

FOSTERING QUÉBEC'S
PROSPERITY



PREBUDGET CONSULTATIONS 2008-2009

January 2008

Québec 

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INTRODUCTION

Since 2003, the Québec government has been working to help the Québec economy achieve its full potential. The government's action has had several main thrusts which directly address the expectations of Quebecers. While this initiative has met with a number of successes, several challenges must still be taken up.

The government's rigorous and transparent management of public finances has made it possible to maintain balanced budgets while investing in major priorities such as health care, education, the family, lowering the tax burden, reducing the weight of the debt, and high-quality public infrastructures.

Among the government's major priorities and the challenges facing Québec, prosperity remains a central issue. Our quality of life and our ability to fund the public services which we all hold dear depend on ensuring this prosperity.

In order to foster prosperity and consequently improve our standard of living and quality of life, Québec must take up the challenge of productivity over the next few years. As part of this challenge, Québec will need to boost its productivity to cope with a more demanding and more competitive international environment. The government has a key role to play in putting in place an environment that is conducive to economic development.

To achieve this objective, the government intends to act on the driving factors contributing to productivity. In this respect, the government plans to, first and foremost, stimulate private investment.

It is essential that Québec society ponder on the actions that the Québec government should favour in order to foster prosperity. The prebudget consultations are an opportunity to discuss these stakes and, more specifically, to propose to the Québec administration means and actions to support private investment on Québec's territory, thereby making it possible to accelerate the growth of productivity and of the economy.

This document has been designed to serve as the starting point for discussions during the prebudget consultations.

- The first section outlines Québec's economic challenges.
- The second section draws a portrait of the government's actions to promote economic growth.

1. QUÉBEC'S ECONOMIC CHALLENGES

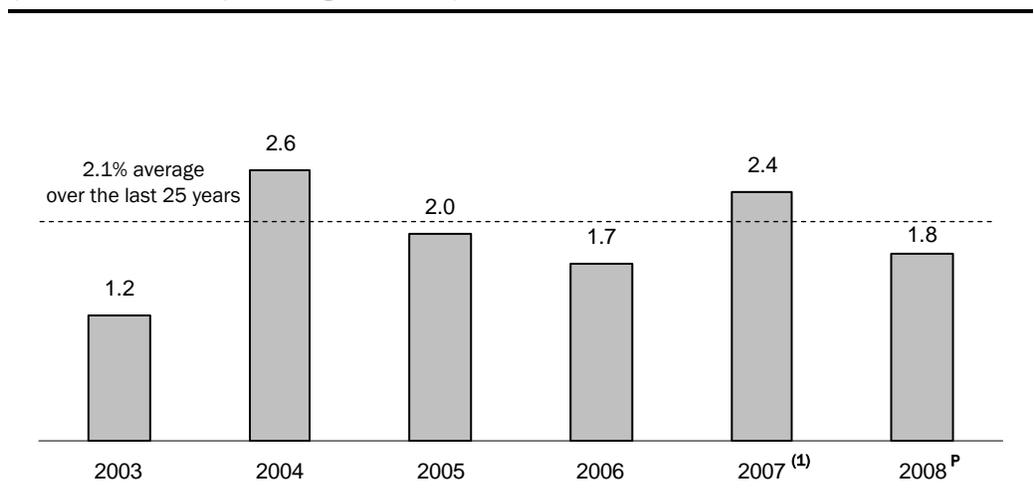
Generally, Québec's economy is doing well. However, to make a fairer assessment of our economic performance, it is important to consider the environment in which we have found ourselves in recent years. The good results that Québec has posted since 2003 are mainly a reflection of the dynamism of our enterprises and our workers. As we will see further on, these results are also tied to the actions taken by the government to support economic growth.

Despite the negative impacts associated with the price of oil, the exchange rate and U.S. demand, the annual growth of the real Gross Domestic Product (GDP) has averaged about 2% since 2003, a rate of growth comparable to that of the last 25 years.

However, the possibility of a recession in the United States is a major risk factor for the strength of Québec's economic growth. Private sector forecasters already predict that the growth of the real GDP in Québec will drop from 2.4% in 2007 to 1.8% in 2008.

CHART 1

Québec's economic growth
(Real GDP, annual percentage variation)



(1) Average for the first three quarters of 2007.

P: Consensus of private sector economists, January 25, 2008.

Sources: Statistics Canada and compilation prepared by the Ministère des Finances du Québec.

If Québec wants to maintain and even increase its prosperity in the years to come, it will have to take up certain challenges:

- Cope with a more demanding international environment;
- Preserve the dynamism of our domestic economy;
- Boost its productivity.

1.1 Coping with a more demanding and more competitive international environment

Québec enjoyed good economic growth in 2007, despite a more demanding and more competitive international context. Indeed, various external pressures led to a significant deterioration of the contribution made by Québec's external sector to economic growth.

— Whereas the external sector had added one percentage point per year to the growth of the real GDP at the end of the 1990s, it subtracted, on average, 1.6 points per year from 2002 to 2007.

In particular, the economic slowdown in the United States should intensify significantly in 2008 and exert downward pressures on Québec's economic activity.

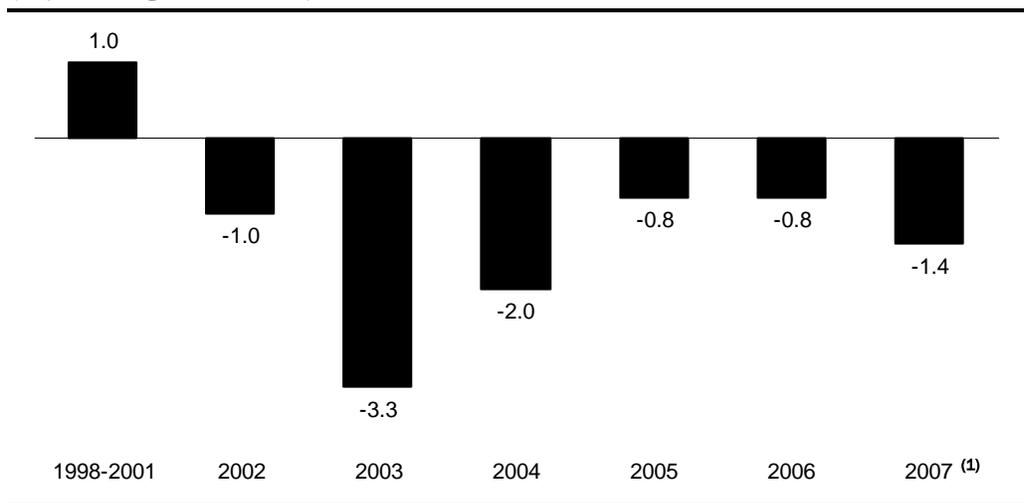
These pressures are in addition to an international environment that is already demanding for our economic performance, notably:

- The adaptation of enterprises to a Canadian dollar trading at par;
- Elevated energy costs;
- Greater competition from new economic powerhouses such as China and India.

This environment affects Québec's export manufacturing enterprises in particular. Since 2003, close to 100,000 manufacturing jobs have been eliminated, roughly 20% of the jobs in this sector.

CHART 2

Contribution of the external sector to Québec's economic growth
(in percentage of real GDP)



(1) Average for the first three quarters of 2007.

Sources: Statistics Canada and Institut de la statistique du Québec.

□ A significant economic slowdown in the United States

Québec's economy must now cope with the economic slowdown of its main trading partner, the United States. Growth in the U.S. will be slower due to a greater than expected decline in residential investments and a smaller increase in household spending.

— In the face of this unfavourable outlook, several American analysts anticipate a U.S. recession in 2008.

The growth of the real American GDP, after having reached 2.2% in 2007, should taper off somewhat, to reach 1.5% in 2008. This will be the smallest annual growth posted since the 2001 (0.8%) and 1991 (-0.2%) recessions.

