

Open for Business

An Interview with The Honorable Carlos Leitão, Finance Minister, Québec

EDITORS' NOTE For over 30 years, Carlos Leitão worked in the banking and financial services industry, including for the Royal Bank of Canada, and later for Laurentian Bank Securities, where he was Chief Economist. He sat on the management committee and the risk management committee of the Laurentian Bank for several years. He was also a member of the Bank of Canada's Québec Panel. Leitão was ranked among the world's top economists by Bloomberg. He has been a Member of the Legislative Assembly for Robert Baldwin since the election in April 2014 and Minister of Finance of Québec since April 2014. He also acts as Chair of the treasury board and Minister responsible for Government Administration.



The Hon. Carlos Leitão

Will you highlight the key issues Québec is facing right now?

There is an international backdrop of questioning the benefits of globalization, open borders, and trade. That is the case at the moment in the U.S., which is a surprise to our people. The U.S. used to be the leader of the free world and the force for open borders and trade. When we talk about trade, we also talk about investment, so we have to be careful with that.

That backdrop has led to some cynicism, a dangerous development for the global economy. There is a risk that globalization could move into reverse.

There are elections in Europe this year. There will also be elections in Canada – the different provinces are entering their election cycles – and those same issues are also present there, although to a lesser extent. Canada is open to trade and, with a relatively small economy, we know that we depend on trade. Even our most left leaning political parties and movements understand that trade is important.

This backdrop brings about a lot of questions about the benefits of trade, and this puts the onus on policy makers and elected officials to explain again and again why trade and investment are positive for economic growth and the standard of living.

I still think those issues need to be addressed on multilateral levels such as the OECD, but also individually within each country. Within Canada, Québec has always promoted

an open economy. We clearly rely on international trade and interprovincial trade and, from day one, the province of Québec was at the forefront of the movement that led to the Free Trade Agreement with the U.S., which then became NAFTA.

We continue to push in that direction every chance we get to explain to Americans, other Canadians, or Europeans that trade is a force for good. It's by combining resources and exchanging them that we can lead to a more prosperous world.

Trade is not a zero sum game – even if a country has a deficit and another one a surplus, trade is still a positive because we all benefit from the exchange of goods and services, investments, and innovation.

If we want a vibrant, well-functioning economy with a sufficient degree of competition that leads to innovation, trade is the basis for all of that.

As you look at what is happening around the world, is the free trade message not being properly conveyed?

Yes. The election in France was a great example of that. Emmanuel Macron is clearly pro Europe and pro trade, and he tells that message well. It's severely criticized by Marine Le Pen and others but, even in the days and weeks leading to the first round of elections, many other candidates from the more traditional right of center political parties were not as enthusiastic as Macron was. He was alone in this position, trying to defend an open Europe.

There aren't many people like him defending this position. Québec Premier Philippe Couillard and Prime Minister Justin Trudeau have both been very vocal on that front, but there aren't that many other world leaders doing it so clearly.

Global leaders have distanced themselves from trade, and people are ill at ease talking about it because some jobs have been lost. However, there have also been an equal number or even a greater number of jobs created because of trade.

Will you discuss where you see the economy today and the key areas for investment?

The Québec economy is doing very well. The economic cycle is now looking good to us in the sense that we saw domestic demand

gaining some traction in 2016: Two percent GDP growth represents a major improvement. The main engine of growth was domestic consumption, mainly construction and consumer spending, which depends on confidence. The cycle started to turn in late 2015 and then job creation improved in 2016, followed by more consumption, which led to more job creation.

Internationally, two other developments are also positive. We finally see an increase in global economic growth both in the U.S. and Asia. We are also seeing a rebound in commodity prices, which are linked to this growth.

There is a synchronized recovery, so we are very optimistic when we look to 2018. However, the change in the U.S. administration has created some uncertainty as to the current rules of the game. The U.S. is our largest and most important trading partner, and many of our investment decisions and much of our future economic growth depend on our ability to continue to do business with our neighbor to the south.

When uncertainty arises, people start to question future investment. However, we observe that investment intentions and spending are actually picking up, but there is still a risk, and we have to be prudent.

From day one, we understood that for us to eventually benefit from a cyclical recovery, we had to make sure that our fiscal house was in order, and we did. We knew this would be an ongoing effort. There were some difficult decisions on the spending side, but we took those on and, in just two years, we were able to tilt the spending curve. We didn't push through any massive spending cuts – we just substantially slowed the rate of spending growth to allow revenues to catch up. Now that we've done that, revenues and spending can grow at the same pace so that we remain balanced.

