

SECTION 3

MARSHALLING THE NECESSARY FINANCIAL RESOURCES

Since the mid-1990s, the Québec government has implemented a structured economic policy that makes use of an array of measures to influence the chief determinants of the standard of living and level of employment.

For these measures to be effective, the strategy had to be backed by significant financial resources. The purpose of the third section of this publication is to quantify the financial resources the Québec government has marshalled for the purposes of its economic policy. This quantification will also be useful in assessing the relative importance of the tools used and the respective weight of the effort allocated to each objective in carrying out the policy.

Accordingly, this section will consider:

- ➡ The investments and financial resources allocated over time to carrying out the government's economic policy;
- ➡ the composition and allocation of the financial resources used to implement this economic policy.

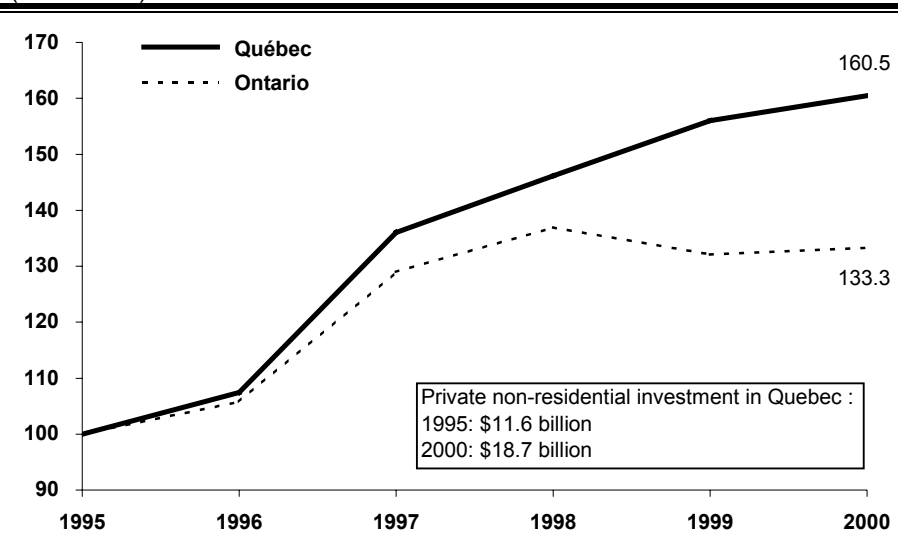
1. INVESTMENTS AND FINANCIAL RESOURCES ALLOCATED OVER TIME TO THE ECONOMIC POLICY

INCREASE IN INVESTMENTS

Section 2 examined the most recent data concerning investments made in Québec's economy.

- ➡ Since 1995, private non-residential investment has risen very strongly in Québec, from \$11.6 billion in 1995 to \$18.7 billion in 2000.
- ➡ Investment has accordingly grown by 60% in five years, while investment in Ontario's economy over the same period rose 33%.
- ➡ For each year during the period 1995-2000, the rate of growth of investment was higher in Québec than in Ontario.

GRAPH 21
Québec-Ontario comparison of the index of private non-residential investment, 1995 to 2000
(1995 = 100)



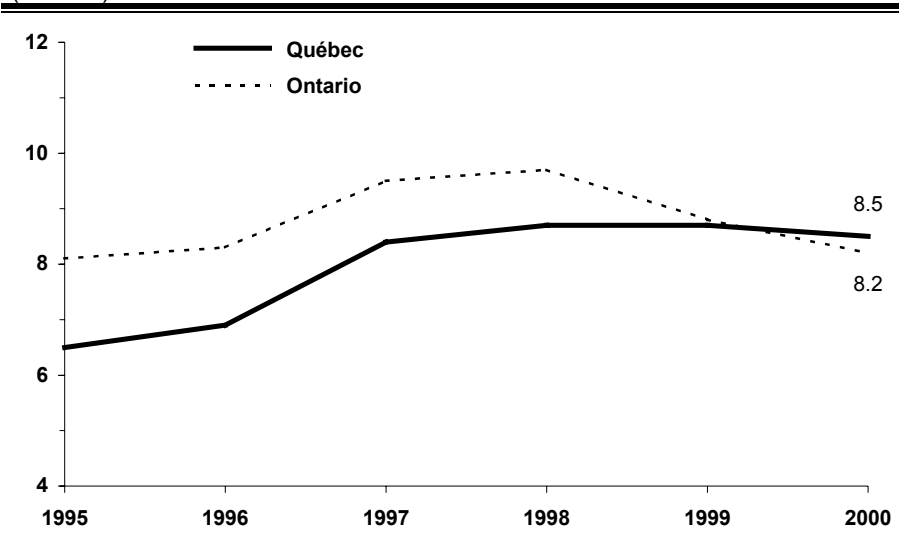
Sources: Statistics Canada and ministère des Finances du Québec.

