

Quebec and Canada: caught in the austerity trap

Five years after the great recession, Quebec's and Canada's economies are showing no evidence of a solid recovery: jobs are still lacking, business operations are slowed and growth is weak. There is no economic recovery; the economy is stagnating.

Why? The financial crisis that led to the recession is certainly just as unique as the current non-recovery. However, among the deciding factors that are getting in the way of the recovery are the austerity measures adopted in Ottawa and Quebec City. A year after the start of the recession—in 2010—the federal government's economic and fiscal policies stopped stimulating the Canadian economy and started contributing to stagnating its growth.

In spite of this, households have thus far been keeping Canada's and Quebec's economies afloat. Although their primary income source—their wages—have remained stagnant, households have maintained consumption at levels that nearly equal those seen before the crisis. The discrepancy between household spending and income has been made up for with increased debt. Although the Conservatives have adopted fiscal and budgetary policies that are characterized by austerity and are therefore restrictive in nature, they are aggressively expanding their financial-market policies. The Conservatives' policy has landed Canada in an austerity and stagnation trap by suffocating the economy with austerity policies and encouraging households to use credit to avoid plunging the economy into another recession.

Quebec's own policy to slow the growth of current public spending and investments is helping push Quebec's economy into that same trap. The dogmatic desire to abide by the zero-deficit principle could compromise the recovery in Quebec and will also drive up the economic and social costs associated with a hastily balanced budget.

For more information, see the study conducted by Éric Pineault, along with Simon Tremblay-Pepin, for free on the IRIS website: <http://www.iris-recherche.qc.ca/publications/reprise-financiarisee> [French only].