NEW YORK AND THE QUEBEC REFERENDUM

BY STEPHEN BLANK

The old saw that Canadians should be happy when Americans ignore them and worry when Americans become too interested in what's going on in Canada is surely true. America's benign ignorance remains Canada's most protective shield. Judging by recent developments in New York, Canadians don't have to worry—yet.

Most Americans, including the vast majority of our political and business leadership, continue to be blissfully unaware of events in Canada. If they worry about anything, it is debt levels or Canada's socialist proclivities. But, overall, their views remain pretty positive—Canada is clean, solid, and caring. More to the point, there is a strong residual belief that Canadians will not pull the plug on one of the best things going.

Softwood lumber and a few agricultural commodities aside, no one has paid much attention to Canada recently; no one has focused on how strangely un-Canadian the Canadians are behaving or, for that matter, commented on the size of the American trade deficit with Canada. But the situation is beginning to shift, and that's not good news for Quebec or for the rest of Canada.

TUNING IN TO CANADA

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The debate over NAFTA is hot again—in Washington and in both the liberal and conservative media. A good many people are on the street selling the notion that Americans were duped into NAFTA by the Mexicans and the pro-NAFTA crowd. Republican presidential candidate Pat Buchanan, whose surprisingly strong base of power is the Christian right, is calling for restrictions on multinational corporations and new tariffs on Japanese and Chinese goods and manufactured imports from the Third World as a way of financing tax cuts. Says Buchanan, "If foreign regimes don't like the new US policy, let them not like it. This is our land; America is our country; the US our market. We decide who enters here and who does not."

These are stormy clouds but, thankfully, they are still on the horizon. What they do is diminish the resiliency of the United States for dealing with anyone else's problems. This could have important implications down the road, but more important at the moment is the shifting views of more serious Canada watchers.

Some of our leading financial analysts have deep Canadian roots and strong personal feelings about a bust-up. But, by and large, the view on Wall Street has been misunderstood by many Canadians. There is no fundamental opposition here to an independent Quebec, assuming it becomes independent within some general agreement on monetary, financial, and trade issues.

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QUEBEC SOVEREIGNTY: A SYMBOLIC STATEMENT

No one here has felt that there is any chance of Quebeckers choosing independence. The best informed Americans are more likely to have felt that this Quebec blow-up is just one more in a long series, and that it will be "resolved" by one more compromise, or symbolic solution—that Quebec's demand for sovereignty is still fundamentally symbolic, a bargaining posture rather than a final statement.

These views have been encouraged, as Peter Brimlow has recently observed in *Forbes*, by Ottawa's (and, for that matter, Quebec City's) strategy of playing down the referendum—at least playing it down south of the border. Ottawa's line has been that the referendum is bound to fail. So, if one's first assumption was that there would be some sort of last minute compromise, the second was that the referendum would surely lose and life would go on as before.

But the situation is changing. First, exogenous events count. The impact of the Peso crisis has been profound. The crisis drove home the fact that there are no sheltered harbours for globally mobile capital, and that decisions involving enormous amounts of money are made in split seconds by young people with few historic, cultural, or sentimental attachments. More than ever before, we are all working in glass houses, hanging everything out in full public view. What this means is that sensitivity in financial markets is greater, mi-

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nor shifts are rapidly magnified and volatility is heightened. Witness how closely the Canadian dollar and interest rates are tracking Quebec poll findings.

Second, there is also rising sentiment among Canada watchers that the outcome of the referendum may well be fundamentally meaningless. If it succeeds, the critical issues will still involve how Quebec and the rest of Canada are to coexist—issues that no one seems to have contemplated realistically. Even if it loses, the referendum is almost certain to win the support of more than 40 percent of the Quebec voters, probably more than the first referendum, and a majority of the French Quebec community. Nothing will go away; there is no "status quo" to return to, and the issues of the shape of Canada's constitutional system will still have to be dealt with.

POST-REFERENDUM FALLOUT

Neither the Chrétien nor the Parizeau governments have gained much slack either. Levels of confidence in both of them are already pretty low, and no one has yet thought to weigh the ability of either of them to manage the desperately complex post-referendum negotiations.

So a new worst-case scenario begins to emerge. It rests not so much on separation as on grinding, painful, acrimonious indecision and deadlock. In the new global order, this may be the worst possible outcome. Financial markets have not yet really discounted the impact of a "yes" vote, or of a prolonged period of post-referendum uncertainty. Analysts are still selling the view that Quebec bond spreads, for example, provide a real "buying opportunity" because the referendum will fail and Canadians will all live happily ever after. But with the referendum almost certainly to fail in providing a clear outcome, and with no mechanisms in place to deal with fundamental constitutional issues, financial markets could go berserk.

Again, we shouldn't push any of this too far. What *The Globe and Mail* terms "Quebec referendum anxiety," in describing the sharp drop of the Canadian dollar on September 13, is a rough hypothesis, not a scientific statement. The integration of global financial markets makes it very hard to pinpoint a single factor generating currency value movement. The point is that at any single moment, every trader is comparing every value to every other value. Still, the overall attitude among bond and currency traders is becoming more pessimistic. They expected some sort of typically Canadian compromise. They are likely to get a mess.

Stephen Blank is a professor of international business and management at Pace University in New York and president of Stephen Blank Associates.

THE SUPPORT FOR SOVEREIGNTY AMONG DECIDED VOTERS: THE PICTURE

BY GUY LACHAPELLE

Following the June 12 PQ-BQ-ADQ agreement proposing sovereignty with an economic partnership, support for sovereignty has increased slightly. Now that we know the referendum question, and after a heated debate between sovereigntist and federalist strategists about its meaning, the central question remains whether the Parti québécois and its allies can create the necessary momentum to win the referendum.

Support for independence has fallen significantly from the peaks they hit following the collapse of the Meech Lake Constitutional Accord in 1990. In fact, the current level of support for sovereignty is such that the "virage" has almost become a "mirage." The volatility of the electorate in the recent Quebec and Ontario elections suggests that the "undecided" voters—18 percent, according to the first SOM poll since the release of the new referendum question—will probably play a key role in the referendum outcome. Our own panel data, between January and March 1995, indicated that a group of 20 percent "decided" voters are moving easily from "yes" to "no," or from "no" to "yes." Also, it is important to point out that the key factor in the outcome of the referendum will be the capacity of the Yes side to mobilize its partisans—especially francophone voters. Unfortunately, no panel data is available to systematically compare changes in voters' attitudes, but such comparison remains essential to evaluate partisan changes.

> *It is difficult to forecast precisely the results on October 30. . . . However, if circumstances do not change substantially from the current situation, a Yes victory is not foreseeable.*

However, if we compare the last released poll conducted by SOM, with the results from the SOM poll of last March (from which comparable data are available) we can observe the shifts that took place over the past six months. The purpose of such comparison is to examine the characteristics and evolution of the support for the Yes and the No sides among decided voters. As we can observe in the table, the support for the Yes side has increased from 32 to 37 percent, and the support for the No side has remained relatively stable. The Yes vote did make some gains in almost all categories, but not enough

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WELCOME TO THE NEW CANADA WATCH!

Readers will notice that, as we enter our fourth year of publication, we have redesigned the format and presentation for *Canada Watch*. We hope you will agree that the new format is more attractive and makes the articles more readable.

Osgoode Hall Law School's Patrick Monahan is co-editor with Robarts Centre director, Daniel Drache, for our 1995-96 volume. Patrick was a founding editor of *Canada Watch*, and he and Daniel look forward to presenting readers with the same timely, informative material that has made *Canada Watch* such a useful publication over its first three years.