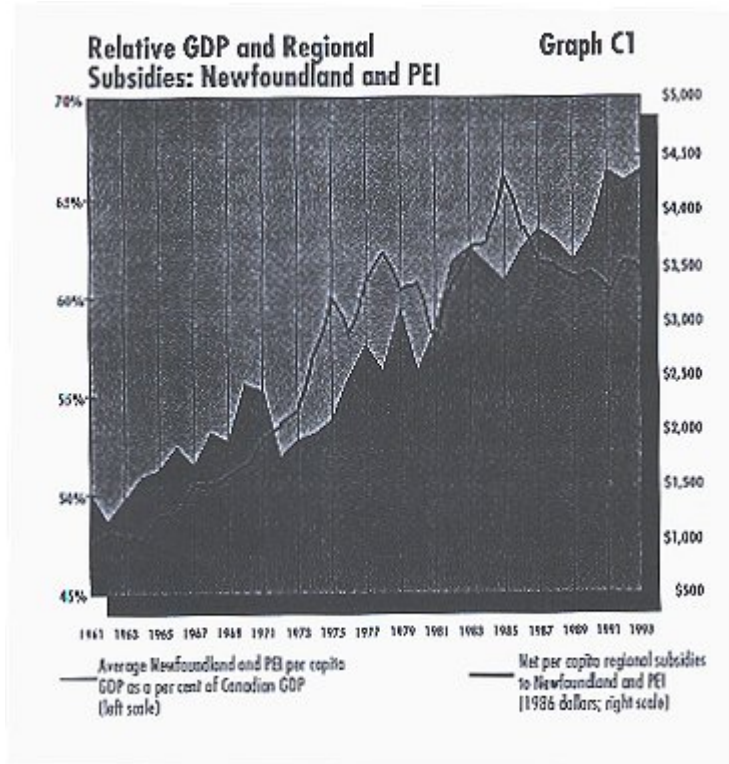


Appendix C

A Tale of Two Regions

An examination of the impact of federal transfers on Atlantic Canada reveals two regions: New Brunswick and Nova Scotia on one hand, and PEI and Newfoundland on the other.

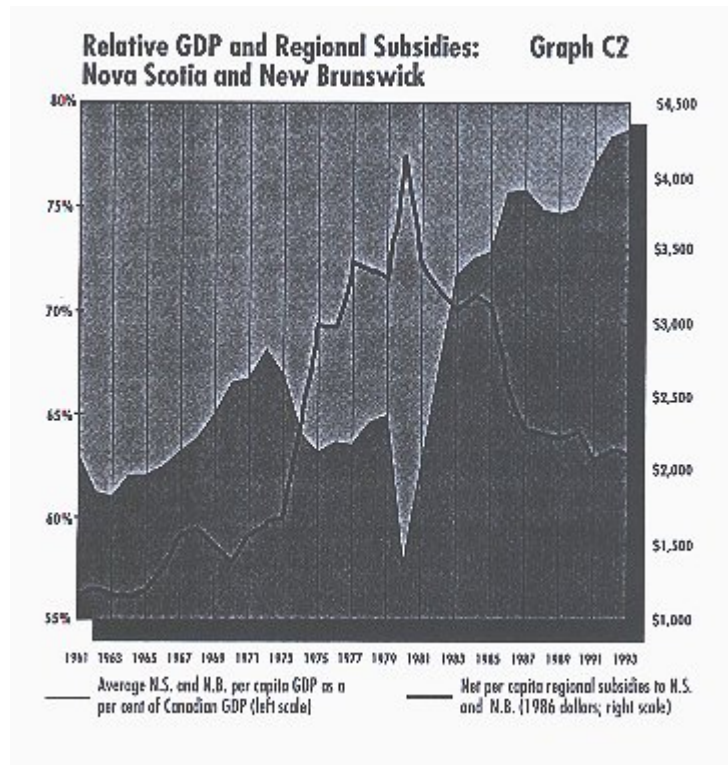


For the past 25 years, New Brunswick's and Nova Scotia's GDP has moved in the opposite direction of net federal transfers. When Ottawa pumped more money into those provinces, their indigenous growth faltered. (See graph C1)

For PEI and Newfoundland, that negative relationship appears to have held for the past 10 or 15 years, but, prior to that, federal transfers to the provinces and growth in GDP moved in the same direction. (See Graph C2)

The reasons for this difference are by no means clear, but it is possible to suggest directions for future research.

PEI and Newfoundland began with a much weaker economic base than New Brunswick and Nova Scotia. It may be that, with more infrastructure to build from scratch, there were better investment opportunities for government money in the poorer provinces - at least initially.



Similarly, it may be that Nova Scotian and New Brunswick businesses had better prospects, but that their economic growth was crowded out by government spending, while in PEI and Newfoundland, potential was so weak there was nothing to crowd out.

PEI and Newfoundland are islands. They may have had a tougher time getting products to market and had fewer growth opportunities.

To confuse matters, the converse is also possible. That PEI and Newfoundland, further behind than the rest of Canada, should have made even more rapid progress than Nova Scotia and New Brunswick, and that this potential for truly rapid gains disguises detrimental effects of government spending.

Nonetheless, since the early 1980's economic growth in Newfoundland and PEI has developed along the same pattern as New Brunswick and Nova Scotia. Any link between federal assistance and economic growth has been broken, and both Newfoundland and PEI have shown resilience even in the face of federal government cutbacks.