9 MYTHS ABOUT QUÉBEC'S PUBLIC FINANCES

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Schools, institutions of higher education, health care, social services – we did everything we could to hold them together while the pandemic raged. We're still pursuing our mission today as we grapple with the labour shortage, which was already very significant before the pandemic. And this labour shortage is getting worse. It now extends to every sector, and especially public services, which are already overwhelmed by work overload and its consequences.

The government appears to acknowledge these issues, and yet it seems the time is never ripe for it to reinvest in better working conditions. Whether it's economic growth or slowdown, a budget surplus or deficit, whatever happens, it makes no difference. There will always be a reason for us to tighten our belts.

The government's excuse is that it has to make choices, handle public finances responsibly, and comply with its law on the need to balance the budget.

However, the government has also chosen to voluntarily reduce its revenues by voting a tax cut that primarily benefits Québec's wealthiest people. It also voted an immediate pay raise of over $582 a week for MNAs, while refusing to give an extra $100 a week for Front commun workers or the Consumer Price Index (CPI) + 2%, depending on which formula turns out to be the most advantageous.

Is it economically and financially impossible for Québec to give priority to public services and their employees, in today's context where public systems are in crisis?

Here are nine myths about Québec's public finances that need to be debunked so that we can understand that the opposite is true.

MYTH NO.1

QUÉBEC HAS A BUDGET DEFICIT

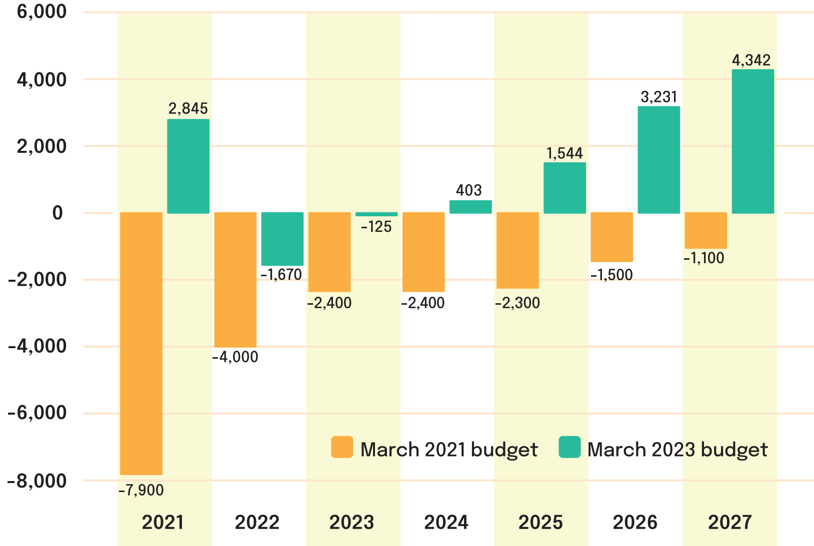
There is no longer a deficit. Québec's budget equilibrium will be consolidated by 2024.

If we look at the government's budget forecasts, we can see that our public finances are not in crisis. On the contrary, the government's leeway to respond to our demands, and deal with the impact of a future economic downturn, is significant.

Québec's budget estimates improved by $2.3 billion for the year 2023-2024, going from an apprehended deficit of $2.4 billion to a very small deficit of $125 million. This performance enabled the government to spend close to $4 billion on various initiatives for the 2023-2024 fiscal year, including enhanced support for seniors, under-indexation of government tariffs, and tax reductions.

BUDGET BALANCE: CHANGING FORECASTS

In millions of dollars, before payments to the Generations Fund and provision for economic risk



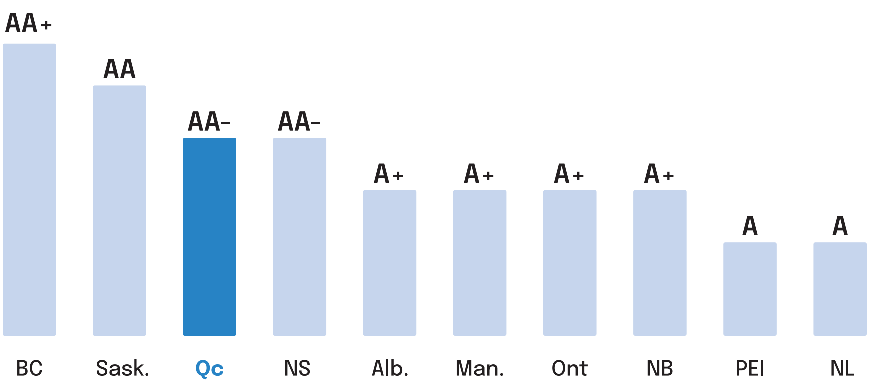
Source: Ministère des Finances, 2023, Plan budgétaire 2023-2024, page A.20

