Notes

1. U.S. concerns in trade negotiations with a sovereign Quebec are discussed in more detail in Smith (1991) and Courchene (1991). The Quebec Inc. model is most fully developed in Courchene (1986).
2. Based on past recessions, the real output loss from the loss of confidence likely to be triggered by Quebec sovereignty could easily be in the range of 2.5 to 5 percent of GDP for Quebec and 2 to 3 percent of GDP for the rest of Canada. This range for the decline in output is based notionally on the 1981-82 and 1990-91 recessions. Another way of looking at it is that interest rates could rise by some 4 percentage points to stem capital outflows. The average impact of a 1 percentage point decrease in interest rates simulated with 9 macroeconomic models at a conference of model-builders was an increase in GDP of 0.2 percent in year 1 and 0.6 percent in year 3 (O'Reilly, 1983 and background papers). Assuming the impact of an increase in interest rates is the same magnitude and of opposite sign to a decrease and that model responses are linear, the impact of a 4 percentage point increase in interest rates would be a reduction of 0.8 percent in output in year 1 and 2.4 percent in year 3. To this impact could be added an additional reduction in investment resulting from uncertainty over sovereignty. Since business fixed investment in Quebec is around 11 percent of GDP, a 20-per-cent decline in business investment would amount to over 2 percent of GDP. A combination of the impact of interest rate increases and confidence-induced declines in investment could easily add up to an overall impact of 2.5 to 5 percent of output. This confidence-induced output loss would be exacerbated, especially in Quebec, by other output-depressing impacts.
3. John Helliwell and Alan Chung using a sophisticated econometric methodology have sought to quantify one aspect of the long-run impacts, the growth effects of national scale economies. They estimate that the growth in real GDP per capita would be reduced by 0.17 percent in Quebec and 0.06 percent in the rest of Canada (Helliwell and Chung, 1991, p.9). These are relatively small numbers and do not capture fully all the dynamic costs of breaking up the country.

References

Association des Economistes Québécois (1990) "Memoire au Bélanger-Campeau Commission."

Auer, L. and Mills, K. (1978) "Confederation and Some Regional Implications of Tariffs on Manufacturers," in Institute of Intergovernmental Relations and Economic Council of Canada, *Proceedings of The Workshop on the Political Economy of Confederation*, Queen's University, Kingston, Ontario, November 8-10, 1978.

Bank of Canada (1990) *Annual Report of the Governor* (Ottawa).

Beltrame, Julian (1991) "Bush expresses unity concerns," *The Ottawa Citizen*, March 14, 1991.

Boothe, Paul and Richard Harris (1991) "Alternative Divisions of Federal Assets and Liabilities," A Paper Presented at the John Deutsch Conference on Economic Dimensions of Constitutional Change, Queen's University, Kingston, June 4-6.

Brenner, Reuven (1991) "Canadian Choices," A Paper Presented at the John Deutsch Conference on Economic Dimensions of Constitutional Change, Queen's University, Kingston, June 4-6.

Caisse de dépôt et placement du Québec (1991) *Cycles et Tendance* Vol. IX, No.1 (Montreal).

Canada, Canadian Unity Information Office (1979) *The Textile Industry - A Canadian Challenge* (Ottawa: The Minister of Supply and Services Canada).

Canada, Canadian Unity Information Office (1978) *Trade Realities in Canada and the Issue of "Sovereignty Association,"* (Ottawa: Minister of Supply and Services).

Canada, Department of Finance (1977) "Statement by Mr. Macdonald on the Provincial Economic Accounts," June.

Canada, Department of Finance (1988) *The Canada-U.S. Free Trade Agreement: An Economic Assessment* (Ottawa).

Canada, Department of Finance (1991a) *The Budget* (Ottawa).

Canada, Department of Finance (1991b) *Quarterly Economic Review Special Report: Fiscal Indicators and Reference Tables* (Ottawa).

Canada, Department of Finance (1991) "Economic Linkages Among Provinces," *Quarterly Economic Review* March (Ottawa).

Canada, Office of the Prime Minister (1991a) "Notes for an Address by Prime Minister Brian Mulroney, Canadian and Empire Clubs of Toronto," February 12.

Canada, Office of the Prime Minister (1991b) "Notes for an Address by Prime Minister Brian Mulroney, Chamber of Commerce, Quebec City, Quebec," February 13.

