

Came out in La Presse, IRRP etc. (in both French and English)

FINANCIAL OPTIONS FOR A COUNTRY WANTING A DIVORCE

**Reuven Brenner
Faculty of Management
McGill University**

In its first paragraph, the draft bill of the Quebec government, tabled on December 7, 1994 in the National Assembly, declares that **"Quebec is a sovereign country."**

In the next paragraphs the bill indicates ways in which constitutional, territorial and legal issues, as well as those linked with currency and international alliances would be settled in case of separation. Paragraph 15 states:

"The Government may conclude, with the Government of Canada, any agreement relating to the apportionment of the property and debts of Canada, and to any other matter susceptible of facilitating the application of this Act."

Yet of all the problems raised by the prospect of Quebec's possible secession one of the most important, if not the most important, is exactly the one buried in this paragraph, namely the question how an independent Quebec would assume responsibility for its share of Canada's public debt and at what price. Leaving aside for the moment the question of the exact size of Quebec's share - whether 25 or 20 percent - the questions are:

- How do you credibly transfer responsibility for the debt?**
- What will Canada's creditors say about the transfer? What will be the price paid for it?**

First some numbers. By the time the separation process will be decided at the end of 1995, Canada's public debt will stand at approximately \$600 billion. Quebec's share would be about 25 percent, if based on its fraction of the Canadian population, or somewhat less if based on other indices. Let us take the 25 percent for ease of discussion. This would mean that Quebec's share of Canada's public debt (which does not include existing provincial debts) by December 31, 1995 would be approximately \$150 billion .

Quebec has the following options:

- The Quebec government convinces Canada's creditors to release Canada from their fraction of the debt, exchanging it for bonds issued by Quebec's government (or equities in enterprises);**
- Quebec issues bonds and deposits them with the Canadian government. The Canadian government continues then to bear responsibility for payments.**

Will creditors accept either of these two deals? Under what conditions? And if not, what happens if Quebec separates now? As argued below, the first option is not viable unless the Parti Quebecois and Ottawa first commit themselves to a policy of lower taxes, less regulation, cutting services and privatization. At present there is no sign of such commitment.

If these policies are not implemented, creditors will not be willing to release Canada from its financial obligations and transfer those obligations to new entities - unless a much higher interest rate will be paid. Also, they will require other conditions to be met - conditions which, as shown below, would imply that Canada would continue to have fiscal powers in a separate Quebec until the outstanding shared debt is paid in full. Creditors may force upon both Quebec and the rest-of Canada these conditions in case of separation.

Thus the issue today, as shown below, is not "sovereignty" - whatever the term means exactly. The issue is sustained creditworthiness. Countries can declare themselves being "sovereign." If they do not have access to credit, sovereignty becomes a costly illusion. Since neither of the aforementioned two options are viable, at best "sovereignty" today can be a promise, which may be fulfilled once the debt Quebec shares with the rest of Canada is paid.

I. The First Option

A public debt is backed by the government's right and ability to tax. Canada's debt is thus backed today by expectations that Canadian citizens can create sufficient wealth, which the government can tax. The present and expected tax base allows the Canadian government to have access to credit now and in the future.

Today Canada is not expected to default on its debt - large as it is. Although creditors are wary about the value of the Canadian dollar, as witnessed by the fact that Canadian governments had to issue bonds in Japanese yen, Swiss francs and German marks during the last years, and also pay higher interest rates on debt denominated in Canadian dollars, creditors do not fear default: Canadian bonds denominated in foreign currency do not reflect fears of defaults on interest payments.

Under what conditions may creditors accept the first deal? Assume that Quebec offers Canada and the creditors to exchange \$150 billion of existing public debt with \$150 billion of bonds issued by Quebec - one-fourth of every outstanding Canadian government issue, whatever its maturity and clauses. Putting aside the complex, lengthy negotiations and the mechanics involved in this process - which would produce enormous windfalls for lawyers and underwriters, but make everyone else in Quebec worse off - are creditors likely to make the exchange? Under what conditions?

Quebec's new paper would be backed by exactly the same thing that Canada's, or any governments' outstanding debt has been backed by: governments' right and ability to tax. What happens is that Ottawa gives up the right to impose taxes on Quebecers, and that right is transferred to Quebec City. Whether or not creditors agree to the reallocation of obligations toward them, and under what conditions is another issue, open to negotiations. It depends on whether or not the re-arranged allocation of rights to the newly created states of Quebec and Rest-of-Canada (ROC) results in greater credibility of fulfilling financial obligations than in the pre-existing political arrangements.

