A Tale of Two Provinces

Economic and Fiscal Performance of Ontario and Quebec in the 21st Century

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Contents

Executive Summary

- Since 2000, Quebec's real per-capita GDP has grown at an annual average of 1.2 percent, while Ontario's has grown at 0.7 percent—both below the Canadian average.

- Ontario and Quebec's real per-capita GDP are decidedly mid-ranked among Canada's provinces, with Ontario slipping from second to the middle of the pack from 2000 to 2022.

- Quebec's economic growth has closed much of the historic income gap with Ontario but mainly because Ontario has been a laggard with respect to economic growth for most of the 21st century.

- Ontario and Quebec lag behind the Rest of Canada in productivity and growth-enhancing business investment, particularly non-residential investment.

- Over the period 2000 to 2023, Ontario has run a deficit 19 out of 24 years—or nearly 80 percent of the time. Quebec, on the other hand, has improved its fiscal management relative to Ontario and runs a deficit 14 out of 24 years or nearly 60 percent of the time.

- Quebec has lowered its net debt-to-GDP ratio substantially since 2013, while Ontario has remained stuck near 40 percent.

- When it comes to public finances, Ontario has, to some extent, become the new Quebec, and Quebec the old Ontario.

- Ontario and Quebec face ongoing challenges on both the economic and fiscal fronts due to their relatively low economic and productivity growth.

Introduction

Ontario and Quebec are Canada's largest provinces in terms of both population and GDP. Their location astride the Great Lakes-St. Lawrence River System has linked their destinies within Canada geographically, economically, and politically. From the days when they were Upper and Lower Canada in 1791 to their union as the Province of Canada in 1841, and finally their entry as founding provinces of the Canadian federation in 1867, their roles have been paramount.

Ontario and Quebec have been separate provinces since 1867, but they function as essentially one regional economy given the role of the Quebec City-to-Windsor axis as Canada's main street, industrial heartland, transportation corridor, and joint geographic link with the regional economies of the adjacent US Northeast and Midwest (Stadel, 2009; Yeates, 1976, 1984). This "Empire of the St. Lawrence"[1] has evolved into an economic zone containing over half of Canada's population as well as the bulk of its industry and three major census metropolitan areas (CMAs)—the Greater Toronto Area, Greater Montreal, and the National Capital Region. Outside of these core areas, there are two resource hinterlands consisting of Northern Ontario and Northern Quebec (Zaslow, 1971; Nelles, 1975).

Yet, despite this joint and integrated role within Canada, Ontario and Quebec have diverged considerably in terms of their economic performance for most of the 19th and 20th centuries. Indeed, Quebec along with the Atlantic provinces fell behind Ontario in terms of economic development and importance relative to both Ontario and the western provinces (Pomfret, 1993: 244–261). With respect to Ontario, these differences in economic growth and development, manifested themselves across a number of indicators. For example, by the end of the 19th century, Ontario was more urban than Quebec, had higher literacy rates and lower fertility rates, but also had higher wages and more capital per worker (Di Matteo, 1997; McCallum, 1983). Moving into the 20th century, there was a gap in Quebec and Ontario wages as well as per-capita GDP that persists today (Armstrong, 1984).

These differences can, in part, be traced to a pattern of unequal economic development rooted in the superior productivity of the agricultural base in Ontario. This productivity ultimately generated the conditions for higher wages and more capital-intensive

1 See Creighton (1956).

economic development in Ontario, and lower wages and more labour-intensive economic development in Quebec (McCallum, 1983). The early economic success of Ontario was also accompanied by a more dispersed pattern of urban development in Southern Ontario, driven by the demands of a successful wheat-based agricultural economy. In contrast, urban development in Quebec was concentrated around Montreal as regional labour flowed there from its less productive agriculture sector.

These differences, as well as the per-capita income and wage gaps, have persisted. However, the narrowing of the gap and improvements in Quebec's standard of living is a remarkable long-term story rooted partly in its economic growth accelerating after 1990 but also in Ontario's deceleration (Fortin, 2001). While both provinces have seen their economies and by extension their per-capita GDP growth at below the Canadian average since 2000, Quebec has grown at an annual average of 1.2 percent while Ontario has grown at 0.7 percent. Given that Ontario and Quebec constitute nearly two-thirds of the Canadian economy, their performance is a major ingredient in overall Canadian economic performance. The implications of this differential economic performance and its spillover into fiscal performance are substantial. The remainder of this study will document the differences across Ontario and Quebec in terms of their economic and fiscal performance over the 2000 to 2023 period. It will also include some comparisons with the Rest of Canada. A key result from this comparison is that while Quebec still trails Ontario on a few key metrics it is catching up gradually. However, this is more the result of Ontario's poor performance both economically and fiscally rather than an innate improvement in Quebec's performance.

Economic Comparisons

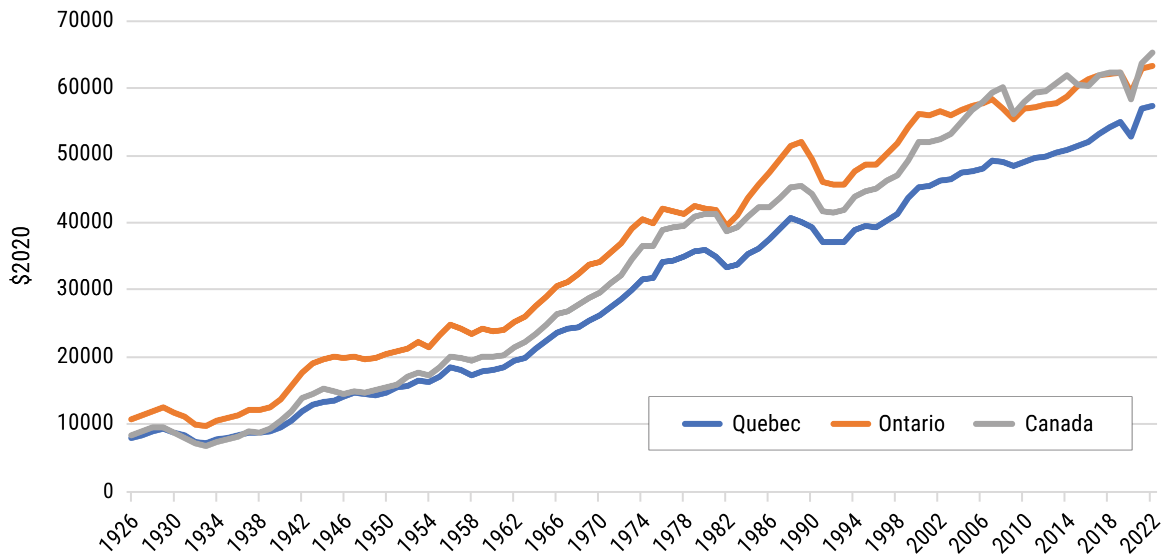
Ontario and Quebec are Canada's largest provinces in terms of population and any economic comparisons inevitably should begin with comparisons of population size. By the first quarter of 2024, Canada had 40.8 million people of which 9.0 million lived in Quebec, 15.9 million in Ontario, and another 15.9 million in the Rest of Canada. Ontario currently accounts for 39 percent of Canada's population, Quebec 22 percent, and the Rest of Canada the remaining 39 percent. Population has grown over time with more robust growth over the most recent two years as a result of increasing immigration in Canada. As Quebec has lagged the country in population growth its total share of the Canadian population has also declined over time.

The economic size of Canada and its regions is mirrored by population size. In 2022, Canadian real GDP, in 2017 constant prices, was $2.341 trillion, with Quebec at $0.465 trillion, Ontario at $0.912 trillion, and the Rest of Canada at $0.96 trillion (Statistics Canada, 2023a). With 39 percent of Canada's population, Ontario accounts for nearly 40 percent of its real GDP, whereas Quebec accounts for 20 percent of the national GDP with 22 percent of its population. The rest of Canada accounts for 39 percent of the population but 41 percent of its real GDP.

However, economic performance over the long term is better summarized by per-capita GDP. The ultimate differential economic development of Ontario and Quebec is in many respects a long-term process and can be best summarized by the differences in historical per-capita GDP as illustrated in figure 1. Real per-capita GDP from 1926 to 2022 for Ontario and Quebec is plotted along with that for Canada as a whole and the results show that Ontario has been above the Canadian average for much of its history but falling below after 2000. Quebec, on the other hand has been consistently below both the Ontario and Canadian averages. In 1926, Quebec's per-capita GDP was 75 percent that of Ontario (see figure 2) and remained there into the 1960s when it began to reduce the gap. By 1980, Quebec's per-capita GDP was about 85 percent that of Ontario while by 2022, that number grew further to 91 percent.

