The Social Science Journal 52 (2015) 397–404

Contents lists available at ScienceDirect

The Social Science Journal

journal homepage: www.elsevier.com/locate/soscij

A matter of distance? Retailer acceptance of the US dollar in the Canadian plains☆

Bruno Dupeyron[a,1], Michael J. Pisani[b,*]

[a] *University of Regina, Regina, Saskatchewan, Canada*
[b] *Central Michigan University, Mt. Pleasant, MI, USA*

ARTICLE INFO

Article history:
Received 17 October 2013
Received in revised form 12 March 2014
Accepted 13 March 2014
Available online 21 April 2014

Keywords:
Currency substitution
Distance decay
US dollar
Canada

ABSTRACT

The continued economic integration of North America has connected cross-border shoppers along the US-Canadian border. This paper explores the use of the US dollar in Canadian retail establishments along a geographical spine in Saskatchewan and Alberta, Canada. We find that distance away from the border is inversely related to the rate of US dollar acceptance in Saskatchewan. More important to the acceptance decision, however, is business maturity and provincial location in Saskatchewan.

1. Introduction

The economic integration of North America has advanced considerably over the past fifty years. From the US-Canadian Automotive Pact (1965) to CUSFTA (1988) to NAFTA (1994), many steps have forged a closer economic community between Canada and the United States (Pastor, 2011). In trade, Canada and the US are the most prolific trading international partners and share a long and peaceful border. Cross-border shopping in the region abounds (Ferris, 2010) with the intensity of cross-border shopping impacted by movements in exchange rates (Roy, 2007).

Distinctive in the relationship is the use of the Canadian dollar and the US dollar in national economic affairs. That is, both nations possess a strong national currency dominant in their national economic spheres. However, the cross-border exchange of dollars in North American border retail transactions has been recently documented (Pisani & Yoskowitz, 2006; Pisani, Yoskowitz, & Brusa, 2008). For instance, in Canadian-US border communities, the use of either the Canadian dollar or US dollar occurs frequently regardless of national sovereignty. In seven US border communities, Pisani and Yoskowitz (2006) find that 70.1% of US retailers accepted the Canadian dollar in retail transactions. Opposite Michigan, Pisani et al. (2008) find that 98.5% of Canadian border retailers accept the US dollar in retail transactions. Communities away from the border were not surveyed.

While the use of cash as a medium of exchange has declined in relative importance within Canada in recent

☆ The authors would like to thank Oleksandra Kravets for research assistance and the Johnson-Shoyama Graduate School for research support. The authors also thank three anonymous reviewers for their helpful comments and suggestions. We believe the paper is much improved because of their insights, however, the remaining errors are ours alone.

* Corresponding author at: International Business and Jerry and Felicia Campbell Endowed Professorship for Research, 204C Smith Hall, Central Michigan University, Mt. Pleasant, MI 48859, USA. Tel.: +1 989 774 1499.

E-mail addresses: bruno.dupeyron@uregina.ca (B. Dupeyron), m.pisani@cmich.edu, pisan1mj@cmich.edu (M.J. Pisani).

[1] Johnson-Shoyama Graduate School of Public Policy, 110-2 Research Drive, Innovation Place, University of Regina, Regina, SK, Canada S4S 7H1. Tel.: +1 306 585 4482.

http://dx.doi.org/10.1016/j.soscij.2014.03.011
0362-3319/

years, cash still occupies a predominant role in the volume of transactions (51.3%) if not the value of transactions (21.1%) in Canada (Fung, Huynh, & Sabetti, 2012). Cash is the primary medium of exchange for small purchases in Canada. Arango, Huynh, and Sabetti (2011) find that a majority of Canadian purchases under $25 are made in cash because of the convenience and speed of such transactions. Furthermore, the use of cash diminishes as a medium of exchange as the value of the transaction increases. For example in Canada, 74.4% of transactions under $10 are conducted with cash, 39.7% of transactions between $10 and $40 are conducted with cash, while only 10.9% of transactions over $40 are conducted in cash (Fung et al., 2012). Lastly, cash is widely used in Canada for the retail purchase of groceries, 32.7% of the time, and entertainment/meals, 33.8% of the time (Fung et al., 2012). Hence, cash continues to play an important retail role in Canada, particularly so for businesses that rely upon small transactions regardless of the cash vehicle.

