

# CREATING THE QUÉBEC WE WANT!



**The economic and financial crisis that has raged for the last several months has accelerated the deterioration of Québec's financial situation. The government is struggling with a significant deficit and wants to return to a balanced budget by 2013-2014. This would have profound consequences for Québec society.**

The government's plan to return to a balanced budget involves a number of measures: tackling tax evasion, raising the QST by one point in 2011 and cutting spending growth from 4.6% to 3.2%. However, this decrease in spending will lead to draconian cuts in services provided by the government.

There's more. The government will have to come up with a further \$5 billion in new measures to reach its objective. And thus a public debate has already begun. What kind of Québec do we want? That's the question. This should not be just a simple exercise in accounting, but a chance to undertake serious discussion about the government's role in our society.

**Do we want to preserve our public services and our social programs?**

## WHAT DO TAXES GIVE US?

For years, we've heard voices saying how tax rates in Québec are too high. The Charest government has been obsessed with reducing these rates to the Canadian average. But those who promote this are acting in bad faith. They never tell you how the higher tax contribution made by Quebecers provides them with a superior range of public services and social programs than what exists elsewhere in Canada (including subsidized child care, parental leave, accessible school costs and prescription drug insurance).



**Does it really cost that much?**

**No.** Because these services favour a better distribution of wealth, it is an exaggeration to paint our tax level as a handicap. A CSN study based on 2003 data by the Runzheimer firm shows that, in spite of a higher tax rate in Québec, the cost of living for Québec households was systematically lower than that for English Canadian and American households, notably due to lower health care costs, post-secondary education, child care, public transit, housing, as well as goods and services. For the same level of services, a couple with two children who has a income of \$30,000 will pay \$2,800 more in Vancouver, \$9,500 more in Toronto, \$18,500 more in Philadelphia and over \$40,000 more in Boston. In the United States, the private health insurance premium

alone could reach \$7,000 for one person and \$17,000 for a family with two children.

The day after the Finance Minister's economic update, several media outlets were scandalised that a one-year-old child could presumably be indebted to the tune of \$16,336. Sure, the child has a debt, but he also has some valuable assets, including an education system, affordable daycare, a public health network and parents who can devote themselves to him because they have parental leave.



**A study by the Canadian Centre for Policy Alternatives** shows that, on average, each Canadian enjoys benefits worth \$16,527 a year in the form of services and public programs (federal, provincial and municipal), which are fewer and less generous in the rest of Canada than in Québec. This child should rejoice: a debt of \$16,336 versus benefits worth \$16,527 per year is far from a catastrophe; it's more like an excellent investment. Indeed, 56% of this benefit comes from health and education services and from transfer payments to individuals like the old age pension, guaranteed income supplement and employment insurance. For a family with kids, the benefit is largely derived from public education whereas the benefit for seniors comes in the form of transfer payments and public health care.

## Impact of tax cuts

**Jean Charest's Liberals** have achieved a good part of their objective to lower taxes. The tax contribution gap of Quebecers in relation to the Canadian average went from \$2.1 billion in 2003 to \$1.1 billion in 2008, and we still have services that are superior to those found elsewhere in Canada. But this cannot be sustained over the long term.

This strategy comes at a high cost. It considerably weakens public finances and puts pressure on public services, social programs and all the other important roles the government should fulfil (economic development, support for business, jobs, environment, culture, tourism, agriculture, work, and so on).

## To summarize

- Public services benefit everyone.
- Public services contribute to the distribution of wealth, equality and social justice.
- Public services are financed by tax contributions (income tax, taxes and social dues).
- The cost of living is lower in Québec even though we pay more tax and income tax.
- Public services include things like education, health and social services but also all the other roles the government should fulfil (economic development, support for business, jobs, environment, culture, tourism, agriculture, work, etc.).

