Notes

1. U.S. concerns in trade negotiations with a sovereign Quebec are discussed in more detail in Smith (1991) and Courchene (1991). The Quebec Inc. model is most fully developed in Courchene (1986).

2. Based on past recessions, the real output loss from the loss of confidence likely to be triggered by Quebec sovereignty could easily be in the range of 2.5 to 5 percent of GDP for Quebec and 2 to 3 percent of GDP for the rest of Canada. This range for the decline in output is based notionally on the 1981-82 and 1990-91 recessions. Another way of looking at it is that interest rates could rise by some 4 percentage points to stem capital outflows. The average impact of a 1 percentage point decrease in interest rates simulated with 9 macroeconomic models at a conference of model-builders was an increase in GDP of 0.2 percent in year 1 and 0.6 percent in year 3 (O'Reilly, 1983 and background papers). Assuming the impact of an increase in interest rates is the same magnitude and of opposite sign to a decrease and that model responses are linear, the impact of a 4 percentage point increase in interest rates would be a reduction of 0.8 percent in output in year 1 and 2.4 percent in year 3. To this impact could be added an additional reduction in investment resulting from uncertainty over sovereignty. Since business fixed investment in Quebec is around 11 percent of GDP, a 20-per-cent decline in business investment would amount to over 2 percent of GDP. A combination of the impact of interest rate increases and confidence-induced declines in investment could easily add up to an overall impact of 2.5 to 5 percent of output. This confidence-induced output loss would be exacerbated, especially in Quebec, by other output-depressing impacts.

3. John Helliwell and Alan Chung using a sophisticated econometric methodology have sought to quantify one aspect of the long-run impacts, the growth effects of national scale economies. They estimate that the growth in real GDP per capita would be reduced by 0.17 percent in Quebec and 0.06 percent in the rest of Canada (Helliwell and Chung, 1991, p.9). These are relatively small numbers and do not capture fully all the dynamic costs of breaking up the country.

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