A Quebec Perspective on a North American Currency

by Richard Marceau, MP

In the referenda of 1995 and 1980, the idea was put forth of achieving sovereignty in Quebec while preserving a monetary and economic union with the rest of Canada. Recent developments in Europe, including the emergence of the Euro raises questions not only within the sovereignist movement, but throughout Canada. One of these questions relates to the future of the Canadian dollar in the context of a future free trade agreement that would cover the three Americas, and thus the appropriateness of making it the currency of a sovereign Quebec. The intention of this article is to examine and evaluate avenues available in terms of either adopting the American dollar or creating a new pan-American currency.

On January 1st 1999, we witnessed the birth of a new currency: the Euro. Within three years, national currencies which, in some cases, have been in use for several centuries, will be relegated to museums and private collections. This is a significant moment in the history of the world! The emergence of the Euro will signify the emergence of a new reserve currency, side by side with the American dollar and the Japanese yen.

With the signing of the Treaty of Maastricht, the countries of the European Union have guaranteed the free movement of persons, goods, services and capital throughout their territories. In addition to this economic alliance, there is now a monetary aspect which means that from now on there will be only one currency and one central interest rate in effect for eleven countries of Europe. This major change demonstrates how closely the sovereignist plan proposed in 1995 reflects the modern world! But on the other, it raises an inevitable question. Is the Canadian dollar destined to disappear?

The lesson to be learned from the creation of the Euro is that sooner or later, economic integration will raise the question of monetary integration. In the space of half a century, Europe has moved forward, from one of the bloodiest wars ever to a common market, limited at first (European Coal and Steel Community), then to a broader common market (Treaty of Rome), and ultimately a true monetary union. Why? Because there are a host of advantages associated with using a single currency where there is extensive trade among countries. These include: less uncertainty, lower currency transaction costs, greater price transparency, better allocation of resources, and so on.

Of course there are disadvantages in abandoning national currencies. A currency is, first and foremost, a trading tool and a reserve, but it can also play a buffering role when the pressures on our economy are different from those in neighbouring countries. Furthermore, we have to anticipate a settling-in period for the new currency, which may be fairly difficult. Some people are still

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nervous about the Euro's entry onto the markets, and are going to wait for it to prove itself before placing their trust in it. The decision to convert to the Euro, however, means that the eleven countries that have joined it believed that the disadvantages were less important than the benefits associated with the new currency. Otherwise, the Euro would never have come into being.

The direct consequence of the arrival of the Euro on the money markets is a reduction in the number of currencies that can be termed "intermediary". The Euro replaces the French, Belgian and Luxembourg francs, the German and Finnish marks, the Italian lira, the Austrian shilling, the Irish pound, the Dutch florin, the Spanish peseta and the Portuguese escudo. In the medium term, it is very likely that the Euro will also replace the English pound, the Greek drachma and the Swiss and Danish crowns. This trend is of direct and very concrete concern to us: from now on, what currencies will international speculators stake their bets on to earn their living?

To understand the concrete impact of the Euro, we need only recall the ravages of the Asian financial crisis, when everyone rushed to the American dollar as their security. While the Canadian loonie took a beating in 1998, so did most of the European currencies, to varying degrees. However, it seems plain that with the advent of the Euro, a new international financial crisis (starting in Brazil, for example) would not have the same fallout in Europe. Unfortunately, a crisis like that would undoubtedly have the same effects here at home, perhaps even worse, since the people who speculate on the rise and fall of currencies in a period of financial upheaval are now short eleven horses to bet on.

> ***Fifteen or twenty years from now, what major currencies will be left, apart from the American dollar, the Euro, the Japanese yen and perhaps the Chinese yuan?***

If we are to protect ourselves from the pernicious effects of growing currency speculation, a tax on financial transactions such as the "Tobin tax" might be proposed. But we cannot limit ourselves in seriously analysing the alternatives that present themselves if we are to avoid becoming one of the main targets of international speculators, which include abandoning a national currency that has been *de facto* marginalized and adopting a strong currency. But then the question is still which one we should choose.

The economic destiny of the Americas may be to have a common currency from the North pole to the South pole, within the context of a broader and greatly improved free trade agreement. One day, there may be only one currency on earth. While we wait for these dreams to become reality, there is still a strong currency right close to home that provides a shelter when the world economy nose-dives: the American dollar. Since the question of currency fluctuation arises in the case of Quebec, it is just as relevant in the case of Canada. Let us take a minute to see what this might mean.

The total volume of Canadian currency is about $600 billion Canadian, or nearly $400 billion U.S. In comparison, the American currency volume is nearly $6 trillion U.S., about 10% higher in 1998 over 1997. Given that total Canadian currency expressed in American dollars represents only about 6 or 7% of total American currency, the "dollarization" of Canada (that is, the conversion of our economy to the American dollar), from the American point of view, represents barely a few months' growth in their own total volume of currency.