It is interesting to compare the growth of investment with that of GDP. Investment is one of the major determinants of the increase in GDP and its share of an economy's total output is a good measure of the economy's dynamism and growth potential.

- ➡ Between 1995 and 2000, investment as a proportion of GDP rose by over 30% in Québec, while in Ontario, the proportion in 2000 was similar to that in 1995.
- ➡ In 2000, investment as a proportion of GDP reached the same level in Québec as in Ontario, i.e. about 8.5%.

The results obtained as to growth in investment are very encouraging, but much work remains to be done. Québec has yet to equal Ontario in terms of investment per capita, which provides a good measure of the effort still to be made.

GRAPH 22
Private non-residential investment as a proportion of GDP – Québec and Ontario, 1995 to 2000
(Percent)



Sources: Statistics Canada and ministère des Finances du Québec.

INCREASE IN FINANCIAL RESOURCES ALLOCATED TO THE ECONOMIC POLICY

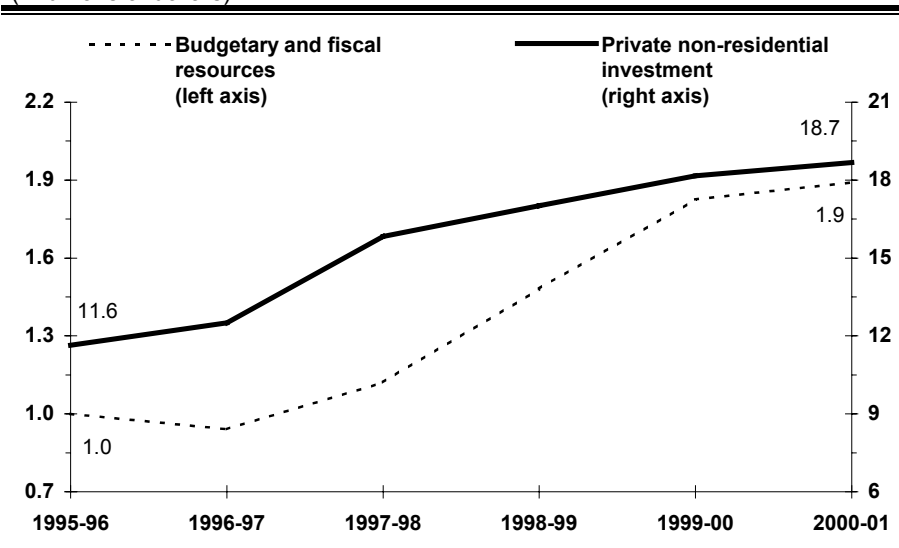
To stimulate and accelerate investment, Québec has allocated substantial and growing resources to its economic policy.

- ➡ Between 1995 and 2000, the financial resources² allocated to implementing economic policy rose from \$1 billion to \$1.9 billion.
- ➡ These financial resources correspond to budgetary and fiscal measures. Total resources, including equity participations by government corporations, such as the SGF, have grown from \$1.1 billion to \$2.6 billion.

However, equity participations must be treated separately, since they are not outflows of funds of the same type as budgetary and fiscal measures. They are investments that yield revenue for the government and which the latter may recover once its intervention is over.

2 This section shows not only the financial resources marshalled for innovation and investment, but also other forms of support for businesses, such as assistance for training and for cultural enterprises. For budgetary assistance, financial resources represent the cost for the government on an annual expenditure basis. Accordingly, these figures cannot be compared to the amount of the authorized commitments shown in the preceding section.

