

2020–2021 QUEBEC BUDGET A SURPLUS, YES, BUT SERIOUS EQUITY ISSUES

Montréal, March 5, 2020 – A few days before the 2020–2021 budget is tabled, expectations of the Quebec government are high. After posting the largest budget surplus in its history last year, and on its way to reaching its 2025 debt reduction targets early, the government looks to have enough budgetary room to manoeuvre that it can significantly boost spending. But this positive outlook conceals a worrisome fact: the government is still stuck with two major debts, one financial and the other in infrastructure, which are creating a serious imbalance in intergenerational equity.

“If we look at the surpluses of recent years in historical terms, we can see that Quebec’s public finances are not in such good shape as it might seem,” says Robert Gagné, Director of the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) and co-author of a study released today by the CPP. “Over the past ten years, the measures put in place to ensure intergenerational equity have largely failed, so much so that we should not be talking about what to do with government surpluses, but rather how to solve, once and for all, the equity issues we have faced for over 20 years now.” This is the study’s main conclusion.

A defective tool

According to the CPP researchers, efforts to ensure intergenerational equity went off the rails in the late 2000s, when the *Balanced Budget Act* was suspended. “Like most of the provinces with this kind of budgetary control tool, Quebec suspended its application in the wake of the 2008 recession,” explains Jonathan Deslauriers, Assistant Director of the CPP and co-author of the study. “With the result that it had to take on \$16.9 billion in additional debt to finance its accumulated deficits. And despite the growth in the Generations Fund, the amounts accumulated there since it was created (\$17.2 G including the returns earned by the Fund) have barely covered the deficits racked up over this period.”

But that isn’t the only problem. “In 2012, the Quebec Auditor General observed that the plan to cover the maintenance deficit for provincial infrastructure was in bad shape. Needs had been poorly identified, funds badly invested or simply not used at all,” notes Gagné. “It took almost ten years for the government to put mechanisms in place to identify and properly meet Quebec’s needs in this regard. In the meantime, efforts to eliminate the infrastructure debt have been ineffective at best.”

An essential reform

In the end, one indisputable fact emerges: while Quebec’s public finances have improved overall, efforts to ensure intergenerational equity have stagnated. “In this context, the surpluses the government has racked up recently are not as impressive as it seems, since they include amounts

that should normally have gone to reducing the liabilities left by previous generations,” the Director maintains. “Consequently, we have to think seriously about intergenerational equity if we want taxpayers of today and tomorrow to enjoy public services and infrastructure of comparable quantity and quality.”

In light of these observations, the CPP suggests a few responses. “The cornerstone of this reform lies in amendments to the *Balanced Budget Act*,” says Gagné. “As it stands, the Act requires that the government pay down deficits incurred during recessions. The result is that the Act works well during periods of growth, but is unmanageable when the government is in crisis.”

Consequently, the researchers recommend eliminating the requirement that budgetary deficits be paid down, while obliging the government to return to a balanced budget more quickly. Moreover, the government should not be able to suspend the Act without the support of a super-majority in the National Assembly.

In addition, given the size of the financial and infrastructure debt borne by Quebeckers, the researchers feel that the strategy behind the Generations Fund is inappropriate. “Quebeckers are now putting savings in their collective piggy bank as their house is gradually falling apart,” explains the Director. Rather than yet again deferring efforts to attain intergenerational equity, the government should address this issue now by paying down some of the debt using the funds available and the revenue earmarked for the Generations Fund to reduce the government’s financing needs over the next several years. “This reallocation of earmarked revenue would ensure that the *Balanced Budget Act* would not be suspended because of the budgetary pressure resulting from investment plans, and that investment plans would not be delayed because of budgetary considerations,” concludes Robert Gagné. “In the end, Quebec society as a whole would benefit.”

For more information:

- Consult the report (in French), entitled [L'équité intergénérationnelle au Québec : une mécanique défailante](#)
- Téléchargez le communiqué [en français](#).

About the Centre for Productivity and Prosperity – Walter J. Somers Foundation

The Centre for Productivity and Prosperity - Walter J. Somers Foundation has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec. The centre then shares its research findings through knowledge transfer and educational activities.

About the Walter J. Somers Foundation

The Somers family established the Walter J. Somers Foundation in tribute to the founder of Walter Surface Technologies. Through different donations, the Foundation pursues the family heritage of commitment to the community and contributes to the prosperity of Quebec society, firstly by helping to enhance its productivity but also by supporting excellence in youth education.

For more information on the Centre, visit www.hec.ca/cpp or write us at info.cpp@hec.ca.

Source:

Liette D'Amours
Media Relations Officer

Tel.: 514 649-2347
info.cpp@hec.ca