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## **QUEBEC HAS ALWAYS HAD A PRODUCTIVITY GAP**

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**Montreal, September 10, 2013** – Quebec’s productivity problems are nothing new. A study released today by the HEC Montréal Centre for Productivity and Prosperity shows that Quebec has suffered a productivity gap ever since it joined Confederation. “The picture that emerges from this research into historical productivity trends in Quebec is rather disheartening,” says researcher Vincent Geloso, who is currently completing his doctoral studies at the London School of Economics. “It shows that, since 1870, the province has regularly posted productivity levels lower than those in Ontario and, generally speaking, the country as a whole. Consequently, its standard of living has followed suit and continues to lag behind the rest of Canada.”

The study’s findings make it easier to understand Quebec’s economic history and identify periods of growth. They also point to which government policies are most apt to encourage the province’s economic development.

### **Some more prosperous periods**

The first, inescapable, observation is that from the earliest days of Confederation until World War II the health of Quebec’s economy declined slightly and has even stagnated since 1975. The study does show, however, that the province has enjoyed some periods of greater prosperity, in particular from 1945 to 1975. And, remarkably, although the benefits of the post-war economic boom were felt across the country, Quebec fared so well that it was even able to catch up to some extent with the other provinces. What explains this spectacular growth?

“During that period, the Church’s sway over economic and social life in Quebec gradually declined, and new institutions began to transform the business environment,” Geloso explains. “The Church was long recognized for its role in fostering conflicts between Anglophones and Francophones, with the result that poverty was more prevalent among Francophones. But as the two language groups resolved their differences, the Church lost much of its influence. At the same time, the State was involved to only a limited extent in the province’s economy. Interestingly enough, it was precisely when there were the fewest obstacles to economic activity and individual decision making that the province posted surprising economic growth, probably the best ever.”

In concrete terms, the years from 1945 to 1960 saw a massive exodus of rural Francophones to the cities, as they abandoned primary industries, like agriculture. Whereas close to 30% of Francophones worked in the primary sector in 1941, the figure had plunged to 12% by 1961, as workers gradually shifted to new industries such as services, administration, trade and finance. Productivity in Quebec grew quickly thanks to this migration of workers to new and more productive sectors of the economy.

### **A disappointing revolution**

Another telling finding of the study is that since the 1970s Quebecers' real standard of living has been artificially boosted by the impact of federal transfer payments and overestimated because of changes in the structure of Quebec households. It shows that Quebec has lagged behind Ontario by 20% since 1976, when incomes in Quebec were only 77% of those in its neighbouring province. The latest data show that the figure is 78% today.

"If we examine the situation more closely, we see that, contrary to popular belief, Quebecers' standard of living has stagnated since the mid-1970s as compared with other Canadians," says Geloso. "The study shows just as clearly that Quebec was most prosperous between the time when the Church lost its hold and State interventionism began – from 1945 to 1960. In other words, history tells us that Quebec's economy has done best when economic players have had the most freedom and been able to innovate. In the light of these findings, there is surely cause to question the contradictory effects of some government policies on Quebec's economic development, in particular its burdensome taxation and regulatory framework," he concludes.

### **For more information:**

- Consult the report (in French), entitled [\*Une perspective historique sur la productivité et le niveau de vie des Québécois - De 1870 à nos jours\*](#)
- 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](http://www.hec.ca/cpp).

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