GRAPH 23
Private non-residential investment and budgetary and fiscal resources
allocated to businesses, 1995-1996 to 2000-2001
(In billions of dollars)

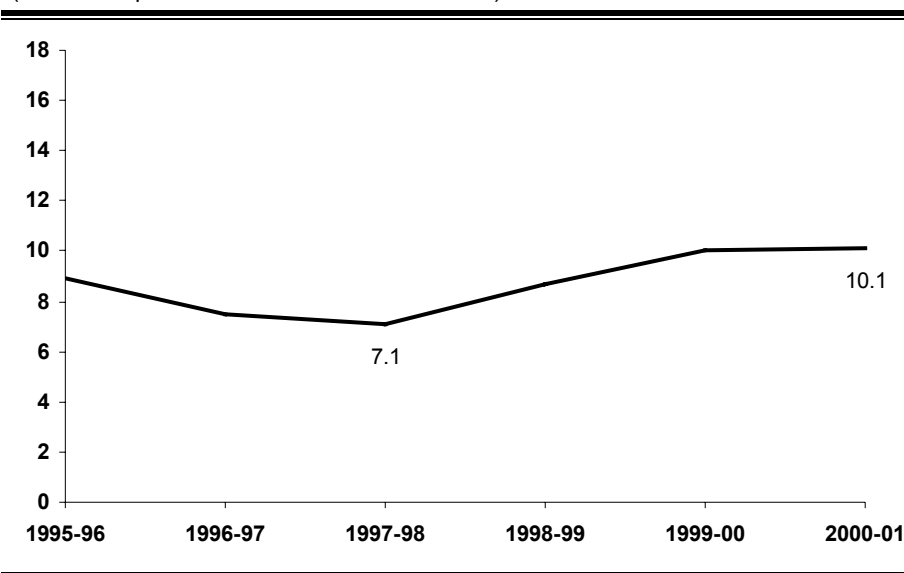


Sources: Statistics Canada, Secrétariat du Conseil du trésor and ministère des Finances du Québec.

Over the 1995-2000 period, growth in investment and in resources allocated to the implementation of economic policy, excluding equity participations, has been comparable.

In fact, the proportion of budgetary and fiscal assistance to investment has remained relatively stable throughout the 1995-2000 period, rising from 8.9% in 1995-1996 to 10.1% in 2000-2001, following a decline between 1996 and 1998.

GRAPH 24
Budgetary and fiscal resources allocated to businesses,
1995-1996 to 2000-2001
(Percent of private non-residential investment)



Sources: Statistics Canada and ministère des Finances du Québec.

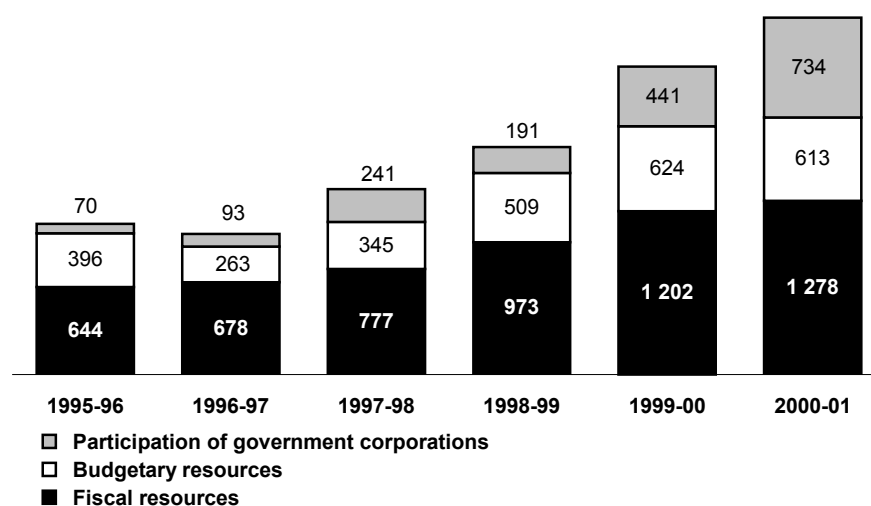
2. THE NATURE OF THE TOOLS USED

FISCAL AND BUDGETARY RESOURCES

The financial resources allocated to the implementation of the government's policy are fiscal and budgetary in nature, or consist of equity participations.