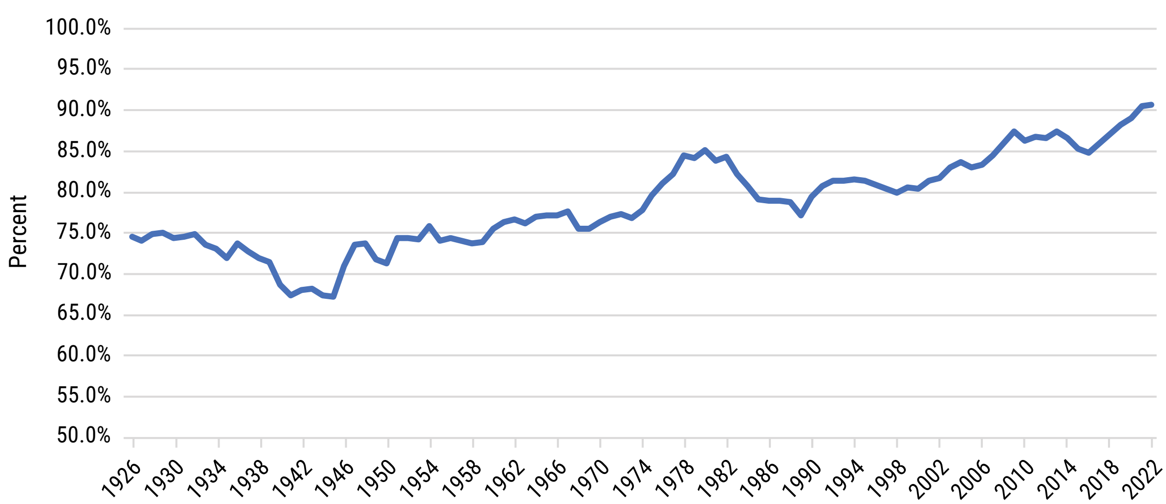
When broader provincial comparisons are made for the 2000 to 2022 period, Ontario and Quebec are in the middle of the pack when it comes to per-capita GDP, ranking fifth and sixth respectively in 2022. However, in 2000, Ontario ranked second highest in real per-capita GDP amongst Canada's provinces and has since fallen to fifth place. Meanwhile Quebec has maintained its relative position. Quebec's economic growth

Figure 1: Real Per-Capita GDP ($2020), Quebec, Ontario, and Canada, 1926 to 2022



Source: FON, 2023.

Figure 2: Quebec Real Per-Capita GDP as a Proportion of Ontario, 1926 to 2022



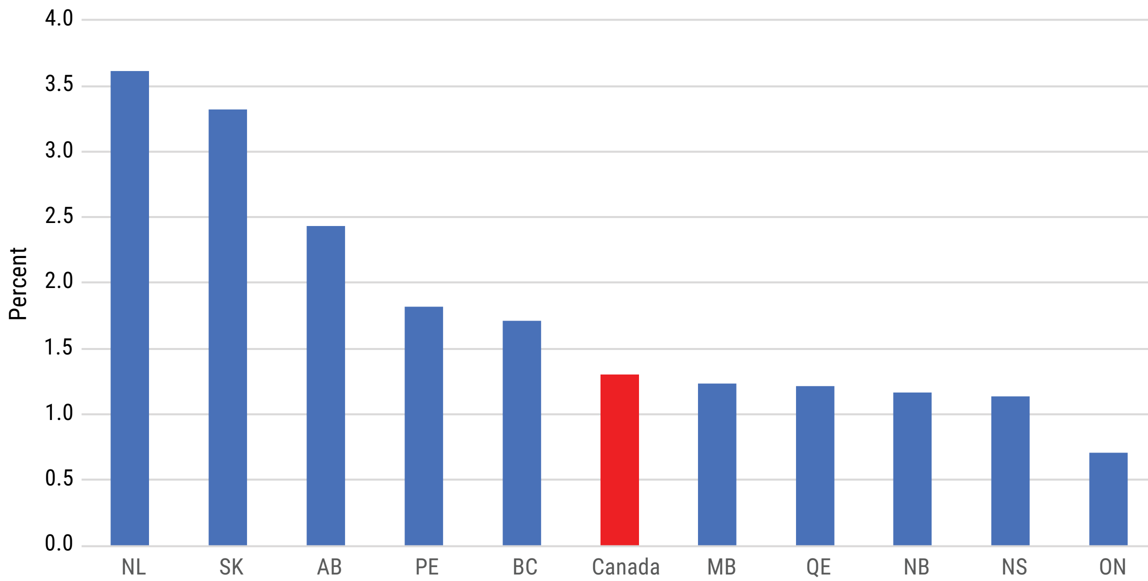
Source: FON, 2023.

performance has accelerated relative to Ontario. Indeed, while Canada as a whole and Ontario in particular have exhibited a productivity lag[2] as manifested by low per-capita GDP growth rates, Quebec has done relatively better than Ontario as shown in figure 3. While Quebec's average annual growth rate of real per-capita GDP from 2000 to 2022 has

2 See Di Matteo (2024: a, b, c)

been below the Canadian average, ranking seventh out of ten provinces, Ontario ranked dead last. Part of the explanation for Quebec's better performance relative to Ontario since 2000 lies in the jump in the employment rate of women between 1999 and 2014 as it went from 60 to 70 percent and the smaller impact of the 2008–09 recession given the absence of the auto industry in the province (Fortin, 2016). Ultimately, however, it is not so much that Quebec is doing substantially better than Ontario but rather that Ontario has been a laggard with respect to economic growth for most of the 21st century.

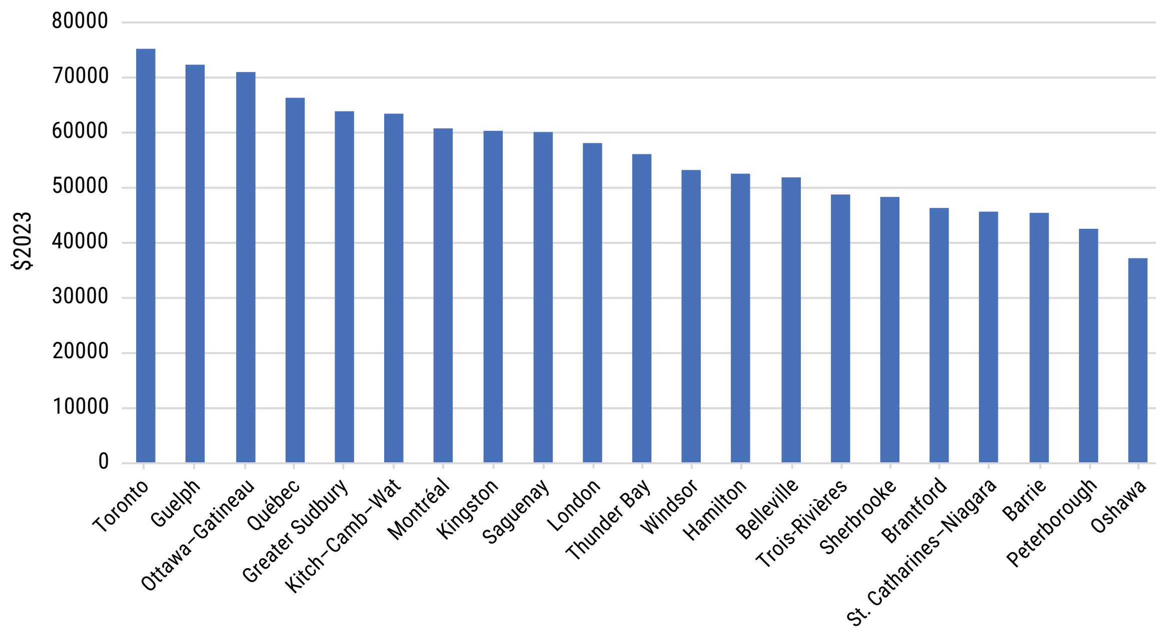
Figure 3: Average Annual Real Per-Capita GDP Growth (%), Canada's Provinces, 2000 to 2022



Source: FON, 2023.

