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In July 1986 Dr. Grady accepted a two-year term appointment to serve as the first Director of the new Economic Analysis and Forecasting Division in the Department of Finance. At the end of his term in June 1988, he returned to consulting and co-founded Global Economics Ltd.

Chapter 1

Canada at the Cross Roads

National crisis

CANADA IS NOW IN THE THROES of its most serious national crisis. Federalists and sovereigntists are struggling over the constitutional future of Quebec. Faced with the prospect of a Canada without Quebec and a Quebec without Canada, Canadians across the country are being forced to consider the economic consequences of Quebec sovereignty for both Quebec and Canada.

The build-up to the present crisis came surprisingly quickly. Quebec had never agreed to the new Canadian Constitution which was patriated from the United Kingdom in 1982. The Canadian government under Prime Minister Brian Mulroney tried to bring Quebec into the Constitution with the Meech Lake Accord which met Quebec's five minimum demands for more powers (which were recognition as a "distinct society", a constitutional veto; a restriction on federal spending power in areas of provincial jurisdiction, greater power over immigration; and a voice in choosing Supreme Court Judges). English Canadians' widespread opposition to the Meech Lake accord and Manitoba's and Newfoundland's failure to ratify the accord by the 23

June 1990 deadline after being let off the hook by Elijah Harper's filibuster left Quebec feeling badly rejected.

Emotions ran very high across Canada in the aftermath of Meech Lake. English Canadians were clearly in no mood to make concessions to Quebec. The steady rise of the Reform Party in the polls is a good barometer of English Canadian alienation.

Quebeckers were very angry and support for sovereignty soared (two-thirds of all Quebeckers and three-quarters of French-speaking Quebeckers were in favour of sovereignty according to a November 1990 poll¹). A block of Quebec Members of Parliament split off from the governing Progressive Conservatives to work for Quebec sovereignty from within the federal government. It now tops the polls in Quebec and its leader, Lucien Bouchard, is the most popular Quebec politician.

The Liberal Quebec government of Premier Robert Bourassa, faces a strong separatist Parti Québécois opposition and counts many supporters of sovereignty among its members. True to form, Bourassa displayed his legendary ability to gauge the direction of the wind and avoid being blown over when he established the Bélanger-Campeau Commission on Quebec's Constitutional and Political Future last summer. At a minimum, the commission bought him some much-needed time: sovereigntists could blow off steam and their spirits could wane as memories of Meech Lake dimmed.

The Bélanger-Campeau Commission heard from an almost unbroken string of witnesses advocating sovereignty. Even business groups such as the Quebec Chamber of Commerce, who could be expected to have a better appreciation of the high economic stakes at risk, added their voice to the growing clamour in favour of sovereignty.

The sovereigntist bandwagon gained more momentum with the release of the Liberal party's Allaire report in late January (Constitutional Committee of the Liberal Party of Quebec, 1991). The Allaire report, which, surprisingly, was made less sovereigntist by Premier Bourassa before publication, calls for the transfer of eleven powers to Quebec, giving Quebec exclusive jurisdiction over 22 areas covering most of Quebec and leaving the federal government power over only four areas—defence and territorial security, customs and tariffs, currency and common debt, and equalization. It is, in effect, a proposal for sovereignty-association disguised as federalism. Worse still, in its rec-

ommendations for the referendum to be held before the fall of 1992, the Allaire report's expectations are clear: no agreement will be reached with the rest of Canada and the referendum will be on sovereignty.

The Allaire report played the same role in English Canada that the failure of Meech Lake did in Quebec. It made everyone angry.

The Allaire report was approved by the Quebec Liberal party's convention of March 8 to 10. Claude Ryan and his federalist supporters made a last ditch effort to have the Allaire proposals softened, but they were reportedly not even given the floor by the militant sovereigntists who dominated the convention.

Premier Bourassa appeased an angry Ryan and prevented a split in the party by saying that his first choice was to stay in Canada and that the Allaire report represented a negotiating position. This speech may have kept the Liberal party together, but it did little to placate the hostility stirred up in English Canada by the Allaire report.

After much behind the scenes inter-familial bickering, the Bélanger-Campeau Commission reported on schedule on March 28. In a report signed by 32 of 36 commissioners, the commission recommended that the Quebec government entertain binding offers of renewed federalism and that a law be passed requiring a referendum on sovereignty be held either between June 8 and 20, 1992, or between October 12 and 26, 1992 (Commission on the Political and Constitutional Future of Quebec, 1991a). Bélanger-Campeau also called for the establishment of two parliamentary committees—one to study the offers from the rest of Canada and the other to examine the impact of sovereignty. The commission provided no recommendations on what might constitute an acceptable offer. A yes vote on the referendum would lead to Quebec becoming a sovereign state one year later.

The Bélanger-Campeau's referendum deadlines have been passed into law by the Quebec National Assembly—but only after the agreement between the Liberal party and the Parti Québécois over the terms of the referendum broke down, causing the Parti Québécois to vote against the bill. The main bone of contention was that the Quebec government reserved the right to bypass the referendum on sovereignty if it would be in the best interest of Quebec.

