

Joey Smallwood: The Industry Talks Back

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ABSTRACT

How far can an individual's influence and decisions affect the economy of a province? This paper endeavours to argue, through an individual level of analysis of Joseph R. Smallwood, for the influence of his 23-year reign on the political economy of Newfoundland. Smallwood's intentions for Newfoundland's economic development were of noble cause, but because of his urgency to "develop or perish" the plans just perished. Smallwood's strong personality and nationalistic perspective led him to make irrational decisions that may have seemed potentially beneficial to the province in his mind, and in theory, but with a habit of going into a plan head strong and under researched, what started as an economically beneficial strategy would incur even more debt on the province.

"Absolute power corrupts absolutely." This statement may sound strong when referring to Joseph R. Smallwood, however, on the contrary it is most fitting. Smallwood was a man thirsty for political power and willing to do whatever it took to keep that power and gain even more. As Harold Horwood so boldly put it, he was, "the most loved, feared, and hated of Newfoundlanders..." The people adored him and absorbed every word he said as they listened to every radio speech aired. His cabinet members would dare not speak against him, and underlying it all he was a deceitful power mongering scoundrel with the ability to brilliantly twist any situation to his advantage. Joey Smallwood had the gift of being able to publicly screw up (to a major extent) and still manage to come out on top in public opinion. Even Smallwood himself was cogent of the fact he was unfit to govern. In his memoirs, *I Choose Canada*, he notes that he has, "...been guilty of more failures and policy mistakes than any Premier or Prime Minister in our history."

Analysis of government policy applies three levels of investigation: system, state and individual. The individual in many instances can be proven to be the most important of the three analyses, especially in pertaining to Smallwood's rule as premier. In reviewing the economic strategy of the Smallwood government the massive influence of the individual must not be overlooked. The power of Joey Smallwood's leadership and his personal capability to manipulate and persuade the people attribute directly to the failure of the economic plans of this period. In order to gauge the individual importance of Smallwood's personal agenda and personality in the failure of these plans, it is of primary importance to examine the numerous scandals surrounding such failures caused by his gullibility, his "one man operation" style of ruling government, and his constant lust for power.

Smallwood's intentions for Newfoundland's economic development were of noble cause, but because of his urgency to "develop or perish" the plans just perished. Smallwood's strong personality and nationalist perspective led him to make irrational decisions that may have seemed potentially beneficial to the province in his mind, and in theory, but with a habit of going into a plan head strong and under researched, what started as an economically beneficial strategy would incur even more debt on the province.

In 1949, Newfoundland became the tenth and youngest province of Canada with Joseph R. Smallwood backing the vigorous and long negotiations. Joey Smallwood was a man for

confederation because of the immediate benefits it entailed for the people. "Confederation brought an immediate improvement in the material standard of living of individual Newfoundlanders through the various benefits of the Canadian welfare state." This was something that Smallwood would preach to the public constantly. "In 1951-52 the amount distributed in family allowances alone equaled 25.9% of the expenditure of the commission in the fiscal year 1947-48." As a whole Newfoundlanders enjoyed the benefits provided by the federal government through paid subsidies to the province and in turn Joey gained supporters indefinitely. Seemingly, Joey put Newfoundland before everything in his life, he was a very determined man, with very ambitious motives to become a living legend. Most people saw him, as John Crosbie would tell, "...as he wanted them to see him...a selfless servant of his people who dedicated his life to pursuing the elusive grail of economic development and prosperity for all." Smallwood had too much power, and he was a very flawed individual. Crosbie relays that "never in Canadian history has so much raw political power been concentrated in the hands of one person as it was in his from the moment Newfoundland joined Canada in 1949," until the moment his twenty-three year reign had expired. Joey's leadership was clearly a problem in the progression of the provinces economic development. A democracy is supposed to operate through cooperation and collaboration, with the public opinion holding weight. However, this aspect of a democracy was marginalized through Smallwood's masterful technique of public manipulation. Crosbie recalls, in his book, that, "he ruled like an absolute monarch." Crosbie also quotes Sir Alexander Clutterbuck in describing Smallwood as a "one-man government." Smallwood was interested in one thing and one thing only, retaining power and all the rewards it carried.

