For Immediate Distribution
Friday, January 5, 2001

NEWS RELEASE

A North American Monetary Union is the Best Policy Option to Ensure Canada's Future Economic Growth

Montreal – Today, Tom Courchene Senior Scholar at the Institute for Research on Public Policy (IRPP) and Jarislowsky-Deutsch Professor of Economic and Financial Policy at Queen's University, will present a paper on a North American Monetary Union (NAMU) to the American Economic Association/ASSA Annual Meetings in New Orleans, Louisiana.

In his paper, entitled "A Canadian Perspective on North American Monetary Union," Professor Courchene argues that a NAMU, broadly designed along Euro lines, is the best policy option for the future of Canadian monetary policy. The author considers recent policy developments in North America and Europe and suggests that, in the not-so-distant future, the world economy will be dominated by two major currency zones: one European and the other American. In this context, Courchene concludes that Canada's choice will not be between flexible exchange rates and some version of currency integration but rather between "dollarization" and NAMU. Thus, the clear policy winner for Canada is NAMU.

Courchene also outlines how a NAMU could be designed. The author considers the potential relationship between the Bank of Canada and the Federal Reserve under NAMU and suggests possible models for the necessary overarching institution. He also outlines how Canada could ensure a smooth transition to the new, integrated currency. Specifically, the author proposes that:

- The overarching institution would be the Federal Reserve Bank of North America. The Bank of Canada would have a seat on its Board of Directors but the Board would likely be controlled by the 12 existing Federal Reserve Banks in the United States;
- The US dollar would continue to be the currency in the US while Canada (likely through the Bank of Canada) would issue a new currency that would exchange one-for-one with the US dollar;
- Much like what is occurring in Europe, Canada would then undergo a process of converting the existing Canadian dollar into the new currency. A conversion rate would be established (possibly 150 old Canadian dollars for 100 new Canadian dollars) and all wages and prices would be converted to the new currency.

1470 Peel Street
Suite 200
Montreal, Quebec
H3A 1T1
(514) 985-2461
: (514) 985-2559

E-mail:
irpp@irpp.org
Website:
www.irpp.org

The author notes, however, that should Canada, the US and possibly Mexico agreed to establish a NAMU, a lead time of about a decade would be necessary to prepare for the currency union. During this time, adds Courchene, Canada would have to reduce its debt/GDP ratio to the US level to ensure it has a degree of fiscal flexibility equivalent to that in the US.

Courchene also examines issues such as current trade flows between Canadian provinces and US states, living standards, asymmetric shocks, independence in economic policy development and sovereignty as they relate to the creation of NAMU. He considers the traditional arguments in favour of sustaining flexible exchange rates and argues that, in the knowledge-based economy, a currency union in the Western Hemisphere would in fact better enable Canada to deal with the effects of an economic slowdown than would a flexible rate.

The conference version of professor Courchene's paper is now available on the IRPP Website at www.irpp.org.

Please note that the author will be available to comment on his research findings via telephone throughout the day today. For more information, or to schedule an interview with the author, please contact IRPP.

Founded in 1972, IRPP is an independent, national, nonprofit organization whose mission is to improve public policy in Canada by generating research, providing insight and sparking debate that will contribute to the public policy decision-making process and strengthen the quality of the public policy decisions made by Canadian governments, citizens, institutions and organizations.

- 30 -

Contact:	Tristan Landry Communications Officer IRPP	(514) 985-2461