The Bélanger-Campeau report and process has been greeted with suspicion and some hostility in the rest of Canada. The timetable is

regarded as impossibly short. The refusal of Quebec to participate in constitutional meetings with the federal government and the rest of the provinces will make the process more difficult in some respects, but it will also give Quebec more flexibility in accepting an offer. This is important because it can prevent a potential catastrophe—another perceived rejection of Quebec demands, such as Meech Lake. The Quebec government's apparent refusal to be hamstrung by its own process is encouraging. Where there is a will to work out a deal, a way can be found.

The federal government response

The Canadian government has been working to try to defuse the emerging crisis. Prime Minister Mulroney gave two hard-hitting speeches in Toronto and Quebec in mid-February to counter growing support for Quebec sovereignty. The sovereignty issue is not easy for the Prime Minister to handle. He himself came to power from a Quebec base. Some of his key Quebec ministers and many Quebecers in his Conservative parliamentary caucus could switch to the sovereigntist side if an acceptable offer for renewed federalism is not forthcoming. Outside Quebec, there is the perception that the Mulroney government has favoured Quebec. The popularity of his Progressive Conservative party is at the dismally low level of 15 percent in the polls, well behind the two main opposition parties.² This makes the Prime Minister's job all the more difficult.

The Prime Minister has taken initiatives to respond to the emerging crisis. The Citizens' Forum on Canada's Future was established under the chairmanship of Keith Spicer to canvass the views of Canadians. A parliamentary committee, chaired jointly by Conservative MP James Edwards and Senator Gérald Beaudoin, was set up to examine the formula for amending the Constitution. The unanimity requirement for certain changes in the Constitution is seen as being an important stumbling block that led to the Meech Lake debacle. Both the Citizens' Forum and the parliamentary committee on the amending formula reported in late June.

The Beaudoin-Edwards Committee recommended the so-called Victoria amending formula with four regional vetoes for matters dealing with the Queen, minority languages, and provincial proprietary

rights over their resources. The committee also called for a two-year time limit for ratification as opposed to the current three-year limit and for an optional referendum to confirm a consensus or to influence recalcitrant provincial governments. The report endorsed the politicians-only approach to constitution making that the federal government was already pursuing (Delacourt, 1991, p.A4).

In its final report, the Citizens' Forum reviewed what it heard from the people of Canada (1991b). Its most important contribution was to articulate the views of Canadians, particularly English Canadians, on the key issues facing the country. Its recommendations were relatively few. National institutions and symbols should be reviewed to give them more importance. A simple elegant preamble on Canada should be added to the Constitution. Quebec should have the freedom to be itself—a unique society. The official languages policy should be independently reviewed. Funding for multiculturalism should be eliminated. There should be a fair settlement of native land claims and there should be native self-government. A high priority should be attached to eliminating overlapping government jurisdictions and programs, and government efficiency should be identified as a major goal by placing programs as close as possible to the people. The Senate should be either fundamentally reformed or abolished.

In April the prime minister reshuffled the cabinet and named Joe Clark as Constitutional Affairs Minister heading up a cabinet committee on national unity with a mandate to come up with proposals that will resolve the constitutional impasse. The new constitutional proposals will be referred to a new joint Commons-Senate committee in September. The committee is charged to consult with Canadians and to report by February 1992. This leaves little time for securing provincial approval of the proposal before submitting it to Quebec. The federal government apparently does not intend to be bound by Quebec's time schedule.

Keeping Canada together

There are two things which could help to keep the country together. First, recognition by Quebecers of the very heavy economic costs of sovereignty. This could serve to bring the soaring independentist spirits of the more nationalistic Quebecers back down to earth. There is also hope that time will heal Quebec's wounded pride over Meech Lake and

that the emotion-driven support in Quebec for sovereignty will wane. A poll conducted in April which showed that support for sovereignty had receded to 48 percent is encouraging.³

Second, Canadians outside Quebec must realize that it is necessary to make some compromises to keep the country together. One hopes that Canadians can be persuaded to go further than Meech Lake—if they can be assured that the proposed constitutional changes will satisfy Quebec as more than a stopgap, and if they can see that there are high economic costs for the rest of Canada if Quebec separates. There is a trade-off of reduced potential costs for compromises made.

