

EQUAL TO EQUAL: ECONOMIC ASSOCIATION AND THE  
CANADIAN COMMON MARKET.

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## FOREWORD

In June, 1979, the Parti Québécois met in convention to approve its blueprint for Sovereignty-Association. Shortly afterwards, Premier René Lévesque announced that the referendum in which the plan would be submitted to the judgement of the people of Quebec, would be held in the spring of 1980. So the Parti Québécois option is now clear. Much less clear is how it relates to the other developments and trends in the Canadian federal system, and what its implications are, both for Quebec and the other parts of Canada. Careful analysis is vital if debate about the future is to be fruitful and productive.

Peter Leslie, teaches political studies at Queen's University where he specializes in Quebec politics, constitutional law and the economic bases of federalism. Following the PQ convention, which he attended, he prepared a series of six articles which appeared in the Montreal Star and elsewhere. They provide a detailed summary and analysis of the PQ proposals together with a careful evaluation of their implications for the integrity and operation of the Canadian common market. They lay bare the economic and political issues which any set of future arrangements must confront and which must be carefully addressed as the referendum debate unfolds.

The articles are reprinted here to permit wide consideration in the more permanent form that the Institute Discussion Paper series provides

Richard Simeon,  
Director,  
June, 1979.

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"Equal to Equal". That's the slogan under which the Parti Québécois met in convention June 1 - 3. Their task was to thresh out the party's position on Quebec's relationship with the rest of Canada.

It was a sober, hardworking, and spirited session. In 48 hours the 1,842 delegates sifted through 170 pages of resolutions, most of which were discarded in committee before they reached the convention floor. But the resolutions that were eventually adopted have spelled out the PQ's political goals with a clarity no other party in Canada can match.

Whatever the future electoral fortunes of the PQ, it now contains much of the political leadership of the most intensely political province in Canada. The Péquistes will remain a force to be reckoned with even if a future crisis should shatter the party itself. They have long historical memories, and they still feel keenly the conquest of 1760. They want to erase the memory of national humiliation by dealing with Canada, Equal to Equal.

#### THE PQ'S POLITICAL PROGRAM

When the PQ booted out Robert Bourassa and his provincial Liberals in November 1976, most people didn't know how seriously to take the idea of independence for Quebec. Would the new government settle for a few more constitutional powers and a sweeter financial deal? Wouldn't the delights of office make the PQ soften its demands? Wouldn't the discipline of having to deal with practical problems make it more realistic?

The new government helped sow confusion about their real intentions. Ministers fanned out across Canada and into the United States to assure audiences that independence was "normal" and anyway the PQ didn't want to break up Canada. "We want a new arrangement, that's all", they said.

#### No Compromises on Sovereignty

Now, two and a half years later, the party has spelled out the details of the new arrangement it wants. The old assurances are still freely offered. Lévesque even repeated the "no threat" formula to the party militants, scarcely a group needing tranquilizers to settle separation jitters.

But he was clear about national independence, and so were the delegates. Earlier that day they had overwhelmingly endorsed the declaration: "*Sovereignty for Quebec is not negotiable*". And how did they define sovereignty? All powers to tax, and all powers to pass laws. No Quebecers in a Canadian parliament. And no Canadian parliament exercising powers over Quebec.

Time and again, delegates came to the microphones to denounce any arrangements that would place Quebecers under the control of any outside group. They told each other: "Don't be duped by talk of a "third option" or "renewed federalism". These formulas would just lead back to the status quo, and Quebecers ought not to be tricked into thinking any changes genuine, except one: sovereignty, the end of minority status.

Sovereignty would not preclude making deals with other countries. New arrangements with Canada or other states, however, must be made by treaty and not by constitution. Delegates emphasized that treaties can be denounced when no longer considered advantageous.

### Roadmap to Independence

Notwithstanding the project for economic association, the "sovereignty" doctrine is a hard-line statement of the PQ goal. On the other hand, the tactics adopted to achieve it have been formulated in as non-threatening a way as possible. With negligible opposition, the delegates accepted the leadership's proposal to hold another "consultation" before declaring independence, if Quebec can't make its favoured deal with Canada.

Let's look at the 1979 printing of the PÉquiste roadmap to independence. The convention approved a resolution put forward by the party executive, committing the government:

1. *To demand, when Quebecers have given their mandate by referendum, the repatriation to Quebec of all powers belonging to a sovereign state, and to propose to Canada the creation of an association of sovereign states to replace the existing constitutional arrangements.*
2. *To conduct negotiations to this end....*
3. *To contribute to assuring the continuity of [commercial and other?] exchanges and of institutions which appear compatible with its [Quebec's] sovereignty and its interests.*
4. *In the eventuality that it seems impossible to arrive at a satisfactory agreement with Canada, to request from the citizens of Quebec a mandate to exercise the powers of a sovereign state without sharing them (with any other state).*

### The Double Mandate

Finance Minister Jacques Parizeau told the delegates that a second mandate might be secured by another referendum or by holding a general election. There were some complaints about this from the convention floor, but membership opposition to the party executive's position was easily overridden.

The double-mandate position required the party to jettison a section of its earlier program dealing with accession to independence. Until this June, the PQ government had been committed to "proceed unilaterally" if Canada didn't accept the sovereignty-association formula.

A few speakers objected that the promise of a second consultation would just invite Canada to trifle with Quebec's demands. Against this view was the democratic argument that the party needed explicit support for independence if association couldn't be agreed upon. There was also a vital, but unspoken, tactical consideration. The first referendum would be easier to win if the stakes were reduced.

