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VIEWPOINT

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BUDGETARY BALANCE: QUEBEC MUST STAY THE COURSE

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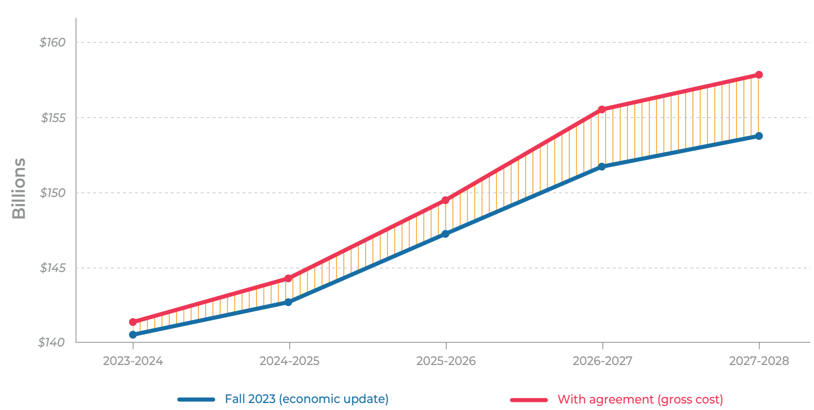
The next Quebec budget will be "largely in deficit" according to the CAQ government.[1] Balancing the budget, initially projected for 2027-2028 in the most recent fall economic update, will very likely be postponed due to the new financial commitments resulting from the recent negotiations with the public sector unions. However, delaying the return to a balanced budget will have adverse effects on Quebec's public debt.

THE RETURN TO BUDGETARY BALANCE SCENARIO

The Legault government remained on course to balance the budget in its economic update, despite the lower revenues associated with the weak economic growth of 0.7% projected for 2024.[2] This public finance decision respected the *Balanced Budget Act*, which requires that a budget in deficit include a scenario for returning to balance within a maximum of five years.[3]

Figure 1

Projected portfolio spending, 2023-2024 to 2027-2028



Note: The "purchasing power protection" clause from the agreement between the government and the public sector unions is excluded from the wage increase of 18.6% (including compound interest). It should also be noted that this estimate is based on the available figures, but potential bonuses, among other things, are not included. The actual costs in the 2024-2025 budget could therefore differ from these figures, for example if inflation remains high and exceeds the caps imposed in the agreement for an adjustment.

Source: Luc Godbout *et al.*, "Réflexions de finances publiques et pistes d'action en fiscalité pour faire les bons choix pour le Québec," Pre-budget brief, Chaire de recherche en fiscalité et finances publiques, Université de Sherbrooke, February 2, 2024, pp. 7-10.

When a budget is not in deficit, the services provided to society correspond to the current capacity to pay, without transferring the burden for those services onto future generations through debt. In a context of high interest rates, new deficits would place added pressure on public spending by increasing the cost of servicing the debt. In the fall update, debt service payments were projected to climb to $11.1 billion in 2027-2028, an increase of more than one billion dollars over projections for the 2024-2025 fiscal year.[4] Rising interest payments remove the government's ability to use that money for other budget items, like health or education, or simply to reduce Quebecers' tax burden.

THE DELAYED BALANCED BUDGET SCENARIO

The salary negotiations with the various public sector unions concluded with an agreement[5] that will make it harder to return to a balanced budget, according to the finance minister. The projected wage increases in the economic update were 10.3% over five years.[6] In fact, these wage increases will total 18.6%,[7] around 80% more than the initially expected jump in spending on personnel for the different ministerial portfolios.

In the end, the "improvement" of the agreement means several billion dollars of additional portfolio spending. For the 2027-2028 fiscal year alone, portfolio spending will be approximately $4.1 billion higher (see Figure 1). Even calculating net costs, which means integrating the taxation of public sector employees' higher salaries, the budget pressure remains substantial, amounting to an additional $2.8 billion.

The marked increase in this component of operating expenditures makes budgetary rigour all the more important when it comes to other budget items, if returning to balance is still a goal.

SETTING UP AN EXPENDITURE REVIEW COMMITTEE

Reducing the rate at which spending increases in order to achieve a balanced budget would improve the financial health of the Quebec government. To do this, the government should consider a spending review for the various ministerial portfolios.

This kind of approach was adopted by the Harper government in Ottawa, for example, following the 2008-2009 economic crisis. This review had a positive effect on public finances, leading to recurring savings of $5 billion, mostly in operating expenditures.[8] The approach put in place by the Crétien government during the first half of its time in office, which consisted of reducing the public service workforce by tens of thousands of positions, could also serve as a source of inspiration for the CAQ government.[9]

A committee led by Quebec's Treasury Board Secretariat could, for example, launch an expenditure review by looking into the addition of 5,223 full-time equivalent civil service positions since the CAQ government took office.[10] Such a review would be all the more pertinent given the government's 2018 promise[11] to rather eliminate 5,000 civil servant positions.

Keeping this promise, combined with the goal of returning to a balanced budget, would thus require the Legault government to cut some 10,000 civil service positions by 2027-2028. Such a measure should be at the heart of the budgetary review, which must aim for slower overall growth in portfolio spending.

REFERENCES

1. Tommy Chouinard, "Le budget 'largement déficitaire' sera déposé le 12 mars," *La Presse*, February 22, 2024.
2. Quebec Finance Department, *Update on Québec's Economic and Financial Situation*, fall 2023, p. A.3.
3. Government of Quebec, *Balanced Budget Act*, section 11, consulted February 12, 2024.
4. Quebec Finance Department, *op. cit.*, endnote 2, p. A.18.
5. Julie Roy, "Négociations dans le secteur public : Legault prévoit un budget 'largement' déficitaire," Radio-Canada, February 18, 2024. The wage agreements apply to a significant portion of the public sector, but certain unions have not yet accepted the latest proposal. This is notably the case of the Fédération des infirmières du Québec (FIQ).
6. Quebec Finance Department, *op. cit.*, endnote 2, p. A.19.
7. The 18.6% figure includes compound interest, without which the increase would be 17.4%. Luc Godbout *et al.*, "Réflexions de finances publiques et pistes d'action en fiscalité pour faire les bons choix pour le Québec," Pre-budget brief, Chaire de recherche en fiscalité et finances publiques, Université de Sherbrooke, February 2, 2024, p. 9.
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9. Gabriel Giguère, "Bloat in the Federal Public Service: Justin Trudeau Ranks Last among Canadian Prime Ministers over the Past 40 Years," MEI, Economic Note, January 2024, p. 5.
10. Secrétariat du Conseil du trésor, "Stratégie de gestion des dépenses et renseignements supplémentaires," Budget de dépenses 2023-2024, March 2023, p. 20; Secrétariat du Conseil du trésor, "Stratégie de gestion des dépenses et renseignements supplémentaires," Budget de dépenses 2020-2021, March 2020, p. 21.
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