In addition, it is worth noting how similar the operations of the new central European bank are in some respects to the American Federal Reserve. In both cases, the central bank sets the common monetary policy in consultation with a number of "regional bank" representatives. In the United States, this is done by the Federal Open Market Committee (FOMC), which is composed of the Governors of the central bank, the president of the federal bank of New York and four presidents of the eleven other regional banks, in rotation. This structure means that the regions have considerable influence in developing domestic monetary policy. Thus a system in which the Bank of Canada would become the thirteenth regional bank in the American system is easy to imagine; Canada could even try to secure a permanent seat on the FOMC (like the seat provided for the president of the bank of New York).

Of course, this is all mere conjecture for the moment at least. However, we are already seeing some dissent, primarily in Canada. The first person to question the advisability of a North American monetary union was John Crow, the Governor of the Bank of Canada from 1987 to 1994. In a speech he recently gave at the University of Toronto, Crow extolled the merits of an autonomous Canadian monetary policy, consisting of maintaining an independent currency within a floating exchange rate system. The central argument of Crow's thesis rests on the loss of flexibility in Canada's economic policies if it abandoned its own currency, either by fixing the exchange rate in relation to another currency or by adopting the American dollar.

When we consider how the Canadian and American bank rates have fluctuated in the last 50 years, we have to say that the independence of Canadian monetary policy is something that exists only in our heads. The best econometric model for determining the bank rate in effect in Canada from 1950 to 1986 would be to use the rate in effect in the United States and add 1.1 percentage points. When Crow was Governor, the Canadian bank rate in effect, on average, corresponded to the rate in effect in the United States plus 3.6 percentage points. If this flexibility amounts to allowing the Bank of Canada to systematically impose interest rates on us that are higher than in the United States, no doubt the Quebec and Canadian workers who have to endure an unemployment rate twice as high as their American counterparts will have a different opinion!

We could point out that in 1996 and 1997 the Canadian bank rate was lower than the American rate for the first time in 50 years (with the exception of 1973). However, the limitations of this alleged monetary autonomy became plain on August 27th of last year, when the loonie dived to appalling depths and the Bank of Canada had to intervene by raising the bank rate to 6% (1 point higher than in the United States) to provide support for the Canadian dollar in order to bolster confidence. Since then, the Bank of Canada has exactly mimicked the movements of the American Federal Reserve, and in my opinion this puts an end to the debate regarding the real independence of the Bank of Canada from its counterpart to the south.

In terms of a sovereign Quebec, would there be advantages to adopting a new North American currency or, if not, the American dollar? First, the value of Quebec's exports to the United States is one and a half times higher today than the value of our exports to the rest of Canada. If the question is simply one of reducing the uncertainty of currency transaction costs, a sovereign Quebec adopting the American dollar would seem to be one of the most rational choices. In addition, it could be argued that if the crutch supplied by a Canadian currency that has been quietly devaluing for the last thirty years were eliminated, Quebec businesses would have a much greater incentive to invest in improving productivity, which in itself would be very beneficial.

In purely political terms, we know that the federalists would love to use the threat that a sovereign Quebec would have no control over Canadian monetary policy. Although we may seriously question Quebec's present influence on management of Canadian monetary policy (the Bank of Canada acts entirely independently of the government), if Quebec adopts the American dollar this other big federalist fear loses its teeth. At worst, Quebec would have little influence on American monetary policy. However, if the past is any indication of the future, the American pro-employment monetary policy might be more advantageous for our economy than an anti-inflation Canadian monetary policy designed to reflect the prerogatives of Ontario. At best, a sovereign Quebec could join the regional banks system of the Federal Reserve and would then have the same influence on (North) American monetary policy as does, for example, Massachusetts, where the Boston Federal Reserve is located.

Plainly, this kind of transition will not happen without some adjustments having to be made. A decision like this means that there must first be a wide-ranging and serious collective discussion of the costs and benefits.

Conclusion

There have been a lot of changes in the idea of Quebec sovereignty since 1960. During the era of the Rassemblement pour l'Indépendance Nationale (RIN), Quebec's *indépendantiste* vision, which was certainly inspired by the great changes occurring at that time in Latin America, Africa and Asia, focused on the emancipation of the people of Quebec.

At the end of the 1960s, René Lévesque gave concrete shape to the idea of Quebec independence by adapting it to the context of the economic interdependence of nations, something that was already taking place. That was the era of the sovereignty-association movement, and the 1980 referendum question referred explicitly to an *economic association* [with Canada] *including a common currency*.

In the 1995 referendum, a YES vote meant a vote for sovereignty accompanied by a formal offer of partnership. At the time, this meant retaining the Canadian dollar as the currency, but also negotiating a new treaty to include a customs union and free movement of goods, persons, services and capital, based on the equality of the two signatory countries.

Thus, over time, Quebec sovereignty has developed from a vision based on national liberation into a plan that will also involve reorganizing the North American political and economic scene in the best interests of the people of Quebec: taking charge of our collective destiny as members of ever-growing economic units. This ongoing modernization of the sovereignist project did not come to a halt on October 30, 1995. In fact, the question is more relevant today than ever: what should Quebec be in the year 2000?

Editor's note: On March 15, 1999, the Bloc Québécois moved that a Special Committee of the House of Commons be struck in order to consider the possibility of Canada's participation in the creation of a pan-American monetary union. The motion was defeated by a vote of 175 to 67.