Now the PQ has made a "yes" in the upcoming referendum a less risky choice for Quebecers. The waverers can say: "Let's make a try for sovereignty. If we can get it, and association besides, fine. If not, we might at least get expanded powers".

The Quebec government has now given its assurance that it won't - not yet - be going for independence without the security that economic association is said to provide. Less will be at stake on referendum day.

The referendum is expected next spring. It is now clear that a "yes" vote, whatever the wording of the question, would be no more than a mandate to negotiate. But if sovereignty is not negotiable, what would Quebec be negotiating for?

## CUSTOMS UNION

The thorniest problem that delegates to the PQ convention had to handle was: what form of economic association?

Delegates voted to retain the Canadian dollar as a common currency, but appeared distinctly nervous about some of the implications of monetary union. They wanted a common market, but they also wanted to restrict its application in certain fields. And they insisted on avoiding any institutional link in which Quebec could be outvoted by Canada--or other partners in a broader association.

The PQ wants sovereignty. It wants economic security through association. It wants to be protectionist when it suits Quebec interests. In sum: it wants the benefits of economic union and none of the costs. Right?

Just a minute though. Isn't that what other provinces want too? Isn't Canada already in a situation where the idea of a national economy is being trod upon by province-building premiers?

To pick up this comparison, we need to take a good look at the PQ resolutions on economic association, and at the form of economic union we have now through federalism. Would acceptance of the PQ's idea of economic association lead to a significant extension of provincial protectionism?

### The Resolutions

The resolutions endorsed by the PQ convention propose a treaty between Canada and an independent Quebec for:

1. The free movement of goods (to be achieved) through the parties' renunciation of the right to impose customs duties of any magnitude, or any form of indirect barriers to trade not explicitly permitted by specific agreement.
2. As judged necessary, the establishment in common of protective tariffs in relation to third countries, account being taken of the short and the long term interests of each of the parties.
3. The mutual recognition by the parties of the right to protect:
  - : their agricultural production,
  - : their programs of temporary assistance to (economic) development, and
  - : their systems of preferential purchasing by the state,these three fields being the subject of specific agreements.

What these resolutions amount to is a declaration of support for a customs union with three areas in which exceptions may be negotiated.

Other resolutions dealt with the mobility of persons (labour and immigration policies), the mobility of capital, monetary union, and the structure of common institutions for making and administering policy on matters requiring coordination or joint decision making.

#### Exceptions to Customs Union: Agriculture

Of the three proposed exceptions to the rules of a customs union, only the protection of agriculture would require any expansion

of the powers already exercised by Quebec and by all the other provinces. To control the import of farm products would be a big exception. It would scarcely be acceptable to those provinces that now rely heavily on agricultural sales in other provinces.

The PQ, though, is not the only Quebec party that would like to control the movement of farm products. Nor is Quebec the only province which wants to control agricultural production and marketing, and to impose import restrictions at the provincial borders. So, if there ever are negotiations on sovereignty-association, Quebec won't be without allies on this one.

#### Provincial Protectionism in Present-day Canada

The larger departures from the principles of a customs union in present-day Canada, however, result from restrictions on exports from the provinces of production, and not from barriers to imports. The provinces that have a big stake in being able to control exports are the resource-rich ones like Quebec--and like Alberta and Saskatchewan. Both of these prairie provinces have had legislation on the books to regulate extra-provincial sales of their resources. They want good prices, and they want to keep jobs within the province by insisting on their resources being processed near to the source. (In this they are just copying Ontario's policy of a century ago, which made home-province processing of logs a condition for the granting of timber leases.)

It's not at all clear how far at present a province can go in regulating resource production, fixing prices, and channelling scarce supplies to favoured customers (presumably, the in-province ones). When Saskatchewan tried to impose production controls on potash and to set up an export cartel to rig prices, the scheme was struck down by the Supreme Court. The Court said Saskatchewan had invaded an exclusive federal field, the regulation of trade and

commerce. So the province ended up nationalizing a large part of the industry in order to gain control over it--an expensive way of doing what it would like to have done by regulation.

Alberta, though, has been controlling the production and marketing of oil and gas for 25 years or more. It's now 30 years since the province established a conservation board for natural gas with powers to control exports, requiring it to see that Alberta's needs would be met before those of other provinces. This power is of great importance when Alberta wants to establish a petrochemicals industry in opposition to the Petrosar (i.e. Sarnia) project.

Can Alberta constitutionally do all these things? It can probably do some of them because production controls on oil and gas can convincingly be presented as conservation measures, whereas Saskatchewan potash is estimated to last 1,500 years or more. Moreover, the potash reserves were owned outright by the companies. Alberta retains ownership of most of its energy reserves and has leased, not sold, exploration and production rights. So the Potash case does not necessarily carry the implication that Alberta's control of the petroleum industry and marketing outside the province, is invalid.

Increasingly, provincial governments are taking the attitude that they alone are reliable guardians of their provinces' economic future. Those provinces that have a rich resource endowment intend to use it to stimulate their industrial development, to expand employment and to reduce their dependence on the metropolitan centre of the country (southern Ontario).

Quebec is one of those provinces. Its attempts to control the asbestos industry, by purchase if necessary, are directly

comparable to Alberta's desire to control its energy supplies. Other parallels are found in Saskatchewan's wish to manage the potash industry, Newfoundland's aspirations for the fisheries, and B.C.'s insistence on keeping ownership of the forestry industry close to home where it can be watched.

All these aspirations are expressions of lack of confidence in the market economy which leads to specialization in the economic functions of the regions. With unregulated markets, some regions are likely to emphasize resource production and others to concentrate on manufacturing and the processing of raw materials. That's what a customs union and other forms of economic integration exist to foster. In Canada the trend is away from all this.