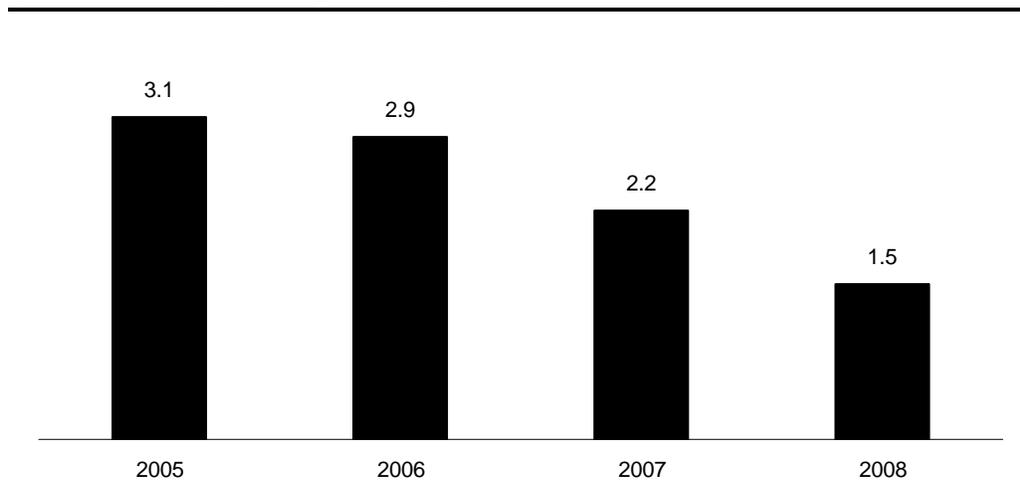
Québec is an open economy in that international exports of goods and services represent more than 30% of Québec's GDP. It is also an economy that is very much integrated in the U.S. market, with close to 80% of Québec's international exports being destined for our southern neighbour.

— The major difficulties affecting the U.S. economy should result in a dwindling American demand for Québec products in 2008.

CHART 3

U.S. economic growth: anticipated slowdown

(real GDP, annual percentage variation)



Source: Global Insight.

□ **The adaptation of enterprises to a Canadian dollar trading at par with its American counterpart and spiraling energy costs**

Supported by a favourable Canadian economic climate and a significant increase in the price of raw materials, the Canadian dollar has risen by more than 60% in value vis-à-vis its U.S. counterpart since 2002, including a dazzling 20% increase in 2007.

— On average, the Canadian dollar has been on par with the greenback since the fall of 2007.

The adaptation of enterprises to a Canadian dollar on par with its U.S. counterpart will take place progressively. Their competitiveness, largely supported by a weak dollar in the past, must now be bolstered by greater productivity through investment, innovation and manpower training efforts. Fortunately, the appreciation of the Canadian dollar reduces the acquisition cost of machines and equipment, more than two-thirds of which are imported.

Furthermore, since 2002, the price of a barrel of oil has more than quadrupled, reaching close to \$100 U.S. in early January 2008. This increase translates into additional costs for enterprises. Spiraling energy costs together with a growing concern about achieving sustainable development are forcing enterprises to invest in less energy-intensive processes.

CHART 4

Canadian dollar

(in U.S. cents)

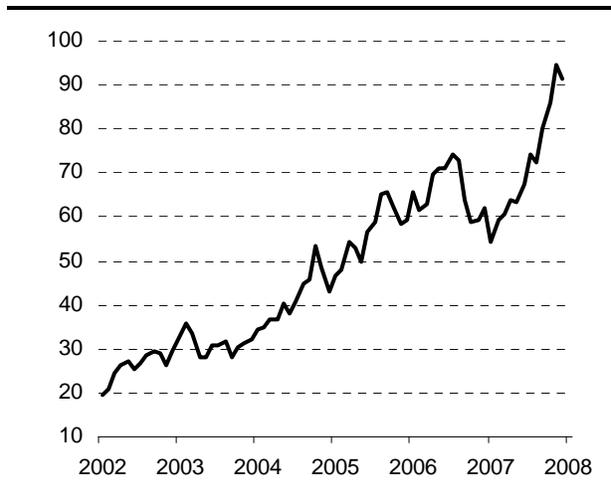


Source: Statistics Canada.

CHART 5

Price of a barrel of oil

(U.S. dollars per barrel, West Texas Intermediate)



Source: Bloomberg.

□ Greater competition from new economic powerhouses

Our prosperity depends in large part on our ability to maintain and even increase our trade abroad.

Québec, like all other industrialized economies, has had to adjust to an environment characterized by a globalization of markets and trade liberalization. In recent years, as these trends have intensified, the international trade in manufactured products has grown and there has been a shift of production to other regions of the globe.

— As a result, China has become a leading centre for the assembly and transformation of manufactured products in the world.

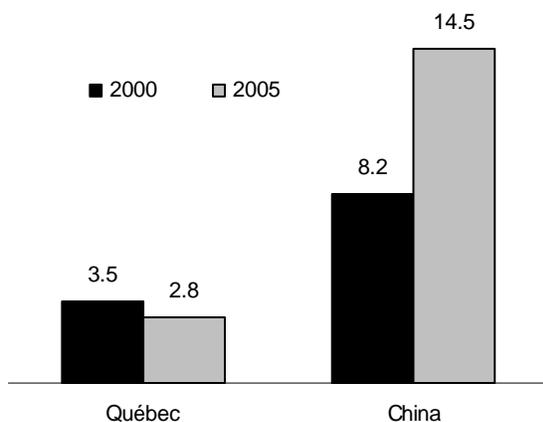
Enterprises must cope with greater competition in their traditional markets, but must also participate in the globalization of production chains.

— For example, our enterprises, which are seeing their market shares dwindle, particularly in the United States, must endeavour to find new customers and/or products.

— Enterprises also have to take advantage of interesting opportunities for resources and products as offered by China and India, which with their 2.4 billion inhabitants, are experiencing robust economic growth. The result is a growing demand for natural resources, high-tech products and consulting services.

CHART 6

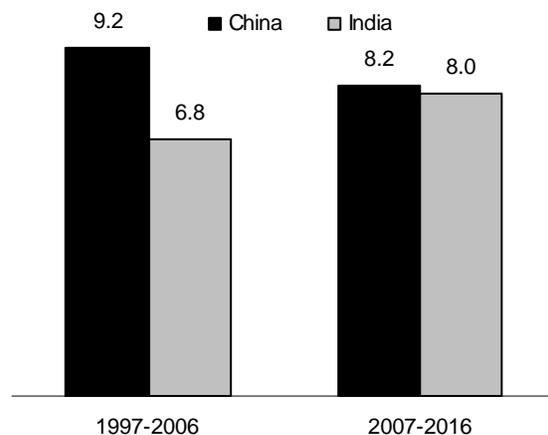
Québec's and China's shares of U.S. imports (in percentage)



Sources: Statistics Canada and Global Insight.

CHART 7

Economic growth in China and India (Real GDP, annual percentage variation)



Source: Global Insight.

1.2 Preserving the dynamism of our domestic economy

Since the early 2000s, Québec has witnessed interesting economic growth overall. This favourable evolution has taken place thanks to Québec's very dynamic domestic demand, despite an international context that has become increasingly competitive and more demanding. In particular:

- Household spending has risen considerably;
- The labour market has improved significantly.

□ Household spending remains strong

Households increased their real personal spending by more than 3% in 2007, just as they have done on average each year since 2003. A similar growth in spending was last seen in the late 1980s.

