

QUEBEC'S RELATIVE POVERTY

How do the living standards of people in Quebec compare with those elsewhere in North America? This issue stirs up a profusion of emotional reactions from diverse standpoints. Differences of opinion stem in part from the fact that the available data fail to provide a clear image and can easily cause confusion. Some vague general indicators suggest that living standards in Quebec may be comparable to those in Ontario. Other more objective data show, however, that Quebec is relatively poor compared to the other Canadian provinces and U.S. states.



This Economic Note was written by Norma Kozhaya, an MEI economist and University of Montreal lecturer.

The most widely used measure of the living standards of a territory's residents is gross domestic product (GDP) per capita. GDP is a measure of the total market value of final goods and services produced within a given territory, thereby reflecting the economy's productive capacity. It also corresponds to total income generated by production – wages and profits in particular – part of which may later be redistributed through the tax system.

In 2004, Quebec's GDP per capita stood at \$35,117. This is 13% less than Canada as a whole (\$40,351) and 16% less than Ontario (\$41,703). It also falls below the numbers for Alberta (\$58,394), Saskatchewan (\$40,240), Newfoundland (\$37,588) and British Columbia (\$37,421). By this measure, Quebec is thus poorer than five of the nine other Canadian provinces.¹

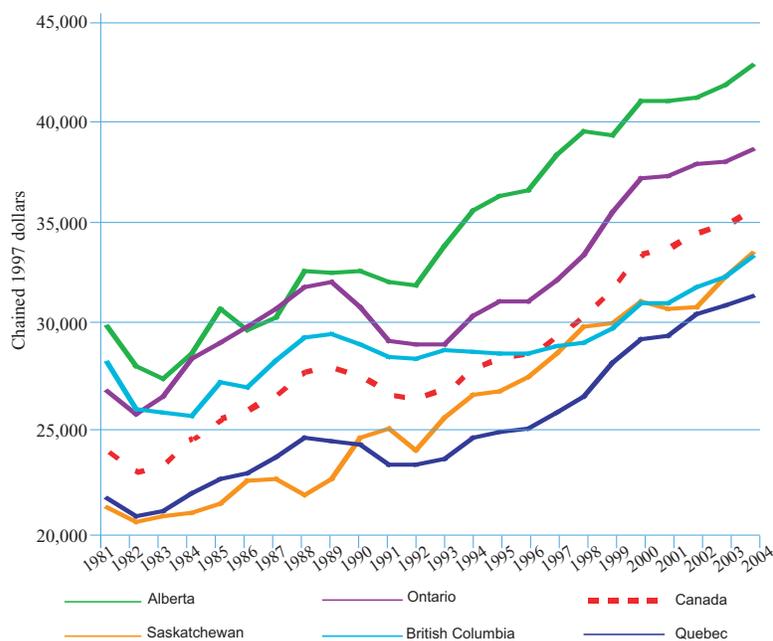


Things look even worse when Quebec is compared to North America as a whole. In 2004, Quebec's GDP per inhabitant ranked 53rd among the 60 U.S. states and Canadian provinces, exceeding only three U.S. states (Arkansas, West Virginia and Mississippi, the poorest U.S. state).² Similar results emerged from a study by Industry Canada, which put Quebec in 52nd place for the period from 1995 to 1997.³

Has this gap with the Canadian average narrowed in recent years? Figure 1 shows changes in GDP per capita calculated in real inflation-adjusted terms.⁴ A persistent gap can be observed between Quebec's real per capita GDP and Canada's, standing at 11% in the last 20 years. The gap with Ontario was 18% in the last two years, the same as it was in the early 1980s.⁵ This cannot easily be regarded as catching up.

1. See Statistics Canada, National Economic Accounts, <http://www.statcan.ca/english/nea-cen/index.htm>. Newfoundland's GDP has benefited from oil production off its coasts in recent years, explaining the relatively high GDP per capita despite the economic difficulties the province continues to experience.
2. In comparing U.S. states with Canadian provinces, we used the latest available measure of the purchasing power parity (PPP) exchange rate, calculated by Statistics Canada for 2001.
3. Raynald Létourneau and Martine Lajoie, *A Regional Perspective on the Canada-U.S. Standard of Living Comparison*, Occasional Paper No. 22, Ottawa, Industry Canada, February 2000, p. 10; available at [http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/vwapj/op22e.pdf/\\$FILE/op22e.pdf](http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/vwapj/op22e.pdf/$FILE/op22e.pdf).
4. These data are in chained 1997 dollars, a new way of expressing inflation-adjusted dollars, based on the method of calculation recently adopted by Statistics Canada and by similar bodies elsewhere in the world.
5. Since 1980, with the exception of Alberta, the provinces have generally reduced their gap with the average Canadian GDP per capita (see John R. Baldwin, Mark Brown, Jean-Pierre Maynard and Danielle Zietsman, *Catching Up and Falling Behind: The Performance of Provincial GDP per Capita from 1990 to 2003*, Statistics Canada, November 2004, available at <http://www.statcan.ca/english/research/11F0027MIE/11F0027MIE2004024.pdf>). However, the gap between Quebec and the Canadian average has scarcely budged, going only from -12% to -11%.

