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**REGIONAL INVESTMENT:
POLITICAL & LEGAL COMPONENTS**

Canadian Insights and Perspectives

**Some Effects on Investment
of the Election* in Quebec
of the Parti Quebecois**

(* in 1976 and Subsequently)

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[File: AUCC 2A Investment PQ Effects on Quebec]

Terms of Reference and Methodology

This is a complex and contentious area, many elements of which have been analysed and debated at great length over the last 20 years, and especially in the context of the two Quebec referenda (in 1980 and 1995). The aim here is to keep the perspective at a high level in order to “see the forest for the trees” so to speak. In doing so, the approach will be to stress facts, and to note widely accepted views, especially those of investors.

Part One: Background - Quebec & Montreal, Nationalism & Separatism

Division A: Quebec as a “Cornerstone” in Canada

(1) Historic, Cultural, Geographic, Commercial, and Political Overview

Canada's beginnings are in Quebec. The first European settlers in Canada were from France; and their first permanent settlements were in the St. Lawrence River Valley, notably Quebec (City) about 1608, and Montreal about 1642. (Other parts of Canada settled by English-speaking settlers were established later, for example with the foundation of Halifax, Nova Scotia in 1749, and the arrival of the Loyalists after the American Revolution (after 1783) in Eastern Ontario, New Brunswick, Nova Scotia, and Quebec (province).

What is now the province of Quebec was the core of “New France” when a French colony up to the British conquest in 1759/60; then under the British was known variously as: “Quebec”, “Lower Canada” (from 1792), “Canada East” (from 1841), and then again “Quebec” (from 1867).

Quebec City and Montreal (initially together with Saint John, New Brunswick and Halifax, Nova Scotia) were the leading cities in British North America after 1783, growing through immigration from abroad and rural/urban shifts; although by the early 1800s more and more immigration from abroad was coming to central Canada, that is, to Quebec and Ontario.

At the time of the British conquest, the population of Quebec was in the order of 70,000 French colonists. To this group were added almost immediately English merchants, British army veterans, settlers from the British Isles, and Loyalists from the former American colonies (the USA). Subsequently, in the next decades, there were significant numbers of both Scottish and Irish settlers as a result of the “clearances” in the Scottish highlands and the famine in Ireland.

By the time of Confederation in 1867 (when the British North American colonies of Quebec, Ontario, Nova Scotia, and New Brunswick were joined together in a “Dominion” a quasi-independent part of the British Empire - and later to be joined by Prince Edward Island and

British Columbia, and over time by the areas composing the rest of present-day Canada), Quebec (province) was a leading economic force (and concentration of wealth), and Montreal had established itself as “the” predominant “metropolitan” centre for the country.

Confederation in 1867 effected two things relevant for present purposes.

First, it created a “federal” country - with the power to pass laws divided by lists of subject matters between the national (“Dominion” or “federal”) government on the one hand, and the various provincial governments on the other. The federal government, for example, was given powers over “peace, order and good government” generally, “banks and banking”, and “trade and commerce”; and the provinces were given powers over “property and civil rights”.

This “property and civil rights” provincial power should be underlined here because it is the base for provincial jurisdiction over the law of contract (which in Quebec is governed by “civil law”, while the rest of Canada is “common law”), and over the regulation of many aspects of many financial services, including: securities and investments.

Second, it gave the population, subdivided by province, the right to elect members of their respective provincial Legislatures (Quebec calls its Legislature the “National Assembly”) and the population, of the country as a whole, the right to elect members of Canada’s House of Commons (“Members of Parliament”) - on a “representation by population” basis (originally 82 Ontario, 65 Quebec, 19 Nova Scotia, 15 New Brunswick), and gave the federal government the right to appoint members of Canada’s Senate - on a fixed number of senators per province basis (with the original numbers: 24 Quebec, 24 Ontario, 24 Maritimes [12 Nova Scotia +12 New Brunswick]).

Currently Quebec has:

- (a) 24 Senators - *vis a vis* 105 in total, of which Ontario also has 24; and
- (b) 73 Members of Parliament - *vis a vis* 301 in total, of which Ontario has 102.

Accordingly, for law-making, Quebec has always had, and retains, substantial representation in the national Parliament, though, proportionately, less over time in the House of Commons, as Quebec’s population grows by relatively less than the rest of the country. (And, normally, through its members’ support for the government party, Quebec has had substantial representation in the federal cabinet. Indeed, a number of Prime Ministers have been Quebec based, including: Laurier, Trudeau, Mulroney, and current Prime Minister Chretien.)