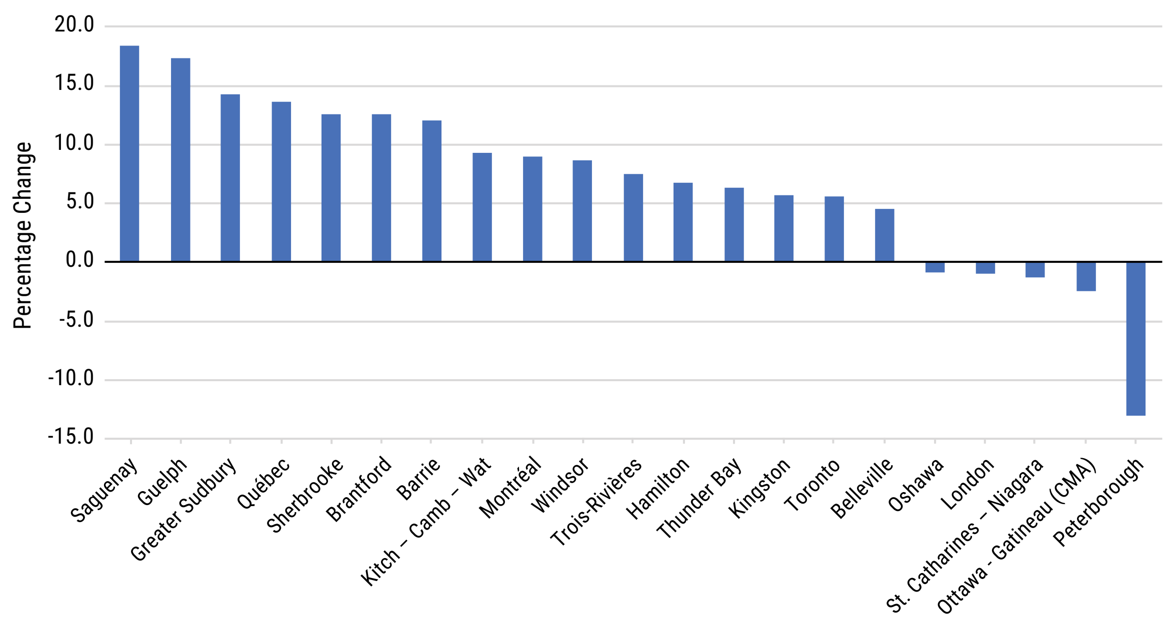
Another comparison worth making is regional GDP growth. Figures 4 and 5 provide a perspective on regional differences across Ontario and Quebec based on available data for real per-capita GDP and growth for CMAs in the two provinces between 2009 and 2019 (omitting 2020 which was the pandemic year). Figure 4 illustrates that the highest real per-capita GDP in 2019 was for Toronto followed by Guelph and Ottawa-Gatineau (which straddles the two provinces). Quebec has fewer large CMAs than Ontario but of these 21 CMAs, Quebec has three in the top 10—Quebec City, Montreal, and Saguenay. The bottom five cities are all from Ontario. Quebec CMAs also appear to have exhibited relatively high growth in real per-capita GDP between 2009 and 2019 with Saguenay, Quebec City, Sherbrooke, and Montreal being in the top 10 along with Guelph, Greater Sudbury, Brantford, Barrie, Kitchener-Waterloo-Cambridge, and Windsor. Quebec City's high growth rate since 2000 has been noted at the national level as the highest amongst the nation's 11 largest metropolitan areas (Fortin and Polèse, 2024). While Toronto has the highest real per-capita GDP, its growth from 2009 to 2019 lagged behind many Ontario cities as well as all five Quebec CMAs.

Figure 4: Per-Capita GDP in 2019 ($2023), Ontario and Quebec CMAs



Sources: Statistics Canada, 2023b, 2023c.

Figure 5: Percentage Change in Real Per-Capita GDP, Ontario and Quebec CMAs, 2009 to 2019



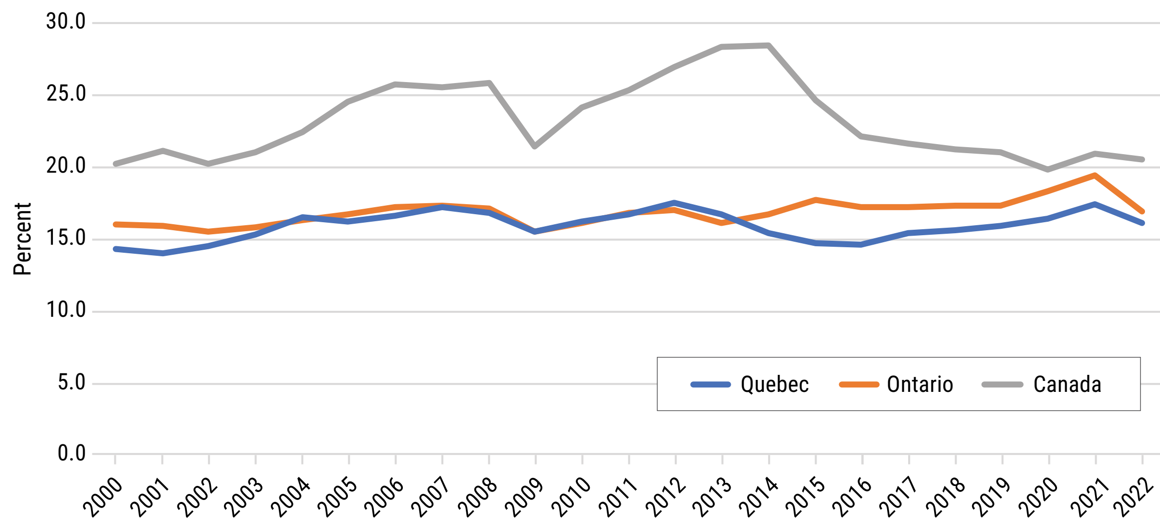
Sources: Statistics Canada, 2023b, 2023c.

Productivity is an important determinant of economic growth and performance. It is a function of hours worked per worker as well as the output they produce. Ultimately, however, productivity is crucially dependent on the amount of capital available to workers—that is, business investment in plant, machinery, and equipment. With respect to annual hours worked per worker, this has declined over time in both Ontario and Quebec with Quebec's decline larger than Ontario's demonstrating a "marked preference of Quebecers for shorter weekly and annual work hours" (Fortin, 2016). In terms of capital investment, Ontario and Quebec together provide the lion's share of total business investment (including housing) in Canada given that in 2022, Ontario accounted for 36 percent of business gross fixed capital formation, Quebec 18 percent, and the Rest of Canada 46 percent. However, when done either as a share of GDP or per capita, Ontario and Quebec lag behind the Rest of Canada in productivity-enhancing total business investment which is a key factor in their underperformance when it comes to growth over the longer term.[3] Given that housing has distorted investment spending, especially in the GTA area, Ontario's performance especially is even more disappointing.

Figures 6 and 7 provide the broad dimensions of total business investment for Ontario, Quebec, and the Rest of Canada. Over the period 2000 to 2022, Ontario's business investment to GDP ratio averaged 16.9 percent while Quebec's was 15.9 percent and the Rest of Canada 23.2 percent. Ontario and Quebec have remained relatively stable over this period, but the Rest of Canada has exhibited more fluctuations as well as a peak in 2014 followed by decline. The somewhat erratic performance of the Rest of Canada can be attributed to the capital intensity of investment in natural resources—particularly energy—in Alberta, Saskatchewan, and Newfoundland & Labrador—which has declined due to the poorer state of the resource sector since 2014. A similar story emerges if one looks at real per-capita total business investment. In 2014, per-capita investment in the Rest of Canada was 94 percent more than Ontario and 144 percent more than Quebec. By 2022, the difference was 27 percent more than in Ontario and 52 percent more than in Quebec. Meanwhile, in 2014, real per-capita total business investment in Ontario was 26 percent higher than in Quebec, but by 2022, it was only 19 percent higher.

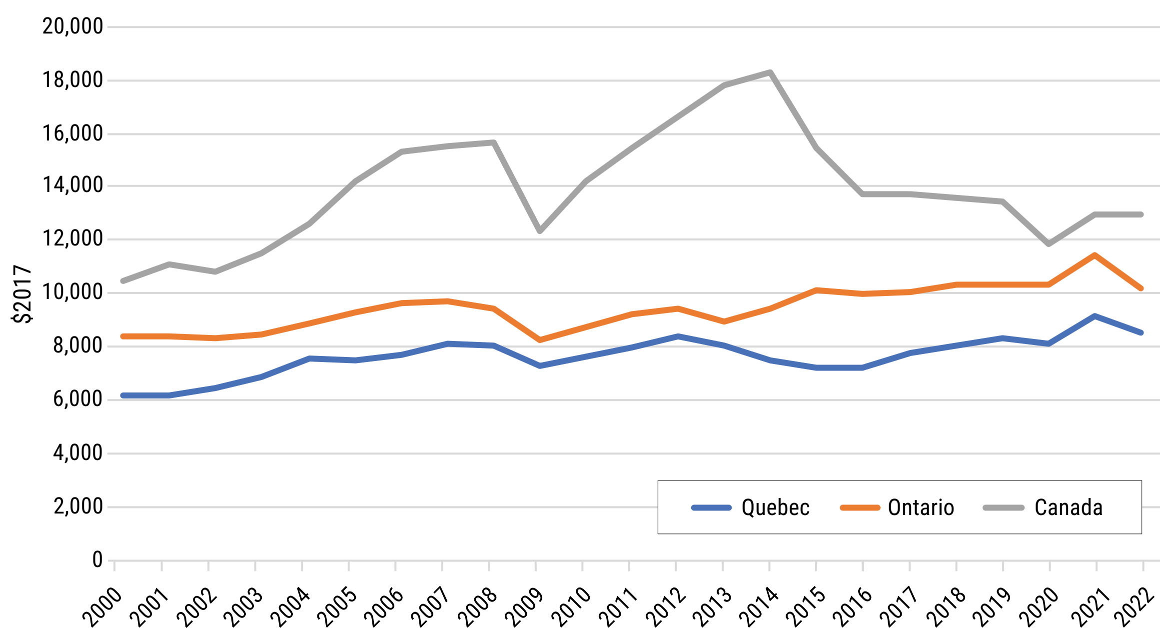
3 While the productivity lag is a Canadian affliction, Ontario and Quebec appear to have a particularly virulent case of it. A key to boosting productivity is increasing business investment and policies key to doing so include reforming corporate tax rates to broaden the base and lower the rates, breaking down interjurisdictional barriers to trade and commerce across provinces and reducing the regulatory burden on new investment projects. For an overview of Canadian productivity issues and policies in general see Caranci and Marple (2024).

