

QUEBEC'S ECONOMIC PROSPECTS WITHIN A NORTH AMERICAN CONTEXT

MR. CHAIRMAN,

LADIES AND GENTLEMEN,

It is a pleasure to speak to so distinguished an audience today, the more so since I am in a specially good position at this point to discuss the subject I have undertaken to deal with. The Quebec government's attitude, toward the present and future of our economy, has been put forward in detail in recent weeks, both in a statement on economic policy and in a White Paper on Sovereignty-Association.

In dealing with "Quebec's economic prospects and Sovereignty-Association" I will speak to you first of the government's general approach to the economy, its philosophy, if you will, though it is largely through facts and figures that this philosophy will appear.

And secondly, I will speak of Sovereignty-Association and its economic aspects.

1. Quebec's Economic Philosophy

In recent years, many words have flowed, verbally and in print, about Quebec's economic performance. The interest is fair enough, if the comments weren't always, since in all countries, governments are measured according to what happens to the economy.

I would like to tell you about some of Quebec's basic economic strengths, about its potential as a major economic force

both internally and as a partner with its neighbours in Canada and the United States.

The per capita personal income of Quebec's 6 million inhabitants has grown and is growing more rapidly than anywhere else in Canada. Between 1975 and 1978, it went from \$5,470. to \$7,628., an increase of 40 per cent, according to Statistics Canada.\* For the period 1973-1978, the average annual growth rate of Quebec's Real Gross Domestic Product was 3.3 per cent and this compares favorably with the Canadian rate of 3.4 per cent and the American rate of 2.3 per cent for the same period. For 1979, we anticipate a growth in the GDP of 3%.

Between 1970 and 1978, the annual growth rate in capital expenditure averaged 15.7%, a figure which largely surpassed that of Ontario which recorded 10.5%.

Productivity in Quebec, while still below American standards, has steadily increased since the 1960's to the point where, for example, in the estimation of its president, General Motors' Quebec plant is the most productive in North America. With a projected net creation of some 70,000 jobs in 1979, Quebec will have succeeded in lowering its unemployment rate to around 9.8%, despite the rapid expansion of the labor force at an annual rate of 2.5% which, I might add, is the highest in the Western world. Remember that since such statistics exist, Quebec's unemployment rate has been consistently about 2% higher than the Canadian average.

\* All figures are expressed in Canadian dollars.

While we still have a way to go in the area of high technology, several Quebec firms have been making good progress in this field. For example, Via Rail, has ordered LRC (Light, Rapid, Comfortable) trains from a consortium headed by Bombardier for its new high-speed service between Montreal and Quebec City. Canadair has firm orders for 125 Challenger long-range executive jets, of which 73 are destined to the United States.

Mitel Semi-Conductors produce large-scale integrated circuits for the PABX (Private Automatic Branch Exchange) system used by such telephone companies as AT&T. Hydro-Quebec has pioneered the development of high-voltage transmission lines. Of the ten largest consulting engineering firms in the world, three are Quebec-owned.

1979 has been dubbed by many in Quebec as "The Year of the Economy". We undertook a series of consultations with leaders of almost every economic group in Quebec, through a number of major economic summits and mini-summits. The culmination of these consultations occurred this past September when the government unveiled the first comprehensive economic development program ever worked out in Quebec, in a document entitled Challenges for Quebec. This document sets forth the policy objectives and principal economic measures the government proposes to put into effect over the next few years.

There are two dominant themes underlying the policy statement: firstly, an approach based on the functional needs of the firms, reaffirming the role of private enterprise as the driving force of our economy; and, secondly, an industrial strategy based primarily on Quebec's natural resources, including its hydroelectric power.