Canada is typically classified several different ways:

(i) As 10 Provinces plus 3 Territories: Of which Quebec is the largest Province by area (it is 1,542,056 sq km, vs Ontario's 1,076,395 sq km), and second by population (it has a 2001 population of 7,410,504 vs Ontario's of 11,874,436). And, as of 1999, it had 21.1% of Canada's GDP vs Ontario's 41.6% and Alberta's and BC's 12.2% each.

(ii) As six Regions: (a) Atlantic, (b) Quebec, (c) Ontario, (d) Prairies, (d) British Columbia, (e) the North.

(iii) As "two founding nations or cultures or linguistic groups" - variously: French/British Nations, French/English Cultures, French/English Linguistic Groups, with Quebec characterized as the centre or home of the "French Fact" in Canada.

(iv) As some 68 geographic regions, of which Quebec has 10:

- (1) North Shore/New Quebec,
- (2) Gaspé Peninsula/South Shore
- (3) Saguenay Valley/Lake St. John
- (4) Quebec Metropolitan-Eastern Townships
- (5) Three Rivers-St. Maurice Valley
- (6) Sherbrooke-Eastern Townships
- (7) Montreal Environs
- (8) Montreal Metropolitan region
- (9) Hull-Western Laurentians
- (10) Western Quebec

(3) Quebec and the St. Lawrence Waterway

The St. Lawrence-Great Lakes Waterway is one of the two great waterways of North America. (The other being the Mississippi.) The River is some 1197 km long. The Waterway as a whole penetrates some 3790 km into the continent and has a drainage basin of some 1 million square km.

Accordingly, especially in the pre-railway era, this Waterway was the route for settlement, commerce and transportation generally. Quebec province was central to this as the location where the Waterway met the Gulf of St. Lawrence and thus the Atlantic Ocean.

When sailing ships were the mainstay of trans-Atlantic trade, Quebec City retained an important role in that trade *vis a vis* Montreal; but with the rise of steam-ships, it was Montreal that more

and more took the lead. Indeed, until the opening of the Erie Canal in northern New York (which joined the Great Lakes to the Hudson River and thus to New York City), Montreal aspired to be the “entrepot” for North America generally - both the Canadian Mid-West and the US too.

(4) Quebec's Resources and Commerce

This description of “Central Canada” - Quebec and Ontario - gives an economic overview:

Central Canada's industrial advance was especially rapid between 1896 and 1914, when the whole nation experienced investment and export booms. After 1900 a few industries such as carriage-making and black-smithing declined. But new industries appeared: electrical equipment and chemicals in the 1890s, cars and aluminum after 1900, pulp and paper 1890-1914, radio and home appliances in the 1920s and aircraft in the 1940s. Cheap hydro-electric power during this period helped accelerate industrial change, as did both world wars and nuclear power in the 1970s (at least in Ontario). In both provinces labour was drawn from natural population increase and immigration ...

Because so many of the newer industries were concentrated in Ontario, during the 1920s Quebec's economic advance was less spectacular; although it shared fully in the development of pulp, paper and non-ferrous metals, it took no part in the automotive industry, and little part in the electrical appliance industries. Also, because a higher proportion of Quebec industries were low-productivity activities which could not pay high wages, Ontario workers earned more on the average than Quebec workers. After 1945, and especially after the 1960s, these gaps closed. Both federal and provincial authorities spent lavishly to attract factories into Quebec; indeed, the Quebec government owned plants in such industries as steel-making and auto assembly ...

Although the national financial centre had shifted from Montreal to Toronto [Ontario] by the beginning of WWII, Quebec's financial system became more sophisticated and more francophone in its attitudes. In the 1970s and early 1980s, as anglophone business and professional people left a province in which they no longer felt at home, there was increasing scope for francophone expertise. Much more serious than the uncertainty among investors were the troubles of Quebec's established textile and clothing industries, increasingly threatened by cheaper goods from developing nations. The federal authorities provided advice, new kinds of protectionism and adjustment finance. Furthermore, thanks to the presence of Northern Telecom [now Nortel] and Bombardier, for example, Quebec has become an important player in the game of “high tech industry” ...