## Some definitions

- **Income tax and sales tax** are tax contributions. They go into government coffers and help finance public services, social programs and insurance programs that work to unite society.
- **Social dues** (RRQ, CSST, prescription drug insurance plan, etc.) are more related to insurance plan contributions. This cannot be considered a valid source of funding.
- **Fees** help to completely or partly finance many goods and services supplied by the government, some of which are deemed essential (subsidized child care, school fees, etc.).
- **Electricity rates** are a case in point. Hydro-Quebec royalties, which represent more than 42% of government fees, go into government coffers and help finance all government departments, programs and services.

# THE MEANS TO ATTAIN OUR COLLECTIVE GOALS



**How to provide the government** with the means to support our society's development towards more social equality, a better distribution of wealth and environmental awareness, all within the context of budget deficits and the end of the recession? This debate revolves around the aspirations of thousands of Quebecers who want better working conditions, quality education that's accessible to all, the development of social services and universal healthcare and better social and material infrastructures. We cannot repeat enough how our public services and social programs allow for an important distribution of wealth. If we want to preserve them, we must find viable ways to fund them.

## What should be understood

- Five billion dollars in spending cuts, explains Luc Godbout, professor in the department of accounting and fiscal sciences at the Université de Sherbrooke, is like eliminating the ministries of culture, sustainable development, economic development, families and the elderly, international relations, tourism, agriculture and labour.
- Québec already stands apart from other provinces in keeping spending under control with an average annual increase of 4.6%, compared to an average of 7.6% in the rest of Canada over the last seven years. This rate of growth is barely enough to cover the cost of the health and education systems, which represent nearly 70% of total program spending.

- With a spending increase of 3.2%, we are headed toward a new crisis. This base level has only been reached seven times in the last 40 years and it always corresponds to dark years with big budget cuts, such as the search for a zero deficit at the end of the 1990s by the government of Lucien Bouchard. Everyone can remember this extremely painful period. We haven't yet recovered from one of the worst economic crises we've ever faced and the government is now thinking about piling on new hardships. Reducing spending growth from 4.6% to 3.2% would simply be catastrophic to the government's ability to provide services, or to maintain and develop measures and programs associated with its various roles. This amounts to \$900 million less in real spending year after year.
- After telling anyone who would listen that Quebecers have successfully weathered the recession thanks to government action, this government now wants to pull the rug out from under us.



## What should be understood

•• Countries that have higher rates of taxation do not have weaker economic performances. On the contrary, several of these, notably Scandinavian countries, perform quite well. Many of these receive a very high rating by the World Economic Forum, which produces an annual list of the most competitive countries.

•• A recent study by the Canadian Centre for Policy Alternatives compared six countries with low taxation (Japan, United States, Canada, Australia, Ireland and Britain) with four Nordic countries that have a higher rate of taxation (Norway, Finland, Denmark and Sweden). The authors compared more than 50 social and economic indicators, and concluded that the Nordic countries posted the best results on 42 of these indicators. Their performance was most enviable on the social level; their poverty rates and the gap between rich and poor were much lower.



## SOLUTIONS TO GET BACK ON TRACK

### Ensure that everyone contributes

First of all, the government, must do everything in its power to ensure that everybody pays their fair share. To do this, Québec should:

**Put the most restrictive measures possible in place to counter tax evasion and tax avoidance, particularly among big corporations;**

**Collect royalties from mining companies that accumulated more than \$4.2 billion in gross value from annual production between 2002 and 2008. These mining royalties should be deposited in the government's general account and be used to restore sites after they've been mined, taking into account the need to support regional development;**

**Demand that Ottawa restore funding for higher education (\$800 million) and health and social services in order to reach a 25% contribution to the cost of health care, as recommended by the Romanow Commission;**

**Take measures to stabilize prescription drug costs (which make up an important part of the cost of the health care system), and this, in line with positions already adopted by the CSN.**

### Fiscal measures

Funding sources, while numerous, are not inexhaustible and each includes advantages and disadvantages. Income tax is one of the most just and progressive measures because each person's contribution is based on their level of income.

