \$45 million. Smallwood gave notice, however, that only new or expanded industrial development would solve the problem of unemployment and destitution "with any degree of reality or permanency".<sup>51</sup> At the same time he announced the intention to use part of the surplus for development purposes before this money was dissipated without having made any basic change in the province's overall economy. Thus an Industrial Development Loan Fund and a Board modelled on the federal government's Industrial Development Bank were created in October 1949 which offered loans of up to "fifty thousand dollars, or maybe more" for enterprises with which the ordinary chartered bank was not permitted to deal.<sup>52</sup> As the economic crisis deepened, Smallwood commissioned surveys and reports from a number of agencies about development possibilities.<sup>53</sup> He has "a great sense of urgency", recorded one of his economic development consultants in February 1950, and "grudges every week that passes without constructive action".<sup>54</sup> To the public Smallwood confessed repeatedly "that no government in Newfoundland's history ever worked any harder than we are doing".<sup>55</sup>

To Smallwood's disappointment, all of his consultants advised further research. None of them came up with new data or concrete proposals. "The amount of money involved is too great to risk waste through haste", cabled the president of the International Basic Economy Corporation in New York in March 1950 in reply to Smallwood's pleas that at least a survey of Newfoundland's hydro-power potential be completed by 1950.<sup>56</sup> Nor did the creation of the

50 J.C. Grieve to J.R. Smallwood, 11 April 1950, "New Industries", Box 15, Smallwood Collection.

51 *Assembly Proceedings*, 17 October 1949.

52 *Assembly Proceedings*, 23 October 1949.

53 Among the agencies presenting or preparing reports between May 1949 and May 1950 were the following: 1. "A Submission Containing an Outline for Industrial Development", by James A. Gibbs, K.C., 2. "Report of the Commission on Research and Development", by R.W. Boyle, 3. "CNR Industrial Survey", headed by F.W. Fairweather, 4. "Industrial Survey of the Resources of the Province of Newfoundland", by the Newfoundland Industrial Development Board, 5. Preliminary Report, by Richardson Wood and Company New York, Economic Development of Cities and Regions, 6. "Economic Survey" by IBEC, Technical Services Corporation, New York, 7. "Survey of Newfoundland's hydro potential", by Power Corporation of Canada. See "Economic Development", Box 101, Smallwood Collection.

54 Richardson Wood to Stacey May, 9 February 1950, IBEC, 3.08.336, Smallwood Collection.

55 *Daily News*, 3 January 1950.

56 W.K. Harrison to J.R. Smallwood, 22 March 1950, IBEC, 3.08.336, Smallwood Collection;

Industrial Development Loan Fund attract any industrial developers. By August 1950, no loans had been finalized because enquiries consisted of requests "to pay off household debts, purchase motor cars, trucks and other mobile equipment, finance tourist cabins, build homes, import goods, provide operating capital for paying wages, etc.", or because local applicants had no proper legal title to property they offered as a security.<sup>57</sup> Loan applications to the Treasury for the purpose of economic development came mostly from Newfoundlanders who had no money of their own to invest.<sup>58</sup>

Even more disappointing was the lack of interest shown by Canadian, American and British industrialists in risking investments in Newfoundland.<sup>59</sup> Smallwood revealed to the House in March 1950 that he had been dealing with the biggest names in the world of North American business, investment banking and industrial development, starting with Nelson Rockefeller and his International Basic Economy Corporation, and Sir William Stephenson, head of World Enterprises, Inc.<sup>60</sup> Yet as the first anniversary of Confederation approached, Smallwood did not even have the completion of the surveys of the province's resources to show for his offensive on underdevelopment.

Since he could not "grab a man by the throat and compel him to invest his capital and start a new industry", Smallwood was beginning to ponder different avenues. Temperament, conviction and circumstance compelled him to consider taking greater risks: "People are not going to wait forever for this development; if we don't give it to them tomorrow they...go where jobs are, you cannot blame them. Our job is to back them, go right out, boots and all, make or break. Here, what I mean by 'make or break', here is gamble".<sup>61</sup> While it was not clear what gamble Smallwood had in mind, his propaganda campaign had come into its own. A systematic public relations effort had been an integral part of his development strategy from the beginning, and the Department of Economic Development was also designed as a propaganda machine.<sup>62</sup> Every opportunity was seized to dispel apprehensions "that the future here was dull or uninspiring, or that this was a place to leave, or that this was a sinking ship". Smallwood "never lost a chance to speak of the coming glory of Newfoundland". Commenting on the economic outlook for 1950, Smallwood told the British United Press that "if half of our hopes are fulfilled, I anticipate that Newfoundland will need to

*Evening Telegram*, 18 March 1950.

57 "Third Annual Report of the Industrial Development Loan Board of Newfoundland For the Period Ended March 31, 1953", 3.11.082, Smallwood Collection.

58 *Assembly Proceedings*, 2 May 1950.

59 Smallwood, *I Chose Canada*, p. 346, *Evening Telegram*, 3 January 1950. On the lacking interest of Canadian corporations in Canadian regional development, see Philip Mathias, *Forced Growth: Five Studies of Government Involvement in the Development of Canada* (Toronto, 1971), pp. ixff, 11 ff.

60 *Assembly Proceedings*, 30 March 1950.

61 *Assembly Proceedings*, 17 October 1949, 30 March 1950.