This is the core of the issue (though the mechanics of the re-negotiation are far from clear: there are no precedents for such deals). Which entity or entities can service the \$600 billion debt more credibly? Is it Canada as a whole, with a potential to change its fiscal, regulatory, monetary and immigration policies? Or are they Quebec and ROC separately, the first with a \$150 billion debt, backed by its right to tax, and the second with \$450 billion debt, backed by its right to tax - each with the potential of changing their own fiscal, regulatory, monetary and immigration policies?

Neglecting for the moment the costs of carrying out the negotiations needed to divide and service the debt,

the interruptions in trade that will accompany the process, and the movement of populations, the answer depends on the creditors' perception of future fiscal and regulatory policies in the two countries when compared to those they now anticipate for Canada as a whole.

Potential creditors will tell Quebec and ROC that they will not advance them an additional penny unless they unleash reserves of initiative and resources by lowering government spending, diminishing government-provided services, reducing taxes, regulating less and privatizing more. If the two countries comply, then creditors will agree to exchange the existing outstanding debt and even advance additional credit - just as creditors have agreed to finance leveraged buy-outs.

Under what terms they will do so, is another question. That depends on how they perceive the changing tax base in both Quebec and the rest of Canada, as well as on their alternatives. If they expect that Quebec's tax base will be weakened after the separation (because of emigration of qualified people, inability to attract qualified immigrants, lengthy negotiations to become part of international alliances, let say) the terms of the additional credit will worsen, and it is not even clear that the total outstanding debt can be refinanced under reasonable terms. Just as the value of a company depends on its management and its people, so does the creditworthiness of a country.

In the "rest of Canada" at least one province (Alberta) is already making major reforms, significantly cutting government spending and privatizing its services, thereby lowering its deficits and improving its own credit rating and, indirectly, what would be ROC's rating. However, there are no signs that the Parti Quebecois is moving in the same direction.

For the moment it does the contrary. Since it came to power, it reversed a law the previous government passed which would have brought more competition in the construction sector, and restored subsidies to already heavily subsidized students. These actions, added to both the available information contained in the party's platform and the expectation that Quebec will attract less qualified immigrants after separation, suggest that creditors will conclude that Quebec's ability to service the debt will diminish in case of separation, rather than being enhanced.

Add to these the following observations. The September 28, 1994 Canadian edition of "Strategic Investment" stated that: "' ... government expenditure may have brushed up against its limit. Government bond auctions in Germany and Austria have recently been canceled due to lack of demand, while bid to cover ratios at auctions in the UK and elsewhere have plummeted. Could global bond markets be telling us that the Western socialist Welfare State has hit the brick wall of market limits on government debt issuance?"(p. 5) By now one may add Sweden too to the list of countries whose governments had to cancel bond issues due to lack of demand.

In fact, as deficits in both Sweden and Finland have swelled over the last years, investors have dumped Swedish and Finnish bonds, during 1994 in particular. (Although all West European government bond markets have fared badly, yields on Swedish and Finnish government debt have risen especially sharply. In February 1994 the difference in yields between a 10-year German government bonds and Swedish and Finnish ones was slightly above one percent. By November the difference was above three percent). The reason is that investors begun to worry about default - though one that does not necessarily take the form of stopping to pay interest.

Default can occur in two ways. One is, as noted above, stopping to pay interest. However, the fact that the price of Finnish and Swedish bonds denominated in foreign currency has not fallen by much compared with those of other borrowers means that investors are discarding this option. The second way governments default is by inflation and currency devaluation. These are the expectations that the movement in relative yields reflects for the Scandinavian countries - and for Canada.

Combine this information with additional ones: At March 31, 1994, Quebec's public sector debt exceeded \$100 billion, and its deficits are estimated at \$5 billion per year. The largest single issue out of Quebec heretofore has not even reached CAN \$3 billion (the US \$2 billion Hydro-Quebec issue). Will international credit markets absorb CAN \$250 billion of Quebec debt at conditions Quebec could offer? Already the province has been put on "credit watch" by the Canadian Bond Rating Service, and during the first two weeks of December 1994, two bond rating agencies actually lowered the province's credit rating. Even before these announcements, Quebec was already paying a higher interest rate on the provincial debt than other Canadian provinces (except Newfoundland).