Figure 6: Business Gross Fixed Capital Formation to GDP (%), 2000 to 2022



Source: Statistics Canada, 2023a.

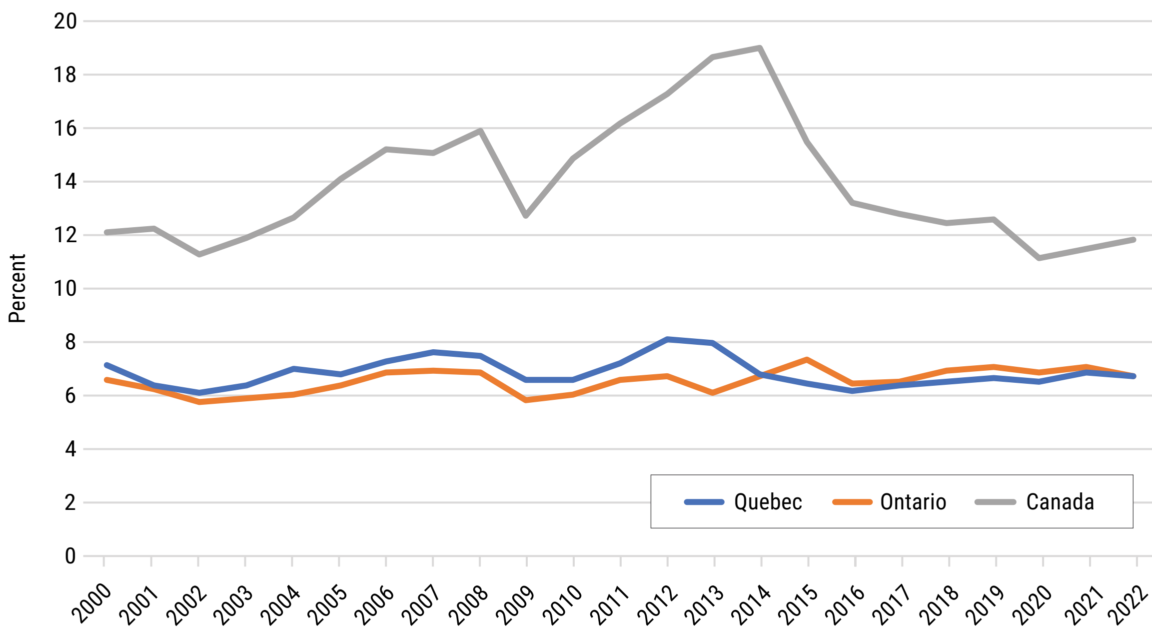
Figure 7: Business Gross Fixed Capital Formation Per Capita ($2017)



Sources: Statistics Canada, 2023a, 2023d.

A significant proportion of business gross fixed capital formation—about one third in 2022—is residential structures and given the price appreciation of the early 21st century, followed by the current housing shortage in Canada, it is worth separating residential performance from total business investment to focus more on productivity-enhancing capital stock investment on plant, machinery, and equipment. Figure 8 plots out non-residential gross fixed capital to GDP for Ontario, Quebec, and the Rest of Canada. It reveals that, while Ontario and Quebec have been lagging behind the Rest of Canada in total business investment as a share of GDP, the lag is even worse when it comes to only non-residential investment. Over the 2000 to 2022 period, the non-residential investment share of GDP has averaged 14 percent for the Rest of Canada compared to 6.5 percent for Ontario and 6.8 percent for Quebec.

Figure 8: Non-Residential Gross Fixed Capital Formation to GDP (%), 2000 to 2022

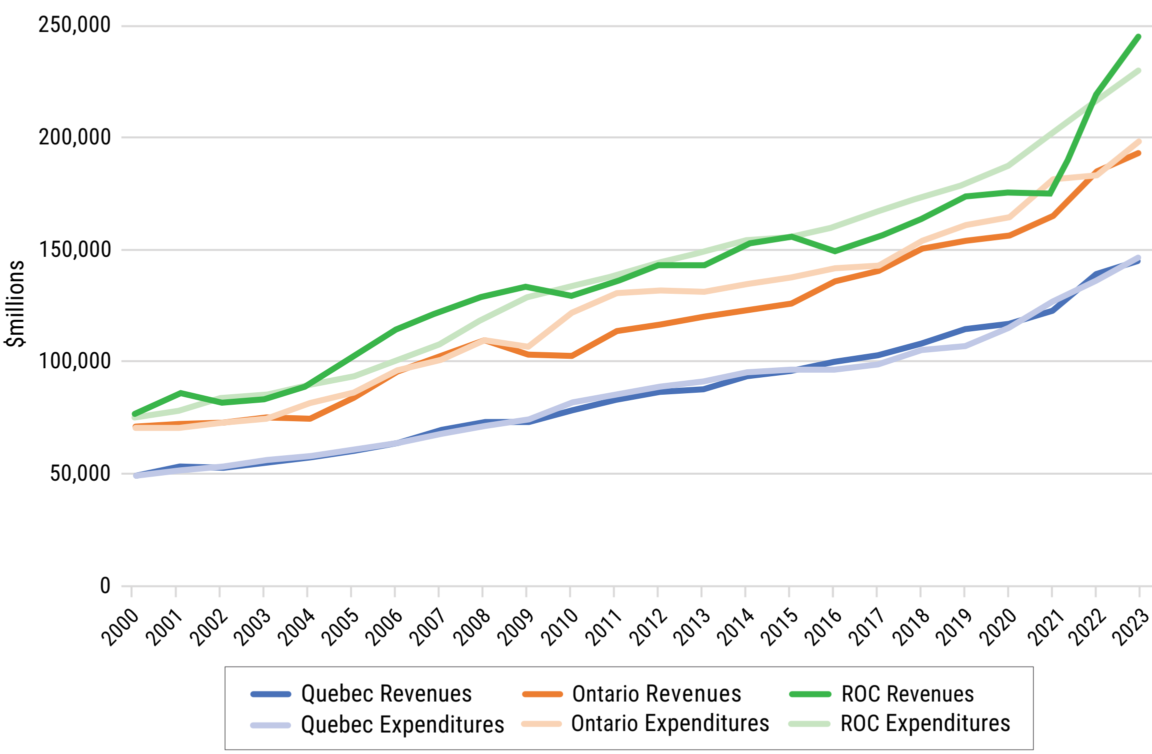


Sources: Statistics Canada, 2023a, 2023d.

Public Finance Comparisons

Given their populations and economic sizes, the public finances of both Ontario and Quebec are important components of the overall fiscal footprint of Canada's provinces and territories in terms of public sector size as well as tax effects on economic activity. Figure 9 plots the total provincial government expenditures and revenues for Ontario, Quebec, and the Rest of Canada. The trend for all has been upwards with notable surges since 2020 as a result of the pandemic. Total provincial government revenues in Ontario from 2000 to 2023 grew from $71 billion to $193 billion dollars—an increase of 172 percent—while total expenditures grew from $70 billion to $199 billion—an increase of 183 percent. Quebec meanwhile saw larger percentage increases over the same period with revenues growing 194 percent—from $49 billion to $145 billion and expenditures growing from $49 billion to $147 billion—an increase of 197 percent. However, both provinces saw lower growth of revenues and expenditures when compared to the Rest of Canada which saw increases of 219 and 209 percent respectively.

Figure 9: Total Provincial-Territorial Government Revenues and Expenditures ($millions), Ontario, Quebec, and Rest of Canada, 2000 to 2023



Sources: Statistics Canada, 2023a, 2023d.