62 Interview with J.R. Smallwood, 24 November 1983.

increase her population".<sup>63</sup>

Readily admitting his lack of training and experience in economics and business administration, Smallwood sought out expert advice and guidance. It was symptomatic of his approach that he had little use for the considerable amount of expertise which the Newfoundland Industrial Development Board had accumulated in its eight-year history.<sup>64</sup> But Albert Perlin, a high school friend, co-editor of *The Daily News* and a member of this board, was sympathetic to Smallwood's dilemma. He agreed that "we have to start almost from scratch and we are all impatient to see new industries come into being at once". Perlin reinforced Smallwood's conviction that the only means to attain industries was through key organization and the right personnel. "First get the right man as technical director of the whole development operation" was Perlin's advice in November 1949. That man should be "young enough to have plenty of drive" and "imaginative enough to see the woods as well as the trees". Perlin admitted such a man would not be easy to find and suggested that he be hired for a year or two from a top-notch industrial engineering firm with experience in rehabilitating the economies of underdeveloped countries.<sup>65</sup>

Smallwood discussed Perlin's ideas with C.D. Howe, Minister of Trade and Commerce, in Ottawa in late 1949. Howe agreed to help search for a man with the appropriate qualifications.<sup>66</sup> Hoping to find a well known administrator or business leader for the job, Smallwood approached Donald Nelson, chairman of the United States War Production Board, and the British entrepreneur George Cadbury. Both turned him down. Smallwood found that leading Newfoundland into Confederation seemed nothing compared to the challenge of convincing "hard, hardened businessmen, men who have money and don't want to part with it easily".<sup>67</sup> Smallwood was still groping for results when in May 1950 C.D. Howe recommended Alfred A. Valdmanis as a person who might suit the requirements of the position outlined by Albert Perlin. Smallwood met Valdmanis during a trip to Ottawa on 10 May 1950 and hired him on the spot as Newfoundland's Director General of Economic Development. His duties were to begin on 23 May 1950.<sup>68</sup>

Valdmanis' credentials for his new job included an accumulation of theoretical and practical expertise in "modernization and industrial development of under-developed countries" from his days as a legal counsel and then under-secretary to the Latvian Department of Finance after 1932, and as Latvia's Min-

63 *Daily News*, 19 January 1950; Smallwood, *I Chose Canada*, p. 342; Gwyn, *Smallwood*, p. 141.

64 *Industrial Survey of the Resources of the Province of Newfoundland*, prepared by Donald Ross & Company, Montreal, for the Newfoundland Industrial Development Board, 1950, CNS.

65 A. Perlin to J.R. Smallwood, 10 November 1949, "Economic Development", Box 101, Smallwood Collection.

66 *Daily News*, 24 September 1969.

67 Smallwood, *I Chose Canada*, p. 346; *Assembly Proceedings*, 30 March 1950.

68 *Daily News*, 24 September 1969; J.R. Smallwood to C.D. Howe, 22 March 1951, "North Star Cement Plant", Box 101, Smallwood Collection.

ister of Trade, Finance and Industry from 1938 to 1939. During this period he appears to have been honoured and decorated for establishing "a large number of new industries and reorganizing old ones".<sup>69</sup> Valdmanis had participated in the ambitious and successful efforts of Latvia to diversify her traditional agriculturally oriented economy by borrowing and further developing high technology in a few select industries, thereby bolstering the newly won political independence with a measure of economic independence. In the two decades of her independence from Russia, Latvia managed to emerge as a leading innovator in such areas as photographic technology and electronics, fish canning, sugar refining, gypsum production and the development of new building materials. Growing up as a member of the first generation of a specially trained and highly skilled elite that was to form the foundation of Latvia's continued industrial progress, Valdmanis became Europe's youngest finance minister at the age of 29.<sup>70</sup> As a refugee consultant to the British and American forces in Germany and as an officer of the International Refugee Organization (IRO) in Geneva from 1945-1948, Valdmanis became a close friend of Hugh Keenleyside, Canada's High Commissioner to Newfoundland in 1944 and after the war Deputy Minister of Mines and Resources in charge of Canadian immigration. Keenleyside may have been instrumental in nominating Valdmanis for the Lady Davis Foundation fellowship that brought him to Canada in 1948 and for inviting him to serve as an advisor to his department.<sup>71</sup>

Of more immediate relevance to Smallwood were Valdmanis' prewar contacts with industrial circles in Germany and his interests and involvement in gypsum and cement production. His knowledge of this field may be traced to his assignment in western Germany as a senior economist responsible for planning the production of cement, limestone and gypsum during the last year of the war. Also, as an IRO officer after the war, his job was to assist Latvian refugees in re-establishing themselves in western countries. It was probably with his help that Friedrich Kreyser, the foremost cement industrialist in prewar Latvia, Kreyser's former assistant general manager Max Braun-Wogau, and Ernst Leja, director of Latvia's state-owned gypsum industry in Riga from 1937 to 1940, were given the opportunity to rebuild the gypsum industry in British-occupied Germany in the late 1940s.<sup>72</sup> Their industrial success was due not only to the construction boom in war-ravaged Germany, but also to a new energy- and labour-saving pneumatic calcining technology which Leja's team had developed as early as 1936 in Latvia. From early 1950 on, Kreyser was looking for ways to export this technology together with entire gypsum and cement plants. In April 1950 Kreyser launched for this purpose a new firm called "Neue Technik GmbH,

69 Statement of defence counsel Gordon F. Higgins, *The Queen vs. Valdmanis*, Records of the Supreme Court of Newfoundland, No. 533/1954, St. John's.

70 Vito Vitauts Simanis, ed., *Latvia* (St. Charles, Ill., 1984), pp. 133 ff. 156.

71 *Assembly Proceedings*, 24 October 1951, 29 March 1955.

72 *Assembly Proceedings*, 24 March 1953; E. Leja to B.J. Bachand, 18 January 1950, "Nova Scotia Research Foundation", Box 129, Smallwood Collection.