## What should be understood

•• The government's most important source of revenues derives from individual income taxes (40.9%), followed by consumption taxes (30.6%), business contributions to the health services fund (12.8%) and corporate taxes (9.5%).

•• Individuals, by virtue of their numbers and since they also pay sales tax, contribute the lion's share of the government's revenues at more than 70%, while businesses assume a little more than 20%.

•• In 2010, the combined tax rate (provincial and federal) on corporate revenues in Québec will be 30.9%, one of the lowest in Canada behind Ontario (33%), British Columbia (32.5%) and New Brunswick (32%).



**We ask the government** to restore revenues lost by previous reductions in income tax, decisions that we have denounced as mistakes more than once. This should take into consideration the situation of families and ensure a more progressive taxation model. Besides depriving the government of the essential funding it needs to pay for the different roles it assumes, the most recent income tax reductions diminished the progressive nature of our tax system.

Businesses must also contribute substantially to tax revenue. They profit a great deal from public spending (infrastructure, health, education, training, child care and so on). A lot of this spending reduces their production costs, whereas in other jurisdictions it would be up to individual businesses to fund these services to ensure a healthy and educated workforce. Keeping in mind that corporate taxation rates vary across jurisdictions in the Canadian and North American environment, we refuse to accept a reduction in corporations' tax revenues.

- The government has to put measures in place that allow it to surpass the level of tax revenues it collected before the 2006-2007 cuts. It has to ensure that individuals and corporations pay their fair share as part of an overhaul of the tax system based on a more progressive structure.
- The government also has to evaluate the total contributions made by corporations to health and training funds.
- The government should also negotiate with other governments in order to establish a tax on speculative financial transactions.
- It must also consider a tax on luxury products. By looking at what is being done elsewhere, this tax could be applied when the price of a product attains a certain threshold.
- The government should consider introducing environmental taxes. Revenue raised could be devoted to supporting green initiatives or encouraging behaviour that respects the environment.

## Sustainable development

**If we want to emerge** more united from this crisis, the paths we explore have to consider the social, economic and environmental aspects of the world in which we want to live. We present our proposals with sustainable development in mind.

For many years now we, along with other groups, have been highlighting the importance of reducing our oil consumption, actively promoting the development of public transit and putting measures in place that promote active transport, energy efficiency and the development and use of clean energy sources. We hope to stimulate workplace discussions about the technological changes required to counter the greenhouse gas effect, the necessary adaptation and transition measures that result and to evaluate their impacts on employment and work.

## What should be understood

- There are very few environmental taxes in Québec. Aside from a fuel tax, they have essentially taken the form of a fee imposed on large energy consumers and carbon producers (oil companies and Hydro-Québec, for instance). They affect about 50 businesses. They are not, therefore, a direct consumption tax, even if there's a great temptation for these businesses to pass on this cost to individuals.
- It must be noted here that the use of environmental taxes has grown in many countries. In fact, over the past 10 years, a large number of OECD countries have introduced this form of taxation. Some, like Sweden and Denmark, have applied them at a relatively high rate. The OECD estimates that revenue linked to environmental taxes represents 6% of total tax revenue on average.





## IMPLEMENTING MEASURES

Over the past few months, we have followed the discussions in the National Assembly about how strictly the government should adhere to the zero-deficit law. The result was a commitment made to return to a balanced budget by 2013-14 at the latest. While acknowledging that this is a worthwhile objective, we reiterate that the notion should not be treated as an absolute necessity when circumstances call for us to proceed with caution. The federal and Ontario governments have chosen a longer time frame to achieve this goal, which should help dampen the enthusiasm of those who want the government to follow the letter of the law, if not its spirit.

**The government has to take action without harming the economic recovery and roll out measures over an adequate period of time to lessen their impact.**

**With greater solidarity, we can make the collective effort needed to solve the economic crisis.**

For more details about this campaign and to consult our documentation, visit [www.csn.qc.ca](http://www.csn.qc.ca)

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THE MEANS  
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