PRODUCTIVITY AND PROSPERITY IN QUEBEC

OVERVIEW 2026 Edition

Centre for Productivity and Prosperity
Walter J. Somers Foundation
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PRODUCTIVITY AND PROSPERITY IN QUEBEC | OVERVIEW 2026 Edition

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About the Centre for Productivity and Prosperity – Walter J. Somers Foundation

The Centre for Productivity and Prosperity – Walter J. Somers Foundation has a twofold mission. First of all, it is devoted to research on productivity and prosperity, mainly in Quebec. The Centre then shares its research findings through knowledge transfer and educational activities.

About the Walter J. Somers Foundation

The Somers family established the Walter J. Somers Foundation in tribute to the founder of the Walter Group. Through different donations, the Foundation pursues the family heritage of commitment to the community and contributes to the prosperity of Quebec society, firstly by helping to improve its productivity but also by supporting excellence in youth education.

For more information on the Centre, visit **www.hec.ca/cpp** or write us at **info.cpp@hec.ca**

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SUMMARY

Seventeen years after the first edition of *Productivity and Prosperity in Quebec – Overview*, the situation is still concerning: Quebec remains trapped in a flawed economic development model. Despite mounting warning signs, the government has continued a strategy whose results do not justify either its scope or its cost. Billions of dollars have been poured into measures that have failed to foster a critical mass of companies productive, innovative, and competitive enough to succeed in foreign markets. And this is precisely where the crux of the matter lies: without a pool of companies capable of sustaining a sustainable expansion of exports, the growth of the Quebec economy remains largely dependent on domestic demand, which jeopardizes the province's economic catch-up.

In this context, the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) argues that a complete overhaul of Quebec's industrial policy has become inevitable.

Building on a partnership with the Québec Global 100 Network (QG100), which brings together Québec companies that excel in exports, the 2026 edition of *Productivity and Prosperity in Quebec – Overview* identifies the common traits of the highest-performing companies to guide the government in this overhaul. The trends identified through the analysis of their practices show that, led by executives better equipped to recognize and implement necessary transformations, QG100 Network companies stand out for their significantly more aggressive growth strategies, based on sustained efforts in investment, innovation, process modernization, and the integration of cutting-edge technologies. It is this strategic intensity that enables them to break into foreign markets and maintain a foothold there.

In short, the QG100 initiative demonstrates that a company becomes competitive when it is driven to invest, innovate, and continually reinvent itself. The real challenge, therefore, is no longer to add new measures to an already saturated system, but to rebuild an industrial policy capable of activating the true drivers of competitiveness in an economy where the low intensity of domestic competition does not sufficiently incentivize companies to transform themselves. In this context, job creation must no longer be the starting point of industrial policy, but rather the culmination of a strategy focused on a sustainable increase in business competitiveness.

Based on lessons learned from the QG100 experience, the report proposes five directives to shift Quebec from an industrial policy that fosters a wait-and-see attitude toward a culture of innovation. This reorientation involves revising the two components of the current strategy: reducing the scope and cost of government interventions, and lightening the tax burden on all businesses.

Rather than making marginal changes by limiting itself to tax rate cuts that periodically benefit a limited number of businesses, the report recommends abolishing the Health Services Fund (HSF) contribution, a tax disguised as a social contribution that generated $5.3 billion in revenue for the government in 2021 – equivalent to just over half of the revenue derived from corporate income tax.

In return, the government will need to rethink its interventions to reduce their cost and increase their effectiveness. In this regard, the insights drawn from the QG100 Network's experience clearly demonstrate why the compartmentalization of the current strategy is counterproductive. Among the most dynamic SMEs, investment, innovation, digitalization, and the adoption of cutting-edge technologies reinforce one another. By treating these activities as isolated silos instead – where assistance is granted based on strict eligibility criteria and within specific niches – the tax strategy has clearly failed to foster this synergy among SMEs. It has primarily supported trajectories already underway rather than encouraging more hesitant companies to embark on modernization.

To reach as many businesses as possible while reducing the cost of its strategy, the government will need to limit access to tax assistance for SMEs. By breaking down silos in its approach and structuring its incentives around the concrete conditions under which businesses make their investment, innovation, and adaptation decisions, the government can establish a more efficient framework for intervention, in which smaller but bettertargeted budgets will yield better results than those achieved today.

The report recommends ceasing the use of tax incentives to support large corporations, a shift that would move away from a logic of automatic support and bring government intervention back to a project-based approach. This approach will require moving beyond the false dichotomy between the presumed neutrality of tax incentives and the arbitrary selection of winners typically associated with direct aid. The current strategy already involves selection, though it does not guarantee that public resources finance the most promising projects. A call for projects would at least have the advantage of making this selection explicit, competitive, and measurable.

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INTRODUCTION

In 2009, the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) published the first edition of *Productivity and Prosperity in Quebec – Overview* to provide a better understanding of the issue of productivity and its effects on Quebec's economic prosperity. The findings at the time were a cause for concern among Quebecers. Due to particularly slow productivity growth, the province was lagging significantly behind the 19 leading Western economies.

Seventeen years have passed since then, and unfortunately, the situation has not improved. Quebec businesses invest little, engage in relatively few research and development activities, and show a low propensity to innovate – behaviours that limit the productivity gains they are able to achieve and consequently hinder the growth of the Quebec economy. Yet, the failing mechanisms have been clearly identified, and concrete solutions have been proposed to address them.