Canadian International Trade Tribunal (1990) *An Inquiry into Textile Tariffs* (Ottawa: Supply and Services Canada).

Chambre de Commerce du Québec (1990) "L'Avenir Politique et Constitutionnel du Quebec: Sa Dimension Economique," le 7 novembre 1990.

Citizens' Forum on Canada's Future (1991a) *What We Have Heard So Far* (Ottawa).

Citizens' Forum on Canada's Future (1991b) *Report to the People and Government of Canada* (Ottawa).

Close, Patricia (1989) "Whither North America and Quebec: A Political Economic Study," October 20.

Commission on the Political and Constitutional Future of Quebec (1991a) *Report.*

Commission sur l'avenir politique et constitutionnel du Québec (1991b) Élements d'analyse économique pertinents á la révision du statut potitique et constitutionnel du Québec, Document de travail, numéro 1.

Conference Board of Canada (1991) *Provincial Outlook*, Vol.6, No.2.

Constitutional Committee of the Liberal Party of Quebec (1991) *A Quebec Free to Choose*, January 28.

Côté, Marcel (1990a) "Canada's Constitutional Future: A Viable Option," A Presentation to the C.D. Howe Institute Policy Analysis Committee, November 16.

Côté, Marcel (1990b) "Coping with Constitutional Uncertainty," November 20.

Courchene, Thomas J. (1986) "Market Nationalism," *Policy Options*, October, pp.7-12.

Courchene, Thomas J. (1991) "Canada 1992: Political Denouement or Economic Renaissance," A Paper Presented at the John Deutsch Conference on Economic Dimensions of Constitutional Change, Queen' University, Kingston, June 4-6.

Courville, Leon et al (1979) *La Sensitivité des industrie au commerce interregionale: Le cas du Québec, Ontario et du reste du Canada* (Québec: Editeur Officiel du Québec).

Delacourt, Susan (1991) "Give politicians the last word, committee says," *Globe and Mail*, June 21, 1991, p.A4.

Drohan, Madelaine (1991) "German Leader enters debate on future of Canada," *Globe and Mail*, June 17, 1991. p.A1.

Dudley, Leonard (1973) "Sur l'optimalité de la zone monetaire canadienne," *L'actualité économique* (janvier-mars).

First Boston Corporation, Economist Department (1991) "Constitutional Change," February 25.

Fontaine, Mario (1991) "L'indépendence ferait fuir 1 anglophone sur 2," *La Presse*, April 27, 1991, pp.A1-2.

Fortin, Bernard (1979) *Les avantages et les coûts des différents option monétaire d'une petite économie ouverte: un cadre analytique* (Quebec: Department of Intergovernmental Affairs, 1979, p10. (Translated by Maxwell and Pestiau, *Ibid*, p.37.)

Gibbon, Ann (1991) "Workers vow not to strike," *Globe and Mail*, July 5, 1991.

Globe and Mail (1991) "Hydro's controversial and costly policy," *Globe and Mail*, April 13, 1991.

Glynn, Anthony (1978) "The Net Provincial Expenditures Associated with Federal Government Expenditures and Fiscal Autonomy," in Institute of Intergovernmental Relations and Economic Council of Canada, *Proceedings of The Workshop on the Political Economy of Confederation*, Queen's University, Kingston, Ontario, November 8-10, 1978.

Gorham, Beth (1991) "Power Play: Bitter memories of a bad deal may poison the future of hydro in Labrador," *The Ottawa Citizen*, June 23, 1991, p.E6.

Hazledine, Tim (1978) "The Economic Costs and Benefits of the Canadian Federal Customs Union," in Institute of Intergovernmental Relations and Economic Council of Canada, *Proceedings of The Workshop on the Political Economy of Confederation*, Queen's University, Kingston, Ontario, November 8-10, 1978.

Helliwell, John and Chung, Alan (1991) "Are Bigger Countries Better Off?" A Paper Presented at the John Deutsch Conference on Economic Dimensions of Constitutional Change, Queen' University, Kingston, June 4-6.

Horry, Isabella D. and Walker, Michael A. (1991) *Government Spending Facts* (Vancouver: Fraser Institute).

Howitt, Peter (1991) "Constitutional Reform and the Bank of Canada," A Paper Presented at the John Deutsch Conference on Economic Dimensions of Constitutional Change, Queen's University, Kingston, June 4-6.

International Monetary Fund (1990) *World Economic Outlook* October 1990 (Washington, D.C.).