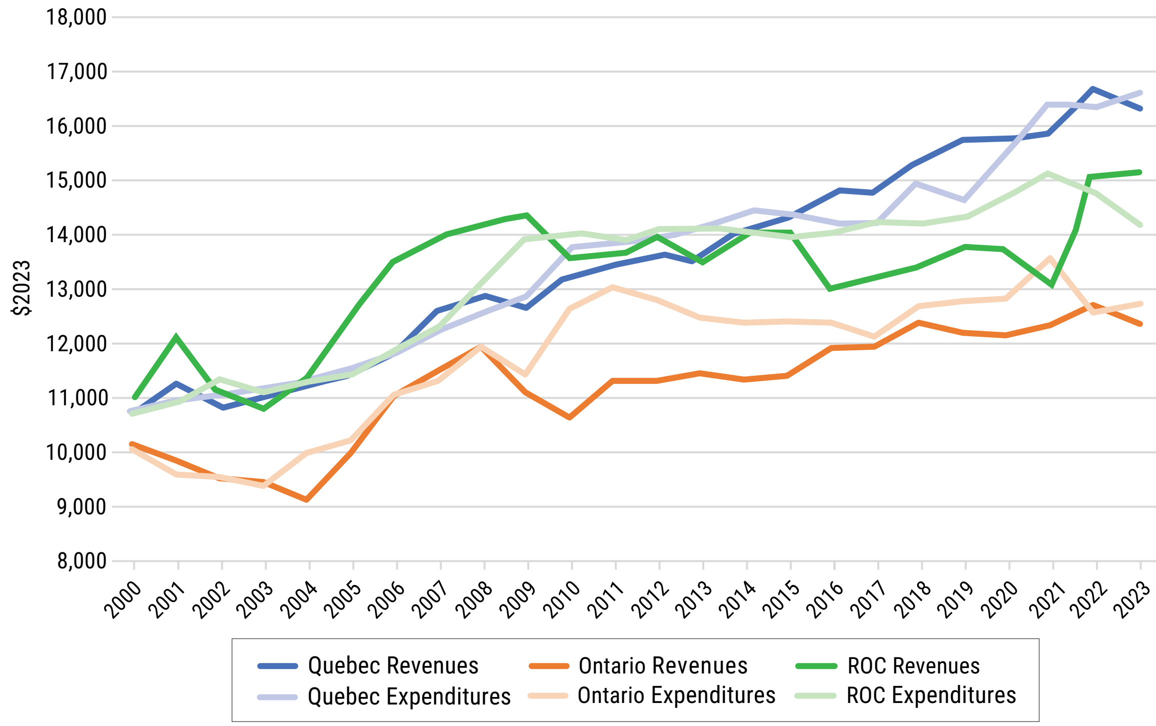
Over the 2000 to 2023 period, there has been, on average, a persistent gap between expenditures and revenues in Ontario provincial government public finance that has exceeded that of either Quebec or the Rest of Canada. Total revenues in Ontario for the 2000 to 2023 period have averaged $118.4 billion and expenditures $124.3 billion. Meanwhile over the same period, average provincial government revenues in Quebec were $86.8 billion and expenditures $86.6 billion while the Rest of Canada saw provincial-territorial government revenues and expenditures of $139.2 billion and $139.8 billion respectively. In other words, total expenditures in Ontario have on average exceeded government revenues by nearly five percent and in the Rest of Canada by 0.5 percent. Meanwhile, Quebec has managed on average for revenues to *exceed* expenditures by 2.5 percent.

However, absolute totals do not consider population or inflationary differences and figure 10 does this by presenting real per-capita revenues and expenditures.[4] Real per-capita provincial government revenues and expenditures have grown substantially everywhere since 2000. By 2023, real per-capita revenues and expenditures (in $2023) were highest in Quebec, at $16,350 and $16,538, respectively, followed by the Rest of Canada at $15,111 and $14,188, and finally Ontario at $12,358 and $12,734. Ontario's high rates of population growth, especially relative to Quebec, have meant that its real per-capita provincial government expenditures have grown 27 percent since 2000, while Quebec has grown nearly double at 54 percent. On average, over the 2000 to 2023 period, Ontario has spent $11,746 per capita (in $2023) relative to revenues of $11,211—a gap of $535 per capita. By comparison, even while spending more per person than Ontario, Quebec with average real per-capita revenues and expenditures of $13,509 and $13,485 has on average taken in $24 more per capita than it spends. The Rest of Canada has seen real per-capita revenues average $13,257 and expenditures average $13,243 which also is real revenues per person exceeding expenditures on average by $14 per capita.

The difference between revenues and expenditures is, of course, the deficit and/or surplus. Over the nearly quarter-century from 2000 to 2023, all Canadian provinces have often run substantial and frequent deficits, though some have been more fiscally afflicted than others, with Ontario being particularly challenged. Figure 11A plots real per-capita deficits. Over the period 2000 to 2023, Ontario has managed to run a deficit

4 Real amounts were constructed by deflating with the Consumer Price Index ($2002) but reset with 2023=100 for each province.

Figure 10: Real Per-Capita Provincial-Territorial Government Revenues and Expenditures, Ontario, Quebec, and Rest of Canada ($2023), 2000 to 2023

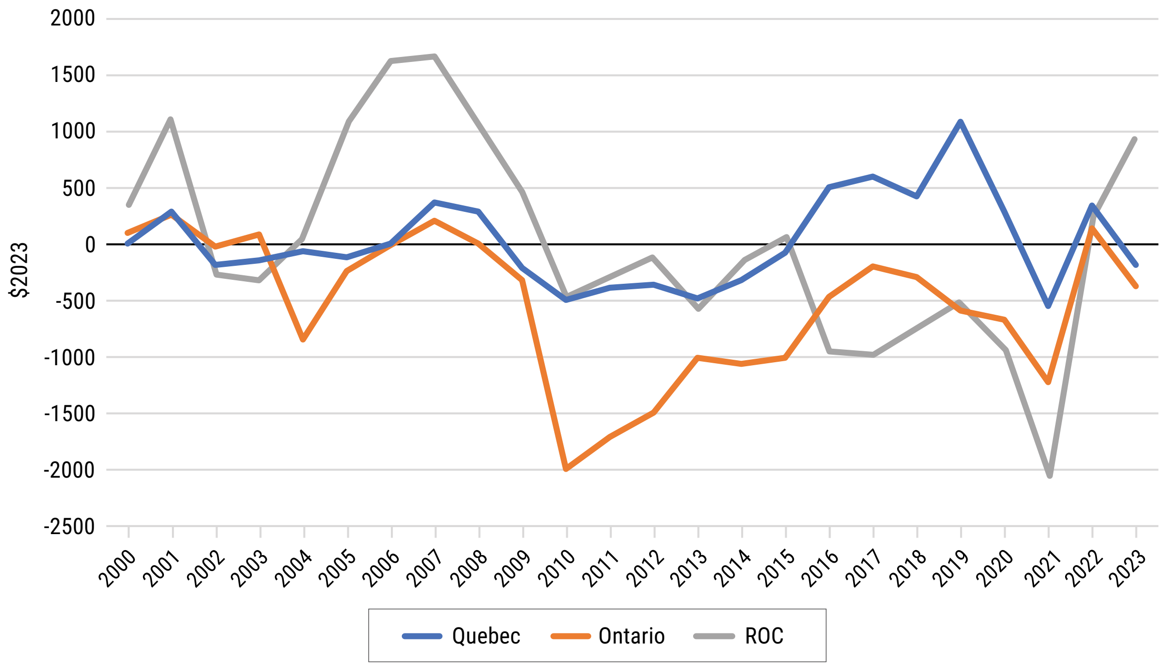


Source: Canada, Department of Finance, 2023.

19 out of 24 years—or nearly 80 percent of the time. Quebec, on the other hand has managed a deficit 14 out of 24 years or nearly 60 percent of the time while the Rest of Canada collectively is just a bit better at 13 out of 24 years. Over the period 2000 to 2023, Ontario averaged a real per-capita deficit of $545, ranging from a surplus of $259 in 2001 to a deficit of $1,998 in 2010. Quebec, over the entire 2000 to 2023 period, has managed an average real per-capita surplus of $24 while the Rest of Canada collectively managed an average surplus of $14. Thus, Ontario appears to have been more fiscally malfeasant than Quebec at least in per-capita terms. However, when the deficit numbers are examined as a share of GDP (see figure 11B), Quebec again outperforms Ontario for almost the entire 2000 to 2022 period and even the Rest of Canada after 2015.

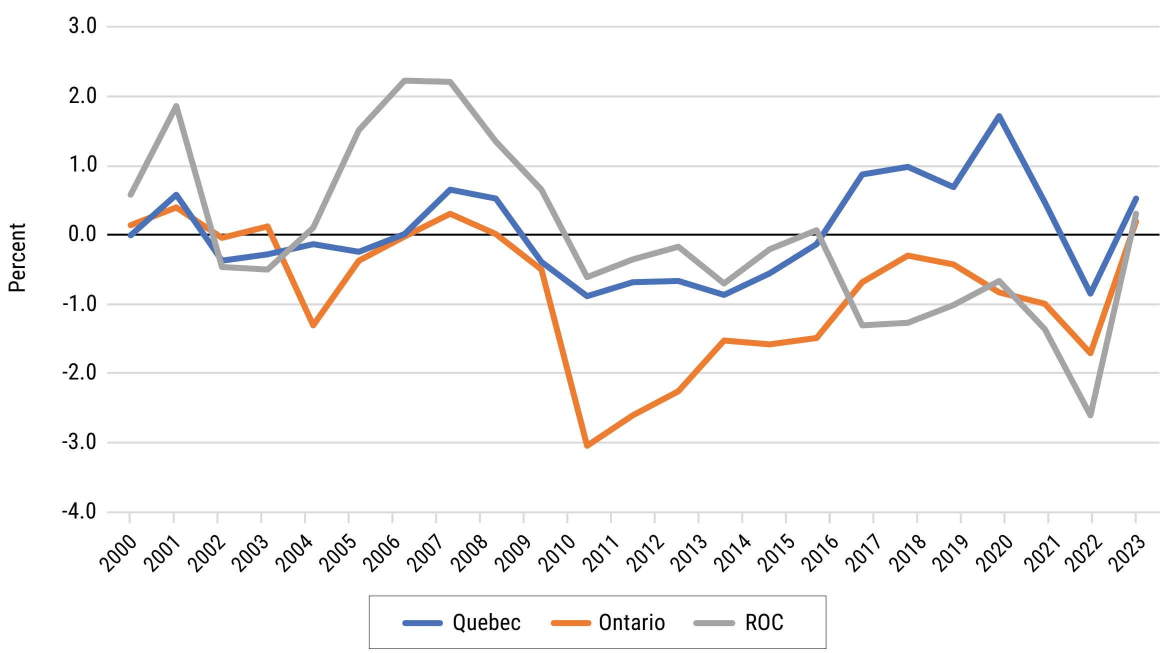
Fiscal malfeasance can be a function of both deliberate choices as well as forces operating on the revenue side. Revenues for provincial governments are either own-source—that is revenue from taxes such as income and consumption taxes as well as licenses, fees, and net earnings from crown corporations—or they can be transfers from the federal