What makes the situation particularly concerning is that the Quebec government has spent billions of dollars to fund an industrial policy intended to reverse this trend, without succeeding. Worse still, its intervention has worsened the situation. By almost systematically favoring job creation for over a quarter of a century, the province's industrial policy has not only disrupted the process of resource reallocation in the economy, but has also inadvertently slowed the revival of investment by favoring human capital-intensive projects and firms. The result is a business sector with low dynamism and little inclination to make the adjustments necessary to initiate a sustainable increase in productivity, so that only a small proportion of Quebec businesses achieve the level of competitiveness required to succeed in foreign markets. This is precisely where the crux of the matter lies as without a critical mass of businesses that are sufficiently productive and competitive to sustain a lasting expansion of exports, the growth of the Quebec economy remains largely dependent on domestic demand, which undermines the province's economic catch-up.

The conclusion is therefore clear: as long as Quebec businesses do not invest more, innovate more rapidly, and seek more actively to improve their efficiency, the province's export ambitions will remain limited, and economic growth will remain insufficient to close the accumulated gap – hence the need to implement a more effective industrial policy. It is in this spirit that this seventeenth edition of *Productivity and Prosperity – Overview* is presented.

In partnership with the QG100[1], the CPP proposes a framework for defining an efficient economic development strategy. By precisely activating the mechanisms to encourage businesses to invest, innovate, and sustainably strengthen their competitiveness, this strategy would limit the need for state interventionism, which footprint has significantly increased in recent years.

Québec Global 100 Network (QG100): Exceptional Companies to Rethink Industrial Policy

To be truly transformative, industrial policy cannot be reduced to a list of action areas. Rather, it must precisely target the mechanisms that limit business competitiveness and, as a result, modify the incentive framework for investment and innovation to enable businesses to increase their productivity. Such an exercise, however, is far from simple: it requires distinguishing between the demands of pressure groups advocating for the *status quo* and the mechanisms capable of sustainably improving business performance.

The partnership between the QG100 and the CPP offers a concrete foundation for rethinking industrial policy. By documenting the export experience of this group of exceptional companies, it helps to clearly identify the strategies the government should draw upon to revise its approach.

The approach used to identify these mechanisms is simple in principle but innovative in its implementation.

Drawing on the findings of its research to select specific segments of surveys conducted by Statistics Canada among Canadian businesses, the CPP designed and conducted a survey of QG100 members to identify the factors underlying their performance. The findings are particularly illuminating in identifying the behaviours, strategies, and innovative practices that industrial policy should seek to promote.

The compiled data shows that QG100 companies stand out in the quality of the human capital at their helm. Their owners and managers are better educated, have more extensive management experience, and follow distinctive entrepreneurial paths, notably through a stronger propensity to grow through acquisitions. This profile extends to their competitive position. With a greater presence in international markets and greater exposure to competition – particularly from multinationals – QG100 companies face stronger-than-average competitive pressures. They respond by deploying investment and innovation strategies that are significantly more dynamic than the average observed in Quebec and Canada: higher frequency of new product launches, more sustained renewal of business processes, greater investments in digital infrastructure, increased intensity of innovation activities, and more extensive use of cutting-edge technologies and artificial intelligence. In short, QG100 companies stand out for their superior ability to reinvent themselves, adapt, and transcend the prevailing logic of the domestic market.

Although the size of the sample calls for caution, data collected alongside the survey suggest that the strategies highlighted are not merely rhetorical but yield tangible results. The growth in investment among companies participating in the initiative was significantly faster than the average for the economy as a whole, enabling them to achieve substantially higher productivity gains. These results do not merely highlight what sets the QG100 companies apart. They reveal what Quebec's industrial policy has failed to achieve on a broader scale: a culture of investment, innovation, adaptability, and openness to foreign markets.

Before outlining the principles that should guide this overhaul, the following pages first revisit the framework that guided previous editions of *Productivity and Prosperity – Overview*. By reframing Quebec's performance within a broader comparative perspective, we will see how the province came to rely on an industrial policy that is as costly as it is ill-suited to the challenges it claims to address.

THE QUÉBEC GLOBAL 100 NETWORK (QG100)

Created in 2010, the Québec Global 100 Network (QG100) was born out of the ambition to foster the emergence of new global champions by leveraging the experience and expertise of Québec's leading companies to benefit businesses committed to a path of international growth.

The QG100 has made it its mission to support the emergence of global leaders, contribute to the sustainability of their position in international competition, and enable its members to benefit from global business expansion.

This mission has taken shape in a support model based on the sharing of knowledge that would otherwise be difficult to access. By bringing together experienced executives and high-growth companies in a private setting, the QG100 has facilitated the peer-to-peer sharing of practical insights on market diversification, organizing international growth, accessing talent, structuring business networks, and adapting to the specific realities of each country.

In the context of this *Overview*, the QG100 serves as a unique vantage point for analyzing the practices of Quebec companies that, beyond exporting, are structuring their growth, governance, and execution capabilities on an international scale.