#### Federal Policy on Provincial Economic Powers; Trudeau and Clark

Under Prime Minister Trudeau the federal government bent before these winds of change, though it did try to impose firm limits on the extension of provincial economic powers. At last February's conference of first ministers, Trudeau proposed a constitutional amendment guaranteeing the provinces partial control over resources--exploration, development, export from the province, and pricing (including markets outside the province). Provincial action in these areas would generally override federal legislation in matters relating to inter-provincial trade. There were two fundamental qualifications though. One was that no province could establish a lower price within its borders than outside. The other was that a federal law regulating trade and commerce would prevail if it was "necessary to serve a compelling national interest". Presumably this was intended to mean that Ottawa would retain the ultimate say in allocating scarce resources among potential buyers.

The PQ's project for sovereignty-association would rule out any such legislative powers for Ottawa, at least as applied to Quebec.

But if there is to be a customs union, could the same purpose be accomplished by a treaty which limited the legislative powers of the Quebec National Assembly? Would the rest of Canada want to do this? Would it be tolerable to an independent Quebec?

We don't know yet what the policy of the Clark government will be regarding barriers to inter-provincial trade. It has a strong base in Alberta, which has a lot to gain by expanding its control over its own economy. But the Tories' heaviest support comes from Ontario, the province which has the biggest stake in economic integration. Clark may have to stick to the existing federal policy of retaining final legislative control over trade in order to ensure the free movement of goods.

#### PQ Allies in other Provinces?

Meanwhile, just two days before Clark took office, the PQ convention expressed its reservations about a full-fledged customs union. The idea of protecting Quebec agriculture will not go down well everywhere, but on this matter Quebec would find allies among the other provinces.

Its resolutions on economic association do not, however, address the biggest "live" issue pertaining to the free movement of goods. Regardless of the outcome of Quebec's referendum, and regardless of the eventuality of negotiations on sovereignty-association, the issue of provincial protectionism will have to be faced. And in this matter, the PQ is rather trendy.

#### COMMON MARKET: THE MOBILITY OF LABOUR AND CAPITAL

Should Canadian workers be able to move to any province where they can find jobs? Should Canadian investors be able to send their capital wherever it can be most efficiently used and obtain the highest return?

The prevailing public philosophy favours such rights. The exercise of economic freedoms is generally considered an essential aspect of personal liberty. Moreover, there's a practical side to the question, because free trade and the free movement of labour and capital make production more efficient. Adherence to these principles creates a common market.

The Parti Québécois recognized these principles at its recent convention, when it endorsed a detailed set of resolutions on economic association. The purpose of association is to preserve the economic ties between a politically sovereign Quebec and the rest of present-day Canada, and thus to promote prosperity all 'round.

There's something odd, though about the PQ's endorsement of economic liberalism. The present Quebec government, and other provinces too, have increasingly been taking the position that local jobs should be reserved where possible for local workers. And that profits and savings generated in one region should stay there to finance further growth. Province-builders in all parts of Canada are saying it's unfair if investment funds are drained off to stimulate the development of other regions.

#### The Resolutions

So, it's not surprising that these ideas too figured in the resolutions passed at the PQ convention. The party's support for a common market is by no means unqualified.

*--(Economic association should cover:) the free movement of persons between the two territories, by the parties' renunciation of their right to impose regular border controls by the police,... (although) Quebec citizens should have their own passports, and...there should be agreements on immigration and the operation of the labour market.*

-- [Economic association should cover:] the free movement of capital between the two States, subject to each party's right [to enact]:

(a) ...an investment code;

(b) [a code] to regulate certain financial institutions;

(c) any other temporary or permanent measures, as judged necessary by one party or the other, all exceptions to the general principle of the free movement of capital necessarily being the subject of a special agreement.

-- [The convention declares:] that Quebec should regulate the entry and export of savings and profits, and should require financial institutions and [other] firms to reinvest in Quebec a substantial proportion of these savings and profits.

The last of these resolutions, which passed by about a 10-to-1 margin, is intended as a guideline for the present PQ government under the existing constitution.

It's obvious that there is a good deal of tension between the principles of a common market, which include the mobility of labour and capital, and the exceptions which the PQ sees as being negotiated item by item.

In the event of negotiations, the rest of Canada could take the line that no exceptions can be allowed and that Quebec must decide whether it wants economic association or not.

### The B.N.A. Act and the Canadian Common Market

The problem with this line is that a good many exceptions are already being practised within Confederation; nowhere is there a constitutional statement of the principles. The B.N.A. Act is a notoriously weak fundamental law for the operation of a common market.

Any guarantees of the freedom of movement of labour and capital would have to be formulated from scratch, probably following the European model. This might be just as objectionable to most provincial governments as it would be to some segments of opinion in Quebec, including opinion outside the ranks of the PQ.

### Mobility of Labour

Admittedly, under the B.N.A. Act, the provinces cannot control immigration from other provinces. It is doubtful that they could require work permits for residents of other provinces.

On the other hand, within the framework of a consumer protection scheme they can require the licensing or certification of certain occupations. Hiring restrictions may also be imposed by industrial relations laws. According to E. A. Safarian, 31% of craftsmen in production process occupations, and 25% of sales occupations are subject to licensing in Canada.

Deliberately or otherwise, such practices may limit the mobility of labour. Take the case of the construction industry in Quebec and Ontario. Quebec has attempted to stabilize labour markets in the industry, and employers must give preference to workers from the region. In addition, graded work permits for skilled occupations are required.

One effect of these measures--possibly an incidental effect--has been to impede the hiring of Ontario construction workers in Quebec. Ontario has retaliated by setting out hiring hall practices which have adverse effects for non-residents.

