

ECONOMIC ACTION PLAN

Stimulating the Economy to Protect
Quebecers' Standard of Living



THE ECONOMY
FIRST **YES**

plq.org

Note : This document is an economic action plan to help Quebec overcome the world financial crisis. It complements the more detailed election platform, which describes the Quebec Liberal Party's vision for 2008 to 2013.

MESSAGE FROM THE PREMIER

The United States' financial crisis has spread. The world's hope for economic growth has faded. With its open economy, Quebec will be affected by this crisis.

However, careful and responsible government in recent years has made Quebec ready to face this crisis.

From the first signs of a slowdown in the United States, our government acted strongly to generate economic activity in all regions of Quebec in an effort to compensate for lower exports.

Our actions have been applauded by economists everywhere.

We will continue stimulating our economy: we will protect Quebecers' jobs, support their purchasing power, and give businesses better access to credit.

This plan will help us overcome the crisis. It contains emergency measures, some of which are to be implemented very soon. But our plan also comes with foresight to see beyond the crisis and create a new economic space that will bring prosperity to Quebec for many years to come.

The crisis brings challenges, but it also offers opportunities to prepare our future.

We must be able to respond to the short-term problem, but we must also keep our eye on the future. This is the historic strength of the Quebec Liberal Party. Over many generations, our political party has long known which new paths to clear as we help Quebecers reach for their dreams and as we convey the values that have forged our nation.

We are honouring this mission once more.



Jean Charest

Premier ministre du Québec

Chef du Parti libéral du Québec

THE ECONOMY FIRST YES



WE HAVE MADE THE RIGHT DECISIONS...

"The relatively stable increase in consumer spending, a rebound in housing investment and the large increase in government spending, stimulated among other things by the **Plan québécois des infrastructures publiques**, were the main drivers of the economy in the spring."

François Dupuis,
Économiste en chef du Mouvement Desjardins
Les Affaires, October 11, 2008

"Vigorous consumer and government spending has allowed Quebec to stay above water so far in 2008, counterbalancing the weakness of net exports, the forest products sector, and a large part of the home manufacturing and building sector."

Craig Wright, Vice-president
and Chief Economist of the Royal Bank,
RBC news release, October 8, 2008

"'Quebec's economy stands firm' in the face of financial tumult and near-recession within its main economic partners, the United States and Ontario. (...) For one thing 'the Quebec economy is more diversified than before.' And **major spending on infrastructure** reduced the industrial slowdown."

Louis Vachon, President of the National Bank,
La Presse, September 25, 2008

"Consumer spending should remain strong in particular thanks to the increase in the Canadian dollar giving families more spending power, salary increases on average better than the inflation rate, and **tax cuts by governments**. The internal economy will also benefit from the pursuit of major investments in the white-hot resources sector driven by emerging economies, and from **huge spending on public infrastructure, in particular by the Quebec government**."

Mouvement Desjardins, *Le Devoir*, April 16, 2008

"Desjardins economists predict that Quebec will escape the economic recession thanks to **tax cuts and public spending on infrastructure**, but Ontario won't be that lucky. (...) What will save Quebec this year will mainly be the **income-tax cuts** and the much higher public spending than in Ontario. This support

from the public purse will amount to 1.3 percentage points of additional growth in 2008, according to Desjardins: 0.3 percent from the Charest government's \$950 million individual income-tax cuts, 0.4 percent from a 1 percentage point drop in the GST, 0.3 percent from a \$900-million cut in federal income taxes for families, 0.2 percent from the **Plan québécois des infrastructures publiques**, and 0.1 percent from **business-investment support measures** in Monique Jérôme-Forget's last budget.

Mouvement Desjardins, *Le Devoir*, March 26, 2008

If conditions are not favourable for the government, several factors will allow it to minimize the impact of an economic slowdown on public finances. For example, the **\$30-billion investment** that Quebec plans between now and 2012 to rebuild **public infrastructure** will stimulate economic activity in Quebec. As shown in its **2006-2010 strategic plan**, **Hydro Quebec** will inject an average of \$3.8 billion during the next three years. This amount includes hydro-electric projects."