"Thus Smallwood, on October 21, 1949, outlined the premise behind his policy of economic development. He would spend money to earn money." Seemingly this sounds like the reasonable logic of an investor; however, investors research their investments through various feasibility studies and economic analyses. The lack of feasibility studies were clearly one of Smallwood's downfalls. "The [monies] Smallwood referred to were the cash surplus Newfoundland had carried with her into Confederation." The amount was roughly 45.5 million dollars, an astronomical sum in Smallwood's eyes, which, in turn, could be used to profit the province. Smallwood's intentions always seemed to be for the better of Newfoundland. Judging from his track record of split second decision making on policies that should be heavily researched, and fast paced desire for economic redemption, there is no doubt that he was doing it more so for the glory. Smallwood wanted to be the one man that flipped Newfoundland, "the have-not province", into a "have" province. "He proposed to make the welkin ring with the sound of new industries, of factories and full-time, high-wage jobs," recalls Richard Gwyn.

Following Confederation Joey Smallwood was becoming increasingly concerned about the uprising problem of out-migration in Newfoundland to other parts of Canada. In response to this Smallwood made it a priority to create industrial jobs for the province. "I worried about the danger of losing our population, and I knew, even before Confederation Day, that somehow I had to inspire that Newfoundland was a place with a bright future..."

Industrialization was phase one of Smallwood's twofold economic revamp, phase two was Mega Projects. In 1949 he created the Industrial Development Loan Board (IDLB), whom overly assured that government incentives being used to develop industrial investment would

be the best way to solve the debt and employment problems of the province. This left no use for the pre-confederate Newfoundland Industrial Development Board, whom had accumulated eight years experience, in helping on this major task. Instead Smallwood and Albert Perlin agreed that starting from scratch was the only way the objective could be taken. So they sought out to find an ambitious businessman who would specialize in revitalizing underdeveloped countries. In the month of May 1950, Dr. Alfred A. Valdmanis was recommended to Smallwood by Federal Cabinet Minister C.D. Howe "as a person who might suit the requirements of the position..." At the time, Valdmanis had witnessed his proposal for a gypsum plant in Nova Scotia get declined and "he was as worried about his personal career as Smallwood was about the future of his province." The first proposal put forth by Valdmanis was a cement plant due to the lack of suppliers, especially in the Maritimes. "...The prospective investors demanded to undertake their own independent market studies," as a smart investor would, but "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."

Immediately it is evident that Smallwood and Valdmanis were in too much of a hurry to make intelligent decisions and endeavour in studies that could have been of dire use to their new industry. Subsequently, "the decision to start construction entirely with *public funds* was announced on 2 August 1950." Not long after, their plans for economic development started to take an increasingly speedy route. Surely this was not an appropriate measure in economic development, it is not something that can happen over night. The two men were too eager for Newfoundland's economy to be successfully booming with their names behind the cause. Letto describes Smallwood and Valdmanis as a, "dynamic pair," always taking trips to Europe searching for industrialists interested in making their mark on Newfoundland. Smallwood described it as "fishing in troubled waters," which proved itself to be a rare instance of foresight on his behalf. Harold Horwood recalls in his book "Joey" that "many of Joey's friends and some of his closest colleagues disliked and distrusted Dr. Valdmanis from the moment they first met him." On the contrary however, Joey viewed Valdmanis as the "saviour of Newfoundland," while Horwood would describe him as a "smooth con-man," whom had "hoodwinked" Smallwood.