Consulting Engineers". Simultaneously Leja and his Latvian team of technicians were looking for ways to emigrate from Germany, if possible with the help of Valdmanis in Canada, "since we are not Germans and Germany is not our native country". Their idea was to help build up Canada's gypsum industry in cooperation with Kreyser's firm in Germany.<sup>73</sup>

The invitation to Valdmanis to come to Newfoundland as Director General of Economic Development was extended at a moment when he was as worried about his personal career as Smallwood was about the future of his province. At the request of the Nova Scotia Research Foundation, since the summer of 1949, Valdmanis had been preparing and revising proposals for the establishment of gypsum and cement industries in Nova Scotia, to be 50 per cent government-owned. He was hoping that the implementation of this project would put Kreyser in business overseas, enable Leja and his team to emigrate to Canada and leave him with a position on the board of directors at a salary of \$15,000. A day or two before his first interview with Smallwood, Valdmanis learned that his final gypsum proposal for Nova Scotia had been turned down by the prospective private investors. He considered this a heavy blow to his fortunes in the new world. From Germany, Kreyser and Leja greeted news of the Newfoundland offer, but warned Valdmanis that, regardless of what he decided to tackle as his first project in Newfoundland, it must be one which could be carried out quickly and successfully, and be seen and understood by the government and the population as beneficial to the economy. 'It must not be a washout',<sup>74</sup> he was warned: "The new tasks may become the beginning of a great career for you, if you are able to solve them successfully. A failure, however, will block your way for a long time to come".<sup>75</sup>

Based on his Nova Scotia experience, Valdmanis decided to make his inauguration in Newfoundland with a cement plant of a 100,000 tons capacity. He argued that, from the standpoint of raw materials and markets, Corner Brook provided a better site than Sydney, N.S. Sydney would have to import Portland cement clinker to mix with the slag from its steel mills for the production of slag cement. The gypsum, limestone and shale deposits of Corner Brook, on the other hand, formed "an almost ready made mixture of the right type for roasting Portland cement". He pointed to the serious shortage of 400,000 tons of cement in Canada in 1949 and to the fact that, of Canada's eight cement plants, none was in the Atlantic Provinces. He figured that 50 per cent of production would be consumed in Newfoundland. Apart from employment and profits, a cement factory would provide Newfoundland with the basic materials for further large-scale developments. As his strongest drawing card, however, he played up his connections with Kreyser and Leja. Through them Newfoundland

73 *Ibid.*; F. Kreyser to A.A. Valdmanis, 23 May 1950, "Neue Technik", Box 134, Smallwood Collection.

74 Valdmanis to R.D. Howland, 18 March 1950 and Leja to Valdmanis, 18 May 1950, "Nova Scotia Research Foundation (Dr. Howland)", Box 129, Smallwood Collection.

75 Kreyser to Valdmanis, 23 May 1950, "Neue Technik", Box 134, Smallwood Collection.



would get a cement mill on better terms, at a lower price and in half the time than available anywhere else in North America.<sup>76</sup> Expecting to benefit from Valdmanis' work in Newfoundland, Kreyser assured him of all the experts and contacts he needed. Leja, designated to become chief engineer on his arrival in late June 1950, planned to "work out not only a specific project, such as a cement plant, but also some kind of a general plan for the future".<sup>77</sup>

Smallwood was sold on this idea of a cement plant from the moment he first met Valdmanis. It would mean the long-awaited start in the drive for new industries. For two months, inconclusive attempts were made to raise money for the project through the same investment brokers and groups of financiers in New York who had turned down the Nova Scotia project. When the prospective investors demanded to undertake their own independent market studies, Smallwood and Valdmanis were in no mood to wait any longer, especially as the demand for cement increased rapidly with the outbreak of the Korean War in June 1950.<sup>78</sup> The decision to start construction entirely with public funds was announced on 2 August 1950. Assuming that the finished plant could be sold without difficulty, Valdmanis boasted to Smallwood that he had gone "straight out for results" instead of doing "what all so-called 'advisors' do: sit down and study...for a year".<sup>79</sup>

It did not take Valdmanis long to convince Smallwood of the desirability of a gypsum industry on the same terms. By July 1950, the prospects for a new gypsum plant in Nova Scotia had suddenly improved.<sup>80</sup> Valdmanis' earlier market studies had left little doubt that there would be room for no more than one gypsum products industry in the Atlantic Provinces and either Newfoundland or Nova Scotia would have it. Nova Scotia had earlier hesitated to go ahead with the project because estimates submitted by the American-owned gypsum syndicate in Canada had suggested that, instead of Valdmanis' calculation of \$1.5 million, a capital investment far in excess of \$3 million would be required. These "American figures", Valdmanis pointed out to Smallwood, were correct only if the routine "American way" was chosen: "piecemeal" deals, placing orders here and there; nobody responsible for the different machinery pieces "clicking as a unit"; nobody responsible for strict times of delivery and for building and erection within a stipulated period: "There are many industries

76 "Report on the Proposal in Relation to the Establishment of a Portland Cement Factory in Newfoundland" (July 1959), "North Star Cement Plant", Box 101, Smallwood Collection; *Daily News*, 24 September 1969.

77 Leja to Valdmanis, 18 May 1950, "Neue Technik", Box 134, Smallwood Collection.

78 Smallwood to T.W. Hill, 30 June 1950, "Cement and General Development Corporation", Box 129, Smallwood Collection.

79 Valdmanis to Smallwood, 12 December 1950, "Valdmanis Personal", 6.01.005, Smallwood Collection.

80 G.D. Mallory to Valdmanis, 21 June 1950, Box 35, "Department of Defence Production", Box 35, Smallwood Collection; Howland to Valdmanis, 26 July 1950, "Nova Scotia Research Foundation", Box 129, Smallwood Collection.

which cannot succeed in Newfoundland if the 'normal' (American) price is to be paid for their establishment; but, on the other hand, several new industries will survive and become a success in this country, if we can build them at say, 70 per cent of the 'normal' cost, and if we can secure the necessary specialists presently so badly lacking not only in Newfoundland, but in all Maritime provinces".<sup>81</sup>

The cabinet approved the project on 9 September 1950. Through Kreyser's contacts and Valdmanis' tough bargaining in St. John's with the representatives of the German machinery manufacturers Newfoundland obtained such low tenders on its cement and gypsum plants (\$3 and \$2 million respectively) that it was alleged the German suppliers actually lost money on these deals. "The fact of the matter is we were half ashamed at what Dr. Valdmanis and Mr. Ernst Leja screwed the price down to", Smallwood stated in the House on 16 March 1951. The firms of MIAG and Benno Schilde signed the contracts mainly because they were led to believe that more business would follow. Leja became supervising engineer and then general manager of both plants.<sup>82</sup>