PART 1:
PRODUCTIVITY AND PROSPERITY IN QUEBEC – OVERVIEW

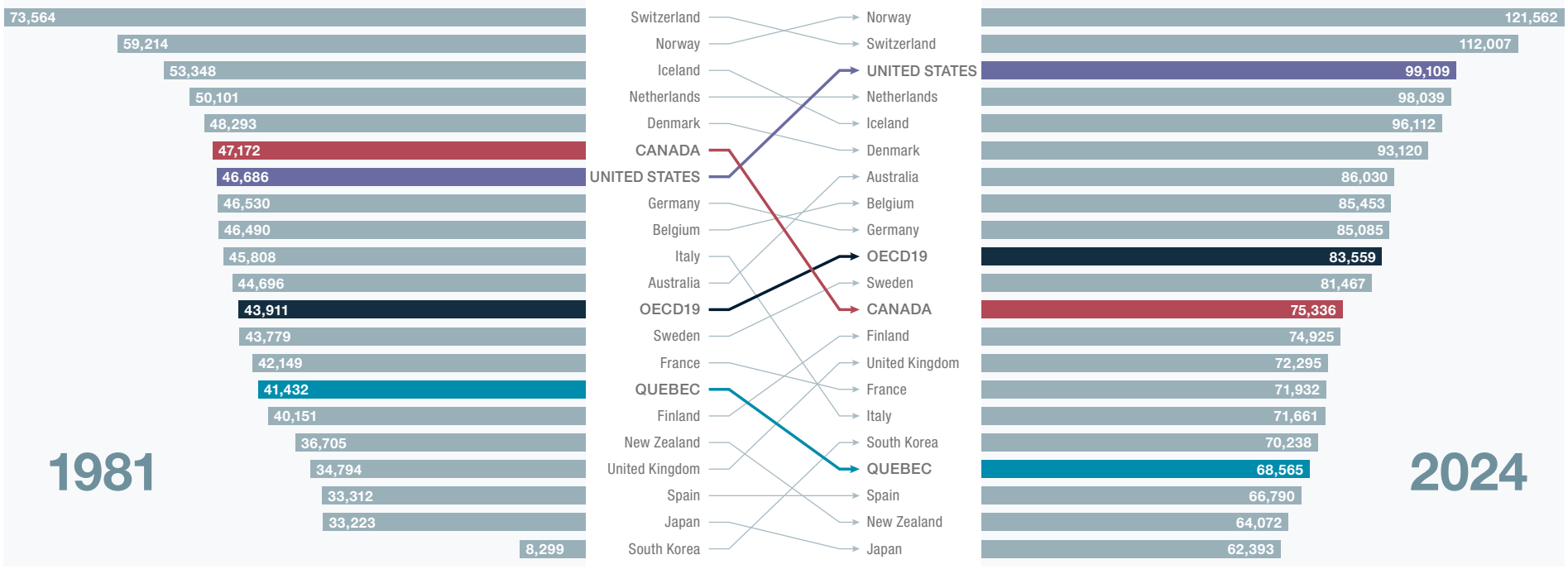
THE DECLINE OF THE QUEBEC ECONOMY

Over the past 44 years, Quebec has considerably fallen behind economically (*Chart 1*). To gauge the extent of this decline, one need only recall that in the early 1980s, a gap of approximately $2,500 per capita separated Quebec's standard of living from the OECD19 average[2]. At that time, the province ranked between Finland and Sweden, economies with which Quebec is often compared due to the size of their markets and the similarities observed in the social safety nets available to their populations. This near parity is now a thing of the past. In 2024, a gap of approximately $15,000 per capita separated Quebec from the OECD19 average, while the standard of living in Sweden and Finland exceeded that of the province, with the gap being particularly pronounced on the Swedish side.

CHART 1

STANDARD OF LIVING IN 1981 AND 2024

GDP in 2024 Canadian dollars per capita at purchasing power parity



The cumulative gap in living standards during this period did not result from a linear process. From a relative perspective (*Chart 2*), most of this gap widened following the recessions that hit Quebec's economy harder in the early 1980s and in the early 1990s. Once the shocks had passed, the Quebec economy resumed a pace more or less similar to the average observed within the OECD19 group, which stabilized the relative magnitude of the province's economic lag. In relative terms, it can be said that the province's economic lag has been stable for nearly 25 years now.

This apparent stability should not downplay the magnitude of the issue, as it masks an absolute reality with serious consequences: the monetary value of this gap has continued to grow in the meantime (*Chart 3*). Between the low point in 2002 and the peak in 2024, Quebec's gap increased by more than $4,500 per capita when taking inflation and differences in purchasing power into account. Having failed to accelerate its economic growth sufficiently to close the cumulative gap, Quebec has seen a significant portion of its collective consumption capacity eroded, as it is these dollars – not percentage gaps – that concretely determine households' ability to consume and save, as well as the government's ability to fund program expenditures for the population.

