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The Cost of Quebec's separation

Canadians and Quebecers cannot afford to ignore the economic consequences

Quebec sovereignty has many possible dire economic consequences for Canada, especially for Quebec. Few would deny that Canada has been an economic success story ... Although small in population, Canada has the seventh largest economy in the OECD. Canada's standard of living is the second highest after the United States. Canada is richly endowed with resources and has a diversified industrial economy. Drawn by our prosperity, immigrants from all over the world flock to Canada. Quebec has flourished economically in Canada; Quebecers have shared in the bountiful income and wealth generated by the Canadian economy.

Canada has been doing well. Granted, Canada can do better, but it can also do much worse. Breaking Quebec off from one of the world's strongest economies is unquestionably a way to do worse.

Since Quebec sovereignty threatens our hard-won economic success, both Canadians and Quebecers need to understand fully its economic consequences. The negotiation of trade agreements, the transition costs and the long-run economic impacts - all of these issues must be considered to gain a proper appreciation of the economic consequences of Quebec sovereignty.

Quebec is an integral part of the Canadian economy. Even if Quebec were to separate, bidirectional flows of goods and services, capital and labor would have to be maintained. Continued trade would require some accommodation on both sides, but Quebec would be wrong to assume that Canada has no choice but to negotiate economic association on Quebec's terms.

The backlash in the rest of Canada from Quebec's separation and hard-ball bargaining on both sides could easily lead to a mutually destructive trade war.

Sovereignty-association seems to be the preferred option of many Quebecois for economic relationships with the rest of Canada. It has the attraction of preserving the continued free circulation of people and goods between Canada and Quebec. The two pillars of sovereignty-association are a customs union and a monetary union.

The existing Canadian customs union has evolved over years in response to the shifting balance of regional and sectoral economic and political forces. It would be highly unrealistic to expect it to persist if political ties between Quebec and Canada were ruptured. Its continuation requires a federal government for resolving disputes. There can be no economic union without a political union.

Moreover, if Quebec were to separate, a continued customs union would not necessarily be in Canada's self-interest. A customs union would require Canada to give up control over its external tariffs and to adopt a common commercial policy.

But it would not make economic sense for Canada to retain the same duties on clothing, textiles and footwear as Quebec, where more than half. of the industry is centred. For the rest of Canada, interprovincial trade in textiles and clothing represents economic welfare-reducing trade diversion and not welfare-increasing trade creation ...

A free-trade agreement would probably be about as far as Canada would want to go to accommodate Quebec. And this agreement would not be an act of magnanimity; it would be in Canada's interest. But it would require Canadians to put aside any hard feelings resulting from a' break and could thus not be considered a certainty.

Under a free-trade agreement there would have to be border control points between Canada and Quebec to enforce rules of origin and commodity taxes. Even in the European Economic Community there are still border controls on the flow of goods to enforce rules of origin and commodity taxes.

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The Bélanger-Campeau Commission argued that the Canadian dollar could be maintained as a sovereign Quebec's currency through legislation declaring the Canadian dollar legal tender in Quebec.

Jacques Parizeau has gone even further: he said that Canada can do nothing to stop Quebec from using the currency. For Quebecers worried about their life savings being eroded by a depreciating Quebec dollar, this could we be the deciding issue for Quebec sovereignty.

But Parizeau is wrong: if Quebec chooses to separate, there is no guarantee that it could continue to use the Canadian-dollar monetary system. Canada alone can print the currency that people want to hold and make the rules under which the payments system operates.

While a quarter of the Canadian money supply is now in Quebec, paper money wears out and must be replaced regularly. The average life of $2, $5 and $10 bills is currently les than one year, and the average life of a $20 bill, less than two years. Only the Canadian government can supply replacement currency...

Quebec economists and businesspeople reporting to the Bélanger-Carnpeau Commission had reached a consensus: in the long run, there would be no economic costs of sovereignty, and short-run transitional costs could be minimized if both sides to the split behaved rationally. This consensus is based more on wishful thinking than on facts.

The process of separation would be very costly. A strong central government in the rest of Canada and in Quebec and sound economic policies would be necessary to control the damage. Even so, economic disruptions and hardship would be great ... There could be at least a mild recession in Canada and a much 'worse one in Quebec . .. Once through the initial transition period, both Quebec and Canada would continue to be hurt. It would take a long time to make up for the investment lost as a result of the crisis in confidence in the transitional period. Investment loss stemming from plant location decisions might never be regained.

Furthermore, even a small risk premium in borrowing costs caused by Quebec's heavier debt burden and its currency risk could serve to dampen investment spending permanently and to reduce potential output.

There would also be the deadweight loss from the time and effort that the best brains and talents in the country would have to spend reorganizing and sorting out Canada's affairs ...

The economic costs of the separation of Quebec would be very high for Quebec. Although the costs are lower for the rest of Canada, they are still important, particularly the less tangible costs which are not readily quantifiable.

Uncertainty over the eventual outcome of a split must be one of the most important arguments against sovereignty. The Canadian economy is a powerful generator of wealth and jobs. It would be extremely foolish to break it up since Canada is not sure of the consequences.

Pointing out the costs of sovereignty is not to blackmail anyone. Rather it is to try to warn both Canadians and Quebecers of the possibly dire economic consequences of their political choices in order to foster a needed spirit of compromise. If successful, it will spare much needless economic pain all around. .

If the warning is not heeded, Canada will have to pull together to make the best of a bad situation. If Canada must establish economic relations with a sovereign Quebec, then Canadians must keep their emotions under control and be guided by self-interest, not spite.

Reaching a compromise to keep Canada together is not going to be easy, but it must be done. The costs of failure are too great, politically as well as economically. Canada must stay united.