PRESS RELEASE **For immediate publication**

LIMITING COMPETITION IS BAD FOR PRODUCTIVITY

Montreal, November 21, 2012 – By maintaining regulations that limit competition in many sectors of the economy, Canada – and consequently Quebec – are hindering productivity growth. This situation, denounced in *Productivity and Prosperity in Quebec – 2012 Overview*, is worrisome. "With this analysis we wanted to suggest ways to government decision makers of reducing the gap that our country has seen in the past three decades in terms of our standard of living. Our study shows, in particular, that Canada's excessive protectionism in its goods markets is impeding its economic expansion," maintains Robert Gagné, Director of the HEC Montréal Centre for Productivity and Prosperity (CPP).

The federal and provincial governments would be very well advised, in this area, to take inspiration from the practices adopted in some other countries, i.e. in Scandinavia, the Netherlands and the United Kingdom, which were faced with difficulties very similar to those we are now experiencing in Quebec and the rest of Canada. Their reforms sought greater efficiency by relying more on competition.

For instance, in response to the economic crisis of the 1990s, the Scandinavian countries attempted to reduce the regulatory burden for exporting businesses and foreign investors. The legislation governing competition was tightened up and goods markets gradually deregulated. Even today, the strategy is to simplify regulation to reduce the burden for businesses so that they can devote more attention to their day-to-day operations, create more economic activity and generate more jobs. Sweden, for example, launched a program in 2006 to reduce administrative costs for businesses by 25%.

These steps seem to have made Scandinavian entrepreneurs very happy. According to a worldwide survey of investors by the World Economic Forum on global competitiveness, it was mainly Scandinavian entrepreneurs who considered that the anti-monopoly legislation in their respective countries did the most to encourage competition.

Too much protection is stifling

Clearly, Canada is not as open to international trade and does not encourage competition as much as these countries. Some markets, such as electricity, telecommunications and air transport, are still highly regulated and very closed to foreign ownership. As a result, consumers do not benefit from the positive spillover that competition and foreign direct investment (FDI) can bring for the economy in terms of service quality and lower costs. Remember that FDI means all the investment made by an individual or a company with the intention of exerting significant influence in a company located in another country.

Canada is very closed to any foreign investment, as shown by its 24th position out of the 29 countries in the OECD restrictiveness index. The most restrictive countries, including Canada, mainly cite reasons having to do with the protection of national security and sovereignty to justify their regulations.

Authorities are well aware of the consequences of too much protectionism, nevertheless. According to an Industry Canada study, eliminating the current barriers to foreign investment in the telecommunications sector alone would allow the country's real GDP per working age person to increase by 1.7% over a ten-year period. Moreover, the limited competition is slowing the adoption of new technologies and modern telecom services, and thereby hindering productivity.

The federal government is just now starting to open up the telecommunications sector to foreign investment, however. In its latest budget (2012), it confirmed that it would abolish restrictions preventing foreign companies from investing in wireless telecommunications groups with a market share of less than 10%. At present the law prohibits foreign ownership exceeding 46.7% in companies in this sector. According to the Minister of Industry, these measures will give new wireless service suppliers access to new sources of capital and allow them to more easily integrate the market.

"In light of this analysis, it seems clear to us that an extensive review of the current regulations and the *Competition Act* would make it possible to create a more competitive environment. This would foster productivity growth and allow Quebeckers and other Canadians to benefit from higher-quality goods at lower cost," concludes Robert Gagné.

The CPP's *2012 Overview* is not limited to issues relating to goods markets, but also paints a detailed picture of Quebec's economic performance and contrasts it with that of some twenty industrialized countries, including Canada and the United States. For the first time, this year's report offers a detailed analysis of certain factors with a decisive influence on Quebec's productivity (education, health, transportation, tax policy and assistance for business) and suggests some ideas for improving the situation.

For more information:

- See page 63 of *Productivity and Prosperity in Quebec – 2012 Overview*
- Téléchargez le communiqué en français.

About the Centre for Productivity and Prosperity

The HEC Montréal Centre for Productivity and Prosperity, created in 2009, has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec and in Canada as a whole. The Centre then shares its research findings, making them widely accessible and, in the end, educating people about productivity and prosperity. For more information on the Centre, visit www.hec.ca/cpp**.**

- 30 -

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