There seems to be no effective way of challenging such restrictive practices in the courts.

### Mobility of Capital

Impediments to the mobility of capital also have occasioned a number of recent causes célèbres. The splashiest of these occurred early this year, when British Columbia publicly discouraged CP Investments from taking over MacMillan-Bloedel, the largest forestry firm in the province.

Another case, as yet unresolved, is Quebec's bristling at the proposed takeover of Crédit Foncier by New Brunswick interests--an odd form of protectionism, since the firm is controlled in France, not in Quebec.

In the MacMillan-Bloedel case Premier Bennett threatened to expropriate the firm if it were taken over. Outright prohibition of the sale would probably have been beyond the powers of the province, as an infringement of the exclusive federal power to regulate trade and commerce.

There are, however, other ways of putting the clamps on capital markets, besides actually prohibiting takeovers or buying out the firms in question. Just consider:

- provincial control over leases on crown lands or minerals;
- industrial development subsidies or investment incentives;

- tax relief programs for industry;
- public sector contracts (procurement policies of the provincial government and the agencies it controls; public corporations, municipalities, and school boards);
- the regulation of stock exchanges and insurance companies;
- investment policies of public pension plan agencies.

These are all instruments of provincial economic development. They may be, and sometimes are, used to favour firms controlled within the province. They may also be wielded to give favoured treatment to companies which hire local engineering or legal services, sub-contract locally, buy components within the province, and so forth.

In Quebec, such policies apply not only to the location of firms, but to language use and the hiring of Francophones in management positions.

#### Negotiating Economic Association: Exceptions to Common Market Principles

In short, there are already many impediments to the operation of a common market in Canada. We should recognize this as we take note that the PQ has endorsed the mobility of capital and labour, but has warned of areas in which it would like to negotiate exceptions.

The negotiations would involve giving formal recognition to the existence of policies already in operation in all provinces, though in some more than others. Although the terms of a treaty on economic association might widen the scope of such policies, the idea behind them would not be previously unheard of in Canada.

This is not to suggest the negotiations would be easy. On the contrary, there are significant pressures for tightening up, not loosening, the conditions under which the provinces can restrict the outflow of investment funds and the inflow of labour.

One symptom of this mood is that the Task Force on Canadian Unity has proposed a number of measures to strengthen the Canadian common market. It suggests that the concept of free trade be extended to include services as well as goods.

It advises that provinces should normally buy where they can get the best price. It proposes measures to make it easier for workers to move about the country. And most categorically, it says that the constitution should prohibit barriers to the interprovincial mobility of capital. These recommendations counterbalance the decentralizing thrust of the Task Force proposals in social and cultural affairs.

Last February the Trudeau government served notice that it too would seek a strengthening of the Canadian common market in the next round of constitutional talks. "It is well known", a federal position paper declared, "that in a number of cases, tax, purchasing, and investment policies of various levels of government in Canada have acted to inhibit the free flow of goods and investment through all regions of the country... There is a need...to reduce, and if possible eliminate, these (policies), some of which can produce 'beggar thy neighbour' results, or mutually destructive competition".

The federal policy statement also noted that the constitutional amendment bill of June 1978 "included...provisions which would have given sufficient protection to individuals who seek employment in other provinces".

It acknowledged that "the reaction of provincial governments has so far on the whole not been encouraging," and it added: "Recent events in this field have shown that the possibility exists meanwhile of difficult and even explosive situations as individual provincial governments attempt to deal independently with problems which have a bearing on mobility".

So, we don't have to wait for negotiations on sovereignty-association to rake up these problems. But if the bargaining also has to cover the future political status of Quebec, the mood of acrimony will make it even harder to reach agreement.

#### MONETARY UNION

##### The Resolutions

*(The Parti Québécois proposes) an economic association with Canada involving recognition of the dollar as sole legal tender... and in consequence (it also proposes) the reorganization of central banking institutions as common institutions.*

*In case of failure or impasse in the negotiations regarding the establishment of a common currency, Quebec will take steps to provide itself with its own currency.*

This is the only resolution put before the recent PQ convention by the party leadership which appeared to be in any real danger of rejection. A common dollar and a joint central bank add up to a monetary union, and it was the implications of such a union for a newly independent Quebec that worried many delegates.

Although only a handful of hard-liners voted against the resolution on economic association, the debate on this omnibus proposal focussed almost entirely on one issue: monetary union.

There were some powerful speeches against it, and they were well received. Two attempts to break up the 12-part resolution to allow a separate vote on the currency issue was narrowly defeated--one by a vote of only 642 to 611.

Why would a technical issue like this be the focus of so much attention? Clearly, the delegates were concerned that without control over its own currency, Quebec would find it more difficult to manage its economy. And control of the economy is central to the project for independence. Let's follow the reasoning on this.

#### Adjusting to Changing Terms of Trade

Quebec's economy is closely integrated with the rest of Canada: it sells a lot to other provinces and buys a lot from them. This means that any major changes in the Canadian economy--in Quebec or in other provinces--will necessarily require adjustments which may affect every region.

For example, some key prices may go up, as has recently been the case with Albertan oil. New resources may be developed or new technologies introduced. Production methods for certain products may become much more efficient.

When any of these things happen, Quebec's terms of trade with other provinces will change. Over time, it will take a larger or a smaller volume of Quebec output to purchase a comparable package of goods produced in other regions.

For a region within a monetary union, an unfavourable shift in its terms of trade induces a recessionary spiral: declining investment and a reduced rate of job creation, unemployment, declining aggregate income, falling wage rates, and (probably) an outflow of population.