FIGURE 1
Real GDP per capita, 1981-2004



Source: Statistics Canada.

These data should, ideally, be made more accurate by adjusting them for the cost of living. If, for example, a dollar earned and spent in Montreal goes further in obtaining goods and services than in Toronto, this has a significant effect on how the situation is portrayed. Unfortunately, even if this concept seems simple, it is impossible to find complete and trustworthy data. Statistics Canada published data only for the largest city in each province, along with Ottawa, for 2003. Prices in these cities are not necessarily representative, however, of prices throughout a province. Moreover, measurements of the cost of living are not available for the preceding periods, meaning that we cannot do time-based comparisons to observe a trend.

On this imperfect basis, the best approximation shows that the cost of living in Ontario is about 12% higher than the cost of

living in Quebec.⁶ Taking account of this difference, the negative gap between the GDP per inhabitant in Quebec and the Canadian average drops from 13% to 6%, while the gap with Ontario falls from 16% to only 4%, leaving Ontario at only a slight advantage.

Another indicator of the standard of living is disposable personal income per capita. This measurement adds all sources of individual income, including government transfers, and subtracts direct personal taxes. In 2004, disposable per capita income in Quebec was \$21,631, which was 7% below the Canadian average, 20% below Alberta, 12% below Ontario and 4% below British Columbia.⁷ If we adjust this for the cost of living, we come up again with a depiction that is more favourable to Quebec in relative terms since the gap with Ontario appears to disappear completely.⁸

The imprecise nature of these data means, however, that we have to take them with a grain of salt. Moreover, they are offset by other indicators that put Quebec in a less favourable light.

Behind in every way

Labour productivity is an important indicator of economic performance and a crucial determinant of growth in living standards. Without higher productivity, there can be no increase in per capita wealth. Quebec does less well than the other provinces in terms of productivity whether it is measured per worker or per hour worked.

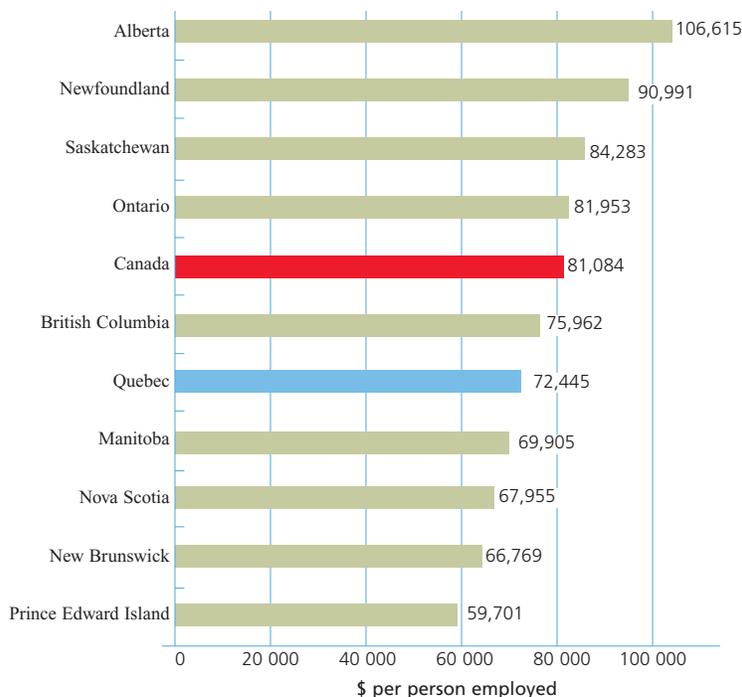
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6. This cost of living index takes account in particular of the fact that housing, electricity and public transit cost less in Montreal but gasoline costs more. Housing costs are given a particularly high weighting. The representative basket of goods and services thus costs 15% less in Montreal than in Toronto and 9% less than in Ottawa. We can thereby presume, taking the average of the two Ontario cities, that the cost of living in Quebec is approximately 12% lower than in Ontario.

7. See Statistics Canada, National Economic Accounts, <http://www.statcan.ca/english/nea-cen/index.htm>.

8. Apart from these results, that apply to the average citizen, disparities based on family situation are observable. A recent feature in *La Presse* (Francis Vailles, April 8 and 9, 2006) shows that, in comparable situations, taking account of tax burdens and living costs, families with children are comparatively better off in Montreal than in the other large Canadian cities (with the exception of Edmonton). Once taxes and comparable expenses are paid, families in Montreal can keep more money in their pockets mainly because day care services and housing cost less there. Single people do less well because they pay higher taxes and receive fewer services.

FIGURE 2
Productivity in the Canadian provinces, 2004



Source: Statistics Canada and calculations by the author.

