A Plan for Quebec Monetary Independence: The Non-Conformist view of an American Investor

by
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Canadian politicians and the media depict the international financial community as being unanimous in its condemnation not only of Quebec political independence but, even more so, of the possibility of a separate Quebec currency. Fearing the uncertainty that such a separate currency would supposedly generate, especially with regard to the international financial community, sovereigntist politicians have always favoured the idea of a monetary union with the rest of Canada and the retention of the Canadian dollar. Indeed, despite the numerous problems that have arisen with the implementation of the Maastricht Treaty in Europe, Quebec sovereigntists have pointed to the EMU as the model to be adopted in the eventuality of Quebec political independence from the rest of Canada. Though not necessarily being favorable to the separation of Quebec because of my lack of understanding of the political issues at stake, being a member of this larger international investment community where millions of US dollars are handled by our firm every day, I believe that such a position on monetary union is misguided. As in Europe, monetary union will essentially entail political union, since ultimately the national fiscal authorities will all have to abide by the bureaucratic decision of the common monetary authority. For this reason, the sovereigntist position is somewhat contradictory on this matter since, by espousing monetary union, Quebec will ultimately guarantee the status quo ante in both monetary and fiscal matters. I have been told that this was at the heart of the major debates between former prime ministers Bourassa and Parizeau some twenty years ago. Why go through the process of separating from the rest of Canada if, on crucial matters pertaining to the economy, all that sovereigntist politicians are apparently offering is something akin to the status quo?

Contrary to the conventional wisdom, my belief is that if the people of Quebec were offered a credible plan for their own currency, there may have actually been a 'Yes' victory in the October 1995 referendum, and by a significant margin. Although it may not solve all the problems faced by Quebeckers, I wish to propose such a plan. This is a viable plan in which the new currency is supported without any additional income tax, sales tax, or any other transaction tax that could diminish the economic welfare of the community. Additionally, the new currency will be established in such a way as to move the Quebec economy closer to both price stability and full employment, as well as favor very low interest rates. And, last but not least, the plan for this new currency unit, which, lacking a better term, I shall call "La Fleur", is something every citizen can understand, and economists endorse.

The plan begins with the requirement that, in the eventuality of Quebec accession to independence, hence forth all new taxes would be payable in Quebec Fleurs. Only outstanding past tax liabilities would be payable in Canadian dollars. Since sales taxes and other transactions taxes, including the infamous GST, tend to discourage people from exchanging goods and services with each other, and require enormous record keeping and enforcement costs, they will be immediately eliminated. Instead, I propose a national property tax. Of course, since land is immobile, in one way or another everyone would pay a property tax, either directly by owners of landed property or in the form of higher rents.

The national property tax would be payable only in Fleurs. No record keeping would be necessary, beyond the current property registration system. If the tax isn't paid, the government would simply sell the property regardless of who the owner is. Of course, the fiscal authority could decide to permit tax exemptions, such as for charitable contributions, should the electorate so desire. Notice, however, that the tax is payable in Fleurs, but no one yet has any Fleurs, except the new State of Quebec, which it can issue them as it desires. The population, and particularly property owners, will be willing sellers of real goods and services in exchange for needed Fleurs. The value of the Fleur will be whatever the government decides it is willing to pay for what it wishes to buy, as it knows the private sector needs its Fleurs to pay the new taxes.

Let's stop here and examine a few things: 1) The State of Quebec can't collect any Fleurs until AFTER it spends them, as no one has any to begin with. 2) In contrast to the conventional view peddled by politicians, the State does not tax to collect Fleurs so it can spend them. It taxes so that the private sector will need Fleurs, and therefore be willing sellers of real goods and services in exchange for needed Fleurs. 3) The government can expect to spend AT LEAST as many Fleurs as the private sector needs to pay its taxes. 4) The government will likely be able to spend more Fleurs, at the prices it wishes to pay, than exactly the amount needed for tax payments, as any Fleurs desired to be held by the public as, say, pocket cash must be left over after taxes are paid.