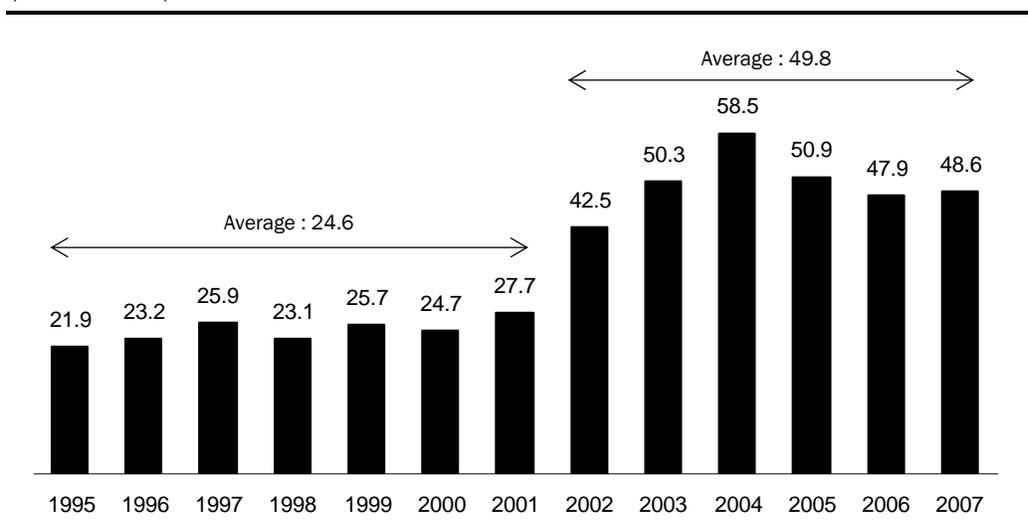
At the same time, the number of new housing starts has remained high over the last five years. On average, there have been 49,800 new housing starts each year.

- This is a level that is far superior to what had been observed at the end of the 1990s, when there were only 24,600 new housing starts annually.

This dynamism on the part of households is notably attributable to the improved labour market and the tax reductions granted by governments.

CHART 8

New housing starts (in thousands)



Source: Canadian Housing and Mortgage Corporation.

❑ The best labour market in 30 years

Quebecers have been able to count on a major improvement in the labour market since 2003.

The growth of employment has remained very strong, despite the pressures felt in the manufacturing sector. Since 2003, 281,800 jobs have been created in Québec. The unemployment rate reached 7.2% on average in 2007, the lowest level in 33 years, with 86,300 jobs having been created.

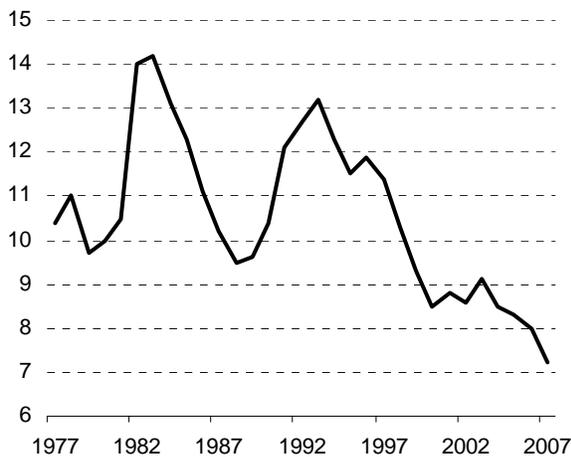
— The unemployment rate even fell to 6.9% in September 2007. It stood at 7% in December 2007.

Never before in the history of Québec has such a large proportion of the population held a job. For the fourth year in a row, the employment rate has exceeded 60%, a record.

— It stood at 61.2% in December 2007.

CHART 9

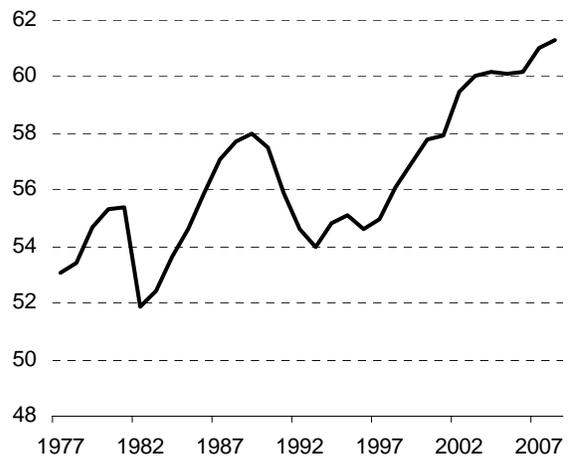
Unemployment rate in Québec
(in percentage)



Source: Institut de la statistique du Québec.

CHART 10

Employment rate in Québec
(in percentage)



Source: Institut de la statistique du Québec.

□ Non-residential investments are on the rise

Québec enterprises have taken advantage of a favourable economic climate to increase their investments.

- In particular, high profits and the substantial appreciation of the Canadian dollar have contributed to the purchase of machines and equipment.
- In addition, since 2003, the government has supported several major economic development projects in all regions of Québec.

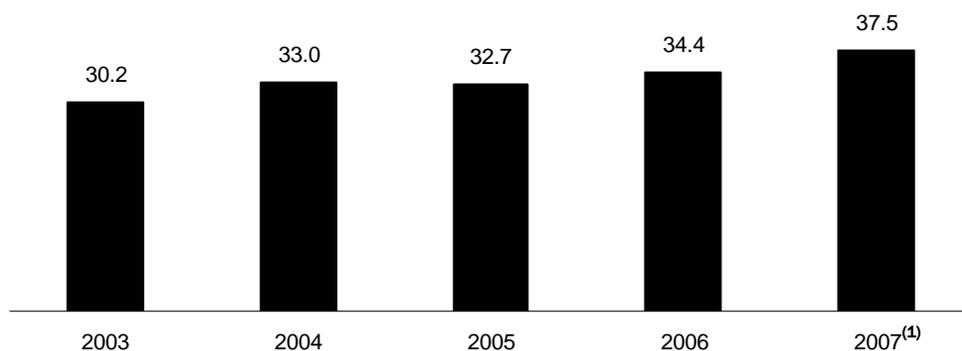
The government has also stepped up the pace of investments in public infrastructures. This trend is accelerating thanks to the “Québec Infrastructures Plan”. Indeed, the Québec government will invest \$30 billion over the next five years in the development and restoration of public infrastructures.

On the whole, non-residential investments, both private and public, have made a positive contribution to the robust domestic demand. From 2003 to 2007, they grew by 24% in all in Québec.

CHART 11

Public and private non-residential investments

(in billions of dollars)



(1) Average for the first three quarters of 2007.

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

1.3 Boosting productivity

□ An economic performance comparable to that of Ontario, leaving demography aside

Generally, Québec has enjoyed interesting economic growth over the last 25 years. Indeed, Québec's economic growth has averaged 2.1% per year over the last quarter century. It is a performance that is below the Canadian average, which is 2.8%, and below the economic growth in Ontario, which stands at 3.0%.

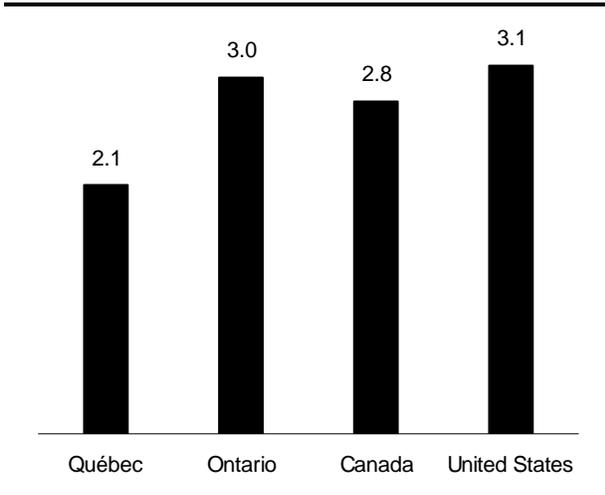
Ontario and Canada enjoyed better economic growth during this period due mainly to greater population growth.

