

by Yuri Chassin | February 2014

Over the last five years, the MEI has published an annual *Viewpoint on Quebec government debt* on budget day. Continuing the tradition, this *Viewpoint* also explores what has been accomplished up to now to reduce the deficit and return ultimately to balanced budgets.

The Quebec government's 2014-2015 budget states that public sector debt stood at \$256.4 billion as of March 31, 2013, up by \$10.4 billion since 2012.¹

This amount is far higher than the official budget deficit of \$2.5 billion. In addition to the deficit, public sector debt has risen primarily due to \$5.2 billion in infrastructure spending.²

Although there are several ways to calculate debt levels, the notion of public sector debt is the most comprehensive gauge since it encompasses all long-term financial obligations guaranteed by the government on behalf of current and future taxpayers.

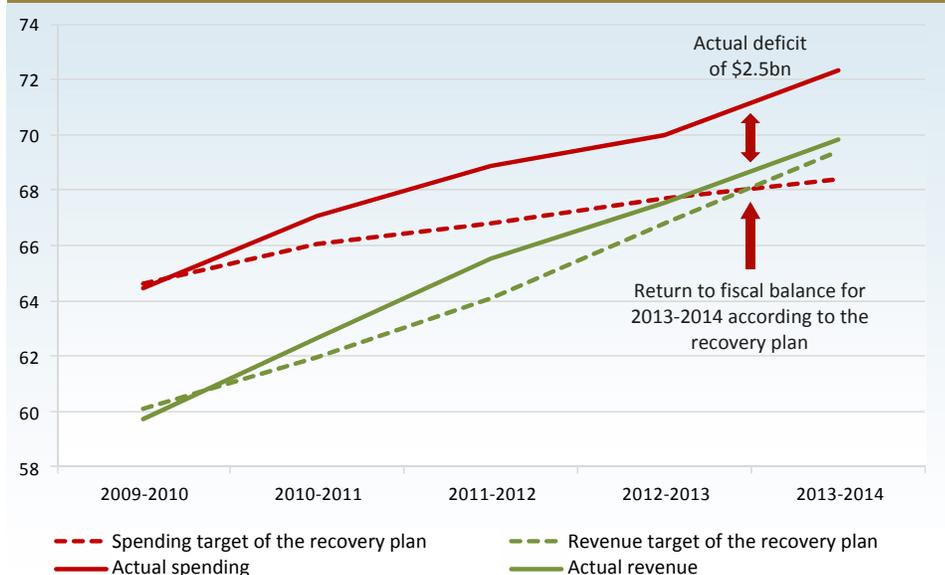
The MEI is predicting that the debt will rise by \$9.3 billion next year, reaching \$274.4 billion as of March 31, 2015.

The deficit: Is spending or revenue the problem?

In his update on November 28, 2013, finance minister Nicolas Marceau delayed the return to a zero deficit until 2015-2016. Getting back to a balanced budget was initially forecast for 2013-2014 by his predecessor, Raymond Bachand, who had set this goal in March 2010.

At the time, Mr. Bachand set out a four-year plan, with 38% of the extra effort to eliminate the deficit demanded from

Figure 1
Income and spending, forecast and actual
(budgetary data, in billions of dollars)



Source: Budget plans 2010 to 2014 from the Quebec department of finance.

taxpayers through tax increases, while guaranteeing that the government would come up with the other 62%, mainly by reducing the growth rate of spending.³ This sharing of effort has obviously not been followed to the letter since the budget presented today shows a deficit (see Figure 1).

What happened to cause this target to be missed? Which commitments were respected, and which ones were not?⁴ Was it revenue that failed to rise enough, or was it spending that grew more quickly than expected?

1. Quebec department of finance, *Budget Plan: Budget 2014-2015*, p. E.16.

2. Quebec department of finance, *Budget Plan: Budget 2014-2015*, p. E.9, E.16.

3. Quebec department of finance, "Staying the Course Towards a Balanced Budget in 2013-2014," *Budget 2010-2011, Press Release No. 4*, March 30, 2010.

4. The data shown here are taken from the author's calculations based on the budget plans from 2010-2011 to 2014-2015.

Although there has been a change of government since 2010, it is entirely appropriate to examine the commitments made by politicians. Not only does this tell us what has been achieved up to now, but this type of analysis also offers helpful signals in terms of choices for the coming years.

Only taxpayers have put in any effort

On the revenue side, the effort demanded from taxpayers has been greater than expected. Quebec government revenues are now higher than what was targeted in March 2010. The effort put in by taxpayers has amounted to 44% rather than the 38% in the target.

If spending had simply followed the goals in the recovery plan, a balanced budget would have almost been achieved in 2012-2013, a year earlier than forecast, with a deficit of only \$117 million for that year. However, spending did not go according to plan. In 2013-2014, the government will have spent about \$3.9 billion more than set out for a return to fiscal balance.

Budgetary spending hit \$72.3 billion for 2013-2014. This is almost exactly the same amount of spending that the government forecast for that fiscal year *without a budget recovery plan*. In other words, not only did the government fail to meet its target of bearing 62% of the effort, it has shouldered no effort at all. Deficit reduction in the last four years has therefore been achieved solely through higher taxes.

What sort of austerity are we talking about?

Rather than achieve a balance between revenue and expenditure, the budget presented today by minister Marceau evaluates the deficit for the fiscal year now ending at \$2.5 billion. Another deficit of \$1.75 billion is forecast for 2014-2015. This means a zero deficit would not be attained until 2015-2016.⁵

Some people are worried by the government's aim of restoring fiscal balance and are denouncing its budget "austerity," leading to cuts and reduced services. But as our analysis indicates, deficit reduction is being achieved only by raising the tax burden. Government spending, which was supposed to climb at a slower pace, has continued to grow just as quickly as before. Finance ministry data reveal no austerity measures.

Over the next two years, the challenge of returning to a zero deficit will continue to feed public debate. Whichever party is in power, it is worth recalling that taxpayers have already fulfilled the effort sought from them to restore fiscal balance. This is reflected in a heavier burden, with taxes in Quebec being the highest in North America.

What remains to be implemented is to cut down government spending. This is far from unrealistic, if only because Quebec also has public spending levels that are among the highest in proportion to the size of its economy.

“Not only did the government fail to meet its target of bearing 62% of the effort, it has shouldered no effort at all.”

5. Quebec department of finance, *Budget Plan: Budget 2014-2015*, p. D.5.



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