

From: Alexandre Laurin  
To: Concerned Quebecers  
Date: April 2, 2018  
Re: **THE GENERATIONS FUND FAILS THE TEST OF FISCAL TRANSPARENCY FOR QUEBEC'S BUDGET**

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Just months before the October 1 general election, Quebec's latest [budget](#) made a splash with a range of new spending. As such, Quebec is hardly unique. For example, Ontario's pre-election budget plan promises much more substantial additional spending. But unlike Ontario, plagued by its colossal budget deficits, Quebec is still able to steer toward a balanced budget – and is one of the only provinces (with British Columbia) that has achieved more than one recently.

However, looking at the many reactions to this budget would lead us to believe that balancing the budget is only made possible by the use of some reserve funds. These reactions reflect some confusion for which the government has only itself – and the Generations Fund – to blame.

The budget shows a small surplus \$850 million for the current year, and zero for the next two years. This bottom line, the result of adjustments driven by particular accounting for the Generations Fund, is essentially fictitious.

In accordance with generally accepted accounting principles, Quebec will have produced four consecutive years of budget surpluses including the fiscal year that ended March 31. And last Tuesday's budget still provides for surpluses for the next two years. For each of the last three years, the surpluses are large, exceeding \$3 billion annually. For the next two years, the budget provides for surpluses of \$900 million and \$1.8 billion; forecasts that not only beat the federal government and several other provinces, but also show the province's finances are in a better position than the budgetary bottom line, which deducts payments to the fund as an expense, suggests.

Quebec created the Generations Fund in 2006. In theory, it is dedicated entirely to the future repayment of the public debt: an essential objective considering that Quebec's net debt as a function of GDP is the highest of all provinces, and its aging population will dramatically increase the [burden of health costs on the budget](#). Only one way exists to repay the debt, and that is to produce budget surpluses. The Generations Fund is useless in this sense, and only creates a smokescreen between the real results and those, essentially fictitious, which take into account payments to the Fund.

A payment to the Fund is an investment, not an expense. In years of deficits or where the surpluses are less than the payments to the Fund, one debt is used to repay another – a futile exercise that makes sense only for political marketing. In years when surpluses are greater than payments to the Fund, the debt is reduced by the amount of the surplus, and the payments are only a distraction. We could have just as easily simply repay loans with surpluses.

Some argue that the Fund is profitable because the cost of financing the debt is lower than the expected return. This [reasoning is flawed](#) because the anticipated profit is only fair compensation to taxpayers for the investment risk that they have supposedly accepted.

[Legislators and voters need a clear financial presentation](#) to hold the government accountable to its budget objectives. The Generations Fund is harming transparency: it stood at \$12.8 billion as at March 31, 2018, while the debt has only been reduced by \$2.3 billion since its creation.

Congratulations to the Government of Quebec for first restoring a balanced budget in 2014, and continuing to repay the debt in this way. But it's now time to get rid of the Generations Fund, which only obscures the budget's bottom line and financial presentation.

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