— Indeed, the growth of the real GDP per capita in Québec, namely a 1.4% increase in the standard of living, is comparable to that of Ontario (1.5%) and closer to the Canadian average (1.7%).

Moreover, the economic performance of the United States exceeds both that of Québec and that of Canada. The progress of the global real GDP per inhabitant was significantly faster in the United States than in Canada during this same period.

CHART 12

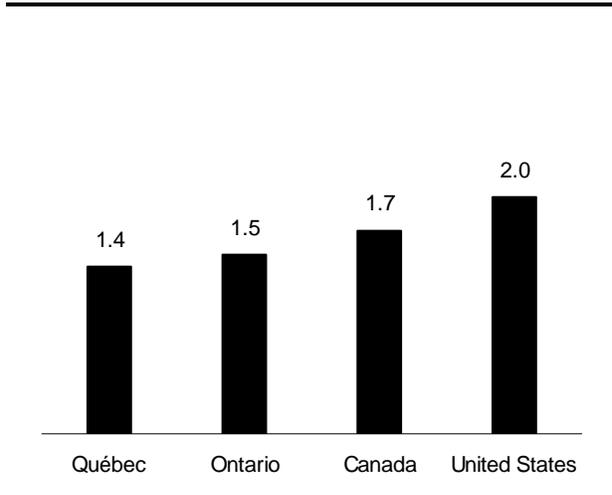
Real GDP from 1982 to 2006
(annual percentage variation)



Sources: Global Insight, Statistics Canada and Institut de la statistique du Québec.

CHART 13

Real GDP per capita from 1982 to 2006
(annual percentage variation)



Sources: Global Insight, Statistics Canada and Institut de la statistique du Québec.

□ A standard of living gap remains

Although Québec has seen its standard of living progress at a pace similar to that of Ontario over the last 25 years, Québec nevertheless has some significant catching up to do in dollar terms. In 2006, the standard of living reached \$33,966 in Québec, as compared to \$41,117 in Ontario.

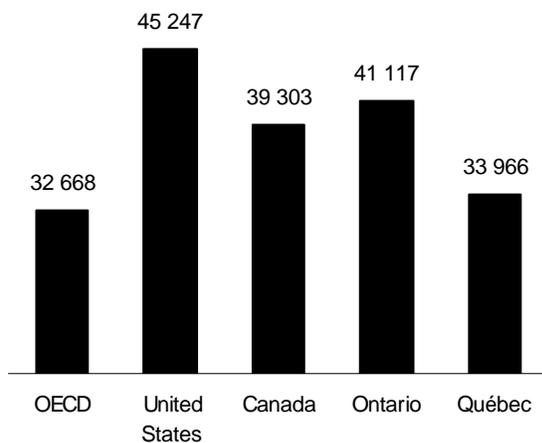
The difference in comparison with the United States is even greater for it is estimated that the standard of living of Americans stood at \$45,247 CAN in 2006. However, Québec retained a favourable difference of 3% in comparison with the average standard of living of OECD countries (\$32,668 CAN in 2006).

This standard of living gap represents a major stake for Québec because it deprives citizens and the State of major means, which could be used, among other things, to fund public services and infrastructures. The creation of wealth broadens both individual and collective choices. It concerns such aspects as the fight against poverty, environmental protection and a more comfortable lifestyle.

CHART 14

Standard of living, 2006

(Real GDP per capita,
in 2006 Canadian dollars)

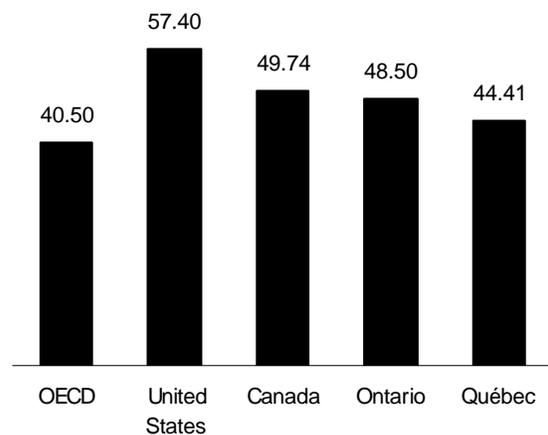


Sources: Statistics Canada and OECD.

CHART 15

Real GDP per hour worked, 2006

(in 2006 Canadian dollars)



Sources: Statistics Canada and OECD.

The unfavourable difference in the standard of living of Québec is very much associated with the major lag in its productivity in comparison with its main commercial partners, in terms both of the level and the growth of productivity per hour worked.

- In 2006, the GDP per hour stood at \$44.41 in Québec, as compared to \$48.50 in Ontario and \$57.40 in the United States. However, Québec's productivity continues to exceed the average productivity of OECD countries, which stood at \$40.50 CAN in 2006.
- Moreover, because the growth of work productivity has remained slower in Québec, these differences in productivity have tended to intensify over the last 25 years.

International standard of living comparisons

International comparisons reveal that the standard of living in Québec has declined in comparison with those of the main OECD countries.

In 1982, Québec ranked twelfth among OECD countries, while Ontario ranked third. Canada, which occupied seventh place in 1982, has succeeded in maintaining its position in the group, ranking eighth in 2006. However, Québec slid to seventeenth place, being outranked by Ireland, the Netherlands and Finland. For its part, Ontario fell to fifth place.

TABLE 1

Comparisons of the standards of living of certain OECD countries, Québec and Ontario

1982		2006		
Country	Rank	Country	Rank	Level in \$CAN
Switzerland	1	Switzerland	7	39 885
Luxembourg	2	Luxembourg	1	75 860
Ontario	3	Ontario	5	41 117
United States	4	United States	3	45 247
Iceland	5	Iceland	6	40 353
Norway	6	Norway	2	47 730
Canada	7	Canada	8	39 303
Sweden	8	Sweden	9	38 523
Austria	9	Austria	11	37 708
Denmark	10	Denmark	12	37 676
Québec	12	Québec	17	33 966
Netherlands	13	Netherlands	10	37 708
Finland	18	Finland	14	36 140
Ireland	24	Ireland	4	42 499

Sources: Statistics Canada and OECD.

□ Taking up the productivity challenge

The challenge of boosting the growth of Québec's productivity is all the more important in that in the future, productivity gains will become the main, if not the only, source of increase in wealth. Unlike in the past, where the increase in productivity and in the working age population contributed in equal proportions to the lion's share of Québec's economic growth, demography will play less and less of a role in this growth in the future.

— All of the demographic scenarios considered by the Institut de la statistique du Québec anticipate a slowing growth of Québec's population and labour force. Indeed, according to the reference scenario that is based on the major demographic trends observed, Québec's population could decline beginning in 2032.

By considering the assumption that the growth of Québec's productivity would not be greater in the future, the potential growth of Québec's economy would be significantly reduced by the effects of the approaching demographic shock. Indeed:

- The growth of productivity would remain identical to the average growth observed over the last 25 years, namely 0.9% per year;
- The growth of the population would gradually decline from about 0.9% per year to 0.3% per year, based on anticipated trends;
- Consequently, the potential growth of Québec's economy would be reduced by one third, going from 2.1%, on average between 1982 and 2006 to 1.4% in 2015, namely a reduction of 0.7 percentage points.

TABLE 2

Main sources of Québec's economic growth (average annual percentage variation)

	1982-2006	Projections		
		2010	2015	2020
Evolution of the population 15 years of age and over ⁽¹⁾	0.9	0.7	0.4	0.3
Evolution of productivity ⁽²⁾	0.9	0.9	0.9	0.9
Evolution of the labour market	0.3	0.1	0.1	0.1
Real GDP	2.1	1.7	1.4	1.3

(1) The reference scenario (2004) of the Institut de la statistique du Québec for the projection period.

(2) Maintaining of the trend over the projection period.

Source: Ministère des Finances du Québec.