Valdmanis had nothing to do with the initiation of a third all-government-funded project, a birch products or hardwoods industry, in the fall of 1950. It was entirely the idea of local building contractor Chester Dawe who became president of the government-owned Newfoundland Hardwoods Ltd. from 1951 to 1954.<sup>83</sup> However, construction of the cement and gypsum plants as the heralds of more industries to come increased Smallwood's dependence on Valdmanis. Valdmanis' request in mid-December 1950 for a raise in his salary from \$10,000 to \$25,000, effective 1 January 1951, set the stage. Smallwood, then earning \$7,000 as premier, granted the request without any reservations. "I admired him immensely for his seemingly unlimited skills and accomplishments and his capacity for hard work", Smallwood recalled.<sup>84</sup> Valdmanis' idiosyncracies in character, manners and cultural habits did not bother Smallwood as they did his

81 "Report on the Establishment of a Gypsum Industry in Newfoundland" (August 1950), "Atlantic Gypsum Ltd.", Box 101, Smallwood Collection.

82 "Notes to Ches and Premier" (undated), *ibid.*; depositions of Hubertus Herz, August Roemer, Herbert Marx and Friedrich Kreyser, *The Queen vs. Valdmanis*, Supreme Court of Newfoundland, No. 533/1954; *Assembly Proceedings*, 29 March 1955. Newfoundland's gypsum industry was to have a larger plaster and wallboard capacity than the one Valdmanis proposed earlier for Nova Scotia. A more careful calculation of costs for site preparation and other costs by Leja, as well as the customary five per cent commission for Kreyser's firm Neue Technik — and what was thought to be a legitimate commission of ten per cent to the Premier of Newfoundland, payable to Valdmanis — raised the price of the gypsum industry to \$2 million. Both plants ended up costing about one-third more than anticipated and took almost twice the stipulated time to go into full production. Still, they turned out to be cheaper than plants of comparable capacity on the mainland of North America, as pointed out by Coverdale and Colpritts, "Preliminary Report on North Star Cement Company Limited, Atlantic Gypsum Limited, Newfoundland Hardwoods Limited" (March 1952), CNS. After some growing pains, these plants were taken over by private interests and have become the most profitable ventures of all the new industries.

83 "Wood Industries", Box 134, Smallwood Collection.

84 Valdmanis to Smallwood, 12 December 1950, "Valdmanis Personal", 6.01.005, Smallwood Collection; Smallwood, *I Chose Canada*, p. 347; *Assembly Proceedings*, 29 March 1955.

cabinet colleagues and the higher civil service.<sup>85</sup> By his own admission Valdmanis had been granted “nearly absolute authority in matters of economic development in Newfoundland” from the day he took office. In order to be able to work independently from the not always cooperative civil service, Valdmanis also demanded an enlarged, highly qualified personal staff of his own. This staff was to be selected and appointed, as well as their salaries determined, by him on a contract basis. In return Valdmanis pledged to introduce at least 13 new industries in 1951 and to eliminate unemployment by 1952 “as the *minimum* programme which I promise to put into effect”.<sup>86</sup>

The inability to find private interests to take over the new cement and gypsum plants led to the adoption of a new approach to financing new development in 1951. No more industries were to be built entirely from public funds. Instead, in February 1951 a new policy specifically geared to the participation of German interests was adopted: “It is visualized that German participation might take the form of bringing (a) their machinery and (b) their know-how into the new joint companies, and such German capital would form a partnership with local (Newfoundland) private capital and/or, if necessary and desired, also Newfoundland government capital would participate”. In practice this meant that investment by private interests would “be matched dollar for dollar by the Newfoundland government”, as Valdmanis liked to put it.<sup>87</sup> The government’s contribution would consist of loan guarantees or direct loans for a ten-year period at 4½ to 5 per cent interest equal to the investment of the company or individual setting up the industry. The government loan would be secured by a mortgage on the assets of the company to be incorporated in Newfoundland. The declared purpose of the loans was to enable private companies “outside the dollar area to procure the necessary dollars, to pay customs duties, erect a building, install machinery and operate the plant for a few months until returns would begin to come in”.<sup>88</sup>

The search for suitable investors was at first conducted through Valdmanis’ close acquaintance and mentor Friedrich Kreyser, director general of the consulting engineering firm Neue Technik in Stadtoldendorf, Germany. Kreyser mobilized his friends and business contacts in Germany, Switzerland, Belgium and Scandinavia. He also appears to have been instrumental in arranging for the law firm of Dr. Werner Hinneberg in Hamburg to act as an agency and general clearing house in the recruitment of “serious and reliable” entrepreneurs and

85 Smallwood, interviewed about Valdmanis on CBC Radio, St. John’s, 27 May 1984 at 10:15 a.m.; Elizabeth Russell Miller, *The Life and Times of Ted Russell* (St. John’s, 1981), pp. 114-8.

86 Valdmanis to Puhris, 22 August 1950, “Private — Dazadas, novarta atstatas, komercialas propozicijas”, Box 102, Valdmanis to Smallwood, 12 and 19 December 1950, “Valdmanis Personal”, 6.01.005, Smallwood Collection.

87 “To Whom It May Concern”, 21 February 1951, “General Finance”, Box 101, Smallwood Collection; Valdmanis to Smallwood, 11 May 1951, “New Industries”, Box 15, Smallwood Collection.

