TD ECONOMICS OUTLINES PLAN FOR PROSPERITY IN QUEBEC REPORT

MONTREAL, Quebec – Closing Quebec's prosperity gap with the rest of Canada would result in $8,000 more per year per household, according to a comprehensive report on the province from TD Economics (www.td.com/economics).

To do so, Quebec must invest more of its resources in capital equipment, education and/or infrastructure, as well as reduce the regulatory burden, personal and corporate taxes and to better facilitate the integration of immigrants into the workforce; all of which contribute to a province's standard of living.

TD Economics' plan for prosperity expands the current focus of many policymakers and pundits, who cite the need for Quebecers to work longer hours to increase their standard of living. It is a contributing factor, according to TD Economics but does not take into account many other elements that contribute to prosperity levels.

"An economy that invests more of its resources in capital equipment, education or infrastructure tends have an easier time translating each hour worked into production of goods and services," said Don Drummond, Senior Vice President and Chief Economist of TD Bank Financial Group. "As such many of the challenges reside at the societal level, rather than with individual workers."

The report points to a number of positive developments towards a more prosperous Quebec. Successive government initiatives have led to lower deficits and unemployment rate, as well as modest tax reductions and more funding for priority programs. Today, the province possesses an "enviable list of assets" including a diverse economy and high quality of life.

Mr. Drummond went on to say: "Quebec can parlay its comparative strengths into prosperity. By doing so, rising incomes will generate the revenues for government to strengthen social services and enable companies to increase salaries and benefits for its workers."

Looming challenges

A number of looming challenges threaten the province's future standard of living.

An aging population represents a major threat, notwithstanding the recent spike in Quebec's average fertility rate. The province has a significantly higher share of older individuals and a smaller share of youths than the rest of Canada. Projections suggest Quebec's labour pool will begin to decline in 2013 and head steadily lower thereafter.

This trend will also place enormous pressure on the funding of health care services, given that the cost of care is estimated to be five times more expensive for someone aged 65 and over than someone under 65 years.

Another risk to Quebec's economy is competition from both developed and emerging nations. This will have a significant impact on the manufacturing sector, which has long been a driving force behind the province's prosperity. The province's textile industry has already been hit extremely hard. However it's impact will broaden to other areas of capital-intensive, manufacturing, including newsprint and pharmaceuticals.

A plan for prosperity

TD Economics is optimistic Quebec can address these and other long-term challenges by investing more resources in education and infrastructure and improving the business climate, all with the aim to generate greater prosperity throughout the province.

For instance, TD Economics argues that:

- by raising tuition fees but focusing on increased financial assistance for those in need, post secondary education (PSE) institutions will be better-positioned to prosper and provide world-class education and research;
- aligning the price of services, such as electricity, waste water and garbage collection with the true market price, public assets can be paid for and managed more efficiently; and,
- by moving away from subsidies to business, public money could be diverted towards investments that derive a greater return for society.

A change in view

However such policies call on individuals and businesses to recognize their over-reliance on large government funding programs. That's because subsidies can draw funds away from other investments critical to a more productive and, in turn, prosperous society. Hydro-Quebec, for instance, estimates that holding power prices in the province below its real market cost lowers government revenues by more than $5 billion per year.

A fundamental shift towards a new funding model, which acts as a consumption tax, would promote a more efficient, accountable and fair system. In the case of electricity, for example, paying the full market price would be consistent with the province's goals of encouraging conservation and sustainable development. Moreover it would mean non-users, or those that use less electricity, would no longer end up paying a good portion of the bill for heavy users of power. This also respresents a more equitable system for those who find it challenging to pay their electricity bills.

The report concedes that many people may balk at the idea of paying more upfront for government services, but one of the ultimate objectives of the user pay system is to lower the province's high income-tax burden, which remains one of the key barriers to working, saving and investing in Quebec. Lowering this burden is fundamental to higher incomes and greater standard of living.

"The view that governments are in a position to provide large subsidies needs to be replaced by one that supports targeting assistance to those most in need," said Don Drummond. "Ultimately the government must meticulously scrutinize where and how it spends taxpayer dollars to ensure that programs and services provide the greatest value for money."

History has shown Quebec has engineered significant structural changes that have yielded positive results. The shift towards a new funding model, which encourages greater self-sufficiency, would mark another important milestone in the province's ongoing development.

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The full report entitled *Converting Quebec's strengths into prosperity* can be found at www.td.com/economics.

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