#### The Private Sector

Much has been written or said about the present government's commitment to social reform and, in particular, its alleged identification with the labor movement. While not wishing to underestimate this government's commitment to creating conditions that can bring about greater harmony in the workplace, we are especially conscious of the fact that we are living in a North American environment where the free enterprise spirit remains paramount. We are aware of the additional cost which implementation of certain social measures represents for business. For example, Quebec's minimum hourly wage of \$3.47 is among the highest in North America. Our government will henceforth take into account wage policies of its principal competitors, namely Ontario and the northeastern states, in setting the level of Quebec's minimum wage. I might add here that already such factors as a more rapid increase in the American minimum wage, devaluation of the Canadian dollar and ways other than an increase in the minimum wage to help low-income workers, have brought our minimum wage pretty well in line with that of our competitors.

Other measures intended to assist the private sector include deregulation of several industries, cutting bureaucratic red tape and aligning the government's own wage policy with that of the private sector. Furthermore, the present government plans to submit government corporations involved in industry and commerce to the same rules that apply to private enterprise. In line with this approach, all government corporations have been subject to consumer sales taxes since March of this year. As well, in an effort to stimulate firms to innovate and become more profitable, the government intends to reward each and every firm which demonstrates an above-average performance in its own sector, no matter the sector. Such firms will not only become eligible for all available financing programs, but will also be assisted in their innovation and research, management and marketing functions. The development of the Quebec economy rests largely on its capacity to compete with foreign products and to sell to international markets. In this latter respect, recognizing as we do the special place of small businesses and cooperatives in our economy, an international trade office will be established to enable them to obtain information and to acquire marketing skills necessary to penetrate foreign markets.

The role of investment in Quebec has been discussed at length and there are certain areas of particular importance. Quebec has exclusive jurisdiction under the existing constitution over natural resources. Because of the importance it attaches to this sector of its economy, the government has laid down certain guidelines. Any new project in the asbestos and pulp and paper industries must be assured of equal, though not necessarily majority participation by Quebec interests.

For example, a new project to manufacture asbestos brake linings could include a 20% Ontarian, a 40% American and a 40% Quebec participation.

### Natural Resources

The policy guidelines which I have just described are predicated on a firm belief that natural resources are the backbone of our economy and that Quebecers should have a greater say in matters of direct concern to them. Our economy has progressed to the point where we are more or less self-sufficient both financially and thanks to a trained labor force, but we are still relatively deficient in certain technologies. We are therefore determined to reap the most benefits possible from our natural resources. This implies, as I mentioned, greater participation by Quebec interest in certain well-defined areas. It also implies an industrial strategy based on a more extensive transformation of our primary resources. This brings me to talk of Quebec's greatest asset, its trump card, if you will, hydroelectric power.

Quebec's energy resource potential is mainly hydroelectric and this potential is still largely untapped. Quebec already has access to 15,000 megawatts of hydroelectric power. When the first phase of the giant James Bay project is completed in 1985, an additional 12,000 megawatts will become available. For purposes of comparison, those 27,000 megawatts represent the equivalent, in terms of thermally generated electrical energy, of 700,000 barrels a day, or half Alberta's current production. But there are still another 35,000 megawatts available from our rivers, which means that sometime around the turn of the century, Quebec will have access to an excess of 60,000 megawatts

of power from a virtually inexhaustible source - water. Long before that time, Alberta will have exhausted its conventional sources of petroleum.

Quebec's supply of electricity will be relatively tight for the next two winters, but beginning in 1981, substantial quantities of electricity will be available. These surpluses could easily be exported to neighboring provinces or states, but logic dictates that they be used first and foremost to create new industries at home thereby inducing spin-off effects. The amount of base-load power available for industrial users, beginning in 1981, is conservatively estimated at 2,000 megawatts. Furthermore, because hydroelectric plants are amortized over a 50 year period, as opposed to a 30 year period for nuclear plants, and because we have no thermal generating stations, Quebec's rate for industrial users are more attractive than those available almost anywhere else in North America. In current dollars, power produced at the La Grande complex at James Bay and delivered to Montreal would cost 2.14¢ per kilowatt/hour (KW/h). And, of course, water is not subject to inflation.