Putting all this information together and combining it also with hitherto neglected costs of negotiating the rearrangements of rights and obligations, implies that creditors will not agree to release Canada for Quebec's share of Canada's public debt and accept Quebec's paper with **similar** clauses and returns instead.

How much higher returns they will demand and whether or not they will be ready to hold \$250 billion of Quebec government debt, is not clear. Since such financial transaction has no precedents, it would be rash to make any numerical prediction. One must only keep in mind the recent, already mentioned Swedish, Finnish, Austrian and German events. **Thus, the first option seems non-existent today - not with the policies now pursued and promised by the Parti Quebecois. Creditors will continue to hold Canada responsible for the obligations.**

Before examining how this second arrangement can - or cannot - work, let us just add a few comments on the mechanics of the debt-renegotiation process itself in case one still contemplates the first option.

How Can Outstanding Debt Be Retired and Replaced by New Debt?

With a corporation, an equity or bond holder, a contractor, an employee understands - or must understand - that they are involved with an enterprise that trades a certain degree of risk for higher returns. If the company either reorganizes or defaults, the law guides those responsible for the reorganization about ways to compensate the various stakeholders, and in what order. Some creditors know that they will not get paid.

The case of a country is quite different. Let say that Quebec and the Rest-of-Canada make a tender offer on all outstanding debt and offer a swap. The offer itself would be a costly, complicated exercise (for private corporations cash tender offers are usually 25-50 per cent in excess of the market price).

The high costs imply that the two countries will have to confront immediately the question where to cut government spending, so that they could service the higher debts. In contrast to reorganization proceedings where one knows who are the secured and unsecured creditors and what is the hierarchy in payments, it is not clear who will be paid and who will not be paid by a country's government. Will children come before elderly? Schools before hospitals? Hospitals before universities? Commitment to construction workers before commitment to farmers? Commitment to farmers before commitment to the unemployed? Commitment to government bureaucrats - provincial and those transplanted from Ottawa - before anyone else?

The political upheaval will happen even if we assume that all the outstanding debt is refinanced under somewhat worsened conditions (add another 1 percent to the approximately 9.5% that now government bonds are paying). If, as it happened in case of Sweden about two month ago, buyers don't show up, the difference in rates may be such that the two newly created governments will have to reduce their outstanding debt. That would imply further significant cuts in government spending. The upheavals would be much more drastic.

These upheavals would happen while the complex financial negotiations with the tender offers, maturities of newly issued bonds by the Bank of Canada would be carried out. It is hard to imagine the interruptions to various sectors in the two countries that the uncertain outcome of these lengthy negotiations would lead to. The interruptions will occur not only in the government sector but also in the private enterprise, supplying the government sector, since they will not know if and when they are being paid. **This closer look at the mechanics of the financial process reinforces the conclusion reached earlier, namely, that the first option should be excluded and the second one should be closely examined.**

II. Quebec Promises, But Canada Still Bears the Responsibility

With the second option, Canada's public debt would remain an obligation of the government of Canada.

In this case, Quebec would presumably promise to Canada to remit the funds necessary to service the interest and the principal on the negotiated portion of its debt - a sort of "Promise to Pay Agreement" for every issue, whatever is the interest rate or the maturity. Will Canada and its creditors consider such promise credible? What is Quebec's collateral? What happens if Quebec cannot remit the funds in time, as required by the contractual agreement between Canada and Quebec?

If Quebec was unable to convince lenders of its ability to service the debt under today's conditions, why wouldn't the rest of Canada have the same doubts? After all, we are talking about the same amounts of money exactly.

Therefore, if the second option is chosen, creditors will put pressure on Canada. They do not care how the money is being paid as long as it is being paid. Canada has two options. One is to shift toward the liberalizing policies we have discussed. The second is to put pressures on Quebec to make its promise credible by pursuing those same policies (but what could give the Rest-of-Canada the powers to put such pressures?)

If the PQ proposes only an extraordinary legislation which proclaims that all present and future holders of its share of the Canada paper are guaranteed by Quebec, that is not sufficient. Such guarantee adds nothing: it continues to be words on paper. Instead of Quebec defaulting under a Promise to Pay Agreement, it would default under another name. The words or "guarantees" are still not backed by any tangible collateral. The rest of Canada would still depend on only Quebec's goodwill. Those who want to use language for fighting and gaining political points, will say that with such an agreement Quebec will hold "Canada" "hostage." Creditors anticipate such events: they care about changes in expected cash flows, not changes in words.