A region whose terms of trade are improving has pleasanter problems. It has to cope with boom conditions (including an influx of job-seekers) and accompanying inflationary pressures.

Every economy requires some mechanism that compensates for fluctuations in its terms of trade. This rule applies regardless of the political status of the territory it covers. On the other hand, the mechanisms which come into play in any concrete case--say, in Quebec's case--are quite likely to be affected by juridical or constitutional factors. Is the territory a region within a unitary or federal state, is it a state tied to others through some form of economic association, or is it a state whose economic powers are untrammelled by treaty or federal constitution?

#### Mechanisms of Adjustment under Confederation

Let's take a closer look at Quebec's position. In a full economic union, as under Confederation, adjustments to changing terms of trade may take place partly through interregional cash flows in the public sector, as governments act to even out the bumps. If Quebec slides into a deflationary spiral, its residents get more unemployment insurance and pay less federal tax. Other interregional cash flows involve the provincial government as intermediary. The province receives cash transfer payments from Ottawa, and uses the money to provide services like education and health care. Equalization payments, amounting to \$1.3 billion for Quebec alone, are a key instance of such intergovernmental transfers.

The adjustment process may also include federal regional development policies: improving transportation networks, manpower retraining, and subsidies to re-equip declining industries or to establish new ones. The federal government also intervenes in the market for some important products. For example, it acts to raise some prices (uranium) and to lower others (oil); it also

buys some products at a fixed, above-market price (milk for industrial purposes). All these policies affect different regions in different ways.

In some cases federal intervention reduces the need for adjustments, in other cases it eases the adjustment process, and--let's face it--in some cases it probably makes adjustment slower and, in the longer run, perhaps more painful.

One reason why Quebec wants to gain control over its own economy is that it believes that federal policies actually hinder the re-equipping of declining Quebec industries and the reorientation of the Quebec economy into more efficient lines of production. This is a matter for dispute among experts.

#### Mechanisms of Adjustment for an Independent Quebec

What is not in dispute is that if Quebec acquires political independence, all interregional cash flows through the federal public sector--at least those involving Quebec--would cease. Nor would there be any more federal "extending" policies for mortally ill Quebec industries, no curative treatment for those that are merely ailing, and no special support for the young and potentially vigorous.

Quebec, by claiming all taxing and regulatory powers, would automatically give up all claims on Ottawa for cash transfers and for the infusion of external support for economic development. These forms of adjustment to changing terms of trade are ruled out under the sovereignty hypothesis. The PQ government has made clear that a sovereign Quebec can and will do without them.

#### Mechanisms of Adjustment under Economic Association

Suppose now that Quebec were a sovereign state which was not bound to an economic alliance. It would then have a wide range of

instruments which it could use to facilitate adjustment to changing circumstances. It could (subject to GATT rules) impose tariffs and import quotas, it could regulate the inflow and to some extent the outflow of capital and labour, and it could raise or lower the value of the currency. (It would not have complete freedom regarding its exchange rate, but a policy of domestic inflation might be combined with external devaluation, or a policy of domestic price stability--if successful--might go along with a policy of buoying up the value of the Quebec currency in world markets.)

As a member of an economic association with Canada and/or with other states, Quebec would have to forego the use of some of the tools it might otherwise use to control its economy. How much it would give up would depend upon the form of association. By building close ties with Canada, the U.S.A., or Europe, Quebec might hope to gain the benefits of specialized production for an extended market; in return, it would have to recognize that its powers in economic affairs would be limited by treaty.

If a politically sovereign Quebec remained in monetary union with the rest of Canada, it would be renouncing control over its exchange rate with its major trading partners, the other provinces. It would be unable to control interest rates or to dictate the availability of credit.

Jacques Parizeau, Quebec's Minister of Finance, told the delegates at the PQ convention that even if Quebec shared a common currency with Canada, it would retain substantial independence in monetary and fiscal policy. According to Parizeau, a common currency does not necessarily require a single central bank. To support this position, he referred to the U.S. Federal Reserve System, where the regional Reserve banks are the instruments of monetary policy. What he didn't say is that they have to coordinate their policies very

closely, and that if any one of these regional banks stepped out of line, the whole system would fail.

Parizeau's affirmation of Quebec's freedom of manoeuvre under monetary union rang false. Clearly, unilateral control of the exchange rate, and of monetary policy in general, would be beyond Quebec's reach as a partner with the rest of Canada in a monetary union.

#### Québec's Control of its Economy under Monetary Union

What mechanisms would Quebec then retain to manage its economy? What instruments of adjustment to changing terms of trade would it still have?

Among the instruments of economic control, Quebec would wield only those permitted under negotiated exceptions to the other two main principles of economic association: free trade in goods, and mobility of labour and capital. Strictly interpreted, treaty prohibition against barriers to trade, and restrictions on the mobility of labour and capital, would deprive Quebec of virtually all the important levers of economy policy.

That's why Quebec wants the right to protect its agriculture, to offer temporary programs of assistance to economic development, and to give preference to Quebec firms in its procurement policies in the public sector. It wants to be able to impose some controls on the freedom of movement of labour and capital. On all these items, Quebec would have to negotiate special agreements, for all would be departures from the principles on which a treaty of association would be based.

The Parti Québécois has declared in favour of a form of economic association with the rest of Canada which would include

provision for a common currency. As a member of a monetary union as well as a common market, it would have severely limited its capacity to control its economy. In this case, the exceptions to the principles of a common market would become especially important to it. You can qualify free trade and restrict the mobility of capital and labour, but you can't have half a monetary union.

Listening to the speeches of the PQ convention, it was evident that the impassioned opponents of a common currency were afraid that Quebec might end up as a sovereign state without any real powers to manage its own economic affairs. If so, it makes the design of joint institutions, and the control of policies affecting both partners in the association, all the more important.

