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Smaller cohesive society more likely to pull together

Events are moving fast and there may not be time to wait for all the studies to be in before drawing some preliminary conclusions about the likely impact of Quebec sovereignty. Moreover, even when the required studies become available, they will not necessarily be definitive. Analyzing the impact of such a dramatic structural shock to the economy as the separation of a province accounting for a quarter of the population and almost a quarter of the economic activity must inevitably be conjectural and speculative.

There are simply no precedents on which to draw and no way of knowing which economic relationships will persist – and which will be altered. It is with a full awareness of all these uncertainties that I offer my own thoughts on the impact of Quebec sovereignty.

First, I agree ,with the point made in the ASDEQ (Association of Quebec Economists) brief, that if separation were to occur the scenario under which the it occurs in the midst of acrimonious conflict between the Quebec and Canadian governments must be given a better than even chance. Moreover, even if the split were to occur with the maintenance of good relations all around, there would still be a risk that the international and domestic markets could react badly to the breakup of Canada.

In my view, there are great risks associated with Quebec secession. The process of separation would be very costly from an economic point of view in the short to medium run. There would be great economic disruptions and hardships that would result. Many people would probably choose to move to Canada from Quebec and some in the other direction. Confidence in the Canadian and Quebec economies would be shaken.

There would probably be capital flight and interest rates would have to be increased. The stock market would probably drop significantly. Many business investment plans would be shelved pending the resolution of the uncertainty. There would probably be at least a mild recession in Canada and probably worse in Quebec. And this assumes that the economy would have had a chance to recover from the current recession.

The short- to medium-run costs of Quebec separation could be minimized by some form of economic association. Que bec in particular and the rest of Canada to a lesser extent would benefit from a continuation of free trade and the establishment of a monetary union and common currency.

But an agreement on arrangements for continued economic association could be very difficult to reach if English Canada were to react emotionally to Quebec's separation.
Putting aside transition issues, it cannot be denied that a sovereign Quebec would be

economically viable. Quebec would have a gross domestic product as large as many European countries and a level of per capita income among the highest in the world. Its economy would be relatively diversified and it would have strong financial institutions.

In the longer run, once the uncertainty was cleared up and confidence returned, the economic impact of Quebec sovereignty would probably be much smaller, though still1 not insignificant. The further in the future we look, the smaller the likely impact.

But it is important to recognize that the transition costs can cast a long shadow, Investment foregone during the period of uncertainty can undermine the economies' capacity to compete for as long as 20 to 30 years,

This could be particularly troublesome given that the lost investment would come at a time that the Quebec and Canadian economies are adjusting to the new opportunities and challenges created by the Canada-U.S. Free-Trade Agreement, assuming of course that Quebec, were able to negotiate continued inclusion.

There are at least four other important factors that could reduce real incomes in Quebec in the longer run that should not be ignored.

- First, Quebec would lose a significant fiscal transfer from the federal government that could be used to finance investment and economic growth.
- Second, Quebec could be exposed to Canadian commercial policy changes given the high level. of dependence of Quebec manufacturers on the Canadian market. The soft goods sector of textiles and clothing would be particularly vulnerable.
- Third, Quebec would lose its guaranteed access to Canadian petroleum if future shortages were to develop or sup plies were disrupted, Quebec could be adversely affected.
- Fourth, Quebec would have to bear the full costs of language requirements including that of French documentation and labeling of imports. This would raise the costs of American goods in' Quebec and could reduce consumer choice if some firms were to decide not to supply the Quebec market.

The other side of the coin is that these four factors would tend to improve longer run economic prospects in the rest of Canada.

On the other hand, it must be recognized that intangible and non-economic factors can sometimes play as large a role as economic in determining the likely impact of Quebec sovereignty on standards of living of Quebeckers .

A smaller more cohesive economy and society such as Quebec could possibly pull together in response to the challenge of economic adversity and do even better economically than it would do as, part of Canada.

The rest of, Canada could also either rise to the challenge or worsen its own economic prospects through the adoption of self-defeating nationalistic and interventionist policies.