CHART 2

CHANGES IN THE RELATIVE STANDARD OF LIVING GAP BETWEEN THE OECD19 AVERAGE AND QUEBEC

In percentages

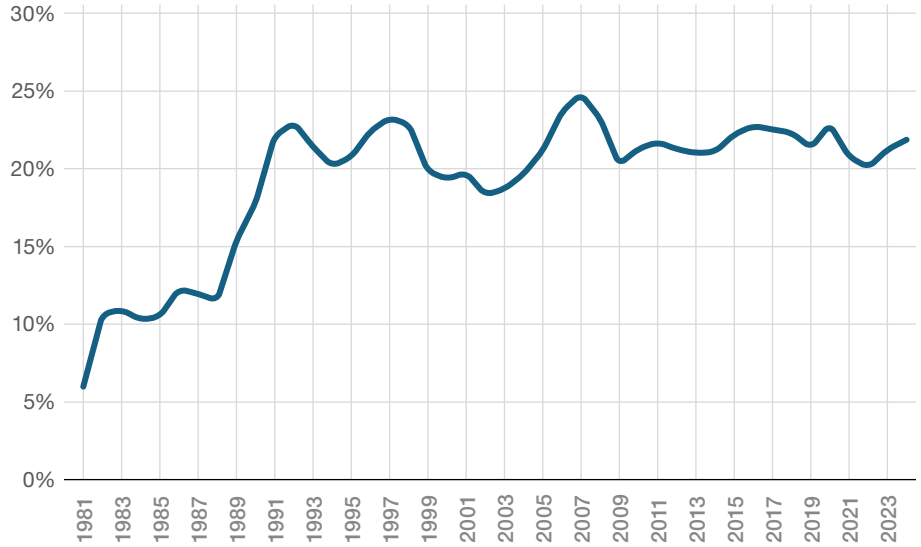
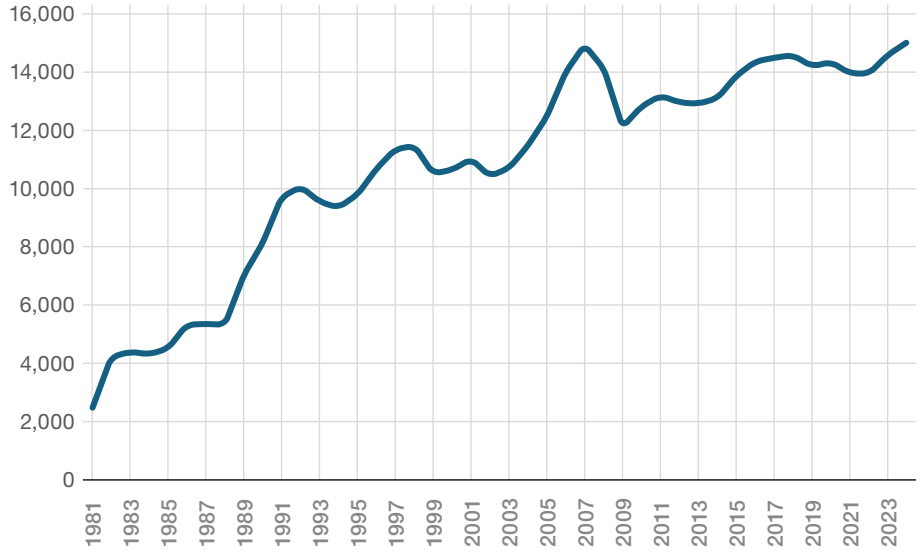


CHART 3

CHANGES IN THE STANDARD OF LIVING GAP BETWEEN THE OECD19 AVERAGE AND QUEBEC

In 2024 Canadian dollars per capita at purchasing power parity



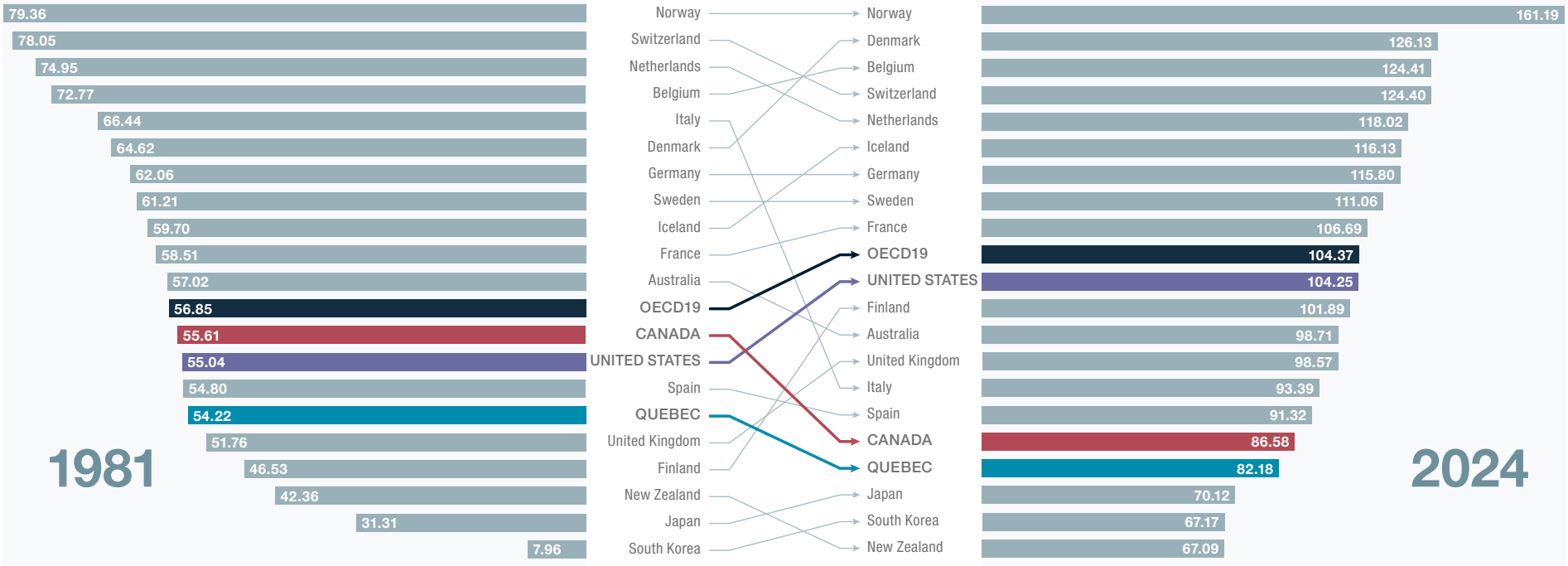
LABOUR PRODUCTIVITY: A LONG-TERM DRIVER

The reason for Quebec's lag in living standards compared to major Western economies is clear: having maintained an average annual productivity growth of barely 1% over more than four decades, the Quebec economy is now significantly less productive than the vast majority of OECD19 economies. To give an idea of the cumulative gap, it suffices to note that each hour worked in Quebec generated on average 27% less wealth than the OECD19 average in 2024, equivalent to approximately C$22 per hour worked (*Chart 4*). In the early 1980s, this same gap was less than $3 per hour worked.