#### ECONOMIC ASSOCIATION: THE POLITICAL DEAL

Every provincial premier west of Quebec has said that sovereignty-association is a non-starter. No negotiations on this basis, in any circumstances. This also has been the line of former Prime Minister Trudeau, and after some hesitation it appears to be the stance of Prime Minister Clark.

#### Refusal to Negotiate: Unthinking the Thinkable?

The PQ says the "no deal" line is just bluff. A scare tactic to make Quebecers shy away from "voting their heart" in the referendum. Premier Lévesque points to the high level of economic integration between Quebec and Ontario, and says that a failure to negotiate formal economic links would cause serious harm to both Quebec and the rest of Canada. Once Quebec votes for independence, "Canada" will be there at the negotiating table.

Those of us who do not sit in the cabinet rooms of Ottawa and the provincial capitals would be ill-advised to rule out the possibility that the PQ may be right in this. The reasons for

bluffing are obvious--not least because of its hoped-for effect on the referendum outcome, but also because a softer position is a clear vote-loser. But let us put aside these obvious political motives and ask the cold-blooded question: what economic reasons are there for refusing to talk turkey (or *touitière*)?

Suppose there comes a time when Quebec's sovereignty seems inevitable to the rest of Canada. It might then appear that at least some regions would have a strong incentive to support economic association. Ontario is the obvious case, because Ontario is heavily dependent on trade with Quebec.

The western provinces sell much more in international markets than they do to Quebec, so they would be almost unscathed by a complete break. It's not surprising, then that their spokesmen say they're simply not interested in association. But nor would they have much to complain about if association means only that Quebec no longer gets equalization payments.

It seems that everyone outside of Quebec--perhaps everyone outside of the PQ--is convinced that the federal treasury pours a lot of money into Ontario's poor sister. If this stops, but otherwise things go on as before, where's the complaint? The PQ has not only voiced its support for a common currency, it has endorsed the idea of free trade, and mobility of labour and capital as well. Exceptions will have to be negotiated, and must therefore be acceptable to the rest of Canada.

So if sovereignty-association is widely regarded as a non-starter, is that not simply a case of unthinking the thinkable?

Perhaps any serious talk after a "yes" in the referendum would be considered treasonable outside of Quebec. This factor should not be ignored. None of us--péquistes or federalists--can afford to forget

that when the existence of one's country is at stake, emotion may overpower all calculations of self interest. Perhaps the loyal citizens of Ontario, not to mention provinces with a lesser economic stake in the outcome, would be willing to sustain a drop in their incomes if by doing so they could spite the secessionists.

It would be no less foolish, though, to disregard the stern voice of economic realities. It then quickly becomes evident that the real objections to sovereignty-association pertain to the political arrangements which are being proposed. Power is of the essence.

When it comes to the creation of joint institutions, the PQ's post-referendum scenarios vastly exaggerate the power Quebec can hope to wield.

#### The Resolutions

The PQ convention of June 1 to 3 has instructed the Quebec government, after a positive vote in the referendum to

1. *Arrange to create, jointly with the government of Canada, the institutions necessary to the operation of the Quebec-Canada Association, on the basis of a treaty... (covering):*
  - (a) *the powers which the two governments agree to exercise in common;*
  - (b) *the composition of the institutions and the way in which they will take formal decisions;*
  - (c) *the manner in which these formal decisions will bind the two governments.*

2. See to it that the institutions to be created in order to administer joint activities, as well as the machinery for interpreting and arbitrating agreements, be constituted on the general principle of parity and that the necessary [financial] resources be obtained in a manner to be negotiated between the parties.
3. Create, by the treaty of association, a decision-making organ composed of ministers delegated to it [who will] act on instructions from their respective governments, these decisions to be taken unanimously, each State having a single vote.
4. Create, by the treaty of association, a Court of Justice composed of an equal number of judges appointed by each of the governments, and a president whose appointment will be approved jointly by the two governments. The Court of Justice will have the functions of:
  - (a) resolving any differences arising between the two states, or between one of them and an organ of the Association, relating to the interpretation of treaties;
  - (b) acting as a court superior to the national courts in respect of the interpretation of a formal decision of the Association.

#### The Parity Principle

The parity principle, as spelled out in these resolutions, is understandably of critical importance to the independentist position. Anything less, and sovereignty is a sham. Anything less, and Quebec is relegated to a permanently minority position, much

more obviously so than at present. This much, Quebec's interlocutors should realize.

But there is another side--in fact several of them.

The PQ leaders must surely realize that acceptance of the parity principle, in the form of bilateral association which they propose, is utterly unrealistic. The Association would have the tasks of setting tariffs and otherwise directing a common commercial policy, controlling the exchange rate, implementing policies on interest rates and credit, and perhaps overseeing the administration of transportation networks. In such matters, why should any one regional economic interest have a voice equal to that of all the other regions combined, when the population ratio is about 1 to 3?

In Association, Quebec would lose much of its freedom of manoeuver in economic affairs. It is understandably uneasy about this and has therefore advanced the parity principle so that decisions will not be foisted upon it by its former partners in Confederation. But non-Quebec Canada would lose its freedom of manoeuver too. In fact, the broader the terms of association, the more likely are the other regions to reject a system which would give Quebec--smaller and weaker--a veto over their economic policy.

#### Who Will Speak for Canada?

If this line is unconvincing to the PQ, whose leaders may claim that nationhood makes Quebec the moral equivalent of an English-Canadian nation, they ought at least to do some serious thinking about who will be at the other side of any imaginable bargaining table. If one thing should be obvious, even to the casual observer, it is the diversity of economic interest outside Quebec.