- ➡ Overall, the government has made greater use of each of these three tools in carrying out its economic policy. However, funds allocated to equity participations have grown particularly rapidly.
- ➡ Comparing the two other types of tools, namely fiscal and budgetary resources, it can be seen that their respective size has not changed since 1996-1997: year after year, fiscal resources allocated to economic policy are about double the amount of budgetary resources.

GRAPH 25
Nature of government resources allocated to the implementation of economic policy, 1995-1996 to 2000-2001
(In millions of dollars)



Sources: Secrétariat du Conseil du trésor and ministère des Finances du Québec.

UTILIZATION OF FISCAL MEASURES IN ECONOMIC POLICY

The preceding figures quantify the contribution of fiscal measures to the implementation of economic policy: the relative share of fiscal resources in the overall package of financial means used has not changed a great deal, but fiscal measures account for over half of all these financial resources.

The side-bar below cautions the reader as to the exact meaning of the concept of tax expenditures. Bearing that in mind, this publication is an opportunity to isolate the main features of the strategy the government has followed in its use of fiscal measures.

- ➡ Over the last decade, Québec businesses have always been supported by a tax system that has been competitive on the whole.
- ➡ The government has used the tax system for specific initiatives to achieve what have been considered priority goals. Accordingly, tax incentives have been put forward to lower fixed charges on investment and employment, and support research and innovation, including the development of the new economy.
- ➡ These initiatives have yielded good results. They have contributed to the growth in investment and the development of key sectors of the knowledge-based economy.
- ➡ The **2002-2003 Budget Speech** marks a new stage in the use of fiscal measures: the government is now dealing with the overall tax burden on businesses, under pressure from decisions taken in competing jurisdictions. At the same time, it is bolstering specific measures while continuing to apply an aggressive fiscal policy to achieve objectives in terms of investment and the dissemination of technological progress.

**Two cautionary notes:
the specific nature of equity participations and
the false perspective certain tax expenditures can give**

Among the financial resources allocated to economic policy, budgetary resources and a large share of tax expenditures – those corresponding to refundable tax credits – correspond to actual outflows of funds for the government. The same cannot be said for equity participations and certain other tax expenditures.

As has already been pointed out, equity participations in the capital of businesses are not outflows of funds of the same type as budgetary and fiscal means of intervention. They are investments that yield revenue for the government and which it can recover once its intervention is over.

Another cautionary note is needed, this time concerning fiscal measures: we refer here to certain tax expenditures – non-refundable tax credits and tax holidays – that are determined in relation to the common law tax regime.

- ➡ This means that if this tax regime is changed, the quantification of the tax expenditures must be adjusted accordingly, even if in practice the business concerned receives the same assistance – under the form of the common law regime instead of under an exceptional regime.
- ➡ The assessment of tax expenditures can accordingly lead to paradoxical situations: a jurisdiction is considered not to have tax expenditures once all taxpayers are covered by the regime that used to apply to specific groups of taxpayers.
- ➡ In practical terms, the reduction plan for the tax on capital initiated by the Québec government as part of the **2002-2003 Budget Speech** results in a reduction in the tax expenditure corresponding to the tax holidays applied to this tax. Yet in practice, the business concerned receives the same or improved support, and in terms of public finances, the tax reduction is more expensive than the tax holiday that existed previously.
- ➡ Consider the example of an SME that currently enjoys a holiday from the tax on capital amounting to \$100, had the tax been applied to it. If the tax on capital is eliminated for all businesses, the financial situation of the SME is unchanged, but everything happens as if the tax expenditure corresponding to the tax holiday had disappeared – though in reality the holiday has been replaced by the complete elimination of the tax.

