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Preface

PRIME MINISTER MULRONEY ASKED in his February 13th Quebec speech (Office of the Prime Minister, 1991b) if any business person would be prepared to put the future of their company on the line without an in-depth cost/benefit analysis or market study and if the future of the country did not deserve at the very least equally serious analysis. He stressed that "it is not economic blackmail to ask Quebeckers to look carefully at the facts before taking economic decisions that involve their economic well-being and that of their children." The Citizens' Forum characterized Canadians as "shockingly ill-informed" about the economic costs of Quebec independence (1991b, p.119).

In spite of the current information vacuum on the economic consequences of Quebec sovereignty, a consensus based on wishful thinking has emerged among many Québécois economists and businesspeople and has been enshrined as dogma in the reports of the Allaire Committee and the Bélanger-Campeau Commission. In the long run, they argue, there are no economic costs to sovereignty and the short-run transitional costs can be minimized if both sides to the split behave rationally. This consensus is challenged by the facts presented in this study.

Quebeckers need to take a much harder look at the economic benefits from Confederation and the costs of separation. If they did, they would learn how much they stand to lose. Perhaps then they would become less willing to gamble their economic future on sovereigntist wishful thinking. Similarly, if English Canadians were to examine seriously the costs of Quebec separation they would see that Quebeckers would not be the only losers.

This study deals only with the economics of Quebec sovereignty and does not consider the larger question of the constitutional options for renewed federalism. But this does not mean that I do not have strong views on the need for constitutional renewal. Indeed, I urge my fellow Canadians to go the extra mile necessary to accommodate Quebec's legitimate demands in the upcoming constitutional round. The country cannot afford another Meech Lake debacle. Canada is too great a country to be broken up by narrow-minded stubbornness. With good will and rationality on both sides, there is no reason why we cannot reach an agreement that will be beneficial to all Canadians and will build a better country.

About the Author

PATRICK GRADY IS A PARTNER in Global Economics Ltd., an Ottawa economic consulting firm and an Adjunct Scholar of the Fraser Institute. He received a Ph.D. in economics from the University of Toronto in 1973 and a B.A. from the University of Illinois in 1968.

Though he is not from Quebec, he has had a special interest in and affection for Quebec since his youth. He was raised on his grandfather Irish's tales of growing up on the family farm in St.-Basile outside of Quebec City and of working in Quebec lumber camps. As a student, he spent two summers in Quebec City, one of which was spent studying French at Laval University in the old Séminaire du Québec. Dr. Grady was also an economic consultant to a Montreal investment dealer in 1982 and 1983.

Dr. Grady has written widely on economic policy, macroeconomics, and public finance. His writings have appeared in the *Canadian Journal of Economics*, the *Canadian Tax Journal*, *Canadian Public Policy*, the *Canadian Journal of Program Evaluation*, *L'Actualité Economique*, *Canadian Forum*, *Policy Options*, the *Journal of Empirical Economics*, *Globe and Mail*, the *Financial Post*, and the *Montreal Gazette*. He also edited *Peering Under the Inflationary Veil* for the Economic Council of Canada. His study on "The State of the Art of Canadian Macroeconomic Modelling" was released by the Department of Finance and has become a standard reference source on model structure.

From 1972 to 1981 Dr. Grady held various positions in Ottawa, including Research Officer in charge of economic forecasting at the Bank of Canada and Director of Fiscal Policy in the Department of Finance.

In 1981 he resigned from the public service to establish his own economic consulting firm, Grady Economics Ltd. From 1981 to 1986 he practised as a consultant. On one consulting assignment, Dr. Grady served as Project Director for the Economic Council of Canada's Annual Review for 1982, *Lean Times*. He also worked for the Macdonald Commission on the economy as a member of the team which drafted part of its final report dealing with economic growth and employment.

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