MYTH NO.2 THE PANDEMIC HARMED QUÉBEC'S FINANCES

In 2021, economic and financial forecasts indicated that Québec's recovery from the crisis would be slow. But the economic upswing was unexpectedly strong, and government revenues were supported by inflation. This greatly improved the situation of Québec's public finances at the beginning of 2023.

The pandemic's effect on Québec's debt load was minor, because the federal government was the one that provided the most significant financial support for individuals and businesses during the crisis.

CREDIT RATINGS FOR CANADIAN PROVINCES – STANDARD & POOR'S



Credit ratings as of March 1, 2023.

Source: Ministère des Finances, 2023, Plan budgétaire 2023-2024, page I.40

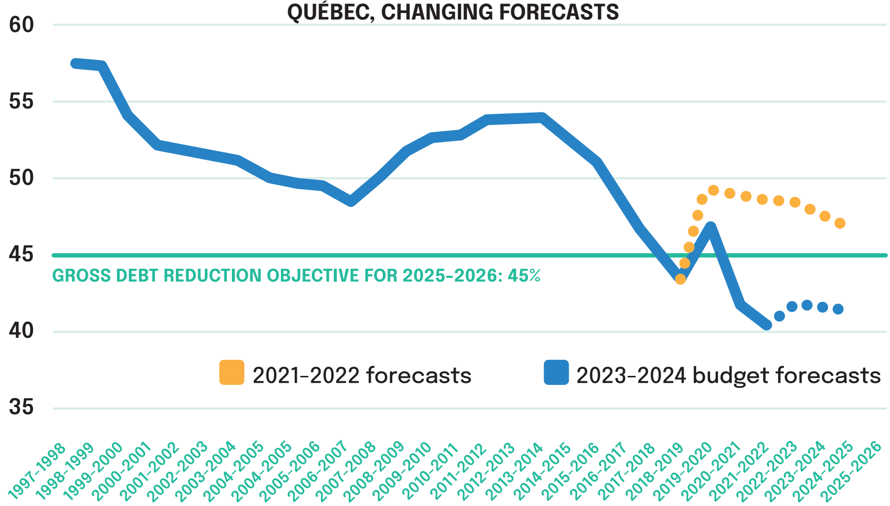
The Québec government's sound financial health is acknowledged by an international credit rating agency, Standard & Poor's, which gives it the third-best rating in Canada – ahead of Ontario and Alberta. In fact, Québec's rating has gotten better over the past 10 years, while the two other provinces have gone down respectively by one and two levels within Canadian rankings. The credit rating criterion is contested, but it's worth noting that it is constantly used by the government.

MYTH NO.3

WE SHOULD GIVE PRIORITY TO REDUCING GOVERNMENT DEBT

Québec's debt is under control. In fact, it's shrinking faster than expected.

GROSS DEBT AS A PROPORTION OF GDP (%), QUÉBEC, CHANGING FORECASTS



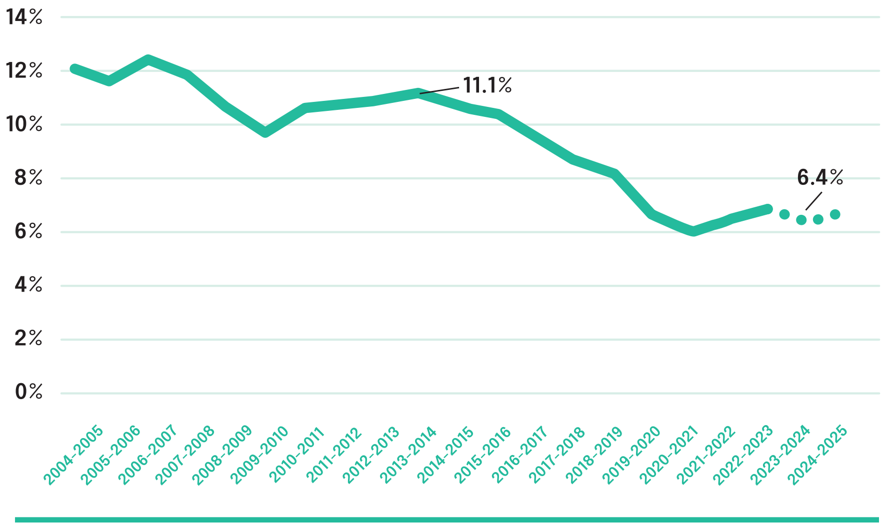
Source: Ministère des Finances, 2023, Plan budgétaire 2023-2024, page I.13

Objectives imposed by the 2006 *Act to reduce the debt and establish the Generations Fund* have been largely exceeded, and this happened several years before the deadline set out in the Act.