88 A.L. Graudins to M. Green, 21 March 1952, “Economic Development Correspondence”, Box 134, Smallwood Collection.

projects.<sup>89</sup> Hinneberg was paid a commission for his services by the prospective investors in Germany and it appears that he occasionally relied on sub-agents to whom he paid a finder's fee. Whenever Hinnenberg or Kreyser had lined up a number of interested parties, Valdmanis would travel to Germany to size up the projects. There he would, if possible, sign a gentleman's agreement to be reviewed and confirmed after his return to St. John's. From prospective investors Valdmanis' office would require detailed information about the type and value of machinery to be imported, the capacity and size of the proposed plant, its requirements of water, fuel, electric power and raw materials, its output and production costs and the anticipated markets. Based on this information, Valdmanis' staff of six — one assistant director, one researcher, one engineer, one special assistant, one private secretary and one typist — would prepare a comprehensive report for cabinet and legislative approval.

Smallwood admitted in 1952 that without the financial inducements "we could not have persuaded one company to come here". Yet, even with these inducements the initial difficulties of getting sound and serious investment propositions from Germany seemed insurmountable. The first obstacle proved to be a complete ignorance in Central Europe of general conditions in Newfoundland. If the average European had any impressions at all, it was of a place blessed with eternal fog, rain, snow and ice, not very inviting for settlement and "possibly the last spot in the new world that would be chosen if it became a matter of free choice".<sup>90</sup> To overcome such apprehensions, Hinneberg kept proposing unsuccessfully a formal association among prospective investors for the purpose of equalizing the risks and for mutual insurance.<sup>91</sup> As late as May 1952 Switzerland's leading financial newspaper tried to assure its German readers that Valdmanis' presence "guaranteed to a European that he is in a country of friends".<sup>92</sup>

Prohibitions against Germans investing abroad and purchasing dollars, which resulted from currency exchange controls in West Germany, created a different set of impediments. These were an extension of the total controls that had been imposed by the Allied powers on all sectors of the postwar German economy until 1948. Decontrol was gradual, however, due to reparations demands and the dismantling of German industries until 1951. Furthermore, the infusion of American loans and assistance into the postwar European economy, as well as the disruption of world trade, had caused an enormous dollar gap in West Germany's trade after 1949. To redress that imbalance, German exports to the

89 Hinneberg to Valdmanis, 13 March 1951, "Official Confidential Correspondence and Semi-Official Personal Correspondence", Box 129, Smallwood Collection.

90 J.R. Smallwood, *Newfoundland is on the March* (St. John's, 1952), p. 13; F. Bartz, "Neufundlands Wirtschaft vor neuen Aufgaben: Wandlungen im Zusammenhang mit dem zweiten Weltkrieg und der Eingliederung in Kanada", *Erdkunde*, VIII, 4 (1954), p. 233; "Neufundland — Land der Zukunft", *Der Bund* (Bern), 2 May 1952.

91 Hinneberg to Valdmanis, 13 March 1951, "Official Confidential Correspondence", Box 129, Smallwood Collection.

92 *Der Bund*, 2 May 1952, as quoted in *Evening Telegram*, 31 July 1952.

dollar market were officially promoted while German capital investments in the dollar area were virtually prohibited. Authority over currency exchange and investment abroad was not turned over to the West German government until January 1952. Only from then on were German industrialists permitted, though not unconditionally, to establish branch plants abroad.<sup>93</sup> Because of Smallwood's policies, Newfoundland was singled out by West Germany's Minister of Economics Ludwig Erhardt as one of the most easily accessible areas of the dollar market in 1952, deserving the special attention of German business in its efforts to restore Germany's overseas economic contacts.<sup>94</sup>

The strict enforcement of currency exchange regulations in 1951 not only deprived the potential German investor of the liquid capital to start operations in any part of the dollar area, but also made it all but impossible to equip German-owned plants in Newfoundland with new machinery. In 1951 Germans planning to start manufacturing in Newfoundland had to go to great lengths to camouflage their intentions of starting a new enterprise abroad. They had to declare to the authorities in Germany that they would be taking used machinery to Newfoundland, renting it to a Newfoundland firm and rental income would be returned to Germany.<sup>95</sup> Some German firms tried to get around the restrictions by dealing through Swiss business and banking connections. Others were hatching even more complicated schemes of circumventing the exchange controls. According to an elaborate plan devised by Hinneberg and Dr. A. Siegheim, a German paper manufacturer and friend of Kreyser, Smallwood was to be induced to acquire so-called blocked DM (Deutsche Mark) through Jewish agencies. Blocked DM constituted sizeable indemnity payments by the West German government to victims of Nazi persecution and could not be converted and transferred out of Germany until 1954. They were traded by their recipients at discounts of up to 50 per cent. Since among Swiss industrialists the demand for such funds was high, it was proposed that the Newfoundland government purchase the machinery for its German plants from Swiss manufacturers with blocked DM.<sup>96</sup>

The growing activity of German investors in Newfoundland in late 1951 and

93 Herbert Jensen, "Der Weg zur Liberalisierung des deutschen Kapitalverkehrs im Dienste der Auslandsinvestitionen", *Wirtschaftsdienst*, XXXVII, 12 (1957), pp. 683-90; Matthias Schmidt, *Das deutsche Dollarproblem* (Frankfurt/M., 1953); Fritz Baade, *Dynamische Weltwirtschaft* (München, 1960), pp. 58-62; Werner Abelshauser, "Probleme des Wiederaufbaus der westdeutschen Wirtschaft 1945-1953", *Geschichte und Gesellschaft*, Sonderheft 5 (Göttingen, 1979), pp. 208-53.

94 Ludwig Erhard, *Germany's Comeback in the World Market* (London, 1954), pp. 180 ff. The German edition was published in 1953.

95 Hans Bosse to Department of Economic Development, 21 December 1951, "Knitting Mill", K. Thomas to A. Werner, 4 July 1951, "A. Werner: Leather, Hides, Skins", Brinkman & Mergell to W. Hinneberg, 22 March 1951, and Valdmanis to Hinneberg, 1 May 1951, "Marine Oil Hardening", Box 128, Smallwood Collection.