It is very suspicious to think that a man in power, such as Smallwood, would not take heed from his colleagues and associates. Nevertheless, "within a matter of months, Valdmanis had become, along with Joey himself, the real ruler of Newfoundland..." Valdmanis had Smallwood in his pocket and at the end of 1950 requested a raise in salary "from \$10,000 to \$25,000, effective 1 January 1951..." Smallwood was only making \$7,000 a year as premier of Newfoundland, but he had no problem making the very irrational decision to give Valdmanis the raise. With the plans for industrialization in motion, Valdmanis and Smallwood came up with a new way of investment financing. The loans were still guaranteed by the government, but instead of being fully financed for the capital and start up of the new industry, "...the government's policy now was to finance half the capital requirements of the new industry." This may sound like a good idea, however, the government would pay its half via cash while private investment could be in the form of "know-how, machinery, any other material, engineering supervision, erection, building, etc." Doug Letto explains in his book *Chocolate Bars and Rubber Boots*:

The loan guarantee program enabled business people who were unaccustomed to the North American market, access to millions of dollars in scarce government money, while requiring little more than their own ideas and expertise in return. This cannot merely be seen as a technical weakness, but rather, as a political mistake which in six short years, consumed \$26 million, and millions of dollars more in unpaid interest charges.

On top of all this, behind closed doors Smallwood's (precious) Director General in Economic Development, Valdmanis, was accepting commissions from Benno-Schilde, the company that was building the gypsum mill, and from Miag, the company building the cement mill. "The commissions were supposed to be funds for the Liberal Party of Newfoundland, and amounted to about half a million dollars" reported Horwood in his account of the scandal. Valdmanis was arrested and jailed. Smallwood must have been truly embarrassed to have his most trusted and valued employee betray him, which can only prove his individual incompetence as Premier. Smallwood was informed numerous times that Valdmanis seemed shifty, but he was attracted to what he thought was a good idea and a good man to carry out such ideas. This is an excellent gauge of how gullible and easily misled Smallwood was as a leader. This can also be seen as very ironic because Smallwood himself was a very manipulative man, who also had scandals that followed later in his political career. Which then leads to the second major example of failure in approaching economic development, Mega Projects: "the large scale exploitation of the mineral, forest and water power resources of the province."

To fully understand the extent to which Smallwood failed the province of Newfoundland in building the economy, it is of immense importance to understand the circumstances revolving around the example of the Churchill Falls project. Initially the project was the answer to all of Newfoundland's financial problems, however, "the eventual 1969 contract stipulated that Hydro-Quebec was to purchase, at minimum cost, virtually all the output from the Churchill Falls generating station." As Brian Peckford writes in 1983 it was "unquestionably...the most appalling betrayal of [Newfoundlander's] interests," and "...yet another 'new beginning' [which] turned out to be the greatest resource mistake in our long, turbulent history." In 1968, when the project was well underway, the British Newfoundland Company (BRINCO) had run into financial problems deeming it necessary for the company to implement another mortgage on the Churchill Falls development. "Tragically," as Jason Churchill put it, "...neither the province nor BRINCO could afford to buy into the second mortgage." "By 1969, the bargaining capacity of BRINCO and Newfoundland against Quebec was virtually non-existent." Churchill goes on to explain that there was a second option available to the government at the time, that being, the nationalization of Churchill Falls. "With federal assistance Newfoundland could have developed Churchill resources as Manitoba had developed the Nelson River project," which in retrospect would have benefited Newfoundland and Labrador tremendously, "this would have entailed federal intervention against the wishes of Quebec and the removal of BRINCO from the project."