The Act says that in fiscal 2025-2026, Québec's gross debt cannot be greater than 45% of the province's gross domestic product (GDP). However, despite a minor blip caused by the pandemic in 2020, Québec's gross debt was only 40.2% of GDP in 2023, and will probably continue to get smaller.

In other words, we have already reached the goal set out in the Act – which means that we could stop making payments to the Generations Fund if the government were looking for new revenue to be reinvested in public services.

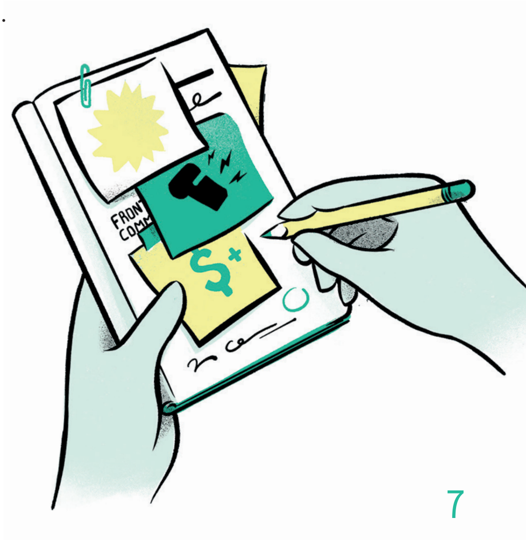
SERVICING THE DEBT AS A PROPORTION OF CONSOLIDATED EXPENDITURE, QUÉBEC



Source: Ministère des Finances, 2023, Plan budgétaire 2023-2024, page I.15

In fact, the Finance Ministry's forecasts regarding the cost of the debt are at a historic low. Interest payments will account for only 6.4% of the government's expenditures in 2023, compared to 11.1% of the budget in 2013.

It's worth remembering that when we service the debt, we're not wasting money. First and foremost, we're making deferred payments for our collective public infrastructure. Also, close to 85% of our debt is owed to citizens of Québec and Canada, and these payments constitute income for holders of Québec Savings Bonds.



MYTH NO.4

COST-OF-LIVING CLAUSES WOULD TIE THE GOVERNMENT'S HANDS

The government refuses to consider our demand for a permanent annual indexation mechanism, arguing that this would mean that "its hands would be tied". And yet, many of the government's parameters for taxation, social programs, and funding for organizations are adjusted to correct for inflation.

At the beginning of 2023, the Québec government indexed the following amounts on the basis of the annual inflation rate for 2022 (6,44 %[1]) :

- Tax tables
- Social solidarity benefits
- Family allowance payments
- Supplement for the purchase of school supplies [2]
- Pensions under the Québec Pension Plan [3]
- Benefits under the *Act respecting industrial accidents and occupational diseases*
- …and even allowances to political parties.[4]

Why can't the salary of public-sector employees be adjusted to correct for high inflation rates in 2022 and subsequent years, just as other government parameters were adjusted? People working in public services shouldn't get poorer so that the government can lay claim to economic moderation. That is not acceptable.

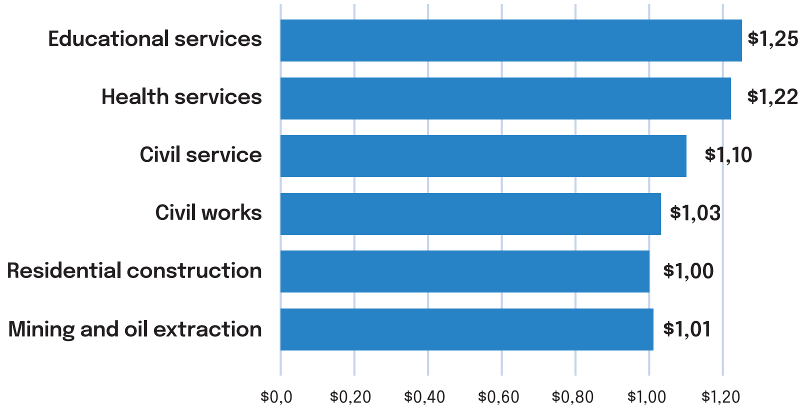
[1] The government's indexing rate is based on the average rate of inflation from October to September. The average from January to December, which would apply to wages, is slightly higher (6.7%).