Thus we are once again back at the point where we started. Creditors know that government bonds are backed by governments' recognized rights and abilities to tax. Since Canada would continue to be responsible for the \$150 billion debt, a credible promise that the debt will be serviced without interruptions would mean that Canada would have sufficient influence on Quebec's fiscal and regulatory policies so that Quebec does not default on its payments. If Canada does not have such base, its creditworthiness would depend on Quebec. In case Quebec cannot pay, Canada would have to default on the loans.

Yet sharing fiscal responsibilities seems just a theoretical possibility, because such arrangement cannot work in practice between two separate countries: the notion of "sovereignty" goes out of the window. If in addition to sharing currency, to being parties to the same trade agreements under the already existing conditions, Quebec and Rest-of-Canada also share fiscal responsibilities, then it is no longer clear what "sovereignty" means.

However, here one must add that the Parti Quebecois' leaders may be aware of this problem, but glossed over it in the draft law. Paragraph 10 in the draft reads:

"Laws passed by the Parliament of Canada that apply in Quebec at the time section 1 [i.e. the one declaring Quebec's independence] comes into force, and the regulations under such laws, shall remain in force until amended or repealed by the National Assembly."

Does this mean that Canadian tax laws stay on the books, and Canada continues to maintain fiscal jurisdiction in Quebec after separation? If so, Quebec's government should say so explicitly.

In other words: creditors, foreigners or the ROC would not agree to a situation in which the Canadian government has the obligation for the whole debt, but gives up the right to tax a quarter of the population. The reason is simple. Creditors must know that the entity who is responsible and accountable for the debt, is also the entity who has the right to tax. If the two are not the same, the deal will not be credible and creditors will refuse to advance credit under terms similar to those in the past. Creditors do not agree to arrangements where company A undertakes the obligation for a debt, when the production is done within company B, which is not under A's control. They realize that company B can withhold payments to A, unless A fulfills its demands. In the present case, Quebec could withhold interest payments unless, let us say, Canada complies with Quebec's demands on trade agreements. If Canada does not, and the interest payments are withheld, Canada will have to default on the payments. Creditors would expect such disputes. Such anticipations would have the effect of further increasing the rates at which the debt would be financed.

A way to avoid this problem would be for Canada to continue to be responsible for managing the outstanding debt on the date of the separation, and for Canada and Quebec to agree that the former would continue to have fiscal jurisdiction within Quebec until the money is paid in full. With such an agreement "sovereignty" becomes a promise that when the debt is paid in full, then Rest-of-Canada's rights to tax Quebecers stops.

If such arrangement is not in the cards - that is, the second option is not viable either - potential creditors will force both Quebec and the ROC to sit down in case of separation and make an IMF or Latin-American type package deal. This would include putting everything on the table, from re-negotiating all the outstanding debt as well as the two countries' fiscal and regulatory policies. Quebec would become less dependent on Canada, and become more dependent on its international creditors.

Is this what politicians in Quebec and Canada want? Maybe. It could help them to avoid making tough decisions by claiming that they are not responsible for the politically unattractive cuts they have to make: the international financial community, "speculators" and the profligacy of previous provincial and federal governments have to bear responsibility. Sounds familiar. When was the last time politicians have taken responsibility for their own mistakes?

Again, this analysis does not speculate about the impact of bad feelings, grievances and other emotional upsets have, which usually accompany even simpler divorces and divestitures. Creditors will not advance money even if the effects of these reactions is neglected until the obligations toward them are met one way or another. They have plenty of opportunities around the world today where they can invest their money.

Last, but not least: from time to time people float the idea that Canada's public debt should be "repatriated." Could that be the solution which can bring to a faster separation? The answer is a very simple "No." First, I doubt that the debt can be repatriated. Canadians realize that if they are offered any

sweeteners - not given to foreigners - so that they would have greater incentives to buy their governments' bonds, it will not take long until these same governments will find the repatriated debt a wonderful asset to tax directly or indirectly, by suddenly pursuing a lax monetary policy leading to inflation and devaluation. By even talking about the option of repatriation, governments are destroying the little remaining credibility they have.

