

## Quebec's budget plan threatened by a demographic time bomb

**Data show that working-age population growth is slowing sharply in Quebec and that will wreak havoc on the province's revenue stream**

CLÉMENT GIGNAC

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Quebec's new Liberal government is currently preparing its first budget. According to a recent study by two experts, the projected deficit for the current fiscal year will be around \$3.7-billion rather than the \$1.7-billion initially projected by the previous Parti Québécois government – unless something is done to rein in spending.

Of course, an upward deficit revision from a newly elected government seems like déjà vu all over again. Given that Premier Philippe Couillard has reiterated his commitment to having a balanced budget over the 2014-15 fiscal year without increasing the fiscal burden, some important spending cuts are likely to be on the agenda.

Looking ahead, the real challenge for new Finance Minister Carlos Leitao will be to put Quebec's public finances on a sustainable path despite the province's changing demographics. Data from the ISQ (Quebec's statistics agency), Statistics Canada and the U.S. Census Bureau compiled by Quebec's Ministry of Finance show that working-age population growth is slowing sharply in North America, with Quebec in the least desirable position. Unlike in western provinces and most developed countries, the effects of population aging are not an upcoming challenge in the province of Quebec, but a reality that is starting to unfold.

For the first time in recent modern history, the size of the population aged 15 to 54 (the core of the work force) shrank in Quebec in 2013, and by a total of close to 20,000. Between 2002 and 2012, annual growth in population aged 15 to 64 averaged 1.1 per cent in Canada, 0.9 per cent in the U.S. and 0.6 per cent in Quebec.

However, in the 10 years leading up to 2022, the base case scenario calls for 0.4-per-cent average annual growth in Canada, 0.3 per cent in the U.S. and minus 0.2 per cent in Quebec. When taking into account the fact that the participation rate in the 55-and-over age group is currently 33 per cent, compared to 82 per cent in the 15-to-54 group, simple arithmetic leads us to conclude that this is not a positive for government revenue. All of this is in large part responsible for Quebec's anemic nominal gross domestic product (GDP) growth of only 1.8 per cent in 2013, ranking among the worst performers in the country.

When looked at through the lens of the dependency ratio, we again find Quebec sitting in the least comfortable seat. Based on the data mentioned earlier, the ratio of population aged 65 years and older to population aged 15 to 64 should rise from 21.6 per cent to 29.5 per cent in Canada, 20.5 to 27.7 in the U.S. and 23.6 to 33.7 in Quebec between 2012 and 2022. In other words, the number of working-age individuals will go from four to three for every person aged 65 years or older. This will put the province in a similar position to France, Italy and Germany and behind only Japan. All this in a context where close to 45 per cent of Quebec's government spending is already directed toward its health care system.

The implication of this important change is that the province is now facing the very real possibility of entering an era of structural deficit. A shrinking work force means slower real GDP growth. Estimates from the [Chaire de recherche en fiscalité et en finances publiques](#) show that, when considering base case

estimates of population, productivity and employment rate growth, real GDP growth could slow from 2.0 per cent between 1981 and 2012 to 1.4 per cent between 2015 and 2030.

When considering that public spending grew on average by 4.4 per cent in the past 10 years compared to 3.7 per cent for nominal GDP growth, it will be nearly impossible for nominal GDP growth to keep up unless inflation accelerates, which is unlikely for the moment. Add to this the fact that the ratio of gross public debt to GDP is the highest in the country at 54.6 per cent and it seems quite clear that the province is facing a period of difficult social choices ahead.

*Clément Gignac is senior vice-president and chief economist at Industrial Alliance Insurance and Financial Services Inc., vice-chairman of the World Economic Forum Council on Competitiveness and a former cabinet minister in the Quebec government. This article was written in collaboration with Sébastien McMahon, economist, Industrial Alliance.*

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