In Quebec and Ontario, as elsewhere in Canada, urbanization and industrialization were assisted by the thrift and diligence of the population, whose members were willing to borrow funds and skills from abroad and, at least until the 1970s, to receive immigrants during times of prosperity. Educational arrangements helped, first by providing for general literacy; next by arranging for higher liberal and professional education; and then, starting in the 1970s, by offering various sorts of specialized secondary and tertiary technological studies in, for example, engineering and agriculture.

By 1987 both economies had become very urbanized, and the “service” industries and occupations were much more important than manufacturing, which in turn was more important than agriculture, forestry or mining ...”

(The Canadian Encyclopedia)

(5) Quebec as a Central Cross-Roads

Quebec and Ontario together are known as “Central Canada”. Each looks both eastward to

Atlantic Canada, and westward to the Canadian West. And both look southward to trade with the USA. Quebec in particular, has traditionally been the gateway to Atlantic Canada, and in many respects to Europe as well. For Atlantic Canada, the roads and the railroads lead west *to* Quebec and *across* Quebec. And Montreal is a major airport hub. For seafaring vessels that do not stop on the east coast (say, at Halifax), they either stop at Montreal or pass Montreal on the way to the Great Lakes (and inland ports like Toronto in Canada, or Detroit and Chicago in the US).

The case is similar for the media and communications generally, although more as a metaphorical cross-roads than a physical one - as a dominant cultural, intellectual, and economic force.

(6) Quebec's Political Importance

Quebec's influence in both the federal sphere and the provincial sphere has always been considerable.

(a) Federally: Though theoretically possible to form a federal government without significant Quebec representation, in practice Quebec has always been a necessary part of the equation.

(b) Provincially: Quebec has traditionally had two key roles: (i) as one of the biggest, most important provinces economically; and (ii) as the "home" of the French language and culture in Canada.

(c) Federal-Provincial: Quebec has always also been a critical player in the ongoing series of federal-provincial negotiations of various kinds that have become a permanent feature of the Canadian scene.

(d) The Quebec-Ontario Dynamic: As the two components of "Central Canada", Quebec and Ontario have always had to have close regard to each other. They share a common border, common trade, common history, and to a significant degree are likely to have much in common in the future. (In many ways, just as Canada has with the United States, its neighbour to the south.)

(7) Universities, Hospitals

Before WWII, Canada's world-known institutions included McGill University and the Royal Victoria Hospital. People came from all over Canada, and beyond Canada, to both. McGill, indeed, also taught Medicine - so there was an obvious overlap and synergy with the hospital.

Two examples of the importance of both, in the medical field.

First, from Atlantic Canada - The Royal Victoria Hospital tended to be the hospital of choice for patients with serious illnesses from Nova Scotia. Moreover, nursing students from the East came there, and medical students came from the East to McGill.

Second, from the Prairies - Medical students in Saskatchewan pre-WWII, were not able to finish all their medical training in Saskatchewan. Most went to McGill to do this.

In other words, for medicine, Montreal was the “metropolitan centre” for significant constituencies in both the East and the West. And, this fact having been established, habit continued much of Montreal's predominance for a number of years after many of the original reasons had been overtaken.

(8) Finance

From the time of Confederation in 1867 (and indeed, some years before), Montreal was by far Canada's leading financial centre. The concentration of commerce here encouraged the development and concentration of financial services here too; and similarly, the presence of financial services encouraged commerce. The Bank of Montreal and the Royal Bank of Canada were head-officed in Montreal. So was Royal Trust Company, as was Sun Life Assurance - to name a few. Many leading investment dealers were here, and the Montreal Stock Exchange was the place to be - with the Toronto Stock Exchange gaining bit by bit over time, and finally becoming the clear leader only in relatively recent years.

(9) Transport

Montreal, again, since before Confederation, was Canada's transportation centre. Here was the

head office of Canadian Pacific Railway (CPR) and Canadian National Railways (CNR). Here was the head office of TransCanada Airlines - later Air Canada (initially a subsidiary of CNR). Here were based much of Canada's oceanic shipping offices, with Montreal the leading port in Canada (and one of Canada's two major Atlantic ports - the other being Halifax). And, the railways, and the air, and the sea-faring trades linked with trucking too. Accordingly, Montreal had a concentration of shippers, forwarders, agents, customs-brokers and middlemen of all kinds as well.

(10) Head Offices Generally

In brief, Montreal for many years was home to national head offices of all kinds. Financial and transportation were added to by resource-based companies (like: pulp and paper, aluminum), energy companies, manufacturing companies, and commercial companies generally.