Figure 11A: Real Per-Capita Provincial-Territorial Government Deficit(-)/Surplus(+) ($2023), Ontario, Quebec, and Rest of Canada, 2000 to 2023



Sources: Canada, Department of Finance, 2023; Statistics Canada, 2023d.

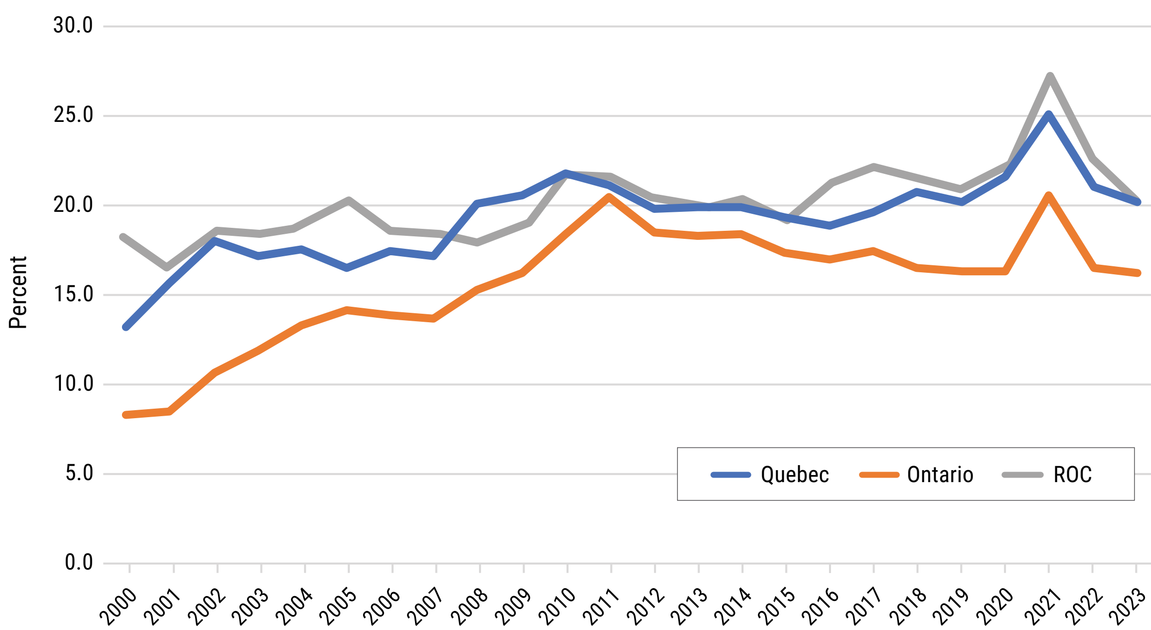
Figure 11B: Provincial-Territorial Government Deficit(-)/Surplus(+) to GDP Ratio (%), Ontario, Quebec, and Rest of Canada, 2000 to 2023



Sources: Canada, Department of Finance, 2023; Statistics Canada, 2023a.

government. Differences in per-capita expenditures can be a function of policy choices or perhaps fiscal imbalances rooted in the composition and sources of revenues. As figure 12 illustrates, while federal transfers as a share of total revenues have grown over the 2000 to 2023 period, they are higher in Quebec and the Rest of Canada relative to Ontario averaging 19 percent of total revenues in Quebec, 20 percent in the Rest of Canada, and 16 percent in Ontario. Indeed, the importance of federal transfers to their total revenues measured as a percent share has grown from 2000 to 2023 while Ontario saw a decline after 2014. While Ontario slightly lags behind Quebec and the Rest of Canada in both total revenue and own-source revenue growth, it remains a healthy revenue growth rate averaging at over four percent annually.

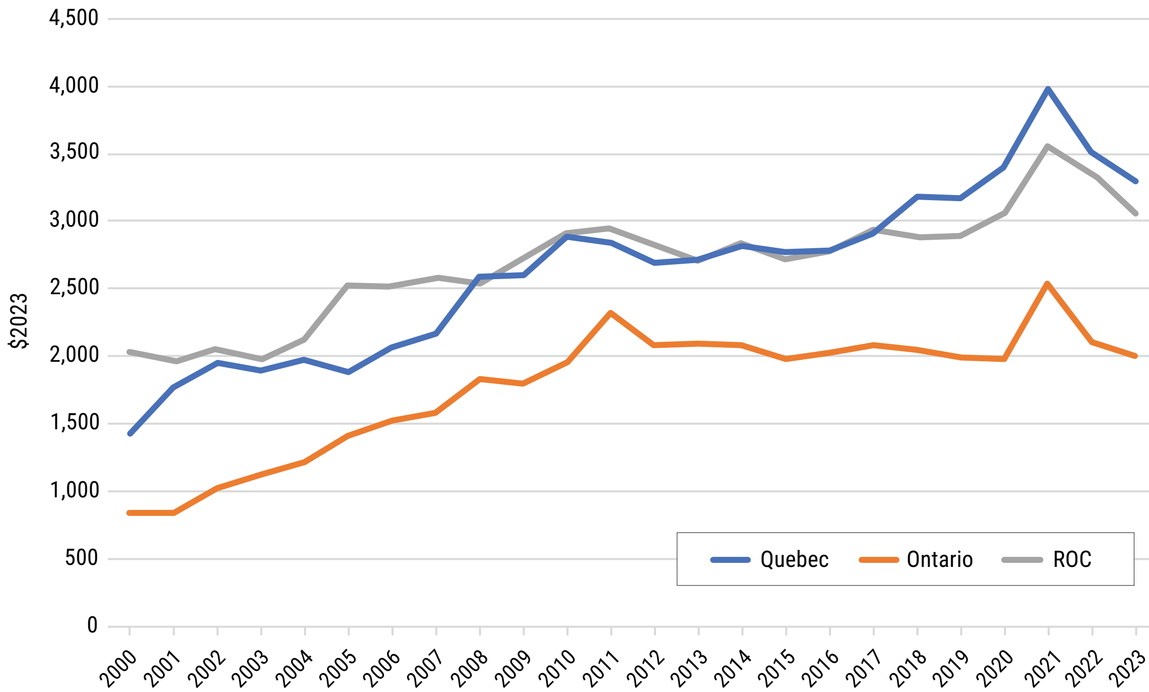
Figure 12: Federal Transfers as a Percent Share (%) of Provincial-Territorial Government Revenues, 2000 to 2023



Sources: Canada, Department of Finance, 2023; Statistics Canada, 2023a.

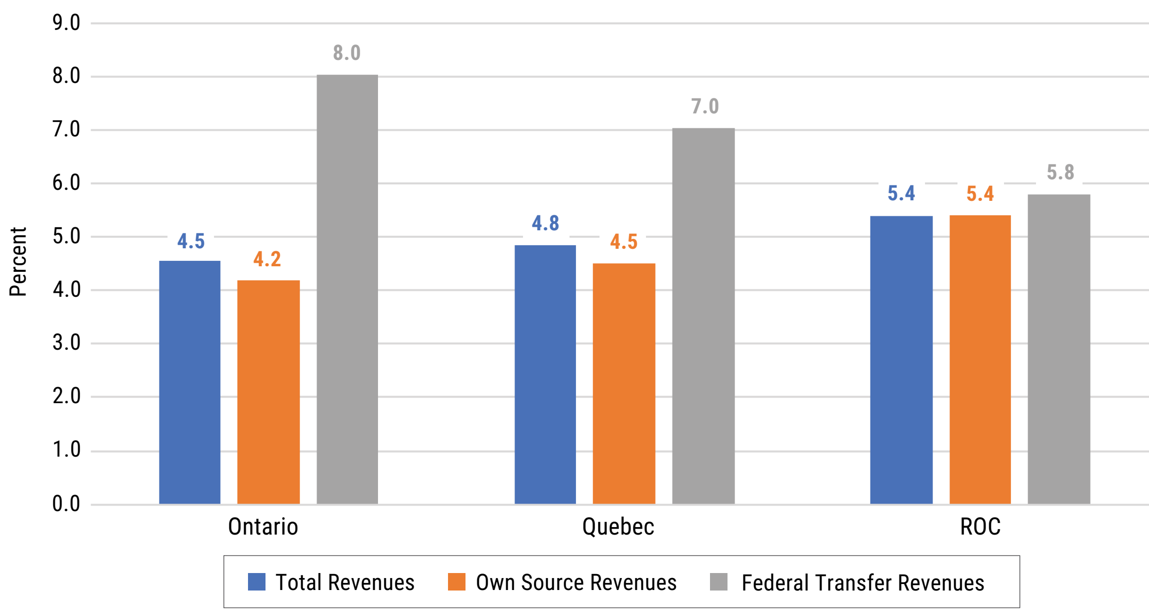
Figure 13 shows a similar pattern when real per-capita federal transfers are considered with Ontario at an average of $1,768 ($2023 dollars) per person over the 2000 to 2023 period with Quebec and the Rest of Canada at $2,635 and $2,289 respectively. However, when one looks at the average annual growth rates of total revenues, total federal transfers, and total own-source revenues over the 2001 to 2023 period in figure 14, Ontario has experienced the highest growth in federal transfers at eight percent compared to seven percent for Quebec and six percent for the Rest of Canada.