The Québec government has already put in place a series of measures that will influence the demographic reality over the medium term, notably the new parental leave system, financial support measures intended for families, including “Child Assistance” and the increase in immigration levels.

Productivity in the main economic sectors

In 2006, Québec’s Gross Domestic Product stood at \$283 billion, i.e. approximately one-fifth of the Canadian economy.

Québec’s economy has undergone major transformations in recent decades. Long recognized for its natural resources, the economy is now highly diversified:

- The natural resources sector represents 2.2% of the economy;
- The construction sector, 5.4%;
- The manufacturing sector, 19.2%;
- The services sector, 73.2%.

As for sector-based productivity, measured by the real production per hour worked, the difference between Québec and Ontario is noted in particular in the commercial services sector, an observation that is all the more important in that this sector accounts for a very large share of economic activity, totaling half of the hours worked. In the manufacturing sector, Québec is still lagging behind somewhat, despite a significant catching up in recent years.

TABLE 3

Productivity in Québec and Ontario in certain sectors

(Real DGP per hour worked, in dollars, 1977-2003)

	Québec	Ontario	Difference
Commercial services	32.76	38.91	-15.8%
Manufacturing	37.73	40.24	-6.2%
Enterprises sector	35.13	38.81	-9.5%

Source: Statistics Canada.

To take up the productivity challenge, it is necessary to act on the main factors that contribute to improving productivity, namely:

- Investments in human capital: education and training;
- Research and development;
- Investments in physical capital and innovation.

The government is already acting on these main factors. Section 2 presents in greater detail the actions of the Québec government to foster economic growth. Many of these actions create an environment that is conducive to enhancing Québec's productivity.

□ Human capital: closing the gap

The quality of the human capital of an economy is first evaluated by the level of schooling and literacy¹. In this respect, the historical gap that has existed between Quebecers and their Canadian and American counterparts has virtually been closed by the new generations of Quebecers.

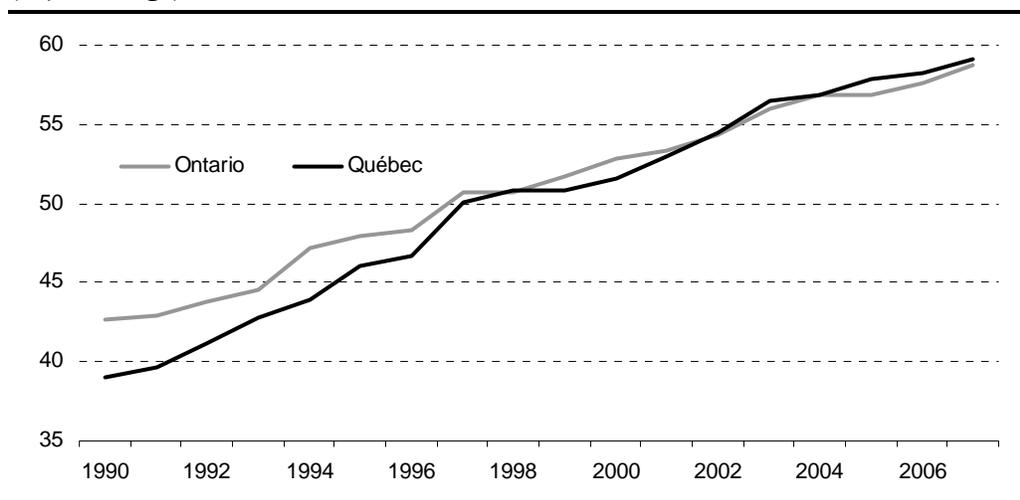
- The high school graduation rate in Québec now compares advantageously, although there is still a gap in terms of bachelor's level university studies.
- Similarly, the literacy rate of Quebecers between 27 and 36 years of age is similar to that of residents of the other provinces.

Evaluations of the quality of the human capital of workers also depend on the on-going investments made in manpower training. At the Canadian level, Québec remains below the national average in this respect, but remarkable progress has been achieved in recent years.

While Québec workers have had some catching up to do at the schooling, literacy and training level, the gap has closed as young Québec workers, with high-quality human capital, have joined the labour force. However, continued progress is needed if Québec is to benefit from an increasingly educated, trained and qualified manpower in a demographic context that would be characterized by a manpower shortage.

CHART 16

Proportion of the population 15 and over having a partial or full postsecondary education (in percentage)



Source: Statistics Canada.

¹ The ability to understand and use written information.

□ Sustained research and development efforts

Research and development (R&D) expenditures generate productivity gains in innovative industries. Similarly, enterprises that embrace the results of R&D adopt new technologies or products and services as well as more efficient business processes.

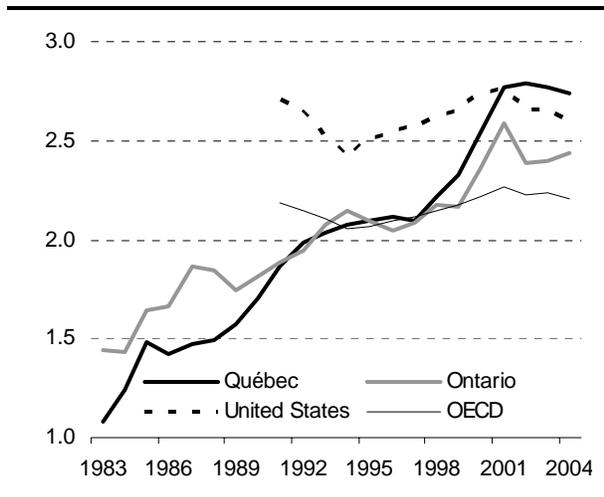
Québec has stepped up its R&D efforts greatly since 1991. In so doing, it has caught up to and even surpassed Ontario in terms of total R&D expenditures including those of the public sector. This catching up has put Québec ahead of the United States and in a better position in relation to the average for OECD countries.

Moreover, Québec now spends a higher proportion of GDP in private R&D than does Ontario. However, Québec is still lagging behind its southern neighbour. Among other things, the acceleration of the productivity of the U.S. manufacturing sector over the last decade is associated with R&D in the information and communication technologies (ICT) sectors.

CHART 17

Intensity of R&D of the private and public sectors⁽¹⁾

(in percentage of GDP)



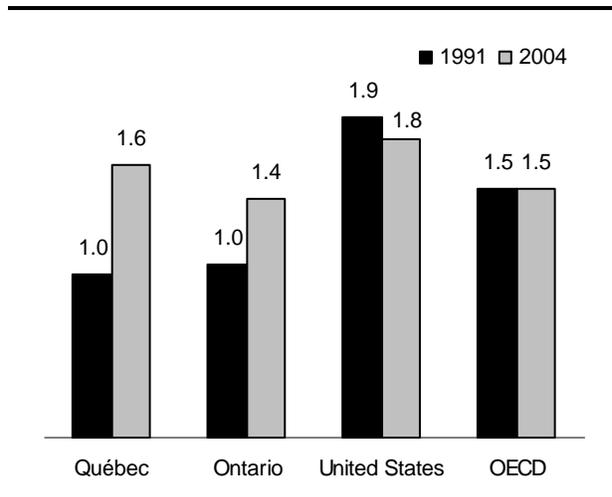
(1) Intra-muros expenditures of enterprises, higher education institutions and the State.

Source: Institut de la statistique du Québec.

CHART 18

Intensity of private sector R&D

(in percentage of GDP)



Source: Institut de la statistique du Québec.

❑ An investment deficit that needs to be corrected

Investing in machines and equipment is an essential means for boosting productivity and hence prosperity.

- A more productive economy leads to better jobs, higher personal income and a better quality of life for citizens.
- These investments make it possible to maintain, increase and improve the capital stock available for each worker and ensure the introduction of new technologies.

The investment effort in machines and equipment is lower in Québec than among its neighbours. This investment deficit penalizes Québec enterprises by slowing down the pace of adoption of new technologies, which are incorporated in new equipment.