(11) Magnet For Young Business People From All Over Canada

Dr Johnson once said about London: "If you're tired of London, you're tired of living." In some ways Montreal - especially in, say, the 1950s - resembled that London. It was not only the commercial and population centre, it was by and large the cultural centre too. A centre: where young people starting off in business often needed to be; where others would inevitably be transferred from time to time; and where much of the "action" was - so that people wanted to stay.

(12) French Language and Culture

Quebec has sometimes been called a “distinct society”, and its people have often been referred to as a “nation”. Both of these descriptions have largely been based in the common linguistic and cultural and religious history of Quebec's francophone majority, and buttressed by being not only a minority in Canada as a whole, but a much smaller minority when seen in the context of English-speakers of the USA. Moreover, Quebec has, since the British regime, had a civil law system in contrast to the rest of Canada's common law approach. So, “nationalism” in Quebec has tended - at least for francophones - to mean, to revolve around, the Quebec “nation”. Hence, the Quebec Legislature, for example, is called the “National Assembly”; and in official Quebec parlance, Ottawa is referred to as “Canada's Capital” and not the “National Capital”.

(13) Tradition of Nationalism and Federalism Together

Accordingly, it has been the predominant approach in Quebec for a very long time to be “nationalistic” in respect of Quebec itself, and also “federalist” in respect of Canada. And in doing so, to attempt a “balance” where Quebec - not surprisingly - derives the maximum benefit from each. (This “balance” is, of course, not unique to Quebec. It is a well-established provincial approach generally.)

Division D: The Quiet Revolution, Change, and the Rise of Separatism

(14) Forces of Change, Especially Post-WW II

Quebec, along with the rest of Canada, changed fairly rapidly in the middle years of the 20th century, and especially so after WWII. Improvements in transportation and communications, and movements from agriculture to manufacturing were among the root causes. The Great Depression, that lasted throughout the 1930s and caused widespread hardship across Canada, masked or delayed some of the implications of these deep undercurrents, as did the Second World War, but by the late 1940s through the 1950s and 60s these economic developments were clearly being felt and were leading to social and political change too.

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(15) “Maitres Chez Nous”

While economic and socio-political change were features in all parts of Canada, they were perhaps most deeply felt in Quebec. In part there was a feeling that Quebec had too long been dominated by business interests that had mostly been English-speaking: initially British (when

Canada was part of the British Empire centred in London, upon which “the sun never set”), later American, and throughout featuring pan-Canadian operations operated mostly by English-speaking Canadians.

It was felt by many Quebec francophones (then, more commonly called “French Canadians”) that they were not “maitres chez nous” (“masters in their own houses”); that they should be: and that - being a majority in the province, and having thus the ability to elect the provincial government - government would be a tool they could use to that end.

(16) Supplanting of the Church with the State

Another strong feature of the traditional Quebec landscape since the days of the French colonial regime had been the pervasive role of the Roman Catholic Church. The Church controlled not only the religious life of its Catholic parishioners, but also the education, much of the social services (for example, orphanages), birth and marriage and death’s associated procedures and records, and much of the medical system.

A large part of the so-called “Quiet Revolution” in the early 1960s was in replacing much of what the Church had traditionally done with what the state would now do instead. Where the Church had formerly been a vehicle for advancing the cause of the “nation”, now it would be the State. And it would be originally Church-based organizations, such as the St. John Baptiste Society, trade unions and caisses populaires that would help as well.

(17) Rural/Urban Shift

The 1950s saw the end in Canada generally and in Quebec in particular, of the rural/urban shift - the end of the time when Canada was primarily (or even predominantly) an “agriculture-based”, or even a “resource-based” economy. What this meant in Quebec especially, was that the urban mix changed too. Montreal, the centre of English-speaking commerce for Canada and for Quebec, now had a greater proportion of French-speakers, French-speakers who were interested in, and wanted to participate more and more in commerce.

(18) Demographics

One difference between the “English Canadians” and the “French Canadians” of Quebec that existed for a period of time was in family size. In short, the English family sizes got relatively smaller than those of the French, sooner. One phrase used to describe this well known fact was the “revenge of the cradle” - that is, the theme that the French Canadians could and would

reverse the effects of the British Conquest (in 1759/60) by out-populating the English Canadians.

What this meant for Quebec in the late 1950s through the 1970s was that the effect of the Post-War “baby boom” was greater among Quebec’s francophones than elsewhere. In other words there was - in relative and absolute terms - a larger group of young francophones on the scene than ever before, and universal features of young people tend to be restlessness/volatility and a need for jobs.