CHART 4

LABOUR PRODUCTIVITY IN 1981 AND 2024

GDP in 2024 Canadian dollars per hour worked at purchasing power parity



The role of productivity can be defined concretely using an equation in which the standard of living is determined by three factors (*Figure 1*):

- Labour productivity, which measures the average wealth generated per hour worked;
- Labour intensity, which measures the average number of hours worked per job;
- The overall employment rate, which measures the proportion of the population that is employed.

We therefore assume that a society has three methods to stimulate growth of one's standard of living:

- Work more efficiently by increasing the wealth generated per hour worked;
- Work longer by increasing the average amount of time spent at work;
- Work more by increasing the number of jobs as a proportion of the population.

When expressed in terms of growth, this identity makes it possible to determine the extent to which these mechanisms have influenced the evolution of the province's economic lag over the past 44 years (*Chart 5*).

FIGURE 1

THE THREE FACTORS DETERMINING STANDARD OF LIVING

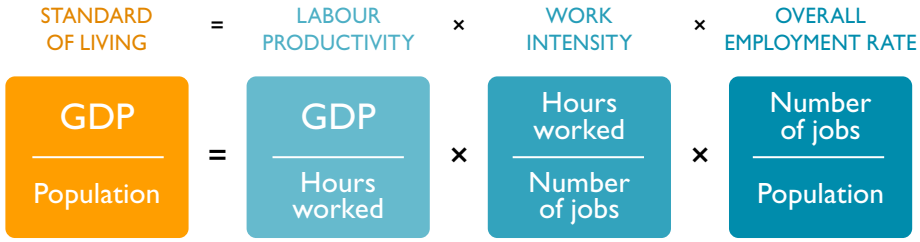
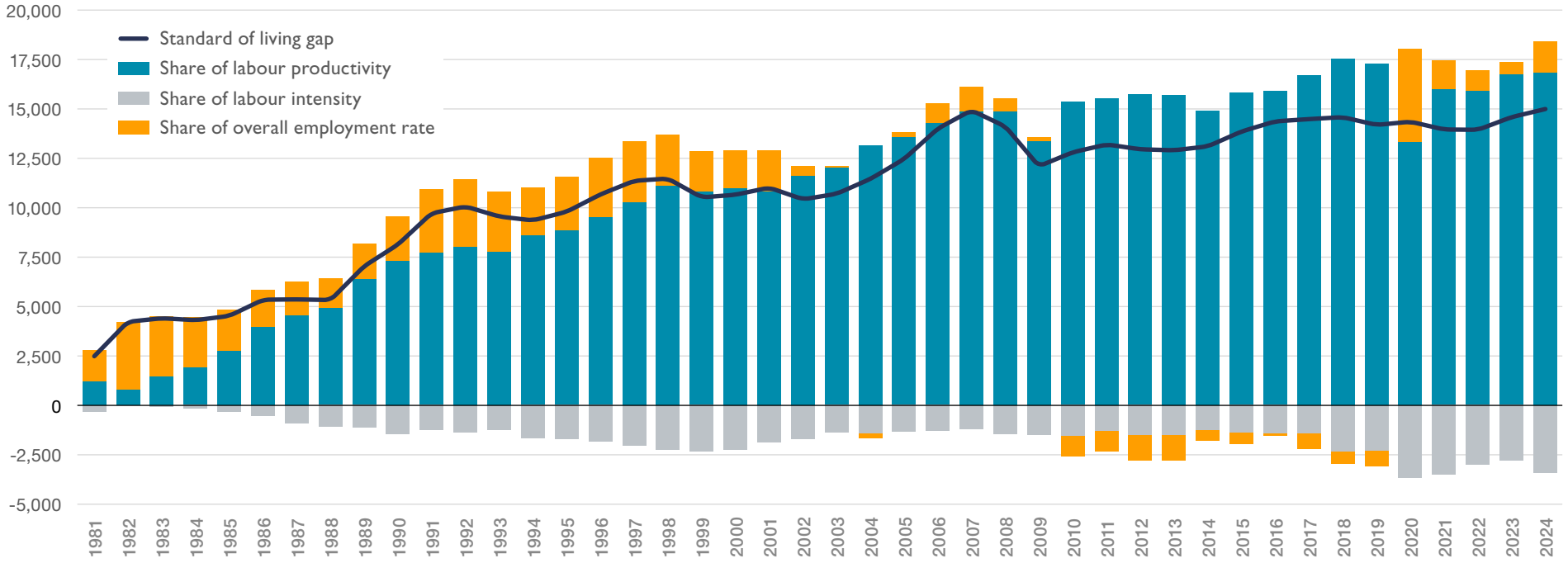


CHART 5

BREAKDOWN OF THE CHANGE IN THE STANDARD OF LIVING GAP BETWEEN THE OECD19 AVERAGE AND QUEBEC BETWEEN 1981 AND 2024

In 2024 Canadian dollars per capita at purchasing power parity



In the early 1980s, Quebec's lag in living standards was not yet primarily due to productivity. It was mainly due to the relatively low employment rate, which reflected both a structural issue linked to lower female labour force participation and a difficult economic environment associated with major recessions that hit the Quebec economy harder (*Chart 6*). Once the effects of the recessions had subsided, labour market conditions slowly improved. The employment rate rose, and labour intensity increased while the trend was downward for the OECD19 group (*Chart 7*), which effectively slowed the growth of the province's economic lag despite stagnant productivity (*Chart 8*).