Keeping the country together will not be easy and it will require much goodwill and sacrifices on both sides. The Quebec government's acceptance of the Allaire report's demands to accept offers from the rest of Canada will make it difficult to reach an agreement. Given the response of English Canada to the relatively minor devolution of powers proposed under the Meech Lake accord, concessions to Quebec will not be easily granted. A recent poll indicated that three quarters of English Canadians were willing to take the risk that Quebec would separate rather than give in to its demands for more powers.⁴

As a result of Meech Lake, Quebecers have lost their patience with the process of constitutional change. The Quebec government has indicated its unwillingness to go back to the bargaining table with the federal and provincial governments as required by the current process for amending the Constitution. Since the federal government does not have the power to restructure Confederation as a result of bilateral negotiations with Quebec, there is a danger that Quebec might get frustrated and decide to proceed unilaterally and to seek constitutional ratification after the fact. The Parti Québécois, which is currently leading the Quebec Liberals in the polls by a significant margin and will gain additional support if the Liberal Quebec government is unable to negotiate a devolution of powers or lead the province to sovereignty, is itself on record as favouring a unilateral declaration of independence following a referendum on the issue (Parti Québécois, 1990, p.3). A UDI would be very dangerous and could lead to confrontation with unpredictable but likely disastrous consequences.

The constitutional future of a Canada without Quebec

What would happen to the rest of Canada if Quebec were to separate? The interim and final reports of the Citizens' Forum have revealed that Canadians outside Quebec are developing a different vision of the country than Quebecers are (Citizens' Forum, 1991a 1991b).

According to the Citizens' Forum, most Canadians outside Quebec do not believe in provinces or regions "going their own way" without regard to the effects on the rest of Canada. A core of common values was identified. Encouragingly, the economy is the most often mentioned among leading issues facing Canada. The federal government is regarded as the chosen instrument for directing the economy, but this view is tempered by a healthy scepticism and recognition that government policies have severely eroded Canada's economy and government intervention must be reduced. The federal government's role should be to set national standards in health and education, to maintain national symbols, to conduct international affairs, and to manage the economy, including regional equalization. Canadians strongly reject the decentralization of the Meech Lake accord. They strongly support the equality of provinces but not the concept of "two founding peoples". Official bilingualism and multiculturalism are also out of favour. But they support Senate reform, native rights, and empowerment to make governments more responsive to the public.

The majority canvassed would accept Quebec separation in order to avoid inequality among the provinces, preferential treatment for Quebec, or damage to Canada's capacity to address national issues. Support for western separation is negligible. These predominant views provide a favourable climate for a successful round of constitutional negotiations dealing with issues such as Senate reform and native rights. But they offer less encouragement for a compromise involving decentralization or special status that would be required to keep Quebec in Canada.

The current constitutional crisis is very serious. It is very likely that Quebec will not receive an acceptable binding constitutional proposal from the rest of Canada in time to avoid the October 1992 referendum deadline. Given the current volatile state of public opinion in Quebec and the possibility of another affront to Quebec's national pride, a

referendum in Quebec could easily result in a vote for Quebec sovereignty. If Premier Bourassa somehow manages to avoid a referendum and thwart sovereigntists, there is a risk that this would help the PQ to win the next provincial election, which must be held by 1994. Strong forces are in play that could lead to Quebec's separation one way or another if a new constitutional deal is not reached.

What would be likely to happen to the rest of Canada if Quebec were to separate? With or without Quebec a round of constitutional reform is underway that will result in a new Canada. The reports of the Citizens' Forum give a good indication of where this round is headed. It will likely preserve a strong federal system. It will probably include some constitutional reforms such as a Triple-E Senate to satisfy the west (interpreting the equal E to mean more equal). It will also focus on aboriginal and other issues that were put on the back-burner during the Quebec round. Without Quebec, Canada would be a more homogeneous country politically and hence more governable. But it would also be a weaker and less interesting country. The key problem facing the country must be reconciling the English Canadian vision of Canada identified by the Citizens' Forum with Quebec's vision.

The pressing need to understand the economic consequences of Quebec sovereignty

Quebec is not gone yet. A careful assessment of the economic consequences of Quebec sovereignty can make a difference in the debate over the political and economic future of Canada and Quebec. And, if worse comes to worst and Quebec separates, an economic assessment is imperative to prepare for the disruptions in store. It is in a spirit of hope that this study is offered, but also with a realization that it should still prove useful if our dreams of a unified Canada are shattered.

A roadmap for the book

Chapter 2 of this study provides a review of the pre-Bélanger-Campeau literature dealing with the economic consequences of Quebec sovereignty. Chapter 3 presents a detailed critique of the economic studies done for the Bélanger-Campeau Commission. Because of the great importance of the studies for the debate on Quebec sovereignty and

because of their unavailability in English, the studies are summarized for the benefit of anglophone audiences. Chapter 4 reviews the evidence on the economic viability of a sovereign Quebec by focusing on the available statistical data. Finally, Chapter 5 offers my conclusions on the economic consequences of a sovereign Quebec.

Notes

1. Poll conducted November 14-19 for the Toronto Star, CTV and La Presse by the Environics Research Group and published on Canada Press Newswire November 26, 1990.
2. Results of an Angus Reid-Southam Poll conducted April 25-May 7 reported in Julian Beltrame, "In from the fringe, Poll shows Reform, Bloc support surging," *Ottawa Citizen*, May 13, 1991, p.A1.
3. "Sovereignty support cooling: poll," *Ottawa Citizen*, May 1, 1991.
4. Results of a Gallup poll cited in Angus Reid (1991, p.A1).