(19) Entry into Business

Another feature of the Quiet Revolution was a larger and larger group of young francophone university graduates - in engineering, in business, and in the professions - who wanted to *work in business* in Quebec, and who wanted to *run businesses* in Quebec, and who wanted to do so *speaking French as the language of work*.

(20) Hydro Quebec

One key vehicle to advance the agendas of the “nationalists”, and to provide opportunities to the university graduates (business and engineering), and to use government to re-invent the economy too, was Hydro Quebec, the Quebec Crown Corporation that owned and operated most of the hydro-power generation and distribution in the province*; and would as well be initiating some of the largest power development projects in the world, notably at James Bay (in Quebec’s north).

Presently (that is, as of 2000) Hydro Quebec has assets in the order of some \$56 billion.

* Founded in 1944, Hydro Quebec did not become a major force in power generation until the Quebec government nationalized most major private power generation facilities in the early 1960s.

(21) Caisse de Depot et Placement

The Caisse de Depot et Placement du Quebec is a Quebec Crown Corporation, established in 1965 and located in Montreal, with the mandate of investing the funds of Quebec public and insurance plans, and in doing so - not only: (i) to achieve a good rate of return on those funds, but also: (ii) to support Quebec’s economic development. Of course, in “good times”, since “a

rising tide raises all boats”, achieving a good return and advancing Quebec’s economic development can be accomplished together. However, in “bad times” or even “mixed times”, then these two goals can - and it has been argued do - conflict.

Assets as of 2000 were in the order of \$100 billion.

(22) “Quebec Inc.”

“Quebec Inc.” is not a corporation or even a formal organization as such. It is, rather, a descriptive term that has come into usage in the last few years to describe a *notion*, a *grouping*, a *process*, and an *attitude* of, and among, Quebec-based and/or primarily francophone companies and business-people that couples: (a) the entrepreneurial spirit and business focus of the post-Quiet Revolution era, with (b) an inward-looking, informal alliance (or network of relationships) of like-minded people to build Quebec’s base, and provide mutual support, with (c) formal structures like Hydro Quebec and the Caisse de Depot (and other government frameworks and encouragements) and with (d) an outward, expansive “trade-with-the-world” attitude and orientation.

Some might argue that much of this could be construed as a form of “gloss” or “control” on, or perhaps an “undercurrent” to, a supposed free market economy. Others might reply that it simply reflects (and refines, and improves, and makes more explicit) the sorts of formal and informal networks that have always existed, and will more and more become valuable features of the New Knowledge Economy.

Part Two: The Creation, Election and Effects of the Parti Quebecois

Overall Qualifications

Qualification I: There are a number of other significant trends going on, and variables varying,

at same time as the advent of the Parti Quebecois, all of which, one way or another, affect Quebec and Canada.

Among these are:

- (i) The general westward shift of business and population in North America.
- (ii) The US magnet - the attraction and impact of the world's largest, richest economy.
- (iii) Canadian Free Trade with the US (and Mexico).
- (iv) The rise of English as world-wide language of commerce, and as a "lingua franca".
- (v) Technological and Market changes, and the "Global Village".
- (vi) After the "baby boom" peak, the decline of the overall Canadian (and Quebec) birth rate.
- (vii) The general aging of the population (in Canada, and in the so-called "developed" world).

Qualification II: There is also a substantial disagreement among authorities over economic data and implications to be drawn respecting Quebec's position *vis a vis* Canada as a whole - as it exists now, and as it might exist in some new arrangement: (a) *from* some sort of looser federation as per "sovereignty association", (b) *through* some version of the European Union, (c) *to* full separation (with Quebec as a country fully independent from Canada).

The federalist side argues: (a) that Quebec gets positive economic benefits from Confederation, and moreover that separation would have bad economic consequences - especially for Quebec.

The PQ argues the opposite.

(23) The Foundation

The Parti Quebecois ("PQ"), variously called a "nationalist" or a "separatist" party, was founded in 1968 through the merger of previous nationalist / independentist groups, and quickly became the focal point for these interests.

The PQ lost the provincial elections of 1970 (with 23.5% of the popular vote) and 1973 (with 30.8%), but won the election of 1976 (41% of the vote, but a majority of the seats in the legislature - 71).