While Canada exists, such diversity provides controversy about the character of national policies and the power of the federal government to implement them; but the disruptive impact of economic controversy is held in check by sentiment and emotion. The various regions, freed from ties with Quebec based on tradition and a shared political community, would have to rethink their position from scratch. They would ask whether there are economic advantages to association with each other, let alone with Quebec.

These considerations lead me to believe that if there are ever negotiations on economic association, the talks will necessarily have a multilateral character. Whatever joint institutions might emerge from such bargaining also would have to include representatives from more than two entities. It would not be "Quebec and Canada" or even "Quebec and English Canada". It is even conceivable that Ottawa might find itself on the sidelines.

#### DEFINING THE OPTIONS: AN URGENT TASK FOR CANADA

Quebecers have a more radical choice to make than is being put to them by the Parti Québécois. The PQ proposes political independence for Quebec, plus a treaty with the rest of Canada to create a two-member economic association.

That option may seem plenty radical in itself, but the PQ takes a lot for granted. It takes one to secede, but two to associate.

#### Multilateralism

Actually, in this case it probably takes more than two. Canada is a land of regions; it's not just Quebec and "the rest". The diversity of regional economic interests would force recognition of the multilateral character of any economic association, as even now centrifugal forces are pressuring the federal government to yield up some of its economic powers.

That's why, in my opinion, Quebec will eventually have to choose between full independence, without association, and some kind of linkage with other regions in a multi-member grouping. The re-invention of Canada, whether as association or federation, will require the participation of the regions. It might involve the creation of institutional frameworks as yet unimagined.

What are the attractions and disadvantages of multilateralism for the Quebecers who now feel frustrated within the Canadian federal state?

The main reason for their rejecting a multi-member entity is that Quebec would incur the risk of being outvoted. Obviously, it would not have a voice equal to that of the other three-quarters. For those who see "English Canada" as a cohesive bloc, always lining up against Quebec within Confederation, anything other than a one-to-one relationship on the basis of parity would clearly be ruled out. But that perception rests on the dubious view that language or ethnic origin determines one's stance on every policy question, including those relating to economic affairs.

This is an opinion which is implicit in much independentist thinking. For example, it underlies Intergovernmental Affairs Minister Claude Morin's account of federal-provincial relations during the last 15 or 20 years. I find it hard, though, to square this interpretation with the history of interprovincial cooperation in opposing federal power, especially during the latter part of this period. It's been rare for the nine English-majority provinces to line up against Quebec. There is no reason to suppose it would be otherwise in the future.

Accordingly, multilateralism would allow coalition-building. The powers of a central authority might be no more extensive than the PQ now envisions for the Quebec-Canada Association, but their exercise

would involve a form of bargaining in which Quebec would find supporters for the policy initiatives it wants or requires. On some issues it might find itself allied with the primary-producing provinces of the West, on others with industrial Ontario, and on still others with the Atlantic provinces with whom it shares the problem of slow growth.

By contrast, association on the PQ model would almost certainly produce stalemate on many matters in which a decision would be as critically important for Quebec as for other regions. Might not Quebec be safer in a multi-unit confederation with opportunities for bargaining, than as the poor relation in a two-unit association? Inevitably, Quebec would sometimes be in the minority, and perhaps that risk would be intolerable. If so, Quebecers might well opt for sovereignty, but then they should see why association under PQ conditions would be intolerable to the rest.

#### Association or Federation?

A second question concerns the extent of powers to be exercised by a central authority. This will inevitably be the subject of intense negotiation; it will not be avoided even if Quebecers reject the sovereignty-association option in next spring's referendum. For one thing, the status quo is no more acceptable to the Quebec Liberal Party than it is to the PQ; and for another, the existing arrangements have powerful challengers in the Canadian West.

Let's recall that the PQ blueprint for sovereignty-association acknowledges that there would indeed be a central authority, and that the range of powers exercised at the centre would be determined by negotiation. At a minimum, tariffs and monetary policy would have to be set by some central agency. And if the European common market is any guide, there would have to be a substantial bureaucracy working on the harmonization of policies by member-states, the enforcement of

treaty obligations by initiating litigation before an Association-level Court of Justice, and the administration of joint enterprises or programs (in Europe: the policies on agriculture and on regional development).

The larger the number of subjects covered by any treaty establishing an Association, the more extensive the powers exercised at the centre. If those powers are sufficiently far-reaching, there will be demands for controlling their use by a directly-elected assembly. That is, there will be insistence on retaining some kind of federalism. Any other arrangement would leave the central institutions under the domination of bureaucrats and political executives.

We ought not to delude ourselves: the PQ will not be persuaded that federalism is better than sovereignty. But if the rest of Canada insists, for democratic reasons, on a directly-elected assembly, that too reinforces one's impression that the Quebec electorate will eventually have a more radical choice to make than the PQ acknowledges.

One option is unhyphenated sovereignty. Another option may be sovereignty plus a multilateral association. But perhaps the only realistic option, other than sovereignty, is federalism.

#### Opinion Outside Quebec

Ultimately, the choices facing Quebecers will not be defined in any referendum sponsored by the Government of Quebec. The range of options can be defined only outside of Quebec. Accordingly, the rest of Canada has some serious thinking to do.

A good place to start is with a line from Larry Pratt and John Richards' recent book, Prairie Capitalism. "The Lougheed regime", they write, "anticipates a major devolution of power in favour of the

provinces as Canada is forced by the threat of Quebec secession to evolve a new set of constitutional arrangements."

