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THREAT OF ANOTHER REFERENDUM CASTS A PALL OVER THE QUEBEC ECONOMY

Economists, except for some Québécois economists of sovereigntist persuasion, all agree that separation would be a devastating blow for the Quebec economy. Equally damaging, but slower acting, is the PQ government's incessant talk of sovereignty. The threat of another referendum casts a 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 and Quebecers, especially anglophones, hit the 401. Quebec is falling further and further behind Ontario, the other large central Canadian manufacturing province with the most comparable economic structure.

Economic data covering the period since 1994 when the PQ came to power paints a bleak picture of Quebec's economic performance relative to that of Ontario - the usual standard of comparison for all Quebecers be they sovereigntists 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 soared ahead at a

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10.3-per cent pace, more than six times faster (see Chart). Held back by lagging investment, real GDP, the most comprehensive measure of output produced in an economy, only grew 1.6 per cent per year in Quebec over this period compared to 3 per cent for Ontario.

Employment in the two provinces responded to the divergent trends of output growth, growing on average 1.1 per cent per year over the 1994 to 1997 period in Quebec compared to 1.6 per cent in Ontario. This difference in employment growth is more striking when looked at in terms of jobs. In Quebec, there were only 150 thousand more jobs in April 1998 than in August 1994 the month before the PQ was elected, whereas in Ontario, there were 392 thousand more. Over this same period, the unemployment rate in Quebec declined from 12.2 per cent to 10.5 per cent, while the unemployment rate in Ontario decreased from 9.2 per cent to 7.2 per cent, a significantly greater drop.

Population growth in Quebec also lagged well behind that in Ontario, increasing only 1.9 per cent from 1994 to 1997. This was less than half the 4.2-per-cent growth registered in Ontario. Much of the difference in population growth between the two provinces can be traced to a short-fall in net immigration. Only 25 thousand more people moved to Quebec than left, whereas 281 thousand more people came to Ontario. Ontario's more favourable political, economic and linguistic climate draws immigrants while Quebec's repels.

The weaker economic performance of Quebec than Ontario has profound fiscal implications. To deal with its deficit, the PQ Quebec government has had to raise taxes and slash spending, particularly on health, social services and education . The one percentage point in the sales tax, which took effect this January, alone will take \$675 million per year out of the pockets of Quebecers. Meanwhile, the Harris Government in Ontario, which received a tidy fiscal dividend from the stronger provincial economy (and also admittedly made some pretty severe expenditure cuts), has been able to work the fiscal magic of reducing the deficit and taxes 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 incentive created and the purchasing power freed will push Ontario further ahead of Quebec.

Parizeau once told English Canadians that Quebec sovereignty would be 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 its teeth drilled by the PQ's talk of sovereignty.

If the PQ is permitted to stay in power and talk 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.

INVESTMENT BOOMS IN ONTARIO BUT STAGNATES IN QUEBEC UNDER THE PQ

1994=1