96 "Blocked DM", Box 108, Smallwood Collection; Henry C. Wallich, *Mainsprings of German Revival* (New Haven, 1955), pp. 237, 360 ff.

especially in early 1952 was as much a function of their interest in Canada as of the relaxation of Germany's investment restrictions. Postwar Canada appealed to Germans as the "Switzerland of the new world", "the land of growth", and "the land of the future".<sup>97</sup> Canada's economic policy in the early 1950s met the foreign investor more than half-way in his efforts to enter the Canadian market. It encouraged the importation of foreign capital, promoted the manufacture in Canada of goods previously imported, and offered defence contracts and accelerated depreciation rates for foreign investors on the same basis as for the domestic ones.<sup>98</sup> Noted *Der Bund*, a leading Swiss financial newspaper in May 1952: "Economically and politically Newfoundland is Canada".<sup>99</sup>

Smallwood was immensely elated about the possibilities of tapping the entrepreneurship, technological skills and know-how of German-speaking Central Europe. In 1951, he termed his forays into this new area "fishing in troubled waters". As he recalled in 1983:

We went to Germany because Europe was scared of Soviet Russia. The German industrialists were particularly scared. In 1950 I was the first public visitor who came to Germany from any country. The leaders of the German companies all spoke excellent English...I told them they should come to Newfoundland. "I've got an escape hatch for you, get established in my part of Canada, start a branch of your company in Newfoundland, so you have an escape hatch". It was shrewd on my part, it fitted their mood.<sup>100</sup>

This approach was not as simple as it appeared. In Germany, as everywhere, Smallwood approached the biggest and most respectable names — Krupp, Stinnes, Humboldt-Glockner-Deutz, I.G. Farben, Siemens, AEG, Leitz, Volkswagen — only to find out that these did not seem to be fearful enough of communism to want an escape hatch in Newfoundland.<sup>101</sup> On the other hand, those who were most desperate to save their skin in case of another war were not always desirable because they lacked capital, represented trades unsuitable for Newfoundland or had no intention of staying on the island. It is therefore not surprising that the first parties, who in 1951 committed themselves to invest their machinery in a new industry in Newfoundland, came as refugees from communism.

Albert Jekste and his Riga Film unit, who had managed to salvage their tech-

97 Herbert Gross, *Kanada: Land des Wachstums* (Köln, 1954), pp. 352-62; "Kanada — Land der Zukunft", *Der Bund*, 2 May 1952; "Unbegrenzte Aussichten: Zukunftsland Kanada hat Raum für 120 Millionen", *Das Parlament* (Bonn), 14 September 1955.

98 David A. Wolfe, "Economic Growth and Foreign Investment: A Perspective on Canadian Economic Policy, 1945-1957", *Journal of Canadian Studies*, XIII, 1 (1978), pp. 10-13.

99 *Der Bund*, 2 May 1952.

100 *Evening Telegram*, 25 October 1951; J.R. Smallwood Interview, 24 November 1983.

101 Smallwood, *I Chose Canada*, pp. 361 ff., 589.

nologically highly advanced sound film equipment from Latvia to Germany in 1944, were compatriots and, in some instances, even acquaintances of Valdmánis. On his first visit to Germany in October 1950, Smallwood inspected their Hamburg studio and immediately recognized the potential significance of this film unit for his development strategy. In Newfoundland they would have an important role to play by producing documentary films for the government, demonstrating the success of Smallwood's economic policies.<sup>102</sup>

William Dorn, introduced by Smallwood in Newfoundland as a refugee from Czechoslovakia, was recruited by Hinneberg. Dorn, descendant of a long line of German tanners, would not only establish the tannery that had been on Smallwood's agenda since Confederation, but also introduce with one blow two more industries to Newfoundland. In conjunction with the tannery he agreed to manufacture leather garments and bring with him the Hamburg construction firm who proposed to build this and other plants for considerably less money than local construction firms. Dorn acquired the machines for the tannery from a German firm that had gone out of production.<sup>103</sup>

Considerable publicity for Newfoundland as well as many new contacts resulted from Smallwood's second trip to Germany from late August to the end of September 1951. Subsequently, seven major German industrial concerns decided to go ahead with the establishment of eight branch plants in Newfoundland: MIAG of Brunswick with a heavy machinery plant near St. John's; Rawe and Co. of Nordhorn with a cotton and textile mill in St. John's; G. Hahlbrock of Hamelin with a glove factory in Carbonear; Moser and Sons of Schramberg with a chipboard factory in Donovans; L. Grube of Hanover with a rubber plant in Holyrood; Hanning and Kahl of Bielefeld with a battery plant in Topsail; and the Eckardt Strickwarenfabrik of Vocklabruck, Austria, with a knitting mill in Brigus. One of Germany's largest shoe manufacturers, Roland Rieker of Tuttlingen was prepared in November 1951 to build a branch plant in St. John's, but changed his mind when Valdmánis decided this factory had to be near the new tannery in the small town of Harbour Grace, 75 miles from St. John's.<sup>104</sup>

From the end of 1951 until mid-1952, Newfoundland's solicitation of German industries developed such momentum, and German response appeared so promising, that in November 1951 plans were finalized to add Dr. Herbert Kaulbach, a senior German civil servant from the West German Department of Economics, and two German assistants to Valdmánis' staff. Also, Max Braun-Wogau, a vice-president of Kreyser's firm *Neue Technik*, accepted a position as special consultant with the Department of Economic Development.<sup>105</sup> At this time negotiations were also being conducted with German industrialists about

102 "Film Documentary", Box 82, Smallwood Collection; interviews with two former employees of Atlantic Films and Electronics Ltd., 2 December 1983 and 20 February 1984.

103 "Newfoundland Tanneries (Wm. Dorn Ltd.)", Box 101, Smallwood Collection; interviews with two former employees of Newfoundland Tanneries, 20 and 25 November 1983.

104 "Rieker & Co.", Box 128, Smallwood Collection.