François Normand, *Les Affaires*, February 2, 2008

The strong Canadian dollar and the American slowdown will catch up with the Quebec economy in 2008 but the **tax cuts** and **massive government spending on infrastructure** will enable the province to limit the damage." This is what Desjardins economist Hélène Bégin sees in her crystal ball. She estimates that the \$30 billion Quebec plans to invest through the **Plan québécois des infrastructures publiques** over the next five years will by itself increase the gross domestic product (GDP) by 0.25 percent in 2008. The plan calls for renovation of schools, roads, hospitals and municipal infrastructure. Added to this will be the **several billion dollars in tax cuts announced by Quebec** and Ottawa for 2008, as well as the 1 percentage point cut in the GST which took effect January 1.

Hélène Bégin, Mouvement Desjardins,
Le Devoir, January 3, 2008



...WE WILL BE MAKING MORE.

UNDERSTANDING THE CRISIS – ANALYSIS

The entire industrial world is in a financial crisis of still unknown dimensions. American investment banks more than a hundred years old became insolvent and disappeared. In the U.S. and Europe, banks have been partly or completely nationalized. Now the real economy has been hit. In the U.S, the economic slowdown is severe. Unemployment is rising. Consumer spending is dropping. Some European countries are in recession. Asia is also slowing, including China.

This crisis began with the collapse of sub-primes, which are high-risk mortgages issued by U.S. banks. These mortgages were converted into investment securities, which were then bought by financial institutions and pension funds around the world. In this way, the American-born credit crisis became a crisis around the world.

Here at home, the high-risk mortgage crisis contributed to the collapse of another financial product: asset-backed commercial paper (ABCP). After a year of work and legal debate, this market is on the way to recovery. However, the ABCPs, which were short-term instruments, will be converted to instruments maturing in seven to nine years.

Canada and Quebec are doing relatively well because of the structure of our banking system, and also because of higher prices for oil and raw materials, which are supporting our economy. However, the collapse of financial markets and the weakening of banks around the world created a credit crisis, a lack of access to capital which now affects every economy in the world. **Losses on the world's stock markets are now counted not in billions but trillions of dollars. During the last quarter, not a single initial public offering was made on the Toronto Stock Exchange – a sign of the loss of confidence among investors.**

The U.S. Congress has adopted a \$700-billion plan to bail out its financial system. Europe is doing the same. The Canadian government also intervened by putting cash into the markets and stimulating the inter-bank loan market. But no one knows if that will be enough.

Leaders of the world's large industrial countries will meet on November 15 to find ways to stem the crisis, and above all to discuss what can be done to prevent a similar situation from arising in the future. China and India will also attend this meeting, perhaps the most important since World War II when the historic Bretton Woods Agreement reshaped the world financial system.

Signs of a world economic slowdown are increasing. Factories are closing even in China. Resource prices have been dropping fast for some weeks. One result has been a big decline in the Canadian dollar. The stock markets seem as volatile as they can be. Daily fluctuations of more than 10% have been common.

The decline in U.S. consumer spending will cause problems for our manufacturers. American demand for Quebec-made products will be forced downward. Companies have begun delaying investment projects due to the lack of financing.

In Quebec, the financial crisis has not yet had a major impact on the real economy. But 80% of our exports go to the United States. When the world's largest economy stumbles at your doorstep, the house definitely shakes.

The economic situation is good in Quebec. We are still growing. Our public finances are in balance. The employment market remains stable and the unemployment rate is at its lowest in 30 years. Quebec is in good shape but we will be facing some exceptional challenges in the coming months.

We can beat these challenges by being prepared. We must protect ourselves against the storm, and we must do so with a vision to guide Quebec's economy in the years to come.

This economic plan meets these two criteria. It includes a plan for the short term, to face the world economic slowdown and protect our jobs and possessions. It also contains a vision of Quebec's future economic space.

OUR PLAN

The government took strong action at the first signs of economic slowdown.