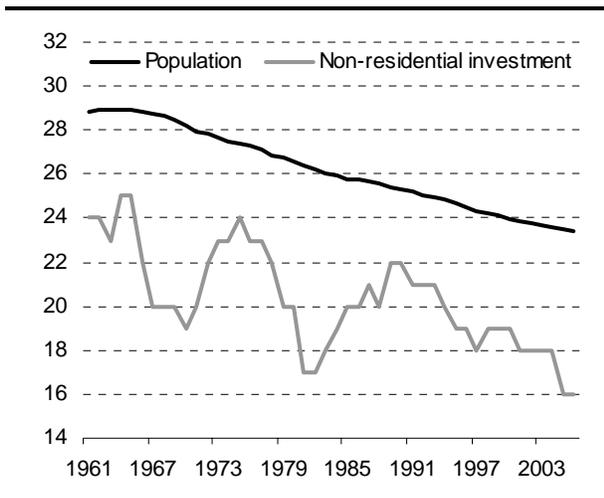
With respect to investment in physical capital, the following findings may be noted:

- Québec is not attracting a share of investments comparable to its demographic weight in Canada;
- Québec continues to post a lower investment rate in machines and equipment than its neighbours. This investment gap is adversely affecting the growth of productivity and the progress of the standard of living of Quebecers;
- The investment in machines and equipment is growing less rapidly in Québec than among its main North American commercial partners.

CHART 19

Share of investments in comparison with demographic weight

(Québec, in percentage of Canada)

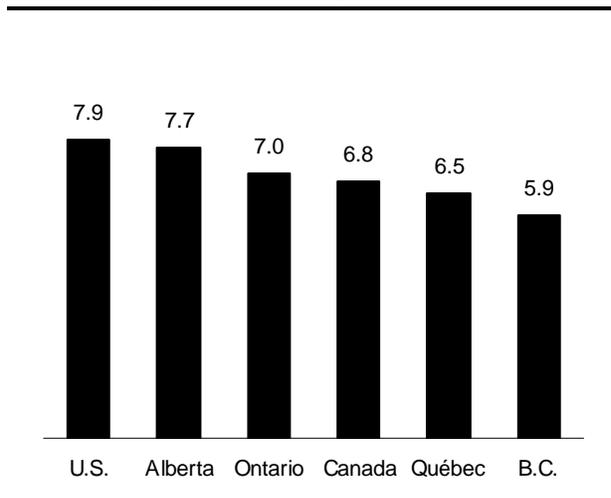


Source: Statistics Canada.

CHART 20

Rates of investment in machines and equipment

(in percentage of GDP, average of 1989-2006)



Source: Statistics Canada.

Investing allows enterprises to adjust to a more demanding and more competitive international environment. The investments made by enterprises enable them notably:

- to increase their competitiveness which has been undermined by a dollar trading at par;
- to develop new markets;
- to become integrated in new global production chains;
- to adopt less energy-intensive and cleaner production processes.

The government must therefore continue its efforts to create a context that is conducive to investments.

An anticipated population decline

Like a number of other industrialized countries, Québec has been witnessing, for several years now, a slowing down of its population growth and the aging of its population.

This situation is the result of three major trends:

- A low birth rate;
- Unfavourable migratory movements;
- A longer life expectancy.

These trends could have major consequences for our economic growth. We could witness a decline in the pool of potential workers and a reduction in the size of Québec's market.

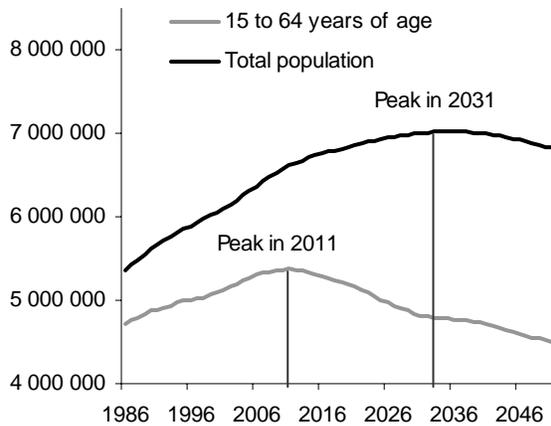
Moreover, the demographic changes could exert major and growing pressures on our public finances due to:

- the anticipated reduction in economic growth and its impacts on the growth of the government's revenues;
- the major pressure that the aging of the population would exert on program expenditures, notably in the health care field.

CHART 21

Québec's population

(number of individuals)

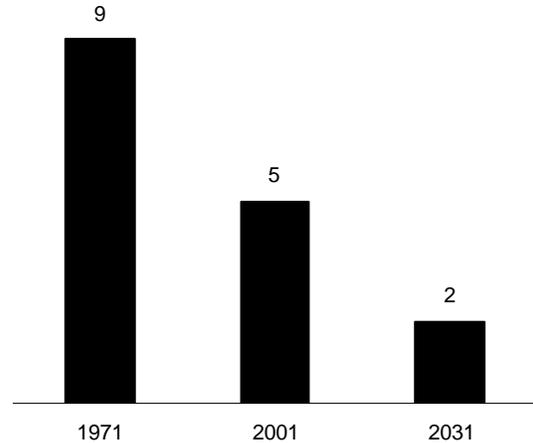


Source: Institut de la statistique du Québec.

CHART 22

Number of persons of working age - 15 to 64 years of age

(for each person 65 or older)



Source: Institut de la statistique du Québec.

2. ACTIONS PROMOTING ECONOMIC GROWTH

The good economic results that Québec has posted since 2003 are first and foremost a reflection of the dynamism of our enterprises and our workers. Moreover, these results are also tied to the actions taken by the government to support economic growth.

Sound public finances are a token of stability for both individuals and enterprises. Tabling balanced budgets, managing expenditures rigorously and keeping the public debt at a sustainable level make it possible to maintain a competitive tax burden and ensure the quality and sustainability of public services.

That is why the Québec government has been working since 2003 to help the Québec economy achieve its full potential. The government's action has had four main thrusts which directly address the expectations of Quebecers:

- A tight control over expenditures with a view to rigorously managing public finances;
- A competitive tax system that encourages work, investment and innovation;
- Modern public infrastructures;
- Support for sustainable economic development.

2.1 A tight control over expenditures with a view to rigorously managing public finances

Public finances are managed rigorously with a view to preserving the quality and sustainability of public services. This rigorous management makes it possible to maintain a balanced budget over the term of the financial framework. This management is based notably on a control over expenditures and debt.

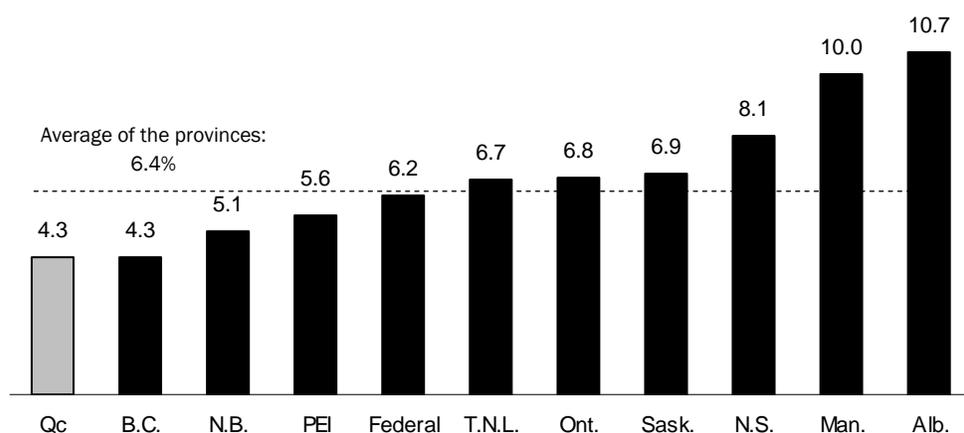
Since 2003, the average annual growth of Québec's program expenditures has been 4.3%, as compared to a Canadian average of 6.4%. In fact, along with British Columbia, Québec is the Canadian province having maintained the smallest growth rate of its expenditures.