105 "Appointments and Salaries", Box 135, Smallwood Collection.

the establishment of a steel mill, a chemical industry, an appliance plant, a flour mill, shoe and synthetic leather factories, a glass, ceramics, brick and tile industry, factories for paint, glue and soap, lead manufacturing, a marine oil hardening and guanine industry, a furniture factory, a fish cannery and fish meal plant, a fur-dressing and dyeing factory, a bread and biscuit industry, a zipper factory, pulp and paper mills and hydro-power stations. In mid-December 1951, a proposal was entertained from a Dusseldorf promoter to open a direct Newfoundland-Hamburg shipping line, shortening the traditional route via Liverpool and Rotterdam, for the purpose of "expanding and deepening the already existent Newfoundland-German ties".<sup>106</sup> A "Canadian Promoting and Trading Ltd." with headquarters in St. John's was to be launched to cultivate the new ties and to coordinate the interests of the German and the Newfoundland Governments.<sup>107</sup> German-Newfoundland trade was expected to increase with the steady influx of German machinery and settlers, and Smallwood was thinking of an annual German festival to improve relations between Germans and Newfoundlanders. He declared that the mutual "advantages of German-Newfoundland cooperation are too obvious to require elaboration".<sup>108</sup>

Smallwood's objective was to attract as many new industries as possible in the shortest possible time. To attain this goal, screening procedures were relaxed, negative evidence was disregarded and government assistance was increased. MIAG's decision to build a machinery plant near St. John's, for instance, was hastened and facilitated by playing up the prospects for defence contracts and by dispensing with the usual requirement that the German investor prove the objectives and economics of the proposed operation.<sup>109</sup> The extent to which Smallwood was prepared to gamble became evident in his endeavours to acquire an optical industry. Hinneberg had broached the idea in June 1951 after meeting two parties interested in Canada — Ernst Leitz, manufacturer of world-famous optical instruments, and Dr. Lothar Sennewald, an East German refugee teaching and practicing ophthalmology at the University of Saarbrücken. In order to attract Leitz, Smallwood offered to lend his firm "any amount of money" they might reasonably need. When Leitz decided in favour of Central Canada, Smallwood, against Valdmanis' advice, awarded a loan of \$150,000 to Sennewald who, without knowledge of the economics and functioning of the optical industry, had promised to "make for 70 cents an eyeglass frame which sells whole-

106 Smallwood to E. Zippmann, 10 December 1951, "Miscellaneous Correspondence", Box 57, Smallwood Collection.

107 Kreyser to Valdmanis, 25 December 1951, "Private 1951 — International Friends", Box 129, Smallwood Collection; *Assembly Proceedings*, 2 July 1951.

108 "German-Newfoundland Co-operation: A Message from Hon. J.R. Smallwood, Premier of Newfoundland", 9 April 1953, "Economic Development", Box 101, Smallwood Collection; Ian Sclanders, "They're Betting Newfoundland's Bankroll", *MacLean's Magazine*, 1 July 1952.

109 Graudins to Roethe, 1 December 1951, "Economic Development Correspondence", Box 134, Smallwood Collection.



sale for \$2.60 and retail for \$8.00 in St. John's". This scheme never got off the ground.<sup>110</sup>

In an effort to reach agreements with Moser, Hahlbrock and Rieker in December 1951 for chipboard, glove and shoe factories, drastic deviations were made from the strategy adopted in February 1951. Valdmanis requested that these proposed industries should receive government assistance to the tune of 62, 64 and 66 per cent respectively of the total capital investment required. He argued that this was made necessary because other Canadian provinces had learned from Newfoundland how to attract German industries, and Newfoundland would now have to compete with Quebec and Ontario: "The traditional desire of establishing an industry close to market will detract many interests from Newfoundland". Valdmanis warned that Newfoundland would soon have to look for industries in countries less eager to establish factories abroad, such as England, Sweden, Switzerland, the United States and Canada.<sup>111</sup>

From visits to Ottawa in late 1951 and early 1952, Valdmanis came back with the impression of a growing suspicion there "that we may handle some things in too quick, even a wild manner". He became concerned about allegations that he was establishing "an industry a month" and was leading "a steady stream of Germans into Newfoundland".<sup>112</sup> The extent of Ottawa's misgivings was disclosed on 15 March 1952. In his reply to Smallwood's repeated requests for an extension of the premium granted in 1949 to Newfoundland manufacturers when bidding on federal contracts, Prime Minister Louis St. Laurent contended that this measure "was not intended to provide assistance to industrial development in Newfoundland of a nature unavailable to other provinces... We feel that the time has now come for Newfoundland to participate on the same basis as other provinces in any federal assistance".<sup>113</sup> Smallwood's efforts to procure defence contracts for his new industries proved equally fruitless.

Ottawa's refusal to assist Newfoundland's fledgling industrialization endeavours at a time when West Germany eased her restrictions on German investment abroad, when other Canadian provinces began to follow Newfoundland's example of assisting foreign investors and when Newfoundland's pre-Confederation reserves had been exhausted, dealt a heavy blow to the new industries programme. Smallwood announced on 31 March 1952 that the policy of building industries with the help of public funds would not be continued and

110 *Assembly Proceedings*, 15 April 1952; "Optical Industry Sennewald", Box 114, Smallwood Collection; "Sennewald Confidential", Box 129, Smallwood Collection; W.J. Browne, *Memoirs: Eighty-Seven Years a Newfoundlander*, Vol. II (St. John's, 1981), pp. 72-4.

111 Valdmanis to Smallwood, 8 December 1951, "Consolidated Files Re: Finance", Box 108, Smallwood Collection.

112 Valdmanis to G.D. Mallory, 4 and 14 November 1951, "Department of Defence Production", Box 135, Smallwood Collection; Valdmanis memorandum, 10 March 1952, "Official Confidential Correspondence", Box 129, Smallwood Collection.