Up to now, however, there has been insufficient transformation before export of products by energy-dependent industries. In the United States, for example, more than 90% of what these industries produce goes to other producing sectors, while in Quebec, only 38% does so, the rest being exported. Producing cheap electricity for an industry that does little processing before its product is exported is tantamount to an indirect export of electricity at an unreasonably low price. I should add that a policy favoring a greater use of electricity for our industrialization does not preclude increasing diversity or seasonal exchanges with our neighbours as we shall see later.

An industrial policy based on the allocation of electrical energy must therefore take into consideration what spin-off effects various investment projects will have in Quebec. Recognizing that a reliable electrical energy supply has become a decisive factor in the choice of location for a number of industries, the Quebec government is willing to negotiate contracts for 5 megawatts and over, that guarantee long-term supply and price in exchange for a guarantee by industries with regard to level of investment and anticipated spin-off effects for the Quebec economy. A special task force, comprising representatives from the Industry and Energy departments and my office, is presently working out this industrial development policy.

## 2. Economic Aspects of Sovereignty-Association

I now come to the government's referendum on sovereignty-association, slated for spring 1980. As you are undoubtedly aware, the government released its long-awaited White Paper on sovereignty-association on November 1st. It proved to be an instant success, at least in terms of sales! At last count, no fewer than 100,000 copies have been sold.

Sovereignty, as defined by the government, would mean that on Quebec territory, all laws and all taxes would be under the jurisdiction of the Quebec government alone. Quebec would have its own external affairs policy and would seek to obtain a seat in the United Nations.

A sovereign state, however, as the White Paper specifies, "may of its own accord and without giving up its sovereignty, agree to limit its scope or to delegate part of it in certain fields".

In that spirit, the Quebec government is offering a new deal to the rest of Canada. a deal that is in line with the modern, international trend toward association of sovereign states.

There are four main types for such association today, from the loosest to the closest: the free trade zone, the customs union, the common market and the monetary union.

Associations vary according to historical and political circumstances. Because of the situation of our two communities and because the economic space that Canada and Quebec share must be preserved and developed, our government wants to propose to the rest of Canada that the two communities remain in association, not only in a customs union but in a common market coupled with a monetary union.

That would ensure that Canada would be preserved intact as an economic entity, while Quebec can assume all the powers it needs as a nation to reach its full development, In other words, the economic framework would remain essentially unchanged but the nature of political and legal relations between Quebec and Canada would be transformed.

We think this proposal meets Quebecers' desire both to run their own affairs and to maintain friendly working links with their closest neighbours. Moreover, the existence of two strong language communities on the Canadian territory, each based in territories that also harbour minorities of the other language, requires a special effort of political imagination and good will.

The form of association we propose to create between Quebec and Canada uniquely meets those conditions. The treaty of association would have international status and replace the present British North America Act as a link between the two communities. It would provide for areas of common action, areas of mutual understanding and community institutions.

Areas of common action would cover the free circulation of goods and people and a monetary union. There would be no customs barriers between Quebec and Canada and, for instance, firms located in Ontario would still freely sell their goods on the Quebec market. No passport would be required between Quebec and Canada, there would be no immigration control at Quebec and Canada's borders, so that entrance into one country would ensure entrance into the other.

According to our government's proposal, tariff protection regarding third parties would be established jointly by Quebec and Canada, taking into account existing multi-lateral agreements, such as GATT. Quebec would, however, insist on a special agreement to protect and develop its agricultural production. This concern for agriculture stems from the fact that federal policies, particularly of the past generation, have distorted Quebec's agriculture and cut down on adequate and possible levels of self sufficiency.

The Quebec government also proposes a reduction of all non-tariff barriers to trade with Canada, and a joint commitment to guarantee free competition within the common market.

Most important would be the monetary union. The dollar would be maintained as the only currency having legal tender and real or liquid assets would continue to be expressed in dollars. Thus, companies now operating in Canada would have no additional problems of separate accounting or foreign exchange between the two countries.