- To protect Quebecers' purchasing power, we lowered income taxes for the middle class by more than a billion dollars.
- To support employment in all regions, we invested massively in public infrastructure and energy development.
- To support business, we eliminated the tax on capital in the manufacturing sector and introduced an investment credit.
- To help sectors in difficulty, we adopted specific plans: \$1.4 billion for the forestry sector and \$621 million for manufacturing.
- To support workers and develop the work force, we established the *Pacte pour l'Emploi* with expected investments of nearly \$1 billion over five years.
- To support innovation, we adopted the *Stratégie québécoise de la recherche et de l'innovation* with a budget of nearly \$900 million.

This plan is working, creating jobs and wealth and making our economy more competitive. We will add new measures directly targeting the effects of the financial crisis on our real economy: Quebecers' jobs and purchasing power, and business financing.

Quebec continues to grow, in large part because of the steps we have taken.

In the coming months:

- We will protect Quebecers' jobs.
- We will protect Quebecers' purchasing power.
- We will protect our businesses.

Our plan is aimed at both getting through these troubled times and preparing Quebec for the future.

1

PROTECTING QUEBECERS' JOBS

Our first goal is to protect Quebecers' jobs. The more Quebecers have work, the better we will get through the crisis.

To do this, we will implement measures to maximize the creation and preservation of jobs.

\$41 BILLION ON INFRASTRUCTURE

Spending on infrastructure creates employment in every region of the province. These investments will be intensified and will provide strategic and modern infrastructure for the next 30 years.

A Quebec Liberal Party government will increase the pace of planned spending on infrastructure by 10%, raising the investment from \$37 billion to \$41 billion for 2008 to 2013.

Combined investment on infrastructure and energy development will amount to \$13.5 billion in 2009-2010 and the same in 2010-2011. This will mobilize more than 100 000 workers in all regions to modernize Quebec and make it a world leader in renewable energy.

MORE ENERGY

At a time when the world is fighting climate change, the demand for clean and renewable energy is bound to increase. We have blue gold in Quebec – water is our clean energy. The energy strategy Quebec adopted in 2006 called for adding 4500 megawatts of power to our capacity to generate energy. We will do more.

A Quebec Liberal Party government will give Hydro Quebec the mandate to increase power development beyond the goals of the 2006 Quebec energy strategy.

This intensive energy development will keep the industry working at full capacity for the next 20 years, providing thousands of jobs in every region.

MORE TRAINING

The economic slowdown will cause jobs to be lost in some vulnerable sectors. At the same time, labour shortages continue to slow growth in other areas of the economy. **We can take advantage of the slowdown to launch a new campaign in work-force training.**

- a) **More support than ever for training.** A Quebec Liberal Party government will increase from 50% to 75% the financial assistance it gives companies to provide work-force training programs.
- b) **Encouraging workers who want to re-qualify.** A Quebec Liberal Party government will recognize the efforts of laid-off workers to train for other types of work, by making sure that during their training they receive an income equal to what they would receive in employment insurance.
- c) **A task force for those who lose their jobs.** A Quebec Liberal Party government will create Formation espace Québec, a task force which will quickly direct workers who lose their job to a training program adapted to their needs, which would enable them to qualify for other work as soon as possible. To be effective, we will mobilize all sectors of the economy around this project, as we did for the Pacte pour l'emploi project.

HELPING FAMILIES RENOVATE THEIR HOMES

Every homeowner has renovation projects. In slow times, moving these projects forward is a good way to stimulate the economy and improve the quality of family life.

A Quebec Liberal Party government will begin a program encouraging homeowners to renovate their principal residence more quickly.

ACCELERATING THE LAUNCH OF MAJOR PRIVATE PROJECTS

The economy is slowing down, but some projects are under review and need a boost to get started.

A Quebec Liberal Party government will form a special task force led by the Premier to help accelerate major private projects currently under consideration. The task force will also help remove delays by accompanying developers in their process of financing the projects.

STIMULATING ENTREPRENEURSHIP AND INNOVATION

We need the ingenuity of our innovators and the confidence of our entrepreneurs. They find new opportunities and turn innovations into businesses and jobs.

When an economy slows, the hardest investment to find is start-up capital. We will therefore take action to stimulate entrepreneurship and innovation.

