

Monetary Union: Good Time for Bad Idea

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1.0. Introduction

The business panel remains opposed to adopting the U.S. dollar—about the same small majority opposition as in 2002 and 2003, when the loonie was less valuable than today. Though remaining opposed, panellists nonetheless feel that now, when the loonie is strong, would be a good time to adopt the greenback if indeed Canada opted to do so.

The panel remains opposed to monetary union for political-symbolic reasons and because it would mean the loss of influence of the Bank of Canada. Many respondents volunteer that they would not oppose monetary union if it entailed the adoption of a new multinational currency, for example, the “Amero,” but not just to adopt the U.S. dollar. They do not expect Washington to embrace creation of a new currency.

Among the reasons for adopting the U.S. dollar, the most persuasive is that most exports go directly south of the 49th parallel. Almost half of respondents see this as a good reason to consider monetary union. Far fewer consider as valid reasons for monetary union either the adoption of the U.S. dollar to forestall the impact of Dutch disease or to avert conflict with Alberta as a result of the positive impact on the western oil and gas sector of changing exchange rates and the latter’s negative impact on central Canadian manufacturers.

The panel would prefer the loonie to decline in value but predict that it will continue rising instead.

Despite an opposition to monetary union, panellists nonetheless anticipate that half of Canadian firms will do their planning and forecasting in American currency within the decade.

These are the key findings from this week’s web survey of CEOs and business leaders undertaken by COMPAS for the *Financial Post* under sponsorship of BDO Dunwoody LLP and the Canadian Chamber of Commerce.

2.0. No to the Greenback for Political-Symbolic Reasons But Now Would Be a Good Time

CEOs and business leaders seem to be unaffected by the actual value of the loonie in their moderate opposition to monetary union, as shown in table 2A. In November, 2001, a nominal majority favoured monetary union. But since then, a consistent, small majority has opposed it.



Several respondents volunteered that they would favour union if it involved a shared currency other than the U.S. dollar, for example:

A more ideal solution [would be] adoption of a “NAFTA” dollar, recognizing of course that this is likely wishful thinking given prevailing U.S. attitudes. I am personally torn as a business person: I see growing logic to adopting a common North American currency, but as a Canadian I am reluctant to endorse the idea if this must be the U.S. dollar.

Why not adopt an "Amero" to represent the currency of North America? Oh sorry, I forgot that the Americans would never give up the greenback, would they?

Of various reasons for adopting the U.S. dollar, the loonie’s current, high valuation is the only one that elicits majority approbation, as shown in table 2B. Panellists are split on Canada’s dependence on the U.S. market for exports as a reason for monetary union. They do not consider valid reasons for monetary union (a) the Euro as a precedent, (b) adopting the U.S. dollar as a means of forestalling Dutch disease, or (c) adopting the U.S. dollar to avert conflict between central Canada’s manufacturing industry and Alberta’s oil and gas sector.

Meanwhile, panellists strongly oppose monetary union because union would do away with the Bank of Canada and harm national unity in their estimation, as shown in table 2C.

Whatever their opinions about monetary union, panellists expect almost half of Canadian firms will do their planning in U.S. dollars within the decade, as shown in table 2D.

Table 2A: (Q3) Should Canada seriously consider adopting the U.S. dollar? [ROTATE POLES]

	Oct. 11, 2005	Feb. 28, 2003	Dec. 20, 2002	Jan. 31, 2002	Nov. 16, 2001
Definitely consider	14	14	21	17	26
Probably	29	27	28	25	28
Probably not	25	30	24	28	24
Definitely not	32	28	27	29	22
DNK/No opinion ¹	1	2	1	-	-

¹ Respondents did not have a ‘DNK’ option Jan. 31, 2002 or Nov. 16, 2001.



Table 2B: (Q1) Which of the following factors is a good reason for
Canadians to think about adopting the U.S. dollar as our currency?
[ROTATE]

	Oct. 2005			Nov. 2001 ²	
	Yes	No	DNK	Yes	No
Today, when Canada's currency is strong, is the best possible time to think about adopting the U.S. dollar	54	44	2	NA	NA
Canada is an exporting country and almost all our exports go to the U.S	47	51	2	56	44
Europe had adopted a single currency	39	57	4	42	58
This is the best way of protecting Canada from the Dutch disease, when rising oil prices drive up the loonie and make our value-added exports too expensive	36	54	10	NA	NA
For the sake of unity, we need to replace the Canadian dollar; the rising loonie harms central Canadian manufacturers and causes friction with Alberta in a way that adopting the U.S. dollar would not	27	64	10	NA	NA

Table 2C: (Q2) Which of the following factors is a good reason for
Canadians to reject the possibility of adopting the U.S. dollar as our
currency? Adopting the U.S. Dollar would...[RANDOMIZE]

	Yes	No	DNK
Weaken the role of the Bank of Canada	79	18	4
Harm national identity	68	29	3
Make it look as if Canada were more supportive of the United States' international entanglements than we are	62	37	2
Weaken Canada as a country	60	38	2

² Respondents did not have a DNK option Nov. 16, 2001.



Table 2D: (Q8) Looking ahead a decade, what proportion of firms operating in Canada do you think will do their planning and forecasting in U.S. dollars? (Please record as a percentage)

	Mean	DNK
October 2005	45	10
November 2004	49	2
March 2003	42	2

3.0. Loonie Should Fall But Will Rise

Panellists expect the loonie to rise, as shown in table 3A, but they tend to wish it to fall, as shown in tables 3B and C.

Table 3A: (Q4) What do you forecast will be the value of the Canadian dollar in U.S. currency in one year? (Please record in cents)

	Mean	DNK ³
October 2005	0.87	2
February 2003	0.71	0
December 2002	0.66	5
January 2002	0.65	-
November 2001	0.64	-

Table 3B: (Q5) This past week the Canadian dollar was worth about 85 cents U.S. What is the ideal value of the Canadian dollar relative to the U.S. dollar for business?

	Mean	DNK
October 2005	0.81	6
November 2004	0.83	1
November 2003	0.79	3

³ Respondents did not have a 'DNK' option Jan. 31, 2002 or Nov. 16, 2001.



Table 3C: (Q6) When considering your business sector, would you like to see the Canadian dollar...[ROTATE POLES]

	Oct. 2005	Nov. 2004	Nov. 2003
Rise up sharply	2	4	7
Edge up gradually	29	29	38
Remain about the same	23	29	28
Decline gradually	27	27	17
Drop down sharply	10	9	6
DNK/REF	9	3	4

4.0. Federal Government's Performance OK

On the narrowly defined issue of exchange rates, the federal government earns an acceptable performance score of 61% on the school report card-type performance scale, as shown in table 4. This contrasts with an abysmal score given the government last week, 31%, for its lack of effort and success in leading public discussion on the impact of exchange rates on Canadian manufacturers serving export markets.

Table 4: (Q7) On a 100 point report card, what grade would you give the Federal Government for its handling of our currency?

	Mean	DNK
October 2005 (actual 85 cents)	61	8
November 2004 (actual 83 cents)	70	1
October 2003 (actual 75 cents)	62	2
February 2003 (actual 65 cents)	56	3
January 2002 (actual 63 cents)	50	*
November 2001 (actual 62 cents)	58	*

5.0. Methodology

The *National Post*/COMPAS web-survey of CEOs and leaders of small, medium, and large corporations and among executives of the local and national Chambers of Commerce was conducted October 5-7, 2005. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.



Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 126 are deemed accurate to within approximately 8.8 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb

