 By Gérard Bérubé

# A currency for North America?

The official launching of the Euro is two months away. Meanwhile, the Canadian dollar has been on a long downward spiral since 1976, reaching a historic low these past few months. Isn't it time we tackled the issue of an integrated North American currency and seriously consider eliminating our dollar and adopting the greenback? After all, the disparate economies of Europe have opted for a single currency; why should Canada, a country that is increasingly integrated with the US, hang on to a currency that continues to decline in relation to that of its major trading partner?

The 11 European nations participating in the initial Euro phase believe they'll be able to achieve economic and monetary integration, experimenting with a single currency without integrating politically. Benelux and Ireland are adapting to a single monetary policy with major powers like Germany and France. Why shouldn't Canada consider a similar relationship with the US, which accounts for more than 75% of our foreign trade? Our business leaders' salaries are largely determined by US compensation policies. We are harmonizing our accounting standards and multiplying our bilateral liberalization agreements, and our industries model their practices on American ones. It's a common saying that when the US sneezes, Canada gets a cold. Even our exchange-rate policy is based on the interest-rate differential between Canada and the US. So why not take it one step further and share a currency?

But, while a single North American currency may be tempting, it might be wise to wait and see how the Euro performs, particularly in a period of shrinking economic activity. The European Monetary Union (EMU) faces a number of challenges. Many economists advocating the idea of a "single North American currency" were only yesterday arguing in favour of pegging our dollar to its American counterpart. The speculation that precipitated the current Asian monetary crisis has clearly demonstrated the limitations of establishing a parity with a reference currency.

These limitations were also seen in Europe with the Euro's forerunner, the ECU, a result of the establishment of the European Monetary System (EMS) in 1979. The EMS consisted of a fixed exchange-rate mechanism established between EEC member nations, each currency making up the ECU being tied to a central rate within a fluctuating margin. However, like the Asian market, the EMS could not withstand an attack by speculators. In 1992, a concentrated assault forced the British pound and the Italian lira to exit the EMS. A second assault, launched in 1993, led to a decision to allow currencies to float within a wider band with respect to the central rate to prevent the system from completely breaking down.

The EMU is therefore a logical sequel to the EMS and the trade and economic integration of Western Europe set in motion at the end of World War II. And it's a bold step; the new currency is based on convergence criteria with specific parameters pertaining to inflation, long-term interest rates, public deficits and government indebtedness. Simply put, monetary union is being attempted without regard to political union.

So we should wait and see what happens before applying this model in North America. We can already question whether a single currency will be able to stand firm against a substantial economic slowdown, a recession or even an overheated economy somewhere in Europe. A single currency means losing sovereignty in terms of monetary policy. Since the impact of a recession differs between countries, and this difference is more marked the more heterogeneous the group, we may well wonder whether the Belgians, for example, will agree to pay the costs of the European Central Bank's struggle to put the brakes on Germany's galloping economy.

When a country abandons its monetary policy, it loses an important economic lever. In financially troubled times, tensions may arise that are magnified when the countries adhering to a common currency have different economic patterns, sizes and industrial structures.

During the latest recession in Canada, from 1991 to 1992, the consequences of a common monetary policy applied to heterogeneous provincial economies were seen nationwide. To their dismay, Quebec and the Eastern provinces were plunged into a recession a year before the rest of the country. Their economies, strongly driven by small businesses, and as such more sensitive to interest-rate fluctuations, entered the recession in 1989. At the same time, the Bank of Canada was combating an overheated economy in Ontario that later moved west. The 11 European countries, united economically and monetarily, will sooner or later encounter the same situation and experience the social tensions inherent in any politically disunited group.

So let's see how the Euro experience unfolds. Then we can think about a single currency in North America.

---

*Gérard Bérubé is editor of the Économie et finance section of* Le Devoir *in Montreal.*