The international arena is not the only one where naked power determines events. Realpolitik may also be the ruling principle in the domestic affairs of states, especially (perhaps) in federal ones. To be crude about it: Quebec threatens to break up the country, and other assailants of federal power await the opportune moment to intervene.

#### Expanding Provincial Power

Alberta is the main challenger, outside Quebec, of the existing distribution of powers. It is by no means the only province which sees itself as a victim of federal economic policies, but its energy resources give it fire power not possessed by other decentralist-minded provinces. Premier Lougheed: "In short, the economic centre of gravity is shifting west.... Such a shift is good for Canada. As the regions strengthen, the country strengthens. This is not any exclusive club for Albertans; everybody is welcome...come aboard". And that's just what other provinces with a slender industrial base but with ample resources are doing; they're boarding a post-centennial model of "the Confederation train".

In part, their idea is to expand the powers of the provincial governments, giving them more control over the course of their own economic development. A policy of self-reliance. A policy which rests on their ability to restrict the free movement of goods, labour and capital. A policy which restricts the degree of economic integration in Canada.

#### Reducing Central Power

At times, though, the assailants of federal power voice a different objective. They appear ambivalent. Sometimes they aim

to garner new authority for the provincial governments, while at others they apparently wish mainly to weaken Ottawa's capacity to adopt policies inimical to regional interests. In this mood, the premiers - especially the western ones - sing out loudly against discriminatory policies which favour the industrial centre of Canada at the expense of the hinterland regions.

If Ottawa's powers are restricted, they may be handed over to the provinces or they may be declared out of bounds for government altogether. The latter option would be entirely consistent with a full-fledged common market and monetary union, and would represent a strict application of the principles endorsed by the Parti Québécois as the basis for sovereignty-association.

In this arrangement, the authority of the member states would be restricted by some form of Articles of Association. However, relatively few of the powers denied to the member states by treaty would belong to any central authority. There would be no agency to adopt regionally discriminatory policies in transportation, assistance to industrial development, and other service activities of government.

Would this be a good arrangement for Canada? It's an extension of tendencies one already observes even outside Quebec. It may be particularly attractive to businessmen, who are concerned about the fragmentation of markets and the jungle of controls imposed by eleven governments.

Is a strong central government necessary to run a common market? Probably not. The full economic integration of Canada is probably quite consistent with a constitutional order in which all governments operate under constraints which prevent them from meddling too much in the operation of markets for goods, labour, and capital.

Support for Central Power

It's unlikely though that an association of five or ten states would suit even those provinces which are strongly critical of federal policies. At the economic level, there are two main objections.

One is that joint economic policies would still produce winners and losers, and the losers would need compensation. Commercial and monetary policies adopted through joint institutions simply could not be devised in such a way as to be entirely neutral as between regions. The main example: unequal sharing of the costs of the tariff would be unavoidable. As at present, the burden of tariff protection for industry would necessarily be borne disproportionately by those regions which sell in export markets, the primary-producing regions.

For a century now, these regions have raised angry voices against federal policies; but, unlike Quebec under the PQ, they are unlikely to assent to a total emasculation of federal power. Any tariff policy acceptable to Quebec would discriminate against the West, and the West correspondingly requires compensation through other federal policies. The Atlantic provinces too are convinced that federal policies drain their wealth to central Canada, and could not accept continuation of those policies without compensation. An association of sovereign states could not offer the necessary guarantees.

The second objection to emasculating federal powers is that provinces with vulnerable economies need shelter. To provide it, a central government with extensive constitutional powers and substantial financial resources is called for.

Among the provincial premiers, Saskatchewan's Allan Blakeney offers the most cogent defence of federal power. He is a strong defender of provincial rights in the management of resources, but he is also conscious that resource-based economies are vulnerable to fluctuations caused by unpredictable changes in world markets. He wants to make sure that there is someone around with the regulatory powers and the tax base to underwrite the risks to which the primary-producing regions are exposed.

What Blakeney wants is the reorientation of federal policies, not the elimination of Ottawa's capacity to implement them. Perhaps there is some tension in this matter between Saskatchewan's needs and those of neighbouring Alberta, which either has more confidence in itself or is less hopeful that new policies will ever come out of Ottawa.

### Conclusion

Even a Canada without Quebec would have to make up its mind on the extent of economic integration it wanted, and the powers to be accorded a central authority. There are tendencies afoot to expand the powers of the provincial governments, inevitably reducing the free movement of goods, labour, and capital--in other words, restricting the operation of the Canadian common market. The disadvantages of economic fragmentation are already being felt, however, and there may be strong resistance to much more of it.

In that case, another option--also consistent with some current tendencies--would be to reaffirm the principles of a common market, but to reduce the capacity of the federal government to implement discriminatory economic policies. This solution, in its pure form, is economic association--though presumably on a multilateral basis. Would it be acceptable?

Although there is strong support even outside Quebec for reducing Ottawa's powers, the arguments for strong government at the centre are telling. There are at least three of them. One is based on democratic principles: that central institutions need to be subject to electoral controls. A second is that the benefits of economic integration ought to be spread as evenly as possible, and that where some policies work to the disadvantage of a region, other policies should offer compensation. A third argument is that it is morally and politically imperative to underwrite the economic risks to which resource-based regional economies are prone.

Are these arguments strong enough to win the support of most Canadians? If not, it's time to prepare a briefing book for the negotiations on sovereignty-association. If so, the reasons for rejecting sovereignty-association must be formulated clearly and without hesitation or ambiguity.

At present, the declaration that sovereignty-association is unthinkable appears to be mere puffery. Or worse, blackmail. And that's no way to face political demands which reflect a people's striving for self-respect and their determination to treat with others, Equal to Equal.