After going through a similar episode in the early 1990s, the situation changed at the turn of the 2000s. As the catch-up in employment came to an end and the advantage derived from labour intensity diminished, labour productivity growth in Quebec weakened, a trend that has continued since then. As a result, the entire gap in living standards between Quebec and the OECD19 average became explainable by the province's relatively low labour productivity. In fact, the gap in living standards relative to the OECD19 average would be 12.3% higher today if the province did not offset part of its low productivity with higher labour intensity.

CHART 7

CHANGES IN LABOUR INTENSITY

Total hours worked as a percentage of total employment

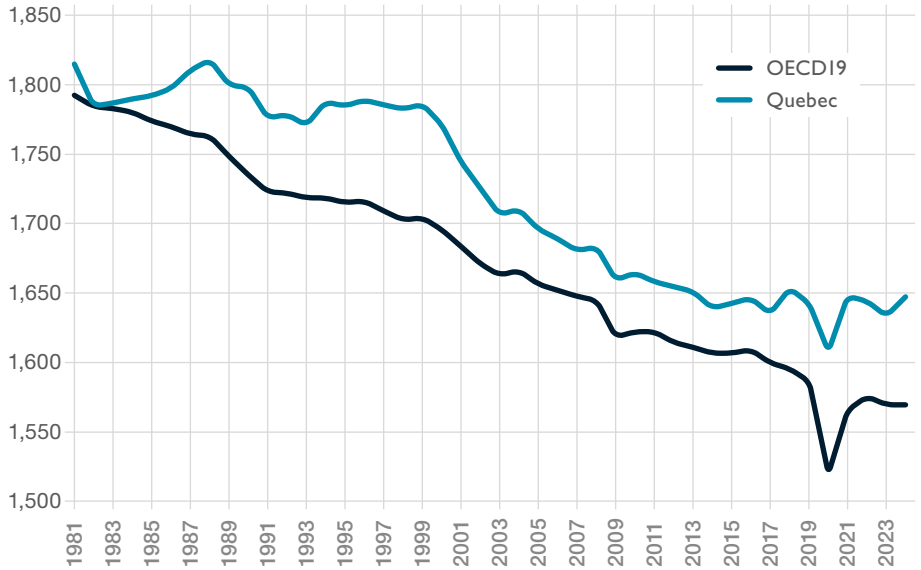


CHART 6

CHANGES IN THE OVERALL EMPLOYMENT RATE

Total jobs per capita

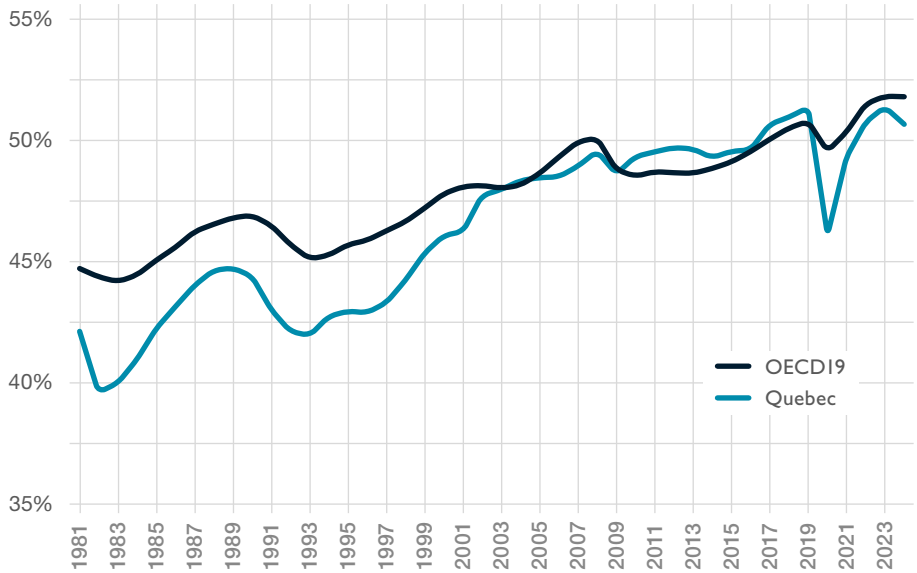
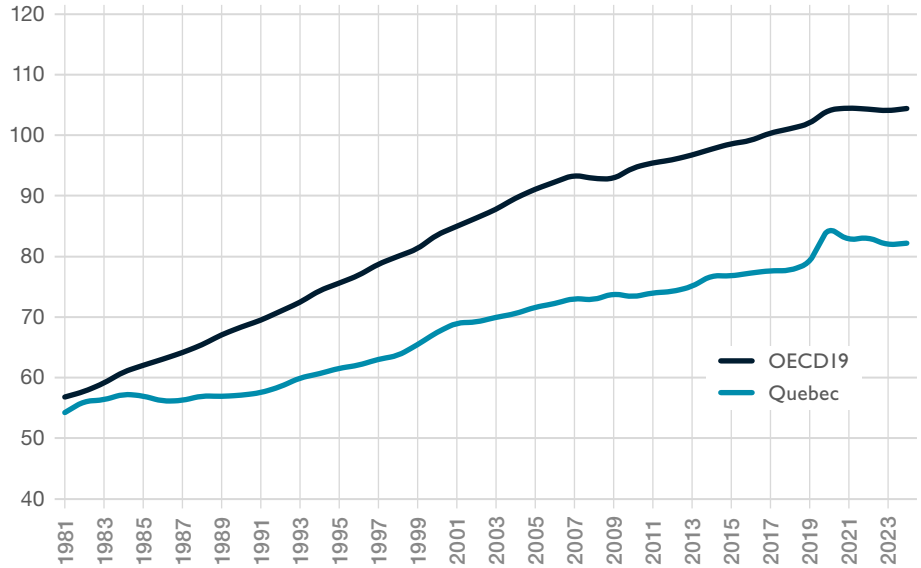