III. Why Creditors Have Increased Powers Today

Until about five-ten years ago investors interested in buying - what they perceived as - higher quality bonds, they could choose between a few politically stable countries' financial obligations and those of companies located within their borders. Today the situation is very different. Investors can choose now between a much wider variety of both higher and lower quality bonds.

When the moment comes to choose between a bond of a country or one of a company, both facing bankruptcy and both offering similar rates, the choice is obvious: investors buy the company's bonds. The reason is simple: if the company goes bankrupt, the secured bondholders own the company's assets and can dispose of them. But what can bondholders do when a country declares that it no longer fulfills its obligations? Send in the army? Of course, they may no longer be willing to advance credit once the default happens. But we are talking here about a situation today when investors can choose between a newly-formed country's bonds and a new company in India, for example, offering similar conditions. The reason for mentioning India rather than China or Russia is that the former has legal institutions in place (inherited from the British), whereas China and Russia do not.

Since today the investors' alternatives are much greater than a few years ago, they can forego the opportunity of investing in countries facing bankruptcy but promising high rates, and invest instead in companies in Latin and South America, Asia, Russia etc. - even if these companies too may default on their loans. This choice exists today, whereas it did not exist a few years ago.

Therefore, if creditors are given today the choice of being released from \$150 billion worth of commitments made in the past to Canada, they would jump at the opportunity. We know that they will not want to reinvest that sum under the existing conditions in Quebec government bonds: already Quebec has to pay a higher interest rate than Canada. Moreover, if investors did not show up for government bond auctions in Germany, Austria and Sweden, it is unlikely that they will rush to the newly created Quebec's auctions. Therefore, if this option is pursued, Quebec must either be ready to refinance the outstanding \$150 billion at much higher rates than it pays today within Canada (and it is not sure that the whole sum can be refinanced at all), severely and abruptly cut its spending, or swap debt for equity - a politically unpalatable solution.

Also, for the reasons emphasized above -that is, the investors' far greater choices of investing around the world - the obstacles in the ways of governments trying to solve the budgetary problems by stoking inflation and devaluating the currency, have increased. One of the obstacles is that part of the federal and provincial debt already is denominated in foreign currencies. A devaluation would therefore only increase the cost of repaying the debt. Another obstacle is that investors, anticipating governments to pursue such options, would dump these governments' bonds and demand sharply higher long-term interest rates - as Scandinavian governments have learned in 1994, and the Mexican one recently.

IV. Can Quebec Do Then Anything To Promote Separation?

There have been big debates about the law Quebec's government passed as a first step in its preparation

toward separation. Inexplicably the storm surrounded trivial issues concerning words and technicalities, the unilateral declaration of an independent Quebec continuing to use the Canadian dollar, or questionable speculations about the future rather than the issue of how does one satisfy a country's creditors today.

What should then Quebecers do if they really wanted separation?

As emphasized, they could put intense pressures on both the provincial and the federal government to cut their spending, lower taxes, privatize, eliminate deficits, pay down the debt. Once these policies would be carried out - as in New Zealand, and on smaller scale, in Alberta - Quebec would be able to negotiate a separation, and improve its credit rating.

This is probably one of the few lessons one can learn by looking at past break-ups of countries; otherwise, the division of Norway and Sweden or the break-ups of Czechoslovakia, the Soviet Union or Yugoslavia have few lessons for us. Though there have been no debt sharing solutions there applicable to the secession of a heavily indebted province from a heavily indebted country - which is the case we have to solve - the lesson from the aforementioned cases is the detection of the regularity that it was excessive centralization of power which has led to the division. A more specific lesson can be learned from events following the recent break-up of Czechoslovakia to the Czech Republic and Slovakia.

The first country is relentlessly pursuing a policy of limited government and privatization, and has seen its credibility and currency strengthening. Slovakia does not pursue those policies, and saw the flight of the Czech currency from its borders - though the two countries agreed that they would continue to share it after a friendly separation. Slovakia was forced to issue its own currency, which now trades at 10 percent less than the Czech crown.

Thus, the lesson for Quebec and Canada from the break-up of other countries takes us back to the first option - and is paradoxical. If Quebecers really want separation, they should force the Parti Quebecois to change its platform and adopt quickly the type of policies that Ralph Klein is pursuing in Alberta or Vaclav Klaus in the Czech Republic. If Quebec's government did that for a while, the credibility of the province may increase relatively to that of the rest of Canada, and Quebec would have fewer problems securing the creditors' trust.

