

Productivity and Prosperity in Quebec – 2020 Overview

**COVID-19: WHILE QUEBEC REDOUBLES ITS EFFORTS, OTTAWA
KEEPS SPENDING...**

Montréal, December 15, 2020 – “At a time when the COVID-19 pandemic confronts Quebec with the most serious economic crisis in its contemporary history, its inability to improve its productivity and hence to generate wealth is a cause for concern,” says Robert Gagné, Director of the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP). It is already coping with a structural problem that is widening the gap between the province and the main Western economies, year after year, and now must deal with the consequences of an unprecedented economic shock. This is the premise of the 11th edition of *Productivity and Prosperity in Quebec – Overview*, released today by the CPP.

A historic shock

The annual CPP *Overview* starts by noting that in the first six months of 2020, Quebec’s GDP plunged by 15.5% when the brakes were applied to the provincial economy. Of the 20 industrialized countries Quebec is compared with, only Spain, Italy and France suffered more serious declines during this period.

“Although Quebec has been particularly hard hit by the pandemic, the shock in terms of public finances will be largely softened by its government’s responsible management of the budgetary balance over the past five years,” notes Jonathan Deslauriers, Executive Director and co-author of the study. “On the other hand, the pandemic may well leave an indelible imprint on the country’s finances.” According to the latest forecasts, the deficits accumulated by all Canadian public administrations for 2020–2021 are likely to approach 20% of the national GDP, making Canada the country that took on the most debt to weather the crisis.

Not surprisingly, the federal government is largely responsible for this situation. The latest economic update calls for its program spending to increase by 71% during this fiscal year, to about \$15,900 per capita. As a result, Ottawa will be faced with the largest budgetary deficit in its contemporary history, of \$382 billion. With the deficits accumulated before the crisis to finance short-term economic growth, the federal government will have added \$476 billion to its consumer debt since 2015, for an overall increase of 76%. “If borrowing conditions were to tighten up, the recovery could prove long or painful for future generations,” emphasizes Deslauriers.

Some recommendations

While the Quebec government managed to ride out the first wave thanks the margin of manoeuvre it gained in recent years, it is not out of the woods. “Far from it,” maintains Gagné. “These efforts allowed the province to improve its public finances on paper, true, but in practice the deficit when it comes to maintaining its infrastructure continues to threaten intergenerational equity. The government will have to proceed carefully, as otherwise its actions to support the recovery could well disrupt the fragile balance between passing along a higher bill to future generations as it accumulates further deficits, or once again neglecting the province’s infrastructure.”

The authors suggest that the government give itself more room to manoeuvre by liquidating the Generations Fund. This would reduce the impact of the next two deficits on the debt, and at the same time free up funds for repairing the province’s infrastructure.

To stimulate the recovery, rather than attempting to respond to the crisis through passive measures to support all industries and all jobs regardless of their viability or growth potential, the Quebec government should focus on the three pillars of productivity: education, innovation and investment. In this way it will succeed in fostering a lasting recovery, while tackling the structural problem that has been hindering the province’s economic growth for too long now. “The Quebec government’s recent economic update has set the tone – now it remains to be seen whether it will manage to hold this course,” concludes Gagné.

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For more information:

- Consult the report, entitled [Productivity and Prosperity in Quebec – 2020 Overview](#).
- 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.
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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, primarily by helping to enhance its productivity but also by supporting excellence in youth education.

Source:

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