CHART 8

CHANGES IN LABOUR PRODUCTIVITY

GDP in 2024 Canadian dollars per hour worked at purchasing power parity



A PRACTICAL OPTION?

While the breakdown of the standard of living clearly indicates the impact of low productivity in the Quebec economy, it also debunks a persistent myth regarding the average number of hours worked by Quebecers.

The perception that Quebecers do not work hard enough is largely based on a comparison limited to North America, a framework in which Quebec finds itself at the bottom of the pack (*Chart A*). In reality, the intensity of work in Quebec is not particularly problematic when the scope of the comparison is broadened. In 2024, the gap with the OECD19 average still stood at 78 hours per job, equivalent to about two additional standard workweeks above the average.

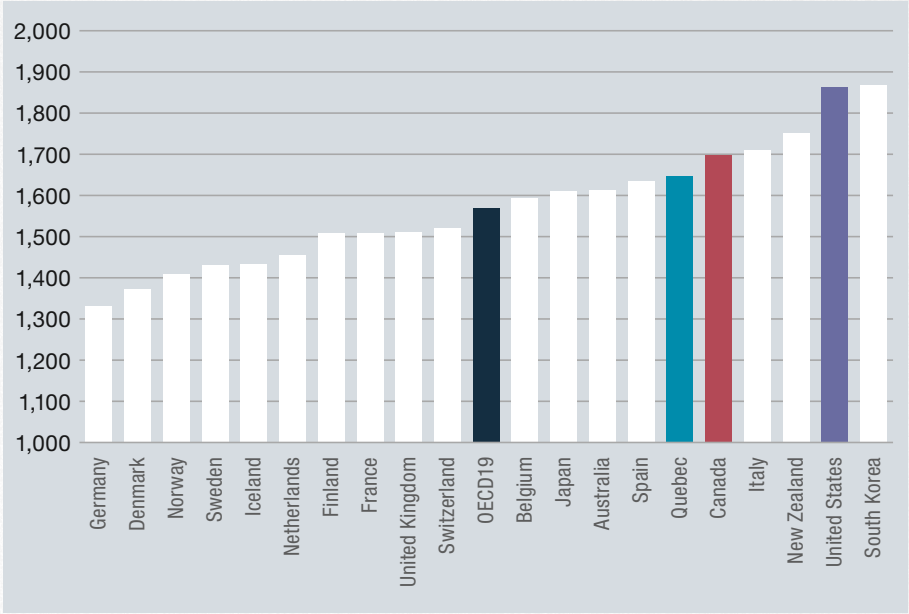
It must be acknowledged, that the province could narrow its economic gap if its population worked more. The effect would be limited. Of the three mechanisms capable of stimulating growth in living standards, productivity remains by far the most fundamental in the long term. The example of Sweden is highly revealing in this regard.

While Swedes have a labour force participation rate very similar to that of Quebecers, they work fewer hours than Quebecers – 216 hours per job in 2024 to be exact, the equivalent of nearly 6 fewer standard workweeks. In 2024, Sweden's standard of living exceeded Quebec's by nearly $13,000 per capita, a gap entirely attributable to Swedish productivity. To reach Sweden's standard of living given their current level of productivity, Quebecers would need to work an average of 1,957 hours per job – 310 hours more than the current average. In simpler terms, work intensity is not the mechanism to activate to stimulate economic growth: Quebec does not need to work more; it needs to work more efficiently.

CHART A

LABOUR INTENSITY IN 2024

Total hours worked divided by total employment



WHY IS LABOUR PRODUCTIVITY LOWER IN QUEBEC?

There is broad consensus on the root causes of Quebec's poor productivity performance: Quebec businesses are too reluctant to invest. By allocating fewer financial resources each year to the development of intellectual property[3], the purchase of machinery and equipment, and the modernization of their production infrastructure, Quebec businesses have neglected the physical capital made available to workers to support their efficiency, thereby hindering the potential for growth in Quebec's labour productivity. Due to the cumulative lag, companies are now struggling to turn the tide. A simple comparison with the OECD19 average suffices to illustrate the scope of the issue.

In the early 2000s, a gap of approximately C$9,500 per job already separated Quebec from the OECD19 average (*Chart 9*). This means that at that time, investment spending by Quebec businesses was 40% lower than the average for major Western economies. Having never truly succeeded in stimulating private investment on a sustainable basis, the province has been unable to close the gap. In 2022, Quebec businesses spent an average of $11,455 less per job than their counterparts in the OECD19 group (*Chart 10*).