MYTH NO.5

PUBLIC-SECTOR WAGES ARE AN EXPENSE FOR SOCIETY

Whenever a dollar is invested in public services, GDP increases by $1.10 to $1.25, according to Statistics Canada data analyzed by IRIS (the Institut de recherche et d'informations socioéconomiques).

DIRECT AND INDIRECT IMPACT ON GDP FOR EACH DOLLAR INVESTED, BY INDUSTRY



Source : https://cdn.iris-recherche.qc.ca/uploads/publication/file/Fonction_publique_WEB.pdf

[2] http://www.finances.gouv.qc.ca/Budget_et_mise_a_jour/maj/documents/AUTFR_RegimeImpot2023.pdf

[3] Indexing rate: 6.5% https://www.retraitequebec.gouv.qc.ca/fr/actualites/2022/Pages/20221118.aspx

[4] https://ici.radio-canada.ca/nouvelle/1950660/financement-partis-politiques-quebec-allocation-augmentation-inflation

MYTH NO.6 BAD WORKING CONDITIONS HAVE NO IMPACT ON PUBLIC SERVICES

Penny pinching can be costly for Québec's government and Québec society when it's carried out at the expense of workers who provide public services.

Bad working conditions cause people to leave in droves. When staffing is depleted, the workload becomes heavier for those who remain. Work overload then causes people to go on disability leave – and that reduces the number of workers on the ground, making work overload even worse. This vicious circle has been accelerating in our public systems for years.

Between 2014 and 2021, the use of disability insurance exploded by 54 % for teachers and support staff and by 51% for health and social services workers. The pandemic is not the main cause of this increase – the most significant rise took place before 2020.

This use of disability leave in these two networks meant 5 million days of absence. Over a full year, it is estimated that disability deprives us of 2,800 full-time teachers and 12,000 full-time health and social service employees.

When employees aren't there, the government pays the cost: we spend over a billion dollars a year to replace employees in education and health and social services.

The widespread lockdowns experienced by Quebecers during the pandemic are a good example of what can happen when our public services are underfunded. Lockdowns, which were longer and more frequent than elsewhere in Canada, were made necessary, in part, by the extreme fragility of our health care system even before the massive arrival of COVID-19 victims.

MYTH NO.7 RELYING ON OVERTIME AND THE PRIVATE SECTOR IS SOMETHING THAT REALLY WORKS

Solutions brought in by ministers without consulting workers don't solve anything.

In the health and social services system, for instance, three costly solutions with damaging long-term impacts are taking up more and more space.

Overtime, which is sometimes mandatory, is used to make up for staff shortages. Overtime accounts for over 6% of all the hours worked in health and social services.

Despite promises to the contrary, temporary placement agencies and independent labour are still being used to address the labour shortage. Additional costs arising from the use of agencies are estimated at $300 to $500 million dollars a year.

Services are contracted out to the private sector: that's over $200 million to purchase services from private labs and radiology clinics.

[5] Data for professional staff are not published.

[6] Ministère de l'Éducation (2023). *Études des crédits budgétaires 2023-2024 : réponses aux demandes de renseignements particuliers de l'opposition officielle.* Ministère de la Santé et des Services sociaux. (2023). *Études des crédits budgétaires 2023-2024 : réponses aux questions particulières du deuxième groupe d'opposition.* Government of Québec.

MYTH NO.8

QUÉBEC IS A TAX HELL

Our budget is balanced, the weight of our debt is rapidly diminishing, and our labour market is dynamic. We have everything we need to create better working conditions for public service workers. So what did the government do? It chose to cut taxes.

In the March 2023 budget, theCoalition avenir Québec (CAQ) announced a 1% reduction in tax rates for the first two brackets. This was supposed to benefit the middle class, but a closer look reveals that it missed the mark: the tax break had virtually no effect on people earning around $20,000 a year, but provided maximum value for people earning $100,000 or more.