113 L. St. Laurent to Smallwood, 15 March 1952, "General Finance", Box 108, Smallwood Collection.

that the government would progressively withdraw from active participation in the industrialization drive.<sup>114</sup> Further industrial projects were to be entrusted to the newly formed Newfoundland and Labrador Corporation, a 90-per cent government-owned crown corporation holding development and exploration rights over most of the government's undeveloped hydro-power, mineral and timber resources. NALCO planned to take over the three government plants and, from their sale and the anticipated demand for NALCO shares among private American investors, intended to finance new developments.<sup>115</sup>

Valdmanis, who was one of the founding directors of NALCO, now talked about the need for slowing down the hectic pace of Newfoundland's economic development and for consolidating the new industries and the province's financial position. Some technical defects and unforeseen marketing problems of the cement and gypsum plants worried him as much as the inability to sell these plants. By the end of June 1952, the "picture looked anything but rosy" to Valdmanis.<sup>116</sup> On 5 February 1953, he asked Smallwood to be relieved from his duties as Director General of Economic Development, explaining that "for the consolidation period which is now coming, I am not indispensable as full time director general".<sup>117</sup> Valdmanis continued as chairman of NALCO for another year without being able to achieve any of NALCO's objectives. Rapidly losing faith in the success of his industrialization drive, he was casting around for a position with a private corporation until Smallwood asked for his resignation from NALCO, ostensibly for setting up an expensive NALCO office in Montreal and other minor irregularities.<sup>118</sup> Two months later, Smallwood had Valdmanis arrested on charges of having accepted kickbacks, an offence which might have been less reprehensible in the context of the time had it not been committed in the name of the premier or his party.

Outside observers, however, found no evidence that a turning point had been reached as early as 1952 in Newfoundland's drive for rapid industrialization. Most of the new industries were not ready to start production until 1953 and 1954. In June 1952, C.R. Fay, a visiting professor of economic philosophy from Cambridge University, regarded "the industrial boom going on in Newfoundland as one of the most interesting developments in world history today, comparing it with Great Britain's industrial revolution of 200 years ago".<sup>119</sup> To

114 Smallwood, *Newfoundland on the March*, p. 32.

115 "Newfoundland and Labrador Corporation", Box 101, Smallwood Collection.

116 "Private 1951, Private 1952", Box 129, Smallwood Collection.

117 Valdmanis to Smallwood, 5 February 1953, "Official Secret Re: Department of Economic Development", Box 134, Smallwood Collection.

118 Valdmanis to Smallwood, 10 February 1954, "Newfoundland and Labrador Corporation #3", Box 101, Smallwood Collection; "Private — International Friends 1953", Box 129, Smallwood Collection; Alan Phillips, *The Living Legend: The Story of the Royal Canadian Mounted Police* (Boston, 1954), pp. 208 ff.

119 *Evening Telegram*, 28 June 1952. According to an interview that Smallwood gave to the Latvian-language newspaper *Latvija* (Toronto) on 5 November 1952, even British Prime

Harold Horwood, later to be Smallwood's most persistent and biting critic, Newfoundland's industrial development, "far from slowing down" in late 1952, showed "signs of speeding up and perhaps even reaching landslide proportions within the next year or two". As late as the end of March 1953, he defended Smallwood against charges of having wasted the province's \$46 million surplus. Even if the government was only 50 per cent right in spending the money, he reasoned, "that fifty per cent has gone into making Newfoundland a more desirable place to live, a place in which it is possible to live more successfully".<sup>120</sup>

It has been estimated by Herbert Gross that some 20 German industrial enterprises had been started in postwar Canada by 1953, with more than half of them located in Newfoundland. In 1953, the German economist foresaw problems for Newfoundland's German industries because of their dependence on far-away markets, long and costly routes of transportation and an unskilled and unreliable labour force. He expected that these drawbacks would in the long run outweigh the advantages of low wages, government subsidies, technical efficiency and pioneering entrepreneurship. But, he suggested poignantly, "risks like that are an integral part of the general future of the island".<sup>121</sup>

The new industries from Germany assumed from the beginning a far more modest posture than Smallwood had initially assigned to them. Certain psychological and economic constraints rather than new opportunities had dictated the choice of secondary industries. Newfoundlanders had experienced a revolution of rising expectations which saw land-based industrial development as the only way to end Newfoundland's dependence on the unreliable fishery. Economically, Smallwood conceived the new industries programme initially as a fiscal and socio-economic alternative to the dole, an investment of the pre-Confederation surplus in a long-term solution to the social and economic dislocation which accompanied Newfoundland's entry into Confederation. After Smallwood had been unable to arouse the serious interest of any Canadian, British or American investor or industrial developer in Newfoundland, he relied on the efforts of Valdmanis to solicit industries from Germany. By enabling German entrepreneurs to overcome the Allied-imposed prohibition on capital investment outside Germany, Smallwood triggered an invasion of German prospectors eager to establish a foothold in the North American dollar market. Some of them used Newfoundland as a refuge from communism or as a way to enter Canada. The sudden, quite unexpected, upsurge of German activity in Newfoundland created for about one year the euphoria of a runaway industrial revolution.

In Newfoundland the new industries had to struggle under conditions that their managers and skilled workers had not anticipated in Germany. As Small-

Minister Churchill "showed great interest in the development of Newfoundland and described this development project as a model for the development of economies in the whole world".

120 *Evening Telegram*, 26 June 1952, 30 March 1953.

121 Gross, *Canada*, pp. 275, 282 ff., 358, 436.

wood told them, they had to "make the best of it".<sup>122</sup> Nevertheless, Smallwood saw no reason to regret his quest for industries from Germany. In November 1952, he characterized the significance of the services that Valdmanis had rendered Newfoundland in these words: "Only three short years ago Newfoundland was not heard of and if known, then as a backward, undeveloped island. Today she is well known in the circles of industrialists and financiers on both sides of the Atlantic".<sup>123</sup>

122 Gross, *Kanada*, p. 285.

123 "Latviesu Loma Nufaundlendas Parveidosona", *Latvija*, 5 November 1952.