Figure 2 shows that Quebec's productivity per worker – the ratio of provincial gross domestic product (GDP) to the number of persons employed – is below the Canadian average and is exceeded by productivity in Alberta, Newfoundland, Saskatchewan, Ontario and British Columbia. A study conducted several years ago concluded that, if the U.S. states are included in the comparison, Quebec ranks 49th in productivity per worker.⁹ Productivity per hour worked also comes in below the Canadian average and below Ontario. Between 1987 and 2004, it grew at an average annual rate of 1.27% in Quebec and 1.44% in Ontario.¹⁰

Quebec has always had the highest unemployment rate among the Canadian provinces, apart from three of the Atlantic

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provinces. Unemployment in Quebec stood at 8.5% in March 2006, compared to 6.3% in Canada as a whole and 6.1% in Ontario. The gap with Ontario has fallen by nearly half since the early 1980s, however.

The proportion of social assistance beneficiaries among people in Quebec is also higher than in nearly all other Canadian provinces. Only Newfoundland has a higher proportion. In 2005, 6.8% of the population received social assistance, while the Canadian average was 5.2% and the Ontario level was 5.4%. These rates have fallen all across Canada after peaking in the mid-1990s, but this reduction was relatively smaller in Quebec. In 1995, for example, the proportion of social assistance recipients was 11% in Quebec, 10% in Canada and 12% in Ontario.

Finally, a good indication of actual wealth, as opposed to income, can be found in household net worth, in other words the assets of household members minus their debts. With its median net rate of \$61,300 per family unit in 1999, Quebec has again been lagging behind, exceeding only Newfoundland. In Ontario, this net worth stood at \$101,400. The proportion of households that own their dwelling has a strong influence on net worth, and people in Quebec are far likelier to rent than to own their homes.¹¹

These indicators are all based on measurements that are more objective than provincial living standards adjusted to the cost of living in big cities. They unquestionably rank Quebec lower on the scale than Ontario or the Canadian average, reflecting a relatively weak economic performance. It is impossible to maintain as high a standard of living as our neighbours do unless our productivity grows at least as quickly as theirs. The systematically higher number of unemployed persons, social assistance recipients and renters in Quebec clearly demonstrates the fact that living standards in general are lower than in the other rich provinces.

9. Raynald Létourneau and Martine Lajoie, *op. cit.*

10. See the data from the Centre for the Study of Living Standards, Ottawa, <http://www.csls.ca/data/ptabln/t1-june13-05.pdf>.

11. See Statistics Canada, *The Assets and Debts of Canadians*, Ottawa, 2001, Table 3.9, available at <http://dsp-psd.pwgsc.gc.ca/Collection/Statcan/13-595-X/13-595-XIE.html>.

A more egalitarian society?

Despite this, some of those involved in this debate have said these indicators fail to describe the situation adequately because they do not take account of the fact that Quebec, or so they argue, is a more egalitarian society with greater solidarity and that wealth is better distributed, with fewer poor people. Moreover, they say, Quebec has more social programs to help the neediest, compensating for lower incomes. What weight do these arguments hold?

There exist several indicators of poverty and redistribution, some inspiring more confidence than others. Among them is the poverty rate based on the Market Basket Measure (MBM), which gives the ratio of persons in the general population with incomes that are inadequate to meet essential needs. The poverty rate shown by the MBM is 12% in Quebec, slightly below the Canadian average of 13% but a little above the Ontario rate of 11%. Quebec thus has proportionately fewer poor people than Manitoba or Newfoundland but no fewer than its Ontario neighbour.

Moreover, Quebec has relatively few wealthy people, with the proportion of taxpayers earning \$100,000 or more at just 2.2%, compared to 4% in Ontario. Whether or not people in Quebec show greater solidarity, having fewer wealthy people means in any case that there is less wealth to be redistributed.

Finally, with respect to social programs, each would require a separate study to assess its net redistributive effect. A general remark needs to

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be made, however: these social programs have a huge cost. The net result on public finances has been the accumulation of an enormous public debt, the highest among the Canadian provinces, equivalent to 44% of Quebec's GDP (or about \$15,500 per person). Moreover, to pay for these social programs, successive governments have had to maintain the highest tax levels in North America, causing taxpayers to lose purchasing power and reducing economic efficiency.

Advantages that risk dwindling away

Despite the imprecise nature of certain data, several indicators suggest that Quebec is among the least wealthy societies in Canada and North America. If Quebec's economic attractions were so obvious compared to its drawbacks, you might expect to see migration from the other provinces toward Quebec, but exactly the opposite has occurred. Quebec is the only province to record a negative balance in interprovincial migration in each and every one of the last 32 years.¹²

Economics isn't everything, and Quebec remains one of the most highly favoured places in the world. There obviously exist other reasons to want to remain in Quebec or to set up residence there, reasons related to culture and quality of life, for example. But these advantages risk dwindling away unless a pace of wealth creation comparable to that of our neighbours is maintained. Recognizing the relative poverty of people in Quebec is an indispensable step in seeking solutions.



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