Ip, Irene K. (1991) *Big Spenders: A Survey of Provincial Government Finances in Canada* (Toronto: C.D. Howe Institute).

Julien, Germain et Proulx, Marcel (sous la direction de Arthur Tremblay) (1978) *Le chevauchement des programmes fédéraux et québecois* (Québec: École nationale d'administration publique).

Keynes, John Maynard (1920) *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe).

Laidler, David E.W. (1990) "Money after Meech," C. Howe Institute *Commentary*, No.22 (September).

Macdonald, Don (1991) "Sovereignty will not end monetary ties, Parizeau vows," *The Ottawa Citizen*, May 28, 1991.

Mansell, Robert L. and Ronald C. Schlenker (1990) "An Analysis of Regional Distribution of Federal Fiscal Balances: Updated Data," unpublished paper, Department of Economics, University of Calgary.

Maxwell, Judith and Pestieau, Caroline (1980) *Economic Realities of Contemporary Confederation* (Montreal: C.D. Howe Research Institute).

McKenna, Barrie (1991) "Quebec credit upheld," *Globe and Mail*, June 27, 1991, p.B8.

Milner, Brian and Séguin, Rhéal (1990) "Warning issued on lending to Quebec," *The Globe and Mail*, March 14.

Montmarquette, C. and Dallaire C. (1980) "Le Rendement Des Obligations Provinciales et l'Incertitude Politique: une Analyse de Séries Chronologique," *L'Actualité économique* No. 3 (juillet-septembre), pp.388-404.

Mundell, Robert (1961) "A Theory of Optimum Currency Areas," *American Economic Review*, No. 51 (September).

O'Reilly, Brian, Paulin, G. and Smith Phil (1983) "Responses of Models to Selective Policy Shocks," Technical Report 38 (Ottawa: Bank of Canada).

Parent, Rollande (1991) "Reconciliation à la grève contre un investissement de 400 à Tracy," *Le Devoir*, 9 avril 1991, p.A-1-4.

Parizeau, Jacques (1990) "What Does Sovereignty Association Mean?" Notes for a speech to be delivered at a special joint meeting of The Empire Club of Canada and the Canadian Club, Toronto, December 11.

Parti Québécois, *La Souveraineté: Pourquoi? Comment?* (Montréal: 1990),p.3.

Picard, André (1991) "Quebec's economic heart needs stimulant," *Globe and Mail*, March 28, 1991.

Purvis, Douglas D. (1990) "The Bonds that tie," *Globe and Mail*, April 23.

Quebec, Ministry of Finance (1990) *1990-1991 Budget* (Quebec).

Quebec, Ministry of Finance (1991) *1991-1992 Budget* (Quebec).

Quebec, Ministry of Industry and Commerce (1977) "Presentation of the Economic Accounts of Quebec."

Raynauld, André (1990) "Les Enjeux Économique de la Souveraineté," Mémoire soumis au Conseil du Patronat du Québec, Octobre.

Reid, Angus (1991) "Polls Quicken the Pulse of Quebec," *Ottawa Citizen,* April 8, 1991, p.A1

Reuber, Grant (1990) "If Quebec seceded have-not provinces could really suffer," *Globe and Mail,* April 9, p.B2.

Robertson, Gordon (1991) "After 124 Years Canada is too Great a Country to Fail," *The Ottawa Citizen,* June 9, p.B3)

Smith, Murray (1991) "The Quebec Sovereignty Issue: Implications for Canadian Trade Policies," A Paper Presented at the John Deutsch Conference on Economic Dimensions of Constitutional Change, Queen' University, Kingston, June 4-6.

Task Force on Canadian Unity (1979) *A Future Together* (Ottawa: Minister of Supply and Services Canada).

Taylor, Joseph C. (1990) "Province of Québec Hydro Québec Moody's Aa3/S&P AA.," Merrill Lynch, February 23.

Toronto Dominion Bank, Department of Economic Research (1990) "Developments in Canada's Constitution: An Analysis of the Meech Lake Accord," January 1990.

Whalley, John and Trela, Irene (1986) *Regional Aspects of Confederation,* Royal Commission on the Economic Union and Development Prospects for Canada Study 68 (Toronto: University of Toronto Press).

Varty, David L. (1991) *Who Gets Ungava?* (Vancouver: Varty & Company Printers).

World Bank (1990) *World Debt Tables 1989-90,* (Washington).