



CANADA WATCH

Practical and Authoritative Analysis of Key National Issues

Canada Watch is a publication of the York University Centre for Public Law and Public Policy and the Robarts Centre for Canadian Studies of York University.

US IMPRESSIONS OF THE QUEBEC ELECTION

by Stephen Blank

The election of a government in Quebec committed to separation and the creation of a new country in North America has attracted little attention from the United States.

The reason is simple enough. The vast majority of Americans in business, government, and the academic community who follow events north of the border don't believe that Quebec will actually separate. Even among a smaller group of Canada watchers who feel that Quebec "sovereignty" is possible, most doubt that it will bring about a fundamental break within Canada.

This perspective helps explain the unruffled views of Wall Street bond watchers. A J.P. Morgan credit re-

port issued last August observed that political risk premiums associated with the possibility of Quebec separation "are overstated." The authors of the report, John Paulsen and Jade Aebi, wrote that "Quebec and Hydro-Quebec paper trade at relatively wide spreads given their ratings due to this political uncertainty. We believe that actual separation is highly unlikely and that, as the market realizes this, spreads are likely to tighten substantially in the near-term."

This is why other Street analysts (Peter Plaut at Salomon Brothers, for example) see a widening of Quebec debt spreads as a "buying op-

Continued, see "US Impressions" on page 14.

CAN SOVEREIGNTISTS REGROUP IN TIME FOR THE REFERENDUM?

by Alain-G. Gagnon

Contrary to its first mandate leading to the 1980 referendum, the Parti québécois that came to power September 12, 1994 has shed its social movement orientation and taken the form of a typical political party. In doing so, it has lost the élan of the previous decade. However, this trans-

formation has contributed to the Parti québécois's accrued respectability in the international community.

The sense of security created by the successive victories of the nationalist forces during the last two

Continued, see "Can Sovereignists Regroup?" on page 15.

VOLUME 3, NUMBER 2
OCTOBER 1994

Single Copy \$5.00

ARTICLES

US Impressions of the Quebec Election
by Stephen Blank 13

Can Sovereignists Regroup in Time for the Referendum?
by Alain-G. Gagnon 13

EDITORIAL

Federalism and the Chrétien Agenda 16

Reforming the Welfare State: Paying for Canada
by Peter Clutterbuck and Armine Yalnizyan 18

Aboriginal Peoples and Social Security Reform
by Mary Ellen Turpel 22

Would the Real Status Quo Please Stand Up?
by Daniel Latouche 23

The Liberals' Intergovernmental Agenda
by Douglas Brown 25

From Top To Bottom: Social Policy for the '90s
by Daniel Drache 27

"US Impressions,"
continued from page 13.

portunity." Investors picked up three percentage points over the rate of US government paper from the Quebec government in June. But the key here is the belief that the underlying risk is minimal, that a worst case scenario is unlikely and that values will return in a reasonable period.

Bond watchers keep an eagle eye on day-to-day spreads. Manufacturers must take a longer view—for those whose operations rest increasingly on integrated, cross-border sourcing, manufacturing and marketing networks it is more difficult still to get worked up about developments in Quebec. No one at corporate headquarters watches Canada; Canadian operations are typically run out of operating companies or strategic business units. Canadian-based operations report directly to the heads of line business units. For many companies, doing business in Canada, including Quebec — notwithstanding border, customs, and regulatory irritants — is not much different from doing business in Ohio or California. Companies have rationalized and restructured, the economy is improving and new global and continental systems are in place. Few headquarters executives in these companies see looming political risk in North America.

Almost all Americans who know anything about Canada carry around an optimistic paradigm. They have lived through Canada's periods of uncertainty before, they say. Canadians are specialists in the politics of accommodation and symbolic solutions. Canada didn't come apart over Meech or Charlottetown. The election results support their views: the PQ's popular support was less than forecast and current polls show that a majority of Quebecers oppose separation. Good old reliable Canadians will work out their problems.

SEPARATISM: REGRET AND DISMAY

But what if Quebec does move toward independence? How would Americans respond? Americans most certainly would view the separation of Quebec and the break-up of Canada with regret and dismay. Washington and every major company that does business in Canada will urge Canadians and Quebecers not to cross that line.

But you can bet that Washington's and the US business community's baseline will be: "Whatever satisfies you works for us." The US response will depend heavily on how Canadians and Quebecers deal with separation. No matter what the arrangements, if equanimity prevails and arrangements are put in place to preserve free trade and monetary stability in North America, Americans will go along.

While Americans would regret any sort of break-up, they would also view with disfavour any efforts by other parts of Canada to coerce Quebec, if they feel a majority in Quebec favours change. American mythology is tougher on bullies than on busting up countries.

It is by no means clear that Washington would oppose Quebec's entry into the FTA or NAFTA. Washington's primary objective would be to maintain the integrity of North American free trade. In any case, it would be odd, indeed, for "the rest of Canada" led by Ontario, which opposes both the FTA and NAFTA, to convince Washington to blackball Quebec, which has strongly favored North American economic integration. Any assumption that the US would be drafted into efforts to punish Quebec is probably unwise.

The issue is not that Washington will or won't oppose Quebec's entry into NAFTA. The danger is that once the package is unwrapped again, private interests will swarm over the

negotiations like piranhas on a fat deer, picking out all the juicy bits.

THE REAL RISK

Separation won't catch America's attention, but how separation is managed will. Violence won't be necessary to ring alarm bells; the hint of disorder will suffice. Rancorous argument about the disposition of federal resources, bitter debate about responsibility for the national debt, hot words about dismembering Quebec — if credible, threats and counter-threats would send Americans scurrying like sober citizens in a bar room brawl. If shouting starts and pushing looks likely, bond spreads will gap and American firms will begin to look for the nearest exit.

Some Canadians ask if the United States would intervene if it looked as though Canada might come apart. There is not the slightest possibility of US intervention, nor is there the slightest possibility that the United States would absorb any part of Canada. Neither of these outcomes is plausible. What is plausible, however, is that if the situation in Canada deteriorates sharply and serious threats on one side to demand total separation, and on the other to hobble or dismember Quebec really seem about to materialize, then capital and human resources will tumble south out of Canada. The most severe danger Canada faces isn't disorder or intervention by the United States, but the flight of everything that isn't nailed down. The United States won't absorb Canada — there's no chance of that. But it would be happy enough to welcome Canadians and their skills and capital.

Stephen Blank is the Associate Director, North American and Canadian Affairs, Americas Society and Professor of International Management at Pace University in New York City.

