Centre sur la productivité et la prospérité

HEC MONTRÉAL

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ECONOMIC DEVELOPMENT: QUEBEC'S STRATEGIES ARE INCONSISTENT

Montreal, January 25, 2016 – Despite the extensive financial aid they have received since the late 90s, Quebec companies continue to post lacklustre performance: productivity growth remains weak, the economy is struggling to create jobs, private investment is still lacking and output is growing more slowly than elsewhere in Canada. Under the circumstances, the government should reconsider the balance between businesses' tax burden and the amount of support it gives them if it truly wants to help Quebec's economy grow. These are the main findings contained in the 2015 Overview of Productivity and Prosperity in Quebec released today by the HEC Montréal Centre for Productivity and Prosperity (CPP).

"Of all the factors that might explain this situation, the most important one is the lack of consistency between the different policies aimed at stimulating the province's economic development," explains CPP Director Robert Gagné. "Ideas emerge from one government to the next and, even though there have been some changes, nothing as yet has made it possible to create the far-reaching transformations required for an effective economic development policy. And without a coherent overall policy, each reform on its own – no matter how significant it may be – has not been enough to restore the Quebec economy to a solid footing. The only way to put the province back on the road to prosperity is a real economic development policy."

Fundamentally, this policy needs to be structured in such a way that government initiatives do more to foster a culture of innovation, which is the key to boosting labour productivity. In this respect, the economic development policy should focus on two main areas: education* and creating a stimulating and prosperous economic environment.

Misdirected measures

As it stands, the government's strategy is mainly to tax companies more heavily while at the same time giving some of them significant financial support. The Quebec government hands out three times as much aid to companies as does the Ontario government, but Quebec companies bear a 30% higher tax burden. Unfortunately, this approach is evidently not delivering the hoped-for results.

According to the study's authors, the frequent shifts in direction, along with the lack of transparency and review that currently characterize government intervention in Quebec, hamper the emergence of new companies and stifle the dynamism of existing ones.

Some recommendations

"To ensure that the aid given to companies produces the best results at the lowest cost, the government should redirect its efforts, focusing on SMEs, using more direct aid and defining its targets more carefully to make sure that they fit with its goals," Gagné recommends. The support

allocated should also be systematically reviewed, so that government interventions can be adjusted periodically as its effectiveness is assessed. The government also needs to ensure that SMEs can obtain this support at a reasonable cost, rather than having to rely on consultants to arrange it for them.

Since this strategy would reduce the amount of aid required, the government would be able to lighten the tax burden on SMEs and thereby help as many companies as possible. In this respect, priority should go to two measures: offering exemptions from payroll taxes, which hinder job creation, and lowering small business taxation rates – at present SMEs pay tax rates 1.8 to 4 times higher than anywhere else in Canada on their first $500,000 of taxable income.

"For companies to innovate and take a bolder approach, the government has to do likewise. For too long, the Quebec government has simply tinkered with existing measures. If it wants to truly breathe new life into the economy, it will have to show some vision and stop merely making minor adjustments to the support it is already granting," Gagné maintains. "That's why it's essential to come up with a real economic development policy. This will allow it to move away from a broad, opaque system where aid is granted without any serious review, toward a transparent system in which actions are better defined and assessed, and where support is allocated for specific purposes."

More than just a study of the support given to companies, the CPP 2015 Overview proposes a real economic development policy and includes several recommendations aimed at enhancing Quebeckers' schooling, a prerequisite for boosting productivity in Quebec. See the **Education, Far from a Priority in Quebec press release.*

For more information:

- Consult the report (in French), entitled *Productivité et prospérité au Québec – Bilan 2015*;
- 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**.**

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