This article explores the acceptance of the US dollar in retail transactions along a corridor in the Canadian plains from the US-Canadian border to the Canadian interior. In essence, our research seeks to better understand whether various distances from the border by city matters in the currency acceptance decision. In effect, we seek to extend earlier findings focused solely on border communities to include the impact, if any, of distance with regard to currency substitution.

2. Literature review

The cash payment mechanism investigated in this article is the use of the US dollar for retail purchases in four Canadian plains communities in Saskatchewan and Alberta. The use of an alternate currency in place of the standard national currency at the retail level has been referred to as currency substitution (Yoskowitz & Pisani, 2002) and may be observed in many parts of the world, especially within border spaces (Melvin, 1989). Three communities in Saskatchewan are used in this study: on the border is Estevan (actually 10 miles from the border), Regina, 135 miles from the border, and Saskatoon, 294 miles from the border. These communities are arranged from the border to the interior, south to north, where Estevan is less than a 10 min drive from the US, Regina is about a 2 h drive from the US, and Saskatoon is about a 5 h drive from the US. Lethbridge, Alberta is located 65 miles from the border or about an hour drive from the US and is also included in our study. All four communities belong to the Canadian plains and range from small to medium-sized communities: Estevan, population of 11,054; Lethbridge, population of 83,517; Regina, population of 193,100; and Saskatoon, population of 222,189.[2]

A standard proxy for the flow of cross-border shopping along the US-Canadian frontier is the movement of people via automobiles for short durations (Roy, 2007). Statistics Canada reports the entry of automobiles into Canada by

Table 1
Number of US automobiles entering Canada, select locations (2012).

Location	March	April	Jan–Dec average
Saskatchewan (all)			
Same day	1433	1448	3483
One night	162	153	197
Two or more nights	801	1081	1665
Total	2396	2682	5345
North portal, Saskatchewan (nearest port of entry to Estevan)			
Same day	567	513	570
One night	36	42	64
Two or more nights	430	607	906
Total	1033	1162	1540
Alberta (all)			
Same day	1323	1272	2032
One night	264	292	489
Two or more nights	2112	3029	4406
Total	3699	4593	6927
Coutts, Alberta (nearest port of entry to Lethbridge)			
Same day	782	750	803
One night	138	143	155
Two or more nights	1780	2556	2768
Total	2700	3449	3726

Source: Statistics Canada. *Table 427-0002 – Number of vehicles traveling between, Canada and the United States, monthly (number)*, CANSIM (database) (accessed: 08.10.13) at http://www5.statcan.gc.ca/cansim/a05.

port of entry. Those US-based border crossers who come and go the same day or stay only one night in Canada are likely to be cross-border shoppers, though not exclusively so. The reported flows of such movement are presented in Table 1 by time of the survey, March and April, and year of the survey, 2012, and reflect: (1) one-quarter to two-thirds of all cross-border automobile traffic as likely cross-border shoppers; and (2) the low density population in the plains. Hence, while the flows are relatively small, the importance of the cross-border movement of cross-border shoppers proportional to all cross-border travel is relatively large.

Handa and Bana (1990) argue that only when the absolute values of the yields on these payments exceed the transaction costs of handling foreign currency is there an enticement to switch between currencies. Similar points regarding the role of transaction costs as determinants of currency substitution are also made by Williamson (1975, 1996) and Uribe (1997). Inflation differentials and information asymmetries about foreign currencies can also influence business decisions in this regard. In both cases, exchange rate and transaction cost uncertainty result, complicating the pricing decisions faced by owners and managers.

Moving beyond the exclusive act of currency exchange, there also may be positive trade-offs or a dual-use atmosphere of currency substitution, such as between currency substitution and growth in retail sales, currency substitution as a store of value, security, or as an inflation hedge, and between currency substitution as a cash link to business operations and supplier networks. Hence, currency substitution may permit and facilitate other important business actions outside of the singular currency exchange process.

Within the border retail environment, US and Canadian retailers not only accept the cross border currency; but also they may do so at a favorable, easy to convert, or profit making exchange rate. The act of acceptance and

[2] Population figures are for 2010 and are found at: http://www.citypopulation.de/Canada.html.