- a) **Supporting the commercialization of our patents.** To foster innovation and entrepreneurship in the new economy, a Quebec Liberal Party government will adopt a measure encouraging the commercialization of innovations that have Quebec patents.
- b) **Starting new companies.** A Quebec Liberal Party government will bridge the gap in venture capital by establishing a \$50-million start-up fund specially aimed at small business.

SUPPORTING QUEBEC’S AGRI-FOOD INDUSTRY

The agri-food industry is one of the largest employers in Quebec. The industry is a source of pride for Quebecers, particularly with its made-in-Quebec products. It also faces the challenge of remaining competitive.

A Quebec Liberal Party government will support the marketing of Quebec products to make the Quebec brand popular at home and around the world as a guarantee of good quality and taste.

SUPPORTING THE CULTURAL INDUSTRY

Cultural outings such as attendance at plays, movies, dance and other performing arts are among the first family expenses to be cut during economic hard times. Our culture is Quebec’s soul. It should be protected and encouraged at all times.

A Quebec Liberal Party government will implement a support program for the cultural industry.

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PROTECTING QUEBECERS' PURCHASING POWER

In an economic slowdown, the priority is always on job creation, but consumers' purchasing power can also be affected. We will make it a priority to protect citizens' purchasing power because this is directly related to quality of life, and consumer spending helps create jobs and generate wealth in all regions.

On November 4, the Finance Minister announced measures to support Quebecers' purchasing power. These measures will take effect on January 1, 2009.

- **Less taxes for everyone.** Tax table indexation rates are being increased from 1.58% to 2.36%. This is \$136 million more to support Quebecers' purchasing power.
- **Protection for retirement income.** For seniors, the retirement income deduction will increase from \$1500 to \$2000. This is \$47 million more for 350 000 retired households.
- **Support for the underprivileged.** Social assistance benefits will also be indexed at a rate of 2.36%. Benefits for those capable of working will now be fully indexed. This is \$66 million more for 332 000 households.

We will also add new initiatives to these measures to protect Quebecers' purchasing power.

LESS TAXES FOR SENIORS WHO WANT TO WORK

The work force is facing labour shortages in several sectors. Many seniors who are living off their savings would like to continue working, but often it's not financially worthwhile for them to earn a supplementary income, due to tax reasons.

A Quebec Liberal Party government will encourage seniors who want to work to do so by ensuring there is a tax advantage to receiving employment income in addition to a retirement pension.

INCREASING THE MINIMUM WAGE BY \$1

Low-income earners are often the first to be affected by less purchasing power. We will accelerate minimum wage increases without harming the competitiveness of our businesses.

A Quebec Liberal Party government will increase the minimum wage by \$0.50 an hour in 2009 and another \$0.50 in 2010, to bring it up to \$9.50 per hour.

Our government has also begun discussions with the federal government to ensure that modifications to certain existing regulations are applied.

- **Improving access to property and increasing the liquidity of young couples.** We are asking for a one-year delay before reimbursements must begin on loans from RRSPs to buy a house, commonly called the Home Buyers Plan. This measure would increase by \$300 million the liquidity of 300 000 Quebecers planning to buy a home, while avoiding the high-risk (sub-prime) credit trap that provoked the financial collapse in the United States.
- **Giving the markets time to improve before using savings.** We are asking the age limit to be increased from 71 to 73 before individuals are required to start using their registered retirement savings. This extension would allow retired people to avoid suffering from temporary stock market losses.

3

3. PROTECTING BUSINESSES BY FACILITATING ACCESS TO CAPITAL AND SUPPORTING LIQUIDITY

In recent years, the government brought forward several measures to make taxation more competitive and stimulate investment and innovation. These measures will continue to be applied in the next two years. Companies will therefore benefit from tax relief of \$880 million in 2008-2009 and \$1.2 billion in 2009-2010.

Nonetheless, businesses need capital, but the credit crisis is undermining its availability. Traditional bank financing is squeezed; the bond market is unsettled; and financing through the issuance of share capital is compromised by the collapse of securities exchanges.

We will add measures to counter these effects of the crisis.

\$2 BILLION FOR BUSINESS

A Quebec Liberal Party government will make \$2 billion available for businesses.

