

FINANCIAL POST

Crushing debt jeopardizes Quebec's welfare state

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Montreal - Quebec's much-vaunted welfare and family programs are veering towards collapse under a crushing debt load that puts it in the company of financial basket cases like Greece and Italy, says a new study.

It argues that Quebecers' preference to live common-law instead of marrying will make the pain worse for its citizens when the financial reckoning comes.

The report by the Institute of Marriage and Family in Canada (IMFC), an Ottawa-based group that promotes traditional values, examines some of the economic factors and trends that impact families in Quebec. It is to be released publicly on Monday.

"There are real reasons to be concerned about the sustainability of the rather ambitious Quebec welfare state," the report concludes. "Without substantial fiscal restructuring, the province may not be able to afford to maintain the extensive social benefits it currently offers families. And without a strong marriage culture, any cutbacks in this area are likely to hit Quebecers hard."

Quebec is in a precarious financial position because of its growing debt load, the report states. It cites statistics from Desjardins Group showing the province has the fifth highest ratio of gross public debt to gross domestic product in the world at a 94%. Only Japan, Italy, Greece and Iceland have higher debt ratios. Canada as a whole ranks 13th, with 69.7%.

The debt is ballooning at the very time Quebec's working age population is beginning to decline, which is problematic for government revenues. Lawmakers will have to figure out how to generate new revenue to replace the income taxes from retiring workers, even as they struggle to pay for existing social programs.

All provinces have this problem. But Quebec's situation is more acute because its population is ageing faster than anywhere else in Canada.

Higher taxes would be difficult to swallow. Middle class Quebecers already pay more tax than their counterparts in all other provinces. A single income family earning \$80,000 with two children pays \$23,164 in tax in Quebec compared to \$19,055 in Ontario and \$17,593 in Alberta, according to taxtips.ca.

Raising taxes for business risks diverting investment elsewhere.

These are not new problems. And the IMFC is not the first to cast light on them.

But the report does raise some crucial questions - namely, can the Quebec government pull off its planned program of fiscal restraint, which includes raising tuition fees for university students and capping annual health care spending increases at 5% over the next five years. And does the public have the will to wean itself off state aid?

"Change is never easy," the report's authors note. "And that is doubly true when changes involves belt-tightening, especially among a population that has grown accustomed to ever-greater government largesse."

How much largesse exists?

Quebec has two notable social programs that do not exist in other Canadian provinces. It has a government-run daycare program that subsidizes the cost of childcare so parents pay only \$7 per day. And it has its own parental insurance plan that allows parents to share benefits at the same time. That program had a \$126-million deficit as of 2010.

However, the biggest social distinction between Quebec and other provinces relates to marriage and relationships.

Quebecers just don't tend to marry. Couples live together and raise children. But they don't tie the knot.

According to 2006 census data, 34.6% of Quebec couples live common-law while only 13.4% do in other provinces and territories. The most recent government statistics show that 63% of children in Quebec are born to parents who are not married.

The IMFC points to research, from the Social Trends Institute among others, that suggests family stability based on marriage is linked to economic stability. Men who get married and stay married earn more money than their unmarried peers, according to one study. And key sectors of the modern economy—from household products to insurance to groceries—are more likely to profit when men and women marry and have children.

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"The government of Quebec would be well advised to pay attention to Quebec's marriage deficit and begin attempting to reintroduce marriage as a cultural norm to avoid the possibility of instability in family life, particularly if government programs should cease or be curtailed due to tightening budgets," the IMFC concludes. "This would mark a 180 degree turnaround in Quebec's current approach to family life, and it would be a long-term effort."

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