— The growth of program expenditures remains below the growth of the economy, despite the pressures exerted by health care and education.

Moreover, the creation of the Generations Fund confirms the government's commitment to reducing the debt burden. Thanks to this Fund, the relative share of the debt in the economy will drop to below 25% by 2026, as compared to 43.4% for the 2006-2007 fiscal year.

CHART 23

Program expenditures from 2003-2004 to 2007-2008
(annual percentage variation)



Source: Ministère des Finances du Québec.

This sound management of public expenditures has been recognized by credit agencies. Indeed, in 2006, Moody's and Dominion Bond Rating Service raised Québec's credit rating. Moreover, two other agencies have upgraded, from stable to positive, the outlook associated with Québec's credit rating: Standard and Poor's in July 2007 and Fitch in January 2008.

□ Major investments in health care and education

Since 2003, the government has invested in its priorities, namely health care and education.

The government has granted close to 60% of the increase in program expenditures to the health care field, namely an average annual growth of 5.9%.

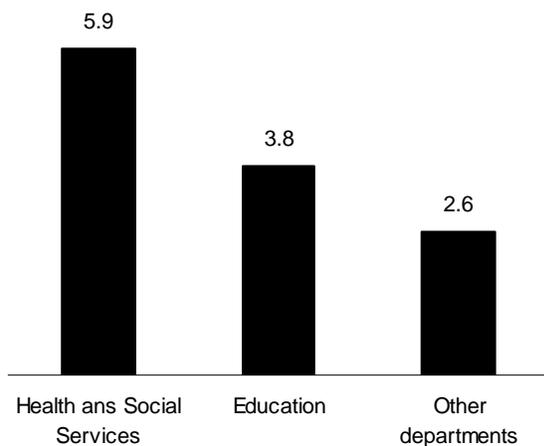
Moreover, for the same period, the average annual growth of education expenditures reached 3.8%, representing more than 22% of the increase in program expenditures. These amounts notably made it possible to put in place the following measures to help with schooling, school success, literacy promotion and continuing education:

- The addition of 90 minutes per week of teaching time as well as homework assistance for elementary-level students;
- A three-year reading at school program;
- The “New Approaches, New Solutions” intervention strategy to promote the success of secondary school students in disadvantaged areas;
- Support for at-risk students, handicapped students, students having difficulties adapting or with learning problems;
- The government adult education and continuing education policy.

CHART 24

Program expenditures

(average annual variation from 2003-2004 to 2007-2008)

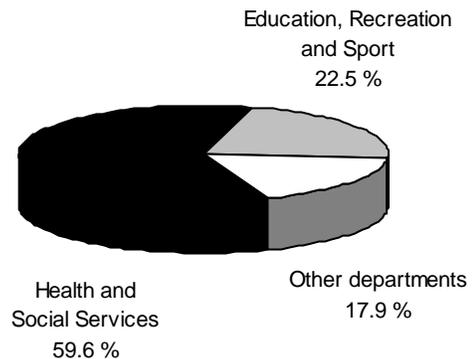


Source: Secrétariat du Conseil du trésor.

CHART 25

Breakdown of the growth of program expenditures

(in percentage, from 2003-2004 to 2007-2008)



Source: Secrétariat du Conseil du trésor.

2.2 A competitive tax system

A competitive tax system encourages work, investment and innovation. Moreover, the reductions of the tax burden supported by Québec taxpayers, whether individuals or enterprises, have multiplier effects on economic growth and job creation.

□ A reduction of the tax burden supported by individuals

The measures put forward to reduce the tax burden on individuals have made it possible to promote work, improve fiscal competitiveness, make life easier for the middle class and support families. This tax burden has been reduced by more than \$4.5 billion since 2003, taking into account the \$950 million in tax cuts for 2008.

More specifically, Québec has reduced the difference in tax burden, compared to other provinces, from \$2.1 billion to \$646 million since 2003. Thus, the difference in relation to the Canadian average has been lowered by close to 70%.

— With the latest \$950 million in tax cuts in effect since January 1, 2008, Québec rose to fifth position among the least taxed provinces, despite the tax cuts announced by eight other provinces in their 2007-2008 budgets.

TABLE 4

Personal income tax

(difference in the tax burden between Québec and the other provinces, by applying the tax structure of the other provinces to Québec ⁽¹⁾)

	2003	2008 ⁽²⁾	
	(\$M)	\$ (M)	(\$ per taxpayer)
Difference Québec – other provinces ⁽³⁾			
British Columbia	3 569	3 278	898
Alberta	4 449	3 168	868
Ontario	5 642	2 699	739
Saskatchewan	2 394	555	152
Newfoundland and Labrador	-965	-560	-153
Manitoba	692	-686	-188
New Brunswick	1 701	-722	-198
Prince Edward Island	103	-901	-247
Nova Scotia	664	-1 014	-278
Average difference	2 134	646	177

(1) Including health contributions and family assistance measures.

(2) Including the 2007-2008 budgets of Québec, the Federal Government and all the other provinces.

(3) The 16.5% Québec abatement has been subtracted from the difference in tax burden.

□ A tax system that is more favourable to enterprises

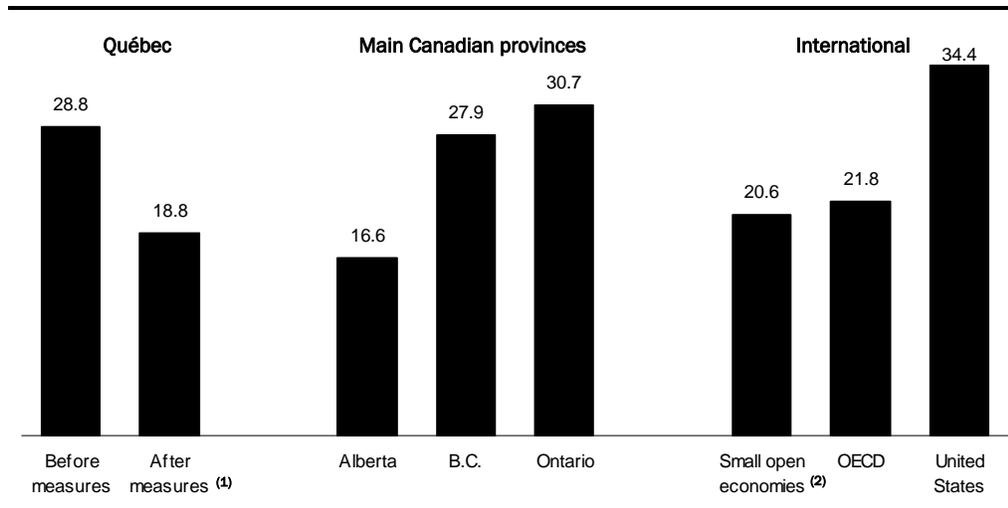
To support enterprises in their investment efforts, the government has considerably lowered the tax burden on investment through:

- The progressive abolition of the capital tax by 2011;
- The establishment of a capital tax credit, the rate of which was increased from 5% to 15% and which allows manufacturing enterprises to accelerate the elimination of the capital tax when they make investments;
- The recognition of the importance of a preferential tax system for SMEs. Since 2005, 210,000 of these enterprises have no longer had to pay the capital tax. Moreover, the taxation rate applicable to them is 8%, as compared to 11.4% for big enterprises;
- The reduction of the tax burden on enterprises that invest, by increasing the deduction rates for amortization, notably those applying to the manufacturing sector.