The key piece of the PQ 1976 election platform were that the provincial election was a *separate* vote from that involving the issue of Quebec's status in the Canadian federation - which would be dealt with by a special referendum, on "sovereignty-association". So, the 1976 provincial election *vote* could, in a sense, be seen and, indeed, was characterized as a "vote for a new government", and not necessarily a commitment to separatism.

(24) The PQ as the Government of Quebec (1976 - 1984, 1994 -)

The election of the PQ (first in 1976, and subsequently) made the prospect of separation (in some form) a real prospect, and was viewed by federalists inside Quebec and outside Quebec as a significant threat in and of itself, and also a threat to stability generally.

The PQ adopted what the English-speaking residents of Quebec regarded as a restrictive "language law" (see below) respecting education and the language of work.

For some, the election of the PQ substantially added to (or confirmed - for others) an atmosphere or feeling (that had been building to some degree for years with the "maitres chez nous" rhetoric and later the FLQ crisis*) among English-speakers that they were not welcome. This, and the other results of the PQ itself, and the PQ as "*watershed*", is sometimes referred to below as "the PQ's effect".

* With the kidnapping of a British diplomat, the murder of a Quebec cabinet minister, the overall threat of violence, and the federal government's use of the War Measures Act (and use of the army and police under it) to calm the situation.

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(25) The Language Law - "Bill 101"

The PQ's Bill 101 has been described as follows:

"Bill 101, *Charte de la langue française* [charter of the french language] (1977), marked the culmination of a debate that had produced Bill 63 (1969) and Bill 22 (1974). It made French the official language of the state [of Quebec] and of the courts in the province of Quebec, as well as making it the normal and habitual language of the work-place, of instruction, of communications, of commerce and of business. Education in French became compulsory for immigrants, even those from other Canadian provinces ..."

(The Canadian Encyclopedia)

(26) The Referenda of 1980 and 1995

The PQ had promised that the issue of Quebec's status - separation / "sovereignty association" - would be the subject of a provincial referendum separate from its election as Quebec's government.

Two such referenda were held, the first in 1980; the second in 1995. In 1980 the issue was described as giving the PQ government a mandate to negotiate sovereignty association. In 1995 it was whether voters agreed "that Quebec should become sovereign after having made a formal offer to Canada for a new economic and political partnership".

The PQ lost the 1980 referendum by a wide margin. It lost the 1995 one by a narrow margin.

Division F: The PQ's Effect on Montreal

(27) Decline of English-Speakers

The bulk of the English-speaking population of Quebec was centred in Montreal. This group was composed of some three sub-groups: (i) English-speakers of Quebec domicile of several (sometimes many) generations, (ii) English-speakers working for national or international companies who were transferred to Montreal or worked in Montreal Head Office (i and ii called "anglophones"), and (iii) immigrants whose mother tongue was neither English nor French - but who tended to gravitate to the English-speaking community (called "allophones").

In both relative and absolute terms the advent of the PQ accelerated a decline in the English-speaking population in Montreal; and, increased a trend that was already in motion, where Montreal was no longer a magnet for anglophones from all over Canada.

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(28) Erosion as National Financial Centre:

Whether their head office was in Montreal (like the Bank of Montreal or the Royal Bank of Canada) or elsewhere, the large Canadian banks tended to have very substantial establishments in Montreal for corporate/nation-wide/international purposes, and also as "regional centres" for management of Quebec-based business that often extended as well into Ontario (for example - Ottawa business was often administered out of Montreal). Similarly, large trust companies (like Royal Trust) and insurance companies (like Sun Life Assurance) were based in Montreal.

Relatively immediate *visible effects* of the PQ's election were: (a) the statement by the head of

Sun Life to the effect of that the Company had decided to shift its centre to Toronto (which it then proceeded to do), and (b) the “convoy” of Brinks armoured cars transporting securities from Montreal financial institutions down the highway from Montreal to Toronto (indeed, there were extensive comments at the time and cartoons in the media about the alarmism associated with “L'affaire Brinks”). How much of the Brinks matter was substance and how much was “publicity” was never made clear; but, as stated, Sun Life did move much of its operations to Toronto.

Less visible effects included: (i) individuals shifting their bank accounts (and other assets) from Montreal, and (ii) companies shifting some of their operations (or starting new operations) elsewhere - so that the associated financing activities left too.

