Summary
This paper relates primarily to economic reactions to the 1995 referendum on sovereignty partnership in Quebec. The following occurred in 1995: the performance of Quebec-based firms on Montreal and Toronto Stock Exchanges decreased, bond market ratings decreased, the cost of government borrowing increased, and exchange rates suffered. Inflation, however, did not move throughout the ‘period of uncertainty’, which was thought to be a reward for anti-inflation policies pursued by the Bank of Canada.

Background
Quebec is a province within Canada whose government has jurisdiction over education, health, welfare, municipalities and transportation. With a population of just over eight million, 78% of whom have French as their mother tongue, it has 125 members in its National Assembly. Since the late 1960s there have been two main political parties in Quebec, the independence-seeking Parti Québécois and the federalist Liberal Party of Quebec. At times smaller third parties have had sizeable representation in the legislature. The Parti Québécois was created in 1968 and won its first election as a majority government in 1976, during which it called a referendum on sovereignty association in 1980. It lost the referendum (60% No, 40% Yes) but was re-elected with a majority government in 1981. It was elected again in 1994 and called a referendum on sovereignty partnership in 1995. It lost the referendum (50.6% No, 49.4% Yes) but was re-elected with a majority government in 1998. The PQ formed a minority government in 2012, called an election for 2014 but lost to the Liberal party.

Types of uncertainty
We must distinguish between economic consequences that relate to a particular ‘negative’ outcome (a particular political party winning an election, a particular result in a referendum), and consequences that are due to uncertainty over not yet knowing the outcome of an election or a referendum. There is a third form of uncertainty, not knowing what the consequences of a particular outcome might be. In an election this might be summarised as: Party A will win and this will be bad for me; I do not know if Party A will win; Party A might or might not win but I don’t know what the effects of their winning will be. Some uncertainties can be avoided but others cannot: We will never be able to predict the outcome of elections or referendums with absolute certainty.

Types of economic consequences to uncertainty
Economists and political scientists have examined the consequences of political uncertainty on the following indicators: bond market (yields and spreads); currency and exchange rate; inflation; investment (including stock market performance, foreign direct investment, capital flight); and population flight. This paper addresses these indicators at they relate to the 1995 referendum in Quebec.
Why do economic indicators react?
Different indicators react to different risk factors. Bond yields react to expected changes in interest rate, inflation, or the probability of defaulting on government borrowing. Capital flight is reacting to the possibility of restricted trade and market access, possible end of currency unions, and a likely higher dept to GDP ratio. Population flight is reacting to the possibility of reduced job certainty. Some of these indicators are reactions to specific changes, others to uncertainty over the future.

Comparing economic reactions
The timeline for reactions varies, with some indicators reacting more than a year before the referendum and lasting more than a year afterwards. Others react more quickly, to individual poll results, for example, or to the referendum result. Bond yields move more slowly than the stock market or exchange rates, for example. We can distinguish also between consequences to Quebec and consequences to Canada. Some of these effects were internal to Quebec, others involved economic indicators for Canada as a whole.

Bond yields
Quebec and Canada bond yields increased before during and after the 1995 referendum campaign. In Quebec, most of the increases are concentrated in the last two weeks of the referendum campaign and the bond yield spread between Quebec and Ontario narrowed significantly immediately after the result. These changes reacted to opinion polls. Looking at bond yields 2 months before and 1 month after the referendum Johnson and McIlwraith (1998) found that 1 percent increase in support of Yes side resulted in an increased spread of Quebec over Ontario and Quebec over Canada of one per cent. Looking at bond yields over a longer period, Altug et al found that the bond spreads between Quebec and Ontario were higher in 1994, due to uncertainty over the timing of the referendum, rather than during the campaign itself. They also found that the Canadian to US bond spreads were higher until 1996. In short, the cost of Quebec government borrowing increased as a result of the 1995 referendum but so too did the cost of Canadian government borrowing, and the more modest Canadian effects lasted longer than the larger Quebec effects.

Inflation
Johnson and McIlwraith (1998) also looked at inflation and found no noticeable increase during the period of uncertainty (1994-1996) and no relationship between the probability of a Yes vote (as measured by opinion polls) and inflation.

Investment/Stock market returns
During the 1995 referendum the Toronto Stock Exchange suffered what was then its sixth largest drop. Uncertainty over referendum outcomes affected stock market returns of firms in Quebec on both the Toronto and Montreal Stock Exchanges but the magnitude of the drop varied with their exposure to risk. Beaulieu et al report that share prices of multinational corporations fared better than local firms who were more dependent on internal markets. Companies with assets that could not be readily abandoned (e.g. factories, machines) saw share prices suffer more than those whose growth was tied to the skills of employees. Companies in the IT and financial services markets fared better than those in the manufacturing sector, for example.
Currency
Research suggests currency follows opinion polls, that uncertainty about the dollar widened as the referendum approached, with expectations that it would go up or down by as much as 5 percent as a result of the vote. The performance of the dollar improved the day after the referendum.

Population flight
There was no sign of significant population flight during the 1995 referendum. Instead, the period of Anglophone migration occurred in 1976-1981, a period covers the first election of the PQ government and the 1980 referendum. During this period 131,500 Quebecers with English as their mother tongue left for other provinces (62% of them to Ontario), while 25,000 English-speaking Canadians moved from other provinces to Quebec. This produced a net migration loss of 106,000 Anglophones. It is worth noting that with the exception of 1986-1996 the net French mother tongue migration in Quebec was also negative, also peaking in 1971-1976 with a net out-migration of 18,000. The English mother tongue population in Quebec was 788,000 in 1971, representing 13% of the population. In the 2011 census the equivalent population was 661,000.

Table 1: Population migration n of Anglophones in Quebec, 1971-2006

<table>
<thead>
<tr>
<th>Period</th>
<th>English mother tongue migrations out of Quebec</th>
<th>Net English mother tongue migration</th>
</tr>
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<tbody>
<tr>
<td>1971-1976</td>
<td>94,1000</td>
<td>-52,200</td>
</tr>
<tr>
<td>1976-1981</td>
<td>131,500</td>
<td>-106,300</td>
</tr>
<tr>
<td>1981-1986</td>
<td>70,600</td>
<td>-41,600</td>
</tr>
<tr>
<td>1986-1991</td>
<td>53,800</td>
<td>-22,000</td>
</tr>
<tr>
<td>1991-1996</td>
<td>51,100</td>
<td>-24,500</td>
</tr>
<tr>
<td>1996-2001</td>
<td>53,300</td>
<td>-29,200</td>
</tr>
<tr>
<td>2001-2006</td>
<td>34,100</td>
<td>-8,000</td>
</tr>
</tbody>
</table>


Protection against risk
How can firms and economies protect themselves from these types of reactions? On the one hand, uncertainty is built into the system and so in this respect there is nothing that firms or governments can do to protect themselves. We know, however, that multi-national firms are more insulated (or rather feel more insulated) from the possible consequences of uncertainty. With respect to the management of uncertainty, the only significant piece of evidence is that announcing the date of a referendum once the intention to call one is made clear does seem to have a positive impact on some economic indicators.

Does any of this matter to voters?
There is also significant evidence that these economic consequences are less influential in determining referendum vote choice than national identity or attitudes to party leaders, especially perceived credibility.
Other sources:

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