

Executive summary

Newfoundland has one of the weakest provincial economies in Canada. Since it became a province of Canada in 1949, its economy developed into a state of economic *disparity* and *dependence*. Newfoundland's weak economic position, troubled by these two phenomena, is the starting point of our research. The research question is this research is as follows: *How can Newfoundland's economic development be characterised and understood and what is its economic potential?*

To provide the answer to this question our research is divided by two parts: a *theoretical* part and an *empirical part*. This division is needed to see whether empirical observations can be explained by theory.

We first examined the theories explaining regional growth and economic cycles. We particularly emphasized the elements that explain and describe patterns of economic growth and decline in several key indicators (and therefore Newfoundland's overall economic activity). Based on this analysis we created a model that describes the way in which regional economies develop over time. This model is characterised by a combination of long-term and short-term patterns.

To determine the exact phase of a regional economy in a certain point in time, we derived six key indicators from economic cycle theories: demography (population development), employment, unemployment, gross domestic product, consumer price index and personal income. Their development over time defines the overall periods of growth and decline in Newfoundland's economy. The elements derived from regional growth theories that explain these periods are: government intervention in the form of fiscal policies or other incentives, the establishment of new companies in the basic sector, resource abundance and innovations. This examination concluded the theoretical part of our research.

In the empirical part of our research we first described the economic and political developments in Newfoundland's history. After this characterisation we used a location quotient approach to calculate which of Newfoundland's industries are basic industries (i.e. which are export based industries). Because of the multiplier effect of these industries, their development over time is important in explaining periods of growth and decline in Newfoundland's overall economy. Based on our calculation we decided to include the fishery, mining, oil and gas and the forestry in our analysis. We also decided to include the manufacturing industry despite of its location quotient of 0.5. From then on, we referred to these industries as Newfoundland's main industries. Other industries were omitted because these are not likely to export their products.

We then analysed the developments in Newfoundland's main industries. We concluded that there are three important explanations for the developments in these industries. The first explanation is the influence of both provincial and federal government decisions on the development of (certain parts of) Newfoundland's economy. The second explanation is the abundance and exploitation of natural resources. The third explanation is the influence of external factors, such as changes in demand or market prices.

After the analysis of the developments in Newfoundland's main industries we examined periods of growth and decline in the six key indicators identified in the operationalisation part of our research. We concluded that their development over time corresponded with both external influences (such as national recessions) and internal influences (the influence of developments in the main industries). Based on the developments in the key indicators we created Newfoundland's economic cycle from 1949 to 2001.

From 1949 onwards, several important periods of growth and decline are visible in Newfoundland's economic cycle. The recovery phase starts in 1949, the year of Confederation and ends in 1961. The prosperity phase starts in 1961 and ends in 1980.

The recession phase starts around 1980 and lasts until 1987. The depression phase starts around 1987 and lasts until 1994. Recovery starts from 1994 onwards.

To see whether developments in Newfoundland's economy can be explained by regional growth and economic cycle theories, we compared their description of the processes and mechanisms explaining patterns of growth and decline in regional economies to Newfoundland's situation and decided on their applicability. We decided that the *economic base theory* and *Innis' staple theory* are highly applicable. *Perroux's growth pole theory* and *Myrdal's theory of cumulative causation, evolutionary theory* and *Schumpeter's theory on innovations* are all applicable. *Keynesian growth theory* is only partly applicable in explaining periods of growth and decline in Newfoundland's economy. Regarding the applicability of the economic cycle theories we concluded the following: *Clapp's resource cycle theory* is highly applicable. *Vernon's product cycle theory*, *Kondratiev's theory on long waves* and the *business cycle theory* are all applicable. *Thompson's regional cycle theory* is the only economic cycle theory not applicable in explaining patterns of growth and decline in Newfoundland's economy.

Part of the aim of our research has been to find out the economic potential and economic future of Newfoundland. We concluded that the future developments in Newfoundland's main industries are generally positive, as they are likely to remain of economic importance in the near future. Their development will act as an instigator for economic growth in emerging industries, such as ocean technology. We expect that other industries, such as aquaculture and tourism, will grow in economic importance as well and provide employment in Newfoundland's rural areas, currently characterised by both high unemployment and out-migration. Therefore, we concluded that these emerging industries might be the basic industries of the near future. As a result of these expected developments, we also believe that Newfoundland's economy will become more diversified in the next two decades. This increase in flexibility through diversification will help Newfoundland's economy to adapt to increasing global competition.

Regarding the future developments in Newfoundland's level of disparity and dependence we concluded that two types of disparity will decline in the near future include: annual growth in real GDP per capita and the level of diversification. On the other hand, we believe that two other types of disparity will increase in the near future and include: population growth and the disparity between rural and urban areas in terms of employment and diversification. We believe that one type of disparity will remain on the same level: the disparity between Newfoundland's and Canada's overall unemployment rate. Regarding dependency, we believe that Newfoundland's dependency on the federal government in terms of equalization payments and its political influence on federal decision-making will remain the same in the near future.

Based on these findings we extended Newfoundland's economic cycle to 2020. Newfoundland's economic cycle is likely to continue its recovery phase after 2001. Economic activity rises from 2001-2009, after which a stabilisation occurs until 2012. After 2009, Newfoundland's economic activity will gradually progress into the prosperity phase.