(29) Decline as National Business Centre

While the PQ's advent *did not cause “all”* of Montreal's decline as a national business centre - in both relative and absolute terms*, the generally accepted view is that it did act as a “watershed” *to cause and to exacerbate and to accelerate a great deal of it*. And, though Toronto's rise in the 1950s and 60s had meant that Montreal was no longer “the” national centre, up to the PQ's 1976 election (and its aftermath) there was a real possibility (if not probability) that this role might be “balanced” or “shared with” Toronto. In other words, that Montreal and Toronto would be equals of sorts (in a sense, like New York and Los Angeles in the US). After 1976, that was clearly not to be the case.

In other words, while some degree of decline for Montreal was probably inevitable, the PQ - what it represented; the policies it promoted; and the uncertainties it fostered - made it worse. Just how much worse is debatable. But the decline was certainly both significant and accelerated.

Montreal is now (with some prominent exceptions) becoming viewed more and more as the Quebec “regional” business centre (albeit a great one, and “the” francophone one) rather than a “national” business centre.

* (A number of the variables mentioned earlier contributed to this too, including the general westward shift of business and population in North America generally.)

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(30) Shifting of Assets out of the Jurisdiction

(A) Location of Assets: In a nutshell, the law of the jurisdiction where property is located tends to be the law that governs it. So, for example, if property is located in Quebec - if Quebec is its “*situs*” - then it's Quebec law that should govern, as long as the subject matter of the law is within the constitutional competence of the Quebec Legislature (the “National Assembly”).

Accordingly, as of 1976, if you were an individual with assets in Quebec, and you were afraid that the Quebec government might do something to impair those assets - for example, limit your

ability to dispose of them, or even expropriate them, or simply foster an environment where they're not sufficiently productive - then you would at least consider moving them out of the province.

(B) Incorporation of Companies: Another aspect of *situs* is jurisdiction over companies. Basically, the jurisdiction that incorporates a company governs it and can wind it up. This is the conclusion of what are known as the Russian and Spanish Bank Cases, decided by the British courts after the Russian Revolution and the Spanish Civil War respectively. The Royal Trust Company in 1976 was among the biggest, if not the biggest, Canadian trust company, with business all over Canada and abroad, with head office in Montreal, and *incorporated by the province of Quebec*. Shortly after the PQ's election (and likely with an understanding of the Russian and Spanish Bank Cases), Royal Trust Company proceeded to have another company federally incorporated (that is, by the government of Canada) - "Royal Trust Corporation of Canada" - to conduct business outside Quebec and hold property outside Quebec. Moreover, an Act of the Ontario Legislature (and presumably similar Acts in the other provinces) was passed (at the behest of Royal Trust) substituting the "Corporation" for the "Company" in wills and trusts in Ontario.

(C) Taxes: Another aspect of *situs* is liability for taxes, for example, succession (death) duties. When the federal government introduced capital gains tax into the national income tax framework in the early 1970s, the understanding was that the provinces would withdraw from the succession duty field because it would in effect give rise to double taxation of the same assets. Quebec, however, retained succession duties longer than the other provinces, and accordingly, there was an incentive on Quebec residents who could to move their assets, themselves, and their beneficiaries out of the province so as to avoid this tax.

Division G: The PQ's Effect on Quebec

(31) "Social Democratic" Agenda

While the "nationalist" agenda of Quebec's other main political party - the provincial Liberal Party - also envisioned a state activist role in creating a modern Quebec economy and opportunities for francophones in it, the PQ's agenda was (and remains) significantly more in the "social democratic", state interventionist, "dirigiste" mode. Accordingly, the PQ fostered a climate in Quebec - and, importantly, *was seen to foster* a climate - where the role of the state

became more prominent as an economic and social engineer, and in particular: where union-rights were encouraged *vis a vis* both management-rights and market-mechanisms; where the “civil servants-per-capita” ratio was reputed to be the highest among the Canadian provinces; where there were relatively high taxes; and where the overall economic regulatory framework seemed to be at the “more intrusive”, “more regulated” end of the scale.

(32) Investment Climate

Federally, when the country retreated from the “economic nationalism” that characterized much of its stance in the 1960s and 70s and instead embraced “free trade” with the US (and then Mexico), and de-regulation (“re-regulation”) and “markets”, one of the pronouncements of the federal government was that Canada was “open for business”. By way of contrast, whatever may have been the official pronouncements of the PQ government in Quebec, the impression elsewhere in Canada (the “music” as it were), was less welcoming.

A major part of this “less welcoming” investment climate in Quebec has been the *uncertainty* associated with the potential change that the PQ is committed to - whether separation or “sovereignty association” (or one of their half-way houses or surrogates).

