"Unfinished Agenda," continued from page 57.

effective provincial sovereignty is on the wane.

4) Quebec's drive for sovereignty would stand in sharp contrast to all of this were it not that that drive is being led by a Parti québécois government which has declared its solemn intent to buy into the anti-sovereigntist FTA, NAFTA, and GATT developments. It is likely to want to use the Internal Trade Agreement as a framework for trade with the Rest of Canada.
5) A peculiar debate is now under way. It is one in which lawyers and politicians are consumed by the passions of democracy, nationalism, ethnicity, culture, concerns for first nations' aspirations, sovereignty, and so on, while failing to recognize that fundamental changes already have taken place and are going to continue apace. These changes make much of the public debate, if not surreal, at least superstructural. Capital's increased political sovereignty might well have been attained without the help of constitutional politics in Canada and Quebec, but it certainly has been helped in its cause by being able to piggy-back on the constitutional push towards political balkanization and economic integration, lately reflected in the Charlottetown accord.
6) The dominant corporations are very happy with the happenings thus far. They do not want the election of the Parti québécois and the politics of nationalism to spoil the party. This explains some of the Rest of Canada's response to recent Quebec developments. More so than in previous constitutional negotiations, the Rest of Canada's approach is overtly economic. Threats are issued: Québécois will not be allowed, by capital, to play in the only game in town—free trade, unrestricted financial institutions—if they demand too much. Paradoxically, the instability that will result for capital if the Parti québécois wins the referendum and hot-headed politicians elsewhere refuse to let Quebec remain part of the newly entrenched economic unit, is the Parti québécois' strongest card. This is why these ugly threats backed by abstract legal arguments, while useful for a moment, need to be kept in check. This is why when corporate agenda proponents, like the C.D. Howe Institute, put out menacing messages, there is a distancing by the powers that be from them; note how Jean Chrétien, Daniel Johnson, and even Ralph Klein have said that they do not want to adopt the C.D. Howe line at this stage.

Capital stands to win either if the Parti québécois loses its bid or if it wins the referendum, provided that, in the latter case, the government of Quebec immediately subjugates its democratically attained sovereignty to the corporate agenda. The real (and only) danger to capital's *political* and *economic* sovereignty is that the politicians may not be astute enough to see that, when all is said and done, it is better for capital to accept a Quebec sovereignty decision than it is to reject it out of political pique. The rest of us in English Canada and in Quebec stand to win if, somehow, the politics of the constitution can be translated into the politics of the rejection of the corporate agenda. The prospects are not good.

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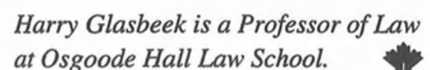

Living With a Lower Dollar

by Tom Kent

In 1995 we will become accustomed to an exchange rate for the Canadian dollar of around US$0.70, perhaps less. Will we take advantage of it, as we can, to reorient economic and industrial policies, to enhance our production and increase employment? Or will the traders in money, widely supported by pundits and politicians, persuade us that a "weak" dollar is a disaster that necessitates more restriction of the economy through higher interest rates and further cutting of public expenditure?

We owe the sharpness of the issue to the way in which the Bank of Canada stopped inflation. It avoided the dreaded monetisation of debt by, in large part, externalizing it.

Canada's net debt to foreigners—after allowing for Canadian-owned assets outside the country—is now close to $350 billion, compared with $100 billion in 1980. It has escalated particularly rapidly in the 1990s, as we have made our interest payments by borrowing even more.

This is represented, by those who profit from it, as investment in

Canada, dependent on the "market confidence" that must at all costs be sustained. The reality of globalized finances is that trillions of dollars surge around at the touch of computer keys, seeking the highest return of the moment. Some is parked in Canadian bonds and bills because they pay attractively high interest rates to offset the element of risk. It is not money that goes as easily as it comes, but clinging on to it is hailed as the imperative government must respect.

We are too deeply into this folly to find an easy way out. Gradualism has, quietly, been tried. The Bank of Canada has lately been less aggressive in its use of high interest rates to manipulate the exchange rate which has, therefore, gradually slid from around 90 cents to 70 cents over the last three years. The difficulty is that this invites speculation on a continuing slide. Of late, more of our borrowing from foreigners has been offset by Canadians thinking it wise to buy foreign securities. To produce the same net borrowing, therefore, requires a higher premium on interest rates. Manipulation gets more expensive.

Speculators succeed, however, by correctly anticipating a movement in the exchange rate—and then stopping in time. There is no profit in continuing to shift out of a currency once its exchange rate has fallen as far as it is likely to do.

For that reason, a sharp break would be the least painful way out of our dependency on borrowing. The Bank of Canada would stop setting interest rates to attract foreign funds. The exchange rate would become the market rate at which Canadian spending on foreign goods and services (including interest) approximately equals our earnings from the rest of the world.

If the break were made soon—before our interest obligations grow even larger—that exchange rate could prove to be close to the present 70 cents. Initially, however, it might plunge well below the market rate. If so, it would come back up. The interim would be unpleasant, but not an occasion for panic.

There is not space here to discuss all of the adjustments to economic policies that would complement an unmanipulated exchange rate, however and whenever it comes. I shall concentrate on an illustration of how industrial policy could cope with volatile financial markets. The proposal is equally applicable whether government makes the sharp break or, as is more likely, it soldiers on with Bank of Canada policy as it is.

Government rightly emphasizes that for more production and employment, we must look chiefly to small- and medium-sized enterprises. But they are enterprises that are inhibited by the volatility of currencies. Multi-nationals and other large exporters can arrange some hedges for themselves. Small Canadian enterprises cannot, and forward exchange transactions are of little help, particularly to companies competing with imports in the domestic market.

A 70-cent dollar offers many opportunities to export or to compete with imports that were unprofitable at 90 cents. Industries with spare capacity respond promptly, but investments in new plants and equipment are not made in response to fleeting opportunities. Their profitability depends on the average exchange rate over a payback period of several years. What that will be is, in the perception of most small businesses, a complete unknown.

The prospects for world economic growth would be much improved if we could return internationally to the kind of exchange stability provided by the IMF regime of the '50s and '60s. Since that is not at present possible, Canada must find for itself what will help a small, open economy to live with the present kind of globalized finance.

The need is a measure of insurance for enterprises that invest in new production on a reasonable assumption about the relevant exchange rate, but subsequently experience a significantly higher rate and consequently disappointing sales.

Such insurance should be the business of banks. The policies could be flexibly written to fit particular circumstances, as to the currency involved, the relevant markets, the time period, the volume of sales, and extent of exchange variation covered. Given the ability of banks to spread their risks, it should be possible to provide a good measure of insurance protection without burdensome premium rates. Also given, however, the institutional caution of banks' services to smaller, innovative enterprises, it may be that the program could be launched successfully with reasonable premium rates only if government initially provided guarantees—for the insurance of small enterprises, not the corporations that should be able to look after themselves.

This would be a very modest program compared with all that government has done to promote industry—much of it, in the absence of a coherent policy, done ineffectively. It would be a program precisely targeted to a clear need. It would not work miracles, but it is one way in which we might make the adjustment to global change that inspires so much rhetoric and so little action.

Tom Kent has been a public servant, corporate executive, editor, and academic. In retirement, he is associated with the School of Policy Studies at Queen's University.