Figure 13: Real Per-Capita Federal Government Transfers to Provincial-Territorial Governments ($2023), 2000 to 2023



Sources: Canada, Department of Finance, 2023; Statistics Canada, 2023d.

Figure 14: Average Annual Growth Rates (%) of Provincial-Territorial Government Revenues, Ontario, Quebec, and Rest of Canada, 2001 to 2023



Sources: Canada, Department of Finance, 2023; Statistics Canada, 2023d.

Table 1: Natural Resource Revenues, Generations Fund and Sovereign Fund Contributions ($mm)

	Natural Resource Revenues		Quebec Generations Fund Cont	Ontario Alcohol Revenues	Ontario "Sovereign" Fund Cont
	Ontario	Quebec			
2007	353.24	299.00	584.00	1,274.00	1,627.24
2008	410.93	689.00	449.00	1,340.00	1,750.93
2009	179.00	779.00	587.00	1,395.00	1,574.00
2010	199.00	767.00	725.00	1,410.00	1,609.00
2011	118.00	777.00	760.00	1,550.00	1,668.00
2012	153.00	807.00	840.00	1,630.00	1,783.00
2013	149.00	852.00	961.00	1,700.00	1,849.00
2014	161.00	1,014.00	1,121.00	1,740.00	1,901.00
2015	170.00	1,032.00	1,279.00	1,805.00	1,975.00
2016	167.00	990.00	1,453.00	1,935.00	2,102.00
2017	166.00	1,024.00	2,001.00	2,060.00	2,226.00
2018	178.00	1,065.00	2,293.00	2,120.00	2,298.00
2019	190.00	1,108.00	3,477.00	2,370.00	2,560.00
2020	170.00	1,072.00	2,606.00	2,375.00	2,545.00
2021	253.00	1,167.00	3,313.00	2,390.00	2,643.00
2022	363.00	1,303.00	3,617.00	2,550.00	2,913.00
2023	260.00	1,390.00	3,351.00	2,457.00	2,717.00
Total cont	**3,640.17**	**16,135.00**	**29,417.00**	**32,101.00**	**35,741.17**

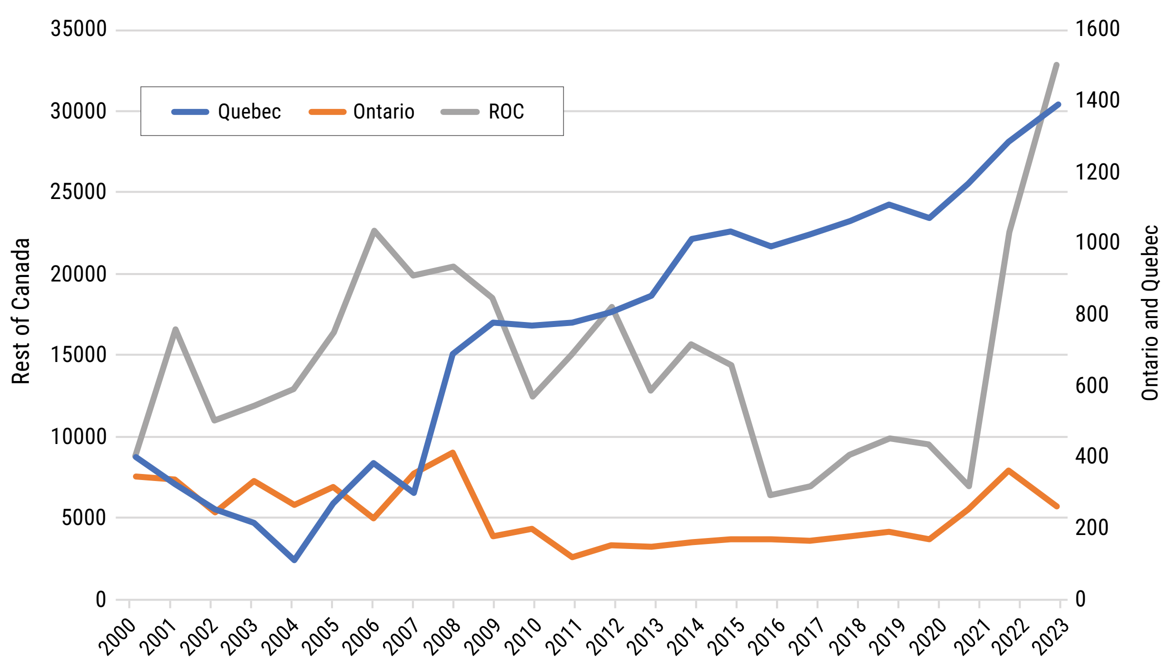
Sources: FON, 2023; Canada, Department of Finance, 2023; Ontario, 2023: 121.

One other area of difference with fiscal implications is the Quebec government's decision to establish the Generations Fund in 2006 (Québec, Ministère des Finances, 2022) with the goal of reducing Quebec's debt burden. The Generations Fund is dedicated to debt repayment with the revenues coming from water-power royalties from Hydro-Québec and private producers of hydroelectricity. In addition, there are contributions to the fund from the indexation of the price of heritage electricity, an additional contribution from Hydro-Québec, mining revenues, the specific tax on alcoholic beverages, and the liquidation of unclaimed property administered by Revenu Québec. In other words, Quebec has created a sovereign wealth fund financed mainly by resource revenues with contributions from the sale of alcoholic beverages and public property. As of March 2023, total contributions to the fund were $29.4 billion (see table 1) with the fund total at just over $19 billion and is projected to reach $37 billion by 2027.[5]

5 Source: Finances of the Nation, Fiscal Reference Tables 2023 and Ontario Government.

Figure 15 plots provincial-territorial government natural resource revenues from 2000 to 2023. While both Ontario and Quebec fall short compared to the Rest of Canada in total natural resource revenues, Quebec consistently has higher resource revenues than Ontario.[6] Table 1 provides a comparison of Ontario and Quebec's annual natural resource revenues as well as Quebec's annual contributions to its Generations Fund since 2007 as well as Ontario's annual alcohol profits revenues from the Liquor Control Board of Ontario (LCBO). The last column simulates Ontario's contribution to its own sovereign wealth fund by summing up its natural resource revenues and its alcohol revenues from the profits earned by the LCBO. Over the entire period 2007 to 2023, Ontario took in $3.6 billion in natural resource revenues (mainly forestry and mining fees and charges) while Quebec took in $16.1 billion in natural resource revenues (mainly from Hydro)—about four times as much. When augmented with alcohol and other revenues paid into its Generations Fund, Quebec made contributions of $29.5 billion which after payouts brought the fund to about $19 billion. If over the same period, Ontario had deposited its natural resource and alcohol profit revenues into its own fund, it would have contributed $35.7 billion into a sovereign wealth fund—far from an inconsequential amount.