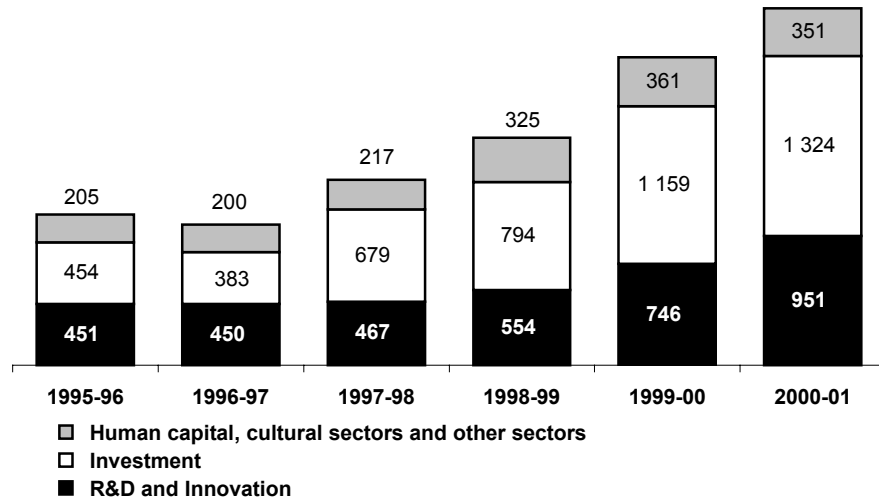
GREATER ASSISTANCE FOR INVESTMENT

The budgetary and tax resources, as well as the funds allocated to equity participations, are assigned to any of the objectives of economic policy, namely bolstering physical capital, disseminating technological progress or certain initiatives relating in particular to the improvement of human capital.

- ➡ Between 1995-1996 and 2000-2001, the resources allocated to bolstering physical capital through investments rose significantly, from \$454 million to over \$1.3 billion.
- ➡ Resources allocated to R&D and innovation, that involve greater risk, also rose, but to a lesser degree. Amounts allocated to disseminating technological progress rose from \$451 million in 1995-1996 to \$951 million in 2000-2001.
- ➡ Funds allocated to other government initiatives including resources devoted to the development of human capital³ in businesses, also grew, but less substantially, rising from \$205 million to \$351 million.

3 These amounts exclude funds allocated to training individuals outside businesses and those granted under programs of the ministère de l'Éducation.

GRAPH 26
Composition of government initiatives for businesses,
1995-1996 to 2000-2001
(In millions of dollars)



Note: Figures include equity participations of Innovatech corporations and the SGF.

Sources: Secrétariat du Conseil du trésor and ministère des Finances du Québec.

An overall examination of the financial resources allocated to the implementation of economic policy provides essential information on the execution of such policy.

- ➡ We have a more accurate idea of the actual amount of these resources and their growth. Such resources must be seen in context with the variable on which they act – primarily the amount of investment made by businesses.
- ➡ The nature of the tools used also provides indications on the strategy the government has followed, a strategy featuring growing involvement in business capital and the stress placed on supporting investment in physical capital.

CONCLUSION

The **2002-2003 Budget Speech**, which has been moved ahead by five months to deal with an unexpected economic situation, allows the government to respond quickly to this situation and implement action to maintain jobs and economic activity. We have seen that these actions mesh coherently with the economic policy that has been followed since the mid-1990s.

The **2002-2003 Budget Speech** thus provides an opportunity to look back at this policy, assess it and explain future developments.

The government has carried out this exercise with transparency, as is essential in our democratic system: it is fundamental that citizens be able to make an informed judgement on the nature of the choices that have been made and the results obtained.

Such transparency helps explain the government's overall economic policy, its coherence, the options it has chosen and its underlying logic.

This publication confirms the interventionist nature of the government's economic policy – an economic policy that also assigns a central role to private enterprise: through its investments, private enterprise is able to generate lasting growth in employment and wealth. Private enterprise is the engine of productivity growth, and thus of the standard of living.

The government has consistently marshalled significant resources to stimulate businesses, provide them with the support they need, and sustain their initiatives. As we have seen, the results to date tend to show that the government has chosen the right strategy.

2002 › 2003 BUDGET

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security of Quebecers. //

Pauline Marois
Deputy Prime Minister
and Minister of State for the
Economy and Finance