But here is the paradox: if Quebec can do all that within a federal arrangement, the incentives to separate diminish. Briefly: today, if Quebec wanted to become "sovereign," the outstanding debt and potential creditors pose such problems as to make the process either unpredictably costly or force the federal and provincial governments to pursue policies which they are reluctant to. And the contrary: when the financial situation would be such that separation could be in the cards, Quebecers probably won't want even to raise the issue.

There is nothing surprising in this paradoxical conclusion. From time immemorial centralization of spending powers and fiscal irresponsibility have been the source of political troubles and desires to separate. To paraphrase an old saying: "Happy people do not make history."

Once the Canadian and provincial houses will be in order, their inhabitants would be happy, and would not have the slightest desire to make "history."

V. The Currency Issue

I have mentioned above that the currency issue is a relatively marginal one, though in public discourse much attention was paid to Mr. Parizeau's declaration that Quebec would continue to use the Canadian

dollar after separation. Let us see why: the exercise is useful because it shows that the policies underlying a currency's credibility are exactly the same as those that establish a government's credibility.

Promising to continue to use the Canadian dollar means that the exchange rate between Quebec and Canada stays, in effect, fixed at 1:1, as it is today. There are a number of possibilities when one starts with such an arrangement.

Bank of Canada starts printing money after separation, leading to inflation. If this happens, Quebec may decide to issue its own currency or start using the US dollar. If Bank of Canada continues to stick with its policy of maintaining stable price levels, we can exclude this possibility and consider two others.

Quebec pursues fiscal policies which turn the province into a far more entrepreneurial one than it was until now, whereas the rest of Canada continues with the current fiscal policies. This scenario would imply that the rest of Canada would buy Quebec's products cheaply - just as the heavily subsidized fisherman in Newfoundland (where by now there are more fishermen than fish) are buying today the rest of Canada's products cheaply. This situation between countries does not last - just like fixed exchange rates don't last (when there is neither labor mobility, nor governments redistributing tax revenues among regions) - and Quebec will issue its own currency.

The second possibility is that the rest of Canada pursues fiscal policies encouraging entrepreneurship and Quebec does not. In this case there will be a rapid outflow of Canadian dollars from Quebec, and the new state will be forced to create a new currency, not at par with the Canadian dollar.

If no miraculous changes in policy are expected on either side in case of separation, the currency issue is a secondary one, as are the legal technicalities. However, if they are expected, then in addition to all the complications mentioned with the refinancing of the debt, one must add another one: namely, creditors, expecting that the Canadian dollar may disappear from Quebec, will insist on its issuing debt in US dollars, Japanese yen, or Swiss francs. Though this too might add to the problems, the currency issue does have solutions (even if politically they may be tough to swallow).

VI. Summary

To summarize: One issue in case of separation today concern the division of public debt and governments' credibility for paying them in full, as well as a separate Quebec's access to both credit and international agreements, and the policies that creditors expect its government to pursue. For various reasons these topics have been out of sight and mind. Once they are taken into account, the notion of sovereignty is unclear. Creditors will have a say in Quebec's and ROC's fiscal policies - as they already do in Sweden, New Zealand, the UK, not to speak of Latin American countries, and ROC itself will apparently maintain fiscal powers in Quebec. At least this is what paragraph 10 in the draft bill seems to be saying today.

In considering the available options Quebec and ROC to regain and maintain financial credibility and consequences if they do not pursue these options, one must remind oneself of countries such as Argentina, Brazil, New Zealand and others, which have ignored basic financial precepts and have paid for their policies dearly. Would that Canadians of all political persuasions have the courage and discipline to learn from the mistakes of others. If they do, these would be the conclusions:

- Let Quebec and Canada put their financial house in order before embarking on unclear courses in uncharted waters;

- De-centralize government and relinquish powers to levels more accessible and responsive to regional

concerns;

- Then, if separation is still considered to be an alternative, let it be debated. If adopted, let it be implemented. By then the new political units would have a tradition of fiscal responsibility behind them and both voters and creditors would be better able to evaluate the advantages and disadvantages of political separation.

May be it is time to give up the addiction to vague words, platitudes, technicalities and symbols and discuss the issues in clear language. If this is not done, the present process can lead to illusions which lack of access to credit will quickly crush with unpredictable consequences.