With all of the steps taken, the tax burden on each dollar invested, as measured by the effective marginal tax rate on investment, will be significantly reduced, reaching 18.8% once the impact of the measures is felt fully. Québec will thus be in an excellent position to compete with the other countries when attracting and retaining investments.

CHART 26

Comparison of the effective marginal tax rates on investment - 2012 (in percentage)



(1) Prior to the measures of Québec's 2007-2008 Budget and those of the Federal Government announced in *The 2007 Budget* and the 2007 Economic Statement.

(2) Small open economies that are highly dependent on commercial trade with bigger economic partners. For example, Switzerland, Australia, Ireland, Sweden and Norway.

Sources: Canadian Department of Finance and Ministère des Finances du Québec.

2.3 Modern public infrastructures

Public infrastructures contribute to the economic prosperity of current and future generations.

- Transportation infrastructures facilitate commercial trade;
- Municipal infrastructures are a factor that enterprises consider when choosing where they will set up their operations;
- Education infrastructures contribute to the training of workers, research and innovation;
- Health infrastructures contribute to the well-being of the public.

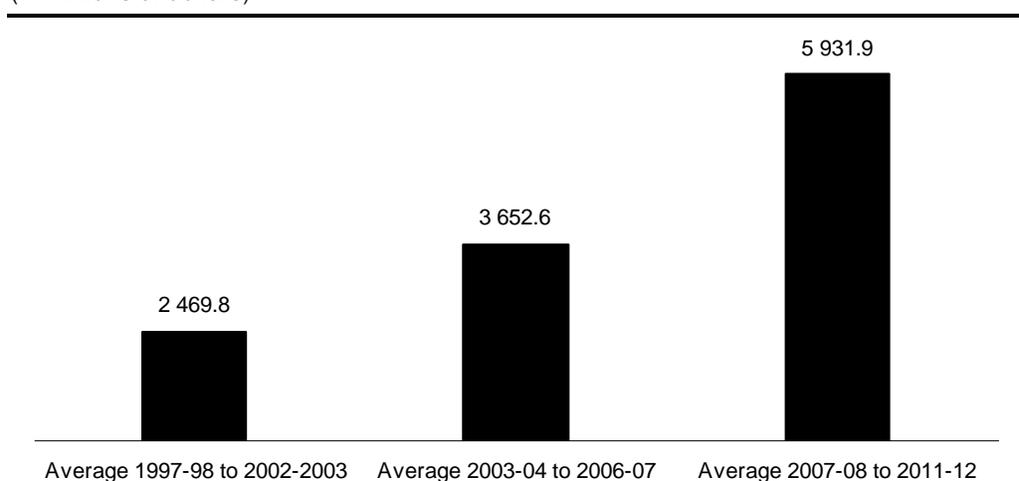
In launching the “Québec Infrastructures Plan”, a \$30 billion five-year plan to which \$7 billion in supplemental funding has been added, the government has taken a major step to foster prosperity.

- The government will invest in the repair and modernization of schools, road networks, hospitals and municipal infrastructures.
- This plan also provides for investments in public transit, public housing, research, public safety and culture.

The investments made by the Québec government will total \$5.9 billion annually over the 2011-2012 period, namely more than twice the investments made during the 1997-2003 period.

CHART 27

Investments in capital expenditures by the Québec government ⁽¹⁾ (in millions of dollars)



(1) Excluding the investments made by departments and budgetary agencies as well as by the special funds, with the exception of FCARR.

Source: Foundations for success: Québec Infrastructures Plan, Québec government, 2007.

2.4 Support for sustainable economic development

Since 2003, the government has revamped its economic role as well as its intervention methods. It has taken several actions that are henceforth part of a structured economic vision in order to support enterprises and to stimulate the sustainable economic development of Québec.

The government has also announced a series of coherent measures and strategies promoting wealth creation in all regions of Québec. Concretely:

- Business financing support has been improved and the government's role in venture capital has been reviewed to promote greater participation by the private sector;
- The “Strategy for the Development of Every Region” is devoting \$825 million over five years (2007-2012) to regional development;
- Finally, the strategy entitled “An Innovative, Prosperous Québec” has earmarked a budget of close to \$900 million over three years (2007-2010) to government investments in research and innovation.

In addition, to offset the negative effects of the current economic conditions on certain economic sectors of Québec and to help the sectors restructure, the government has come to the assistance of those sectors experiencing special difficulties by announcing:

- The “Action plan to support the Québec manufacturing sector” which is earmarking \$620 million over four years (2007-2012) to this sector, namely \$178 million in tax measures and \$442 million in budgetary measures;
- The “Government plan to help the forestry sector” which provides for \$1.4 billion in tax and budgetary measures over five years (2005-2010).

The government is also supporting the carrying out of several core projects for the economy of the regions, including the investment by Alcan in Saguenay–Lac-Saint-Jean, the Le Massif project in Charlevoix and several mining development projects in Abitibi and in Northern Québec.

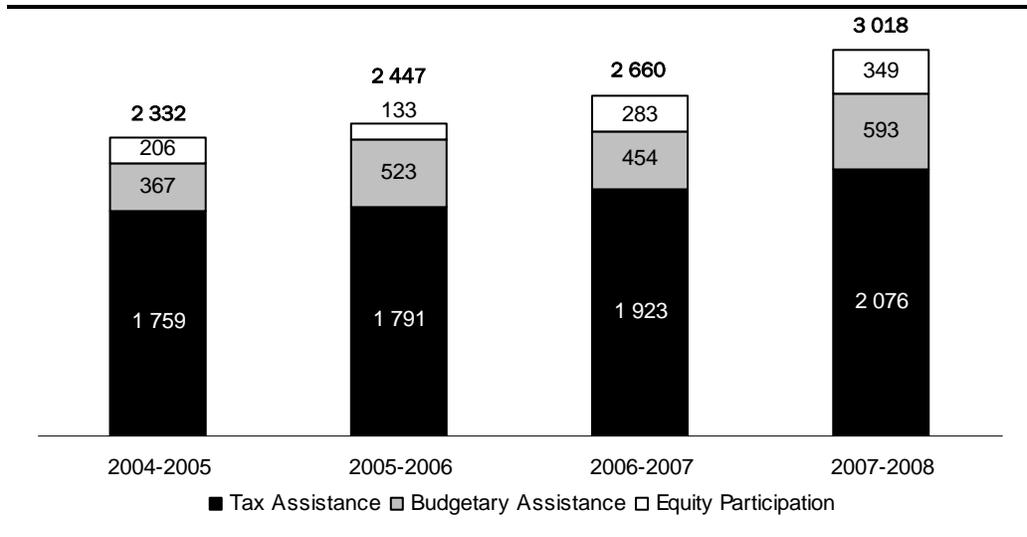
To ensure the sustainable development of Québec, the government introduced a first initiative by announcing a \$25 million investment in a Québec venture capital fund for clean technologies.

Finally, to position Québec in a world context where access to sources of renewable energy is playing an ever more vital role, “Québec’s Energy Strategy 2006-2015” provides for over \$30 billion in investments over ten years for hydroelectric development and for harnessing the wind energy potential.

All of these initiatives constitute substantial financial support for enterprises from the Québec government. In 2007-2008, this total support will represent \$3 billion in tax and budgetary assistance, as well as in investments by government corporations.

CHART 28

Government assistance for enterprises, 2004-2005 to 2007-2008
(in millions of dollars)



Source: Ministère des Finances du Québec.

3. QUESTIONS FOR DISCUSSION

- What roles should citizens, enterprises and the government play to foster the prosperity of Quebecers?
- Should reducing Québec's productivity gaps in comparison with its neighbours and commercial partners be a priority of the government?
- Should the government promote the growth of private investments to increase productivity and stimulate prosperity?
- If so, what means should be favoured?
- Should investments in clean technologies be supported in some special way?

To answer these questions and to make your comments,
visit:

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