Figure 15: Provincial-Territorial Government Natural Resource Revenues ($millions), Ontario, Quebec, and Rest of Canada, 2000 to 2023

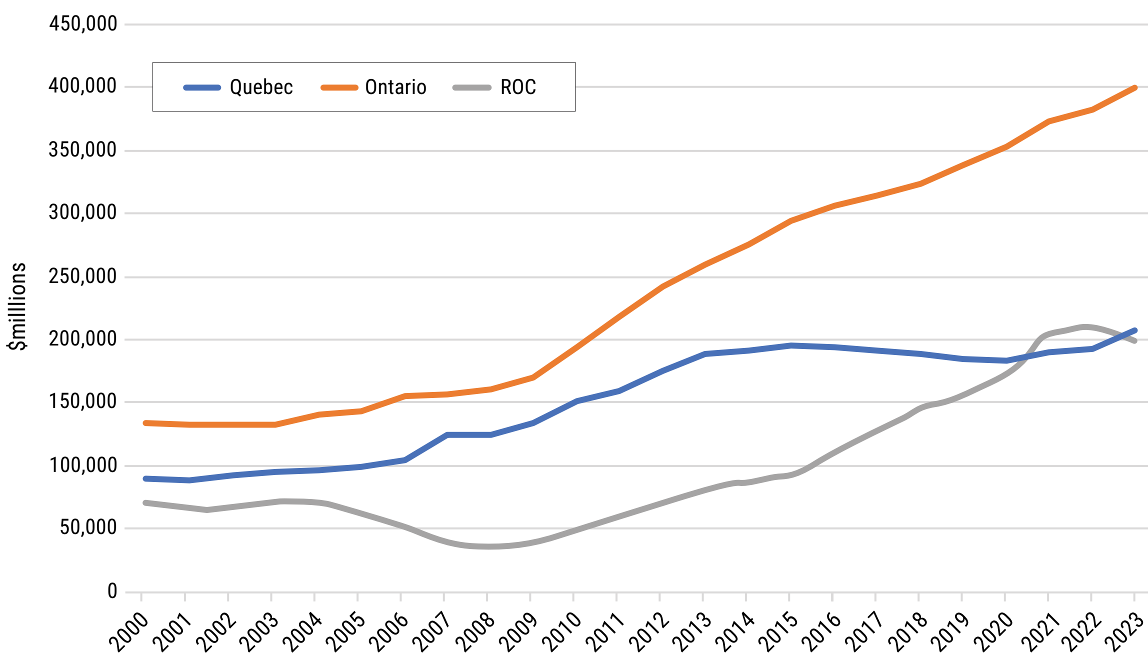


Source: FON, 2023.

6 It should be noted that the convention is that agriculture is excluded from natural resource revenues.

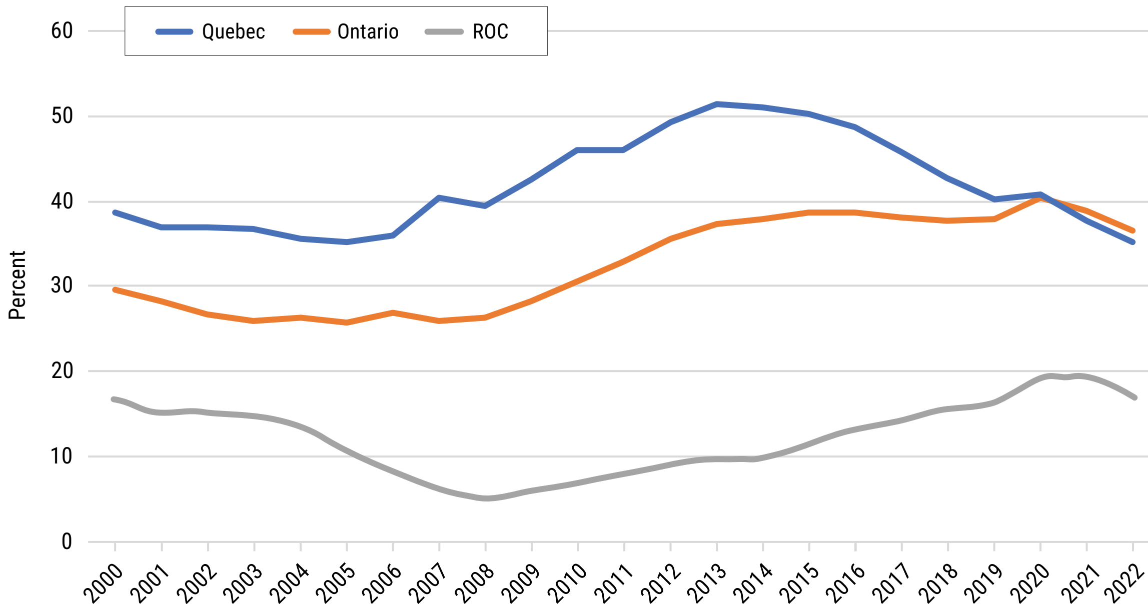
The long-term benefits of a sovereign wealth fund when combined with fiscal rectitude certainly become apparent when provincial-territorial net debt is examined (see figures 16 and 17). From 2000 to 2023, Ontario's net public debt rose from $134.4 billion to $400.5 billion—an increase of 198 percent. Quebec's debt rose from $89.2 billion in 2000 to $188.2 billion in 2013—an increase of 111 percent—before levelling off, rising by only 10 percent to $206.8 billion by 2023. The Rest of Canada saw its net debt collectively rise from $71 billion to $198 billion over the 2000 to 2023 period. The differences become more interesting when net debt to GDP are examined. The Rest of Canada has seen its net debt-to-GDP ratio rise since the 2007–08 Great Recession but remain below 20 percent even with the bump of the pandemic. Ontario has gone from 30 percent to 40 percent, with a slight decline since. Quebec went from under 40 percent to over 50 percent by 2013. However, it has gradually improved its finances to the point where its net debt-to-GDP ratio declined and, by 2023, was actually below that of Ontario. While Quebec had some of the worst public finances in the federation at the start of the 21st century, that distinction now appears to have passed on to Ontario.

Figure 16: Provincial-Territorial Government Net Debt ($millions), Ontario, Quebec, and Rest of Canada, 2000 to 2023



Source: Canada, Department of Finance, 2023.

Figure 17: Provincial-Territorial Government Net Debt to GDP (%), Ontario, Quebec, and Rest of Canada, 2000 to 2022



Sources: Canada, Department of Finance, 2023; Statistics Canada, 2023a.

Conclusions

Ontario and Quebec are Canada's largest provinces both in terms of their economic size and populations and crucial components of the Canadian economy in part because of their integrated regional economies along the Great Lakes-St. Lawrence axis are adjacent to the markets of the US Midwest and Northeast. However, their performance over the last two decades has been mixed and is a key factor in Canada's low overall productivity and economic growth. Based on performance in the areas of GDP, GDP per capita, business investment, and fiscal metrics in the form of deficits and debt, it appears that Quebec still trails Ontario on a few key economic indicators but is catching up gradually, largely due to Ontario's low growth performance. On the fiscal side, however, Quebec has performed better than Ontario.

In terms of per-capita GDP, Ontario and Quebec are decidedly mid-ranked in terms of Canada's provinces with Quebec maintaining its mid-rank position over the 2000 to 2022 period while Ontario has slipped from second to mid-rank. Quebec has seen faster growth in real per-capita GDP than Ontario but both provinces are below the Canadian average with Ontario dead last when it comes to average annual growth. Among the CMAs across Ontario and Quebec, growth has been faster in smaller urban centres relative to Toronto even though the level of per-capita GDP in Toronto remains high. Part of the reason for slower growth in Ontario and Quebec is lower rates of business investment—especially non-residential investment—relative to GDP than the Rest of Canada.

Over the period 2000 to 2023, both Ontario and Quebec saw their total provincial government revenues and expenditures grow slower than the Rest of Canada. However, the largest gap between revenue and expenditure growth over this period was for Ontario which over the period 2000 to 2023, managed to run a deficit 19 out of 24 years—or nearly 80 percent of the time. Quebec, on the other hand, managed a deficit 14 out of 24 years or nearly 60 percent of the time, while the rest of Canada collectively was slightly better at 13 out of 24 years.

The fiscal situation also manifests itself in the public debt sphere. The Rest of Canada has seen its net debt-to-GDP ratio rise since the 2007–08 Great Recession but remain below 20 percent even with the bump of the pandemic. Ontario has gone from 30 percent to 40 percent and then has declined slightly since. Quebec went from under 40 percent to over 50 percent by 2013 but then gradually improved its finances to the point where its net debt-to-GDP ratio declined and by 2023 was actually below Ontario. While Quebec at the start of the 21st century had some of the worst public finances in the federation, that distinction has now passed to Ontario. When it comes to provincial public debt, Ontario has to some extent become the new Quebec, and Quebec the old Ontario. Part of Quebec's success on the fiscal side has been the result of its creation of a sovereign wealth fund—the Generations Funds—that has invested the proceeds of its more ample natural resource revenues relative to Ontario as well as alcohol tax revenues.

The improvement in Quebec's economy and public finances relative to Ontario has in many respects reduced some of the differences between the two provinces. However, it has been noted that the narrowing of the economic performance and fiscal gaps is more a reflection of Ontario's decline rather than Quebec's ascension (Milke and Chassin, 2016). Since 2000, Ontario has spent a larger proportion of its GDP on program spending, although Quebec continues to spend a larger proportion of its GDP on program spending than Ontario (Milke and Chassin, 2016: 1).

In the end, Ontario and Quebec face ongoing challenges on both the economic and fiscal fronts due to their lower economic and productivity growth relative to the rest of the country, and more importantly, to the adjacent United States. Ontario's chronic underperformance over the last two decades has placed it near the bottom in comparisons of economic growth rates with adjacent jurisdictions (Eisen and Li, 2021). This is largely due to a major weakness in productivity-enhancing business investment, and improvements in economic performance will need to see a ramping up of investment-to-GDP ratios.

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