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Paying price of sovereignty

“As unity debate wears on, it is clear Quebec is paying the economic cost of sovereignty - on the installment plan

Except for some Quebec economists of sovereignist persuasion, economists generally agree that separation would be a devastating blow for Quebec's economy.

Equally damaging, but slower acting, is the Parti Quebecois government's incessant talk of sovereignty. The threat of another referendum casts a permanent pall over the Quebec economy.

Businesses are reluctant to invest in Quebec because of uncertainty over its political and economic future. New Canadians steer clear of Quebec, while Quebecers, especially anglophones, hit the 401. Quebec is falling farther and farther behind Ontario, its central-Canadian twin in terms of economic structure.

Economic data covering the period since 1994, when the PQ came to power, paint a bleak picture of Quebec's economic performance relative to Ontario's - the usual standard of comparison for Quebecers, be they sovereignists or federalists.

Over the 1994 to 1997 period, for which provincial economic accounts data recently became available, real business investment, the most dynamic force in any economy, and the most vulnerable to uncertainty, crawled along at 1.7 per cent per year in Quebec, while in Ontario it raced ahead at a 10.3-per-cent pace, more than six times faster. Held back by lagging investment, real GDP, the most comprehensive measure of output produced in an economy, grew at only 1.6 per cent per year in Quebec over this period, compared with 3 per cent in Ontario. Not surprisingly, employment in the two provinces reflected the divergent trends of output growth, growing on average 1.1 per cent per year in Quebec, compared with 1.6 per cent in Ontario. In terms of jobs, the difference was striking. In Quebec, there were only 150,000 more jobs in April 1998 than in August 1994, the month before the PQ was elected. In Ontario, there were 392,000.

Quebec's population growth has also lagged well behind Ontario's, increasing only 1.9 per cent from 1994 to 1997, less than half the 4.2 per cent registered in Ontario over the same period. Much of the difference in population growth between the two provinces can be traced to a shortfall in net immigration.

Only 25,000 more people moved to Quebec than left it over this period, whereas 281,000 more people came to Ontario than left. Ontario's more favourable political, economic and linguistic climate evidently attracts immigrants, while Quebec's repels them.

Quebec's weaker economic performance has had profound fiscal implications. To deal with its deficit, the PQ government has had to raise taxes and slash spending, particularly on health, social services and education. A one-percentage-point increase in the sales tax, which took effect this January, will take \$675 million per year out of the pockets of Quebecers. Meanwhile in Ontario, the Harris government has been the beneficiary of a tidy fiscal dividend from the stronger provincial economy and, admittedly, from some pretty severe expenditure cuts – and as a result, has been able to, work the fiscal magic of reducing both taxes and its deficit at the same time.

The reduction in the Ontario personal income-tax rate from 58 per cent in 1995 to 40.5 per cent this July has opened up an enormous gap in the personal tax burden between the two provinces. The purchasing power thereby freed up and the investment and work incentives created will Ontario even farther ahead of Quebec economically.

Jacques Parizeau once told English Canadians that the Quebec sovereignty debate would be like a never-ending trip to the dentist. for them. The province's lacklustre economic performance suggests he got it wrong. It's Quebec that's getting drilled by the PQ's talk of sovereignty.

If the PQ stays in power and talks about sovereignty long enough, Quebecers will eventually find they have little to lose by taking the final step to independence . They will have already paid the hefty price of sovereignty in installments .