IMPACT OF TAX REDUCTION ON ANNUAL PAY

	Yearly salary	Tax reduction
MARWA, CASHIER EMPLOYED AT MINIMUM WAGE	$24,000	$50
RODRIGUE, ADMINISTRATIVE OFFICER	$47,000	$250
MARCELINO, LIBRARIAN	$66,000	$428
RITA, CEO OF A HOSPITAL (CISSS)	$350,000	$814

To justify the urgent need for this tax cut, the government came up with a simple comparison with Ontario: in Québec, people living alone and earning between $20,000 and $80,000 a year pay more in taxes than they would in Ontario. While it is true that income tax paid in Québec is higher than in Ontario, this comparison completely disregards other aspects of Québec's tax regime and a number of important political and social choices.

1. Québec's tax transfers for children are much more generous than Ontario's.[7]

2. Rates and fees for public services are generally lower in Québec. A calculation based on four fees shows that a Québec household can pay up to $6,652 less every year than an Ontario household.

3. Using income tax to fund public services is much more egalitarian than using services fees that penalize the poorest households and the middle class.

4. It seems that Québec's public services, because of their quality and greater diversity, attract people more than tax rates cause them to flee. Québec's interprovincial migration in relation to Ontario is currently the lowest it has been in 20 years.[8]

[7] https://cffp.recherche.usherbrooke.ca/wp-content/uploads/2020/01/cr_2020-01_bilanfiscalite2020.pdf

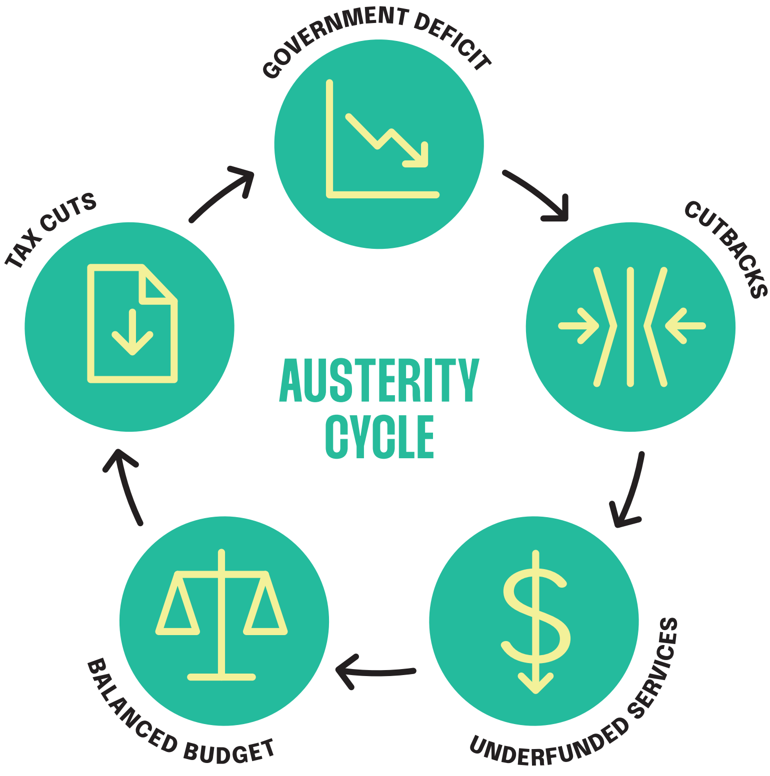
[8] https://statistique.quebec.ca/fr/produit/publication/migrations-internationales-interprovinciales-bilan-demographique

MYTH NO.9

QUÉBEC CAN'T AFFORD THE FRONT COMMUN DEMANDS

Québec has the resources to handle our demands. The government, however, would rather confine itself to a cycle of austerity. Here's how it works:

Austerity is imposed so that we can balance our budget. When that happens, the government seizes the opportunity to cut taxes. But deficits will now return, since the government's revenues have been reduced – so we go back to austerity, even though our schools, higher education institutions, health care and social services are already plagued by woefully inadequate funding.



iris-recherche.qc.ca

When the government says “We don’t have the financial capacity to pay for better working conditions,” what it really means is: “Your working conditions are not a political priority for us. Your sacrifices cost us less, politically, than other choices.”

Serious analysis of Québec’s public finances demonstrates that major reinvestments in our working conditions are possible. And in fact, these reinvestments are crucial to preserve the quality and accessibility of our public services.

That’s why we’re mobilizing: for a massive reinvestment in our working conditions. And that’s what we’re demanding, together as one, speaking with one voice as the Front commun.

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