In order effectively to anchor the new currency unit, I further propose that the State first set a wage that it will pay to anyone willing to work for the State.(1) The effect of this government commitment would be essentially to eliminate involuntary unemployment and establish a minimum wage without any further legislation or intrusion into the private sector. This also effectively sets a value for the Fleur in terms of labor time. The market can be left to base all other pricing decisions when purchasing or selling other goods and services on the alternative universally available means of obtaining the Fleur- denominated basic State service. Here I will introduce a bit of arithmetic to illustrate how the State will get the real goods and services it needs to properly run the new nation. Let's assume a hypothetical example where the consolidated new property and income taxes total 100 billion Fleurs. The State can expect to be able to spend at least that amount as the property owners have no other means of obtaining Fleurs. If the State offered 10,000 Fleurs as the basic State service wage, and spent nothing else, it could be reasonably sure at least 10 million workers would apply for the basic state job (100 billion divided by 10,000=10 million). Well, the State doesn't want 10 million basic workers (especially since in the present hypothetical case the number would exceed the current population of Quebec!), but it does want other things that will be offered for sale by the private sector (as alternative ways of earning Fleurs to pay taxes). Let's say the State spends 99 billion Fleurs at market prices, buying the other things that it really needs, including specialized labor and materials needed for the legal system, defense, education, health care and other government services. The private sector now needs only 1 billion more Fleurs to pay its taxes, so a minimum of only 10,000 basic workers can be relied on to apply for work. Of course, there will be a desire in the private sector for cash in circulation, and other activities that cause a desire to net save. This is generally a substantial amount. Suppose it amounts to a desire to earn another 5 billion Fleurs. This will be evidenced by another 500,000 basic wage earners applying for government jobs, for a total of 600,000. In any case, the more the State spends at market prices, the fewer the number of basic State job seekers. If there are what is deemed too many basic State job seekers, taxes can be lowered or other State spending increased until the number of basic State workers falls to the desired level.

What about interest rates? With this system, the State doesn't have to pay interest, even when it spends more than it taxes. Notice that the State does not have to borrow in order to spend more than it taxes, as it simply issues currency, or credits someone's bank account, when that person wishes to sell something in exchange for Fleurs. The key is that there is price stability as long as the State doesn't spend so much at market prices that no workers apply for the basic job. In other words, there is price stability as long as the State doesn't spend more Fleurs than the taxpayers determine they want. And, because the State always requires that at the margin State service is necessary to get needed Fleurs, the value of the Fleur is equal to the value of the labor time of the person who has to work at the basic State job to get the Fleurs.

When the State does spend more than it taxes, the extra Fleurs will likely settle as excess deposits in the banking system. This is an imbalance that any economist will tell you will result in ultra low short term interest rates, perhaps even a bit lower than seen in Japan during recent years. The prime rate, for example, could be expected to be around 3 1/2%. The bank regulators will of course have to continue to maintain their strict capital guidelines and credit requirements to prevent banks from speculating with insured depositors' money, as they do today. If the State should desire higher interest rates for any reason, it always has the option of offering to pay a desired base rate of interest on excess bank deposits held at the central bank.

With this basic plan, the new State of Quebec could establish and maintain its own currency. The State would be able to purchase that which it requires to run the nation and simultaneously maintain full employment and price stability. There would also be an automatic increase in real prosperity associated with the elimination of the dampening side effects of sales taxes, which include restricted transactions, compliance costs, and enforcement costs. There would be no reason to restrict free trade, especially under NAFTA, and the State would allow the Fleur to trade freely as well. While undoubtedly facing initial speculation in the foreign exchange markets, ultimately the value of the Fleur would be established by what it can buy --- the basic State job. And improving the value of those State workers through education, health care, etc. would serve to improve the value of the Fleur in the long run.

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Notes:

(1). I have elaborated a very precise plan which has been widely debated during the last year in both academic and and non-academic circles in the United States on exactly this question of government as employer of last resort. Please consult "Soft Currency Economics" for further details.

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