

by Yuri Chassin | June 2014

Eleven years ago, a government was elected in Quebec by promising to re-examine the functioning of the state and diminish the tax burden of individual Quebecers. However, between the fiscal years 2003-2004 and 2013-2014, the size of the provincial government continued to grow relative to the economy. Indeed, during this period, the Quebec economy grew by 39.6% while public spending increased by 66.9% and revenue by 65.6%.¹

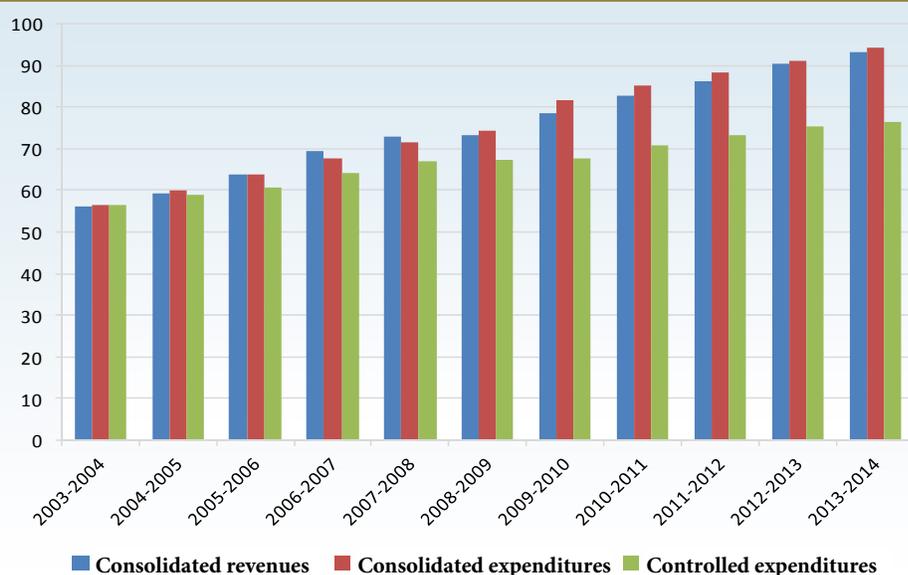
The Impact of Controlling Spending

What would have happened if the growth of public spending had been limited to 39.6%, the same rate as economic growth during these ten years? Since the population of Quebec increased by only 9.3% and inflation by 19.0%, real spending per capita, as well as the overall spending level, would have continued to grow. In other words, this rate of spending growth would have allowed us not only to maintain the level of public services, but to increase it.

The province's public finances, though, would have looked very different (see Figure 1). Thanks to controlled spending, instead of a deficit of \$2.5 billion—or more probably \$3.1 billion²—the government would have recorded an impressive \$15.2-billion surplus for the fiscal year that just ended. In fact, the Quebec government would have made it through the last recession without running a single deficit.

This scenario would have led to surpluses in excess of \$3 billion a year starting in 2005-2006, due among other

Figure 1
The Evolution of the Quebec Government's Revenues and Expenditures, and the Controlled Expenditures Scenario, in Billions of Dollars



Sources: Budget plans (in current dollars) and author's calculations.

Note: The gap between consolidated revenues and expenditures presented here does not correspond exactly to the budgetary balance as defined in the *Balanced Budget Act*. Payments to the Generations Fund, the allocation or use of the reserve to cover eventualities, exceptional losses excluded from the reporting entity and accounting changes explain the difference between the \$1.3-billion shortfall and the anticipated deficit as defined in the law of \$2.5 billion.

things to the fact that government revenues grew faster than the economy before the recession. By using this surplus to pay down the debt, the unavoidable expense of servicing that debt would have been lower than it actually was. As of 2008-2009, the government would have saved \$608 million. After ten years, servicing the debt would have cost nearly \$4 billion less per year.

1. These percentages are in nominal terms. The data refer to consolidated revenues and expenditures. The gross domestic product data are drawn from the Institut de la statistique du Québec, *Interprovincial Comparisons — Production: PIB aux prix du marché*, updated January 17, 2014, and the Institut de la statistique du Québec, Databank of Official Statistics on Québec. As for the public finances data, it comes from the budget plans produced by the Quebec Finance Department.

2. Luc Godbout and Claude Montmarquette, *Rapport d'experts sur l'état des finances publiques du Québec*, April 2014.

Assuming that all surpluses would have been put toward the debt,³ the government's gross debt, which had grown to \$198.4 billion by March 31, 2014, would have instead been just \$116.0 billion.

Paying Down the Debt or Lowering Taxes?

It is likely that a government in such a situation would have used a portion of its surpluses to reduce personal income taxes. The current government having promised to use half of future surpluses for this purpose and the other half to pay down the debt,⁴ it is interesting to see what would have happened if preceding governments had applied this formula.

In this case, Quebecers would have paid \$5.7 billion less in income taxes than they actually did in 2013-2014, which amounts to \$1,410 less per taxpayer who actually pays taxes. Looked at another way, this is equivalent to a reduction of nearly 30% in personal income taxes.⁵ However, the debt would have been just \$34 billion lower, instead of the \$82.4-billion difference resulting from all of the surpluses having been put toward the debt.

A Realistic Scenario?

The government's 2010 plan to return to a balanced budget anticipated reducing the growth of spending.

Four years later, spending has risen to almost exactly the same amount that the government forecasted for this year *without a budgetary adjustment plan*. The spending control that was planned therefore never materialized.⁶

Of course, limiting spending growth to the same rate as the growth of the economy would have required greater discipline on the part of the government than was shown in Canada's other large provinces.⁷ Program spending would still have continued to grow, however, year after year. Moreover, the level of public services in Quebec is already higher than in other provinces, and higher than in most OECD countries.⁸

“Program spending would still have continued to grow, year after year.”

During the last election campaign, the current government committed itself to financing all unforeseen spending through equivalent reductions in program spending. The growth of program spending should therefore remain at around 2.7% for the next four years.⁹ This growth rate is lower than the economic growth of 3.4% seen over the past ten years. In light of where we would be today if we had applied such discipline a decade ago, this is clearly the direction we should take going forward.

3. For simplicity's sake, and so that our estimates would remain conservative, no dynamic effects on economic growth were considered.

4. Quebec Liberal Party, *Financial Framework*, March 18, 2014, p. 3.

5. Quebec Finance Department, *2014-2015 Budget Plan*, February 2014, p. D.11.

6. Youri Chassin, "Viewpoint on Quebec Government Debt," Montreal Economic Institute, February 2014.

7. Department of Finance Canada, *Fiscal Reference Tables — 2013, Provincial and Territorial Governments — Public Accounts*.

8. Centre for Productivity and Prosperity, *Productivity and Prosperity in Quebec — 2013 Overview*, 2014, p. 38.

9. Quebec Liberal Party, *op. cit.*, footnote 4, pp. 2 and 5.



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