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A divided country would be an economic tragedy

A conspiracy of silence exists in Quebec about the economic costs of Quebec independence. The politically correct view in Quebec as fostered by the sovereignist Belanger-Campeau Commission is that in the long run there are no economic costs of sovereignty and that the short-run transitional costs can be minimized if both sides to the split are rational. Those who know better in the Quebec business community have yet to speak up loudly, perhaps out of fear of being accused of economic blackmail or terrorism.

We in English Canada are also partners to the conspiracy of silence. Not because we share' Quebec's politically correct view, but because we have not made a systematic effort to develop our own views. Valuable as it was as a sounding board for English Canadian opinion, the Spicer Commission did not study the economic costs of separation .

My new book, The Economic Consequences of Quebec Sovereignty, published this week by the Fraser Institute, is an effort to put an end to the conspiracy of silence and to get all Canadians including Quebeckers to focus on the high stakes involved in breaking up our country.

Costs very high for Quebec

My main conclusion, after carefully reviewing all of the evidence, is that the costs of separation would be very high for Quebec. While the costs would be lower for the rest of Canada, they would still be important.

Uncertainty over the eventual outcome of a split is one of most important arguments against sovereignty. If Quebec were to separate, relations between Canada and Quebec would most likely become acrimonious and there is no predicting the total damage to both economies that could be done. The Canadian economy is a powerful generator of wealth and jobs. It would be extremely foolish to break it up when we are not Ii sure of the consequences.

Canada is an economic success story. While small in population, Canada has the seventh largest economy in the OECD. Our standard of living is the second highest after the United States. Canada is richly endowed with resources and has a diversified industrial economy. Immigrants from all over the world flock to Canada drawn by our prosperity. Quebec has flourished economically in Canada and Quebeckers have shared in the bountiful income and wealth generated by the Canadian economy. Quebec sovereignty is a threat to our prosperity.

In my book, I demolish one by one the convenient and reassuring assumptions of the Belanger Campeau report that it would be business as usual if Quebec separates.

For openers, sovereignty-association is a nonstarter. A sovereign Quebec would lose its guaranteed access to the Canadian market and would probably experience disruptions in its trade flows while it sought to negotiate new trade agreements with Canada and the United States. A free trade agreement would probably be about as far as Canada would be willing to go. Without a customs union, Quebec's protected textile, clothing and dairy industries would be devastated. The United States would also bargain hard for concessions from Quebec to redress longstanding grievances.

In addition, Jacques Parizeau's disingenuous claims notwithstanding, Quebec could not just unilaterally decide to continue to use the Canadian dollar, but would have to reach an agreement with Canada on the terms of a monetary union and a fair sharing of the federal public debt. Canada could be expected to yield little if any say in the formulation of monetary policy to a sovereign Quebec.

Quebeckers also need to be reminded that they are principal beneficiaries of federal government fiscal transactions. Even the Belanger Campeau Commission estimated that in 1988 Quebec received a net fiscal gain of $409 per capita, or $2.7 billion, from its transactions with the federal government.

If Quebec were to lose the benefit of federal fiscal transfers and to assume its full quarter share of the federal debt based on population, taxes would have nowhere to go but up. An estimate of the likely increase required is two to three per cent of GDP.

Three structural weaknesses of a sovereign Qu bec that emerge loud and clear from my analysis are: A large current account deficit; a budget. defi cit well in excess of $10 billion; and a gross public debt that would be larger than any of the seven largest industrialized countries except for Italy. Fiscal belt-tightening would necessarily become the order of the day in a sovereign Quebec as structural adjustment policies would have to be adopted to redress Quebec's weak external position.

While the long-run costs of separation would be high, the upheaval in the transition would be even greater. Many people would move from Quebec to Canada, adding to the hemorrhage of 200,000 anglophones who have left Montreal during the past 15 years. Property values in Quebec would be depressed. Confidence in the Canadian and Quebec economies would be shaken. Capital would flee the country until reined in by high interest rates. The stock market would dip and may even crash. The solvency of the financial system would be severely tested. Business investment plans would be shelved pending the resolution of uncertainty. There would probably be at least a mild recession in Canada and probably much worse in Quebec.

While it is impossible to quantify Quebec's loss precisely, in the book I estimate that the output loss in Quebec could be as much as 10 per cent in the short run and five per cent in the longer run. These are extremely large numbers, and there is nothing that the Quebec government could do to fully offset the output loss.

Potential for losing influence

The rest of the country would also be worse off in the longer run as a result of Quebec separation, but not by as much as Quebec. Key to the economic well-being of the rest of the country would be the need to resist centrifugal forces, and to retain a strong central government capable of managing the Canadian economy. A very serious cost of Quebec separation for the rest of Canada would be the potential loss, of international influence and prestige and the weakening of our bargaining position in international negotiations. Another large cost would be the institutional restructuring that would be required. Many treaties, laws, and regulations would have to be amended and private firms would have to adapt and restructure. Financial institutions and other regulated industries like telecommunications would be most disrupted .

The conspiracy of silence on the high economic costs of Quebec sovereignty must be broken. If· Canadians and Quebeckers are forced to contemplate the appalling economic mess in store if we persist mindlessly on our present course, then perhaps we will be. more inclined to' make the compromises necessary to keep Canada together.

" ... Any reduction in access to the Quebec market would still have costs. Ontario and the Atlantic provinces would be most affected by any disruption in trade flows because of their greater dependence on trade with Quebec (eight to nine per cent of manufacturers' shipments from Ontario and the Atlantic provinces go to Quebec)."

"Given the higher proportion of trade which could be affected, the Atlantic provinces would be hurt the most by any disruption in trade."

"For the rest of Canada, the economic costs which can be quantified are substantially lower than the costs for Quebec. And for Canada, mere are some offsetting economic gains."

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"Before English Canadians become to complacent about the consequences of Quebec sovereignty for the rest of Canada, it is important to stress that the estimates overlook three very important and costly items which defy quantification, namely: institutional restructuring, pressure for protectionist and interventionist policies, and the loss of international bargaining clout. These costs would be sufficiently great to ensure a large economic loss for the rest of Canada from Quebec sovereignty."

- from ***The Economic Consequences of Quebec Sovereignty***