- \$1 billion will be set aside for loans and loan guarantees.
- Another \$1 billion (\$500 million in 2009 and \$500 million in 2010) will be used to increase the capital invested by the SGF in companies that are active in Quebec. This investment will facilitate access to share capital.

PROTECTING PENSION FUNDS AND COMPANIES

The collapse in securities exchanges is also affecting private pension funds. By law, many companies must examine the solvency of their pension funds in 2009. The loss in value may mean significant increases in the contributions required of employers and thus drain them of precious liquidity.

With the agreement of unions and employers, a Quebec Liberal Party government will implement measures to ensure the solvency of pension funds without compromising the financial health of businesses.

4 EXPANDING QUEBEC'S ECONOMIC SPACE

This crisis will be temporary.

The Quebec Liberal Party has an economic vision to bring sustainable prosperity to Quebec.

This is what we call Quebec's new economic space. The five-part project is moving ahead quickly. It constitutes the most significant economic repositioning of the province in 20 years, since the start of the first free-trade agreement.

Along with our project for a new economic space, a Quebec Liberal Party government will assert its vision of a nation whose economy is modern and focused on innovation and training, competitive taxation, new alliances, and respect for the principles of sustainable development.

THE FIVE MAIN COMPONENTS OF OUR NEW ECONOMIC SPACE

- **France-Quebec agreement on labour mobility.** When French President Nicolas Sarkozy visited Quebec City this year, Quebec and France signed an internationally unprecedented agreement on labour mobility and the recognition of skills and qualifications. This will allow workers trained on one side of the Atlantic to practise their trade on the other. This is a first globally and part of our response to one of Quebec's main economic challenges: labour shortages.
- **Transatlantic agreement between Canada and the European Union.** During the French President's visit, we also held a Canada-European Union summit during which an important step was taken toward negotiating a free-trade agreement between Canada and Europe. Quebec's leadership is behind this historic rapprochement between two great continents. Here in Quebec, 40% of foreign investment comes from Europe, which is twice as much as elsewhere in Canada.
- **Quebec-Ontario Alliance.** Quebec proposed negotiating an economic partnership with Ontario to remove barriers to trade between our provinces. Negotiations are focusing particularly on energy, the environment, transportation, financial services, and public markets. The resulting alliance will create the fourth largest economic power in North America, after California, Texas and New York. The agreement will be concluded in 2009.

- **Labour mobility across Canada.** Quebec has also convinced its partners on the Council of the Federation to implement by next spring a Canada-wide agreement on labour mobility. Under the agreement, any qualified worker will be able to bid on a job anywhere in Canada.
- **The Northern Plan.** Quebec's North offers immense potential, particularly in the energy, mining and recreational tourism fields. We want to develop this area, which is twice the size of France. The growth of emerging economies and the reconstruction of public infrastructure around the world are creating sustained demand for minerals that are abundant in our North. Also, in a world now fighting climate change, the demand for clean, renewable energy will grow.

We will launch this major project by opening access to Quebec's North.

The time is ripe for a new era of development in this territory of one million square kilometres, in partnership with the First Nations and Inuit. It should also be a model of sustainable development.

These potential projects represent billions of dollars of investment. We can multiply them by improving access to the region.

The key to the success of this vast project is its governance. The communities that live in this territory will have their voice in that governance. Nothing we do in the North should put into question the pursuit, conclusion or implementation of negotiations with the First Nations and Inuit. The project must be a model of sustainable development with a human face.

FINANCIAL IMPACT

The measures described in this plan will significantly stimulate our economy and counter the direct effects of the financial crisis.

Those described in the November 4, 2008 financial update are already part of the government's current budget.

The cost of the other measures will be described during the election campaign.

CONCLUSION

The Quebec Liberal Party has demonstrated its expertise in economic matters.

Our government's action has protected Quebecers' jobs and standard of living. Thanks to careful and responsible management by the Charest government, Quebec is well prepared to face the challenges that lie ahead.

The Charest government offers a vision of the future to make Quebec prosperous within a new economic space.

Quebec needs this team today.



**THE ECONOMY
FIRST YES**



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