CHART 9

TRENDS IN NON-RESIDENTIAL PRIVATE INVESTMENT PER JOB, 2000 TO 2022

In 2022 Canadian dollars per job at purchasing power parity

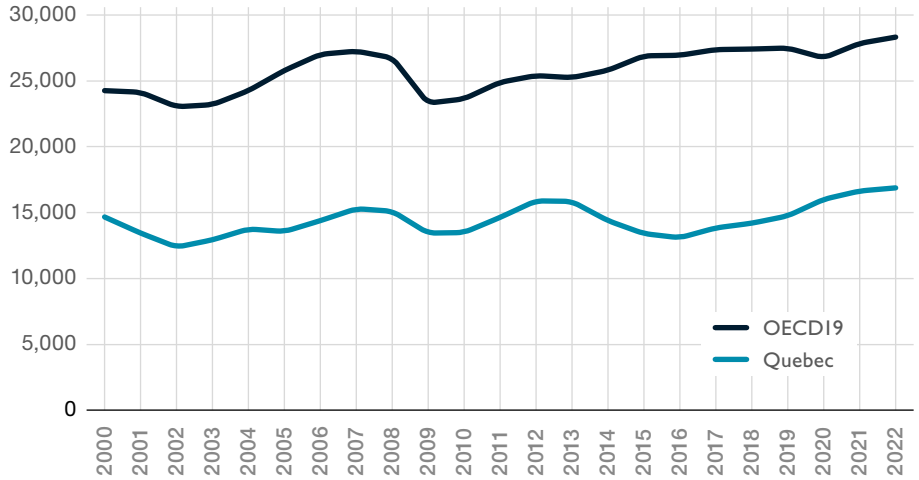
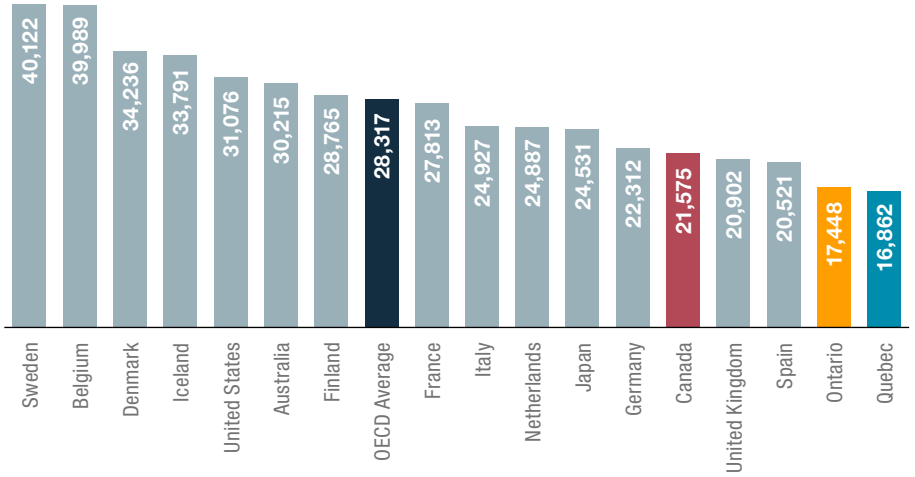


CHART 10

NON-RESIDENTIAL PRIVATE INVESTMENT PER EMPLOYEE, 2022

In 2022 Canadian dollars per job at purchasing power parity

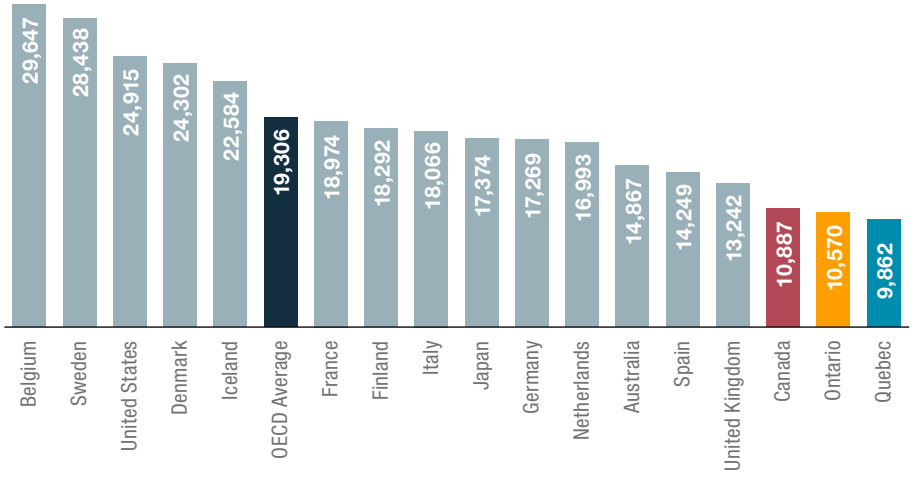


Quebec's lag is particularly concerning in terms of investment in machinery and equipment and intellectual property (*Chart 11*), which are the main drivers of productivity. With spending of C$9,862 per job, Quebec businesses spent approximately one-third of the amount invested by Belgian and Swedish firms, which top the rankings.

CHART 11

PRIVATE INVESTMENT IN MACHINERY AND EQUIPMENT AND INTELLECTUAL PROPERTY PRODUCTS PER EMPLOYEE, 2022

In 2022 Canadian dollars per