This covers what we are proposing as areas of common action. Let me go on to explain what we see as areas of mutual understanding, where actions may be different but would be harmonized.

We would like to see special agreements on such things as transportation, namely railways, air transportation and inland navigation. Such agreements flow naturally from the geographic relationship between Quebec and Canada. There could even be joint management of public carriers such as Air Canada and Canadian National.

Canada and Quebec will also have to make agreements on regulations governing the labor market and the right to elect domicile, so that labor mobility is in no way hindered by the new deal. It may be mentioned here that we hope, in the same spirit, to achieve the reciprocity that has so far been refused by other provinces regarding conditions made to each community's linguistic minority.

Quebec also believes in harmonization of counter-cyclical economic policies.

The Quebec proposal for association provides for a light institutional structure. There could be four community agencies: a community council with decision-making powers made up of equal numbers of ministers from each country. It will have decision making powers on matters entrusted to it by the treaty of association, and decisions pertaining to fundamental issues will require the agreement of both Quebec and Canada. Negotiations will determine which areas are deemed to be fundamental; second, a commission of experts to provide a secretariat to the council and conduct international trade negotiations; third, a court of justice on a parity basis, to interpret the treaty of association; and, fourth, a monetary authority where the number of seats allocated to each party on the board of directors would be proportional to the relative size of each economy.

First, and despite the fact Quebec and Canada will have the same currency, it will be necessary to make certain changes in the central bank - which we now call the Bank of Canada - to take Quebec sovereignty into account.

A central bank plays several roles: its first role is the creation of money: its second is to act on the rate of exchange: the third consists in managing the placing and distribution of the public debt: the fourth, whose importance varies from country to country, is to act as the government's banker, by opening an account for it through which transit all or part of government payments and deposits.

Since Canada and Quebec will have a single currency, the first two functions must be joint. The two other functions, on the other hand, can very well

be distinct for each State. As a province, Quebec has always had the right to manage its debt and direct its financial operations as it wished: there is no reason for it to lose these powers once it becomes sovereign.

The following system can be imagined: both Quebec and Canada would have its own central bank, each one exercising the third and fourth functions of such an institution; for the exercise of the two first functions, those banks would be placed under the monetary authority, which would have decision-making powers and have a twofold jurisdiction over the two central banks: to determine the changes that each of them would make to the reserves of the chartered banks and the transactions that each would have on the foreign exchange market.

Asking the rest of Canada to negotiate with Quebec in the event of a YES vote on the referendum is a legitimate and logical sequence of events in searching for a solution to the constitutional problem facing Canada. Everybodys rational objective should be the maintenance of the economic structure of Canada as we know it today. 50,000 automobile workers in Ontario depend on the Quebec market, a total of 105,800 jobs in Ontario depend directly on sales in Quebec. Quebec's dependence on Ontario is equally important and based on this economic reality it is inevitable that most objective observers realize that the rest of Canada must negotiate with Quebec in the advent of a majority YES vote in the referendum. Management in most major Canadian corporations, David Crombie, Joe Clark and most recently Jean Chrétien are only a few public figures who have indicated the need to negotiate.

Conclusion

To conclude, Quebec at this point in time, is at a crossroads and the choices its people will make in the coming months will be of great importance not only to political institutions but also to Quebec's economic development.

We, in the government, are confident for many reasons. Foremost among them is the basic strength of the Quebec economy, the happy combination of resources, energy and a competent labor force that position us favorably in what are, at best, uncertain world economic conditions.

We are convinced that if the Quebec people endorse the government's proposal for sovereignty-association and our Canadian neighbours accept it - we believe that in time both will occur - Quebec and Canada would then be in a position to negotiate a working arrangement that will help the development and growth<sup>of</sup> both Canada and Quebec.

Also, we believe that Canadians would at last be free of the seemingly endless constitutional debates which have consumed our energies since time immemorial.

Sovereignty-Association, for us, is not an end, but a means, a means to having Quebec fully exploit its assets in all areas, and notably in allowing Quebec to develop its full economic potential.