Other parts:

Part of the issue has been the inward-looking nature of Quebec’s nationalism under the PQ, and the “us-and-them” mentality it has represented

Part has been the impression of “insiderism” given by notions like “Quebec Inc.”

Part has been the “controlled-economy”, “state interventionist” image and actions of the PQ.

Division H: The PQ’s Effect on Canada Outside Quebec

(33) Federal Government

The PQ’s effect on Canada’s federal government has several aspects.

First, the federal government is *also* the government of the population of Quebec. It is also “mandated” by them. It also “represents” them. Accordingly, on the separation issue - as a matter of law - it passed (in 2000) legislation (the Clarity Act) to ensure that any question put to Quebecers (by the PQ) in a future referendum is a clear one.

Second, the federal government - as a matter of winning the economic argument for federalism - continuously vies with PQ to demonstrate tangible benefits to Quebec from being in Canada.

Third, the federal government ensures that its overall Canadian “regional development” programs are designed and implemented with the need to see that Quebec receives its fair share, and that Quebec is seen to receive its fair share too.

Fourth, the federal government - through the process of continuous constitutional fine-tuning and accommodation that has become known as “cooperative federalism” - attempts, on an item-by-item basis, to reach political agreements with all provincial governments, including Quebec’s.

Fifth, the PQ’s advent has inspired a separatist/sovereignist federal Quebec-based political party - “the Bloc Quebecois” (“BQ”) - to advance this agenda in the national Parliament.

(34) Ontario

As Quebec’s western neighbour and Canada’s main economic centre, the PQ’s effect for Ontario have been at least two-fold: (i) much of the shift of English-speakers (and their assets) and of “national” business generally out of Quebec has gone to Ontario; and (ii) because Quebec is Ontario’s “partner” (in Canada overall and in interprovincial trade) Ontario in many respects *depends* on Quebec.

The first point has been an easy one to see. The second is less obvious (in part because the first has to some extent “masked” it), but is just as real. A prosperous Quebec should be good for Ontario. And vice versa: a less-than-prosperous Quebec will hurt Ontario. Although Ontario has done well in recent years, and has benefitted from the above referred-to “shifts”, there is a real possibility it could have done better without “the PQ’s effect”.

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(35) The “Rest of Canada”

In a nutshell, the *greater degree of decline of Montreal* than would have otherwise been the case, more than any other single part of “the PQ effect”, has arguably led to some greater growth in other leading cities of Canada, including: Halifax, Ottawa, Toronto, Calgary, and Vancouver. Growth and people who would have gone *from* those places (or other places) *to* Montreal, have stayed in (or gone to) these other cities instead.

On the other hand, the PQ effect has impaired the rest of Canada (as well as Quebec) generally through: (a) uncertainty, and (b) distracted efforts.

As for “uncertainty”: Business and investment dislikes it. And they can, and do, go elsewhere.

As for “distracted efforts”: Both public and private sectors have limited time and scarce resources. The prolonged and continuous preoccupation with the separatist / sovereignist threat has, simply put, meant that - while this clear and pressing priority was dealt with - other important economic things were either not done, or not done well.

Division I: The PQ's Effect on Canada *vis a vis* the World

(36) Uncertainty & Distraction

Uncertainty, especially the uncertainty associated with the referenda held so far and to come (“threatened” or “promised” depending on your point of view as a “federalist” or a PQist), has been, and in the future will be, bad for business in Canada as a whole. Period.

From an investor’s point of view: whether or not you believe the PQ’s argument that *both* Quebec *and* Canada would be better off in a new arrangement*, any transition of this kind, however well done (and the likelihood of a “good”, “well done” transition is probably not high), must be: really, really difficult, profoundly dislocating, time-consuming, detailed, unpleasant, and terribly expensive too.

(* A risky bet, especially when the current arrangement works and works well; when any upside is viewed as small and questionable; and the downside is regarded as big and clear.)

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As for “distraction” - It’s a competitive world. Canada needs its economy to be efficient in absolute and relative terms, especially as we enter the so-called New Knowledge Economy*. And especially as: (i) Canada has always depended on significant investment from abroad; and (ii) competition from the US (and the rest of the world) is likely to get tougher. The better view is that we as a country need to spend more of our efforts in adapting, improving, competing.

(* Where some of our traditional advantages in such things as natural resources will be relatively less important than before; and other of our relative advantages, such as those underpinned by having an educated population, can be expected to be eroded)