The reason that this complete solution did not take place was simply linked to the fact that Joey Smallwood had a major connection to BRINCO. In the background of Joey Smallwood's elaborate economic development schemes, there was always an ulterior motive, in this case there was more to the deal than the public could possibly have known. In June of 1972 the

Report of The Royal Commission to Enquire into the Leasing of Premises for the use of the Newfoundland Liquor Commission was released. This was a report put forth by the Frank Moores government that revealed far more than anticipated. First, the lingering question of who owned these companies had been answered, one of which was Joseph R. Smallwood himself, and the other two men were Mr. Arthur Lundrigan, a major developer and Mr. Oliver Vardy, Deputy Minister for Economic Development in Smallwood's Cabinet. Further more, in appendix four of the report there is the House of Assembly extracts beginning 8 June 1970, revealing that Mr. John Crosbie had asked several questions about the ownership of the companies in question period only to receive a mundane response from Mr. Joey Smallwood stating, "I will endeavour to get it." This answer is surely not efficient when Smallwood indeed already knew the owners of the companies, especially with himself being one of them. The reason for the inquiry of who owned the companies was because of the extremely high rent further more benefiting the parties involved. However, Crosbie recalls there being a "...dirtier scandal hidden behind the liquor lease scandal." The three men, Smallwood, Lundrigan, and Vardy had taken up a loan with the Bank of Montreal of up to \$1.6 million dollars to purchase shares in BRINCO by taking their shares in Investment Developers Limited (IDL), which was the actual company (used as a front) owning the Liquor stores, as collateral. Just to reiterate, Joey Smallwood turned down the chance to abolish BRINCOs play in the contract with no hesitation, "yet he couldn't possibly be impartial in making these decisions of immense importance to the province when he had a huge personal stake in ensuring that BRINCO shares held their value," said better by no other than Mr. John Crosbie.

Another project failed, all in a days work for Joey it seemed. Bad decisions, conflict of interest, and a thirst for power, all made for a good combination amounting in bad politics and even worse consequences. As a father of confederation Joey always had support, which posed as a major problem and quite possibly a major contributor to his corrupt ways. The Liquor Lease scandal, which in turn revealed the BRINCO scandal, is a great gauge of the corruptness and the incompetence of the individual Joseph R. Smallwood. His failure of economic development for the province of Newfoundland and Labrador can largely be accounted to scandals, horrible decisions and greed. Joey was able to retain power for a long twenty-three years, not because of his range of success (if any), but his ability to deceive and persuade the people. Smallwood had a "hammer-hold" over "half-million souls through a combination of blatant patronage, outrageous bullying and the most magical, mesmerising speaking style anywhere in the land," as John Frazer recollects. The most fascinating factor of Joey Smallwood was perhaps his gullibility, certainly shown in the Valdmanis scandal and in the industrialization phase. Crosbie once said, "every promoter in the world headed to Newfoundland because the word was out about how gullible Smallwood was." Through the individual level of analysis, it has become unmistakably evident that Joseph R. Smallwood was not the man for the job.

It is important to realize that examples used throughout this research from John Crosbie and Harold Horwood were intentionally chosen to depict an understanding of Joey's corruption and incompetence. Crosbie and Horwood had worked side by side with Joey, Horwood in confederation and both men in Smallwood's cabinet, and had not long after crossed the floor in politics to oppose him, truly making a bold statement in respect to Joey's way of running government. Had there been another Premier it is quite possible that Newfoundland and Labrador would be a different province all together. Smallwood's way of running government

was unilateral, undermining the idea of a democracy. Abraham Lincoln once described a democracy as a government “of the people, by the people and for the people,” but in this case it was just *for* Joey. His personal agenda’s and personal flaws had, given the province no economic benefits with the exception of confederation, which can be attributed to his never-ending pursuit for glory. To wonder, as many Newfoundlander’s have, if things would be different now if we had a competent leader then, is to dwell on the past and is therefore a negative action, but to learn from these mistakes, in order to make better decisions for the future, is a positive action towards economic prosperity. To conclude, it can not be stressed enough the major importance the individual level of analysis has on gauging the credibility and success of a government on policy and the development of its economy. With that said, Joseph R. “Joey” Smallwood had set a long trouble bound path for the development of Newfoundland.

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