The key issue in our budget tabled last March was not that it was balanced for the third consecutive year but that it continues to be sustainable and will stay balanced for at least the next five years. We are looking at a strong fiscal framework into the medium term.

We told Québécois how much we wanted to spend and what our revenues would be, and we let them know that this would be the state of affairs for the time being.

By itself, such an exercise contributes to confidence building. People know that a

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sustainable and sane fiscal policy is in place, therefore there won't be surprising increases because we find ourselves in a sudden big fiscal hole. We are now beginning to see the benefits of having adopted such a stance.

More than ever, we are open for business. We have always welcomed foreign investment, which is a source of many things including innovation, and we continue to do so. Innovation often comes through foreign investment.

We have natural resources, and they still play an important role in the economy, but we also encourage and attract investment in services because that is the next frontier.

We actually have one natural resource that plays right into this developing service, and web-based economy, and that is electricity. A great amount of electrical power is required to power all of those servers, and they have to be located in a stable environment. In Québec, we can offer access to regular and well-priced electrical power, and this contributes to reasons why many new web-based businesses are setting up shop in our province.

In regard to foreign investment, do you feel that Québec's strengths are well understood?

There is always room for us to do better, but the message is well understood. There is a lot of noise out there, and sometimes we have to find ways to make sure to get that message through.

With eight million people, Québec is a relatively small place, but our story is a good one and it continues to improve. We can't control the noise, but the world needs to hear it because it's one of a successful turnaround.

Will the stability in the economy lend itself to more investments in health and education?

It will, because we've slowed the pace of spending growth without cutting spending. We are now able to spend more in line with revenue growth, but we have to be very focused in our public spending and, in our case, we have one priority, which is education.

Education, in the broad sense of the word, from day care to post-secondary, represents the present and the future. In our last budget, we identified this as the priority and, therefore, our education spending will rise over our five-year fiscal framework. It's also not just a question of throwing money at the system but also going through a significant change in the way we manage our education system. We have a very innovative and unique system of early childhood education centers, as well as public

school and post-secondary institutions, which are public and relatively affordable, and we want to keep them that way.

The challenge we face is to make sure that the system is flexible enough to prepare the children for jobs even though we don't know what those jobs are going to be because everything is evolving so fast.

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We continue to fund healthcare appropriately but, like education, we still need to make some changes in the way the system operates. We've been able to achieve some structural changes by tightening the central administration of the system, but we still need to achieve significant economies through the application of technology to better manage it.

The third focus is economic development, which is where we are putting many of our resources.

Is innovation occurring in the public sector?

It is occurring, and it's very important, but the public sector is often complex because of its many different components.

In terms of efficiency and productivity, we can compare ourselves favorably with the private sector. Our different ministries are lean. We have a continuous process of improving and modernizing the way the system works.

In Québec, about 80,000 people are working directly for the government. Another 400,000 are working with a great deal of autonomy in public jobs within schools and universities. They are publicly funded but they are not under direct control of the government; it's the same thing with healthcare and hospitals. In that sense, our broadly defined public sector is more complex to manage. That which we manage directly, we do well. For instance, there has been a great deal of improvement in the way we handle human resources. It is our largest challenge, and we have to be smart about it. Our demographic profile is such that we have a large number of people who are expected to retire at the same time. This means that we must continuously attract young people and make sure that when they retire, others will be there to replace them.

Our public health and education networks are also challenging. This is where innovation is critical. Looking at the healthcare sector specifically, there is a great deal of potential to innovate. Our healthcare system is still very much paper-based, which is a bit odd in 2017. The different parts of the system don't talk to each other effectively. It's not easy, and there is a lot of resistance, but that's where I see the biggest opportunity to introduce innovation and benefit from it.

What more can be done to excite young people about public service?

It's a challenge because there are many preconceived notions about government work. We are attempting to correct that by working more like the private sector to attract students. We have to be more active in recruitment.

We have an opportunity in Québec to take advantage of the growing diversity in the population, especially in large metropolitan areas. Those large areas are very diverse, and the public service has not necessarily been very successful in recruiting to match that diversity, so we have put a number of initiatives in place to tap into that manpower. Frankly, in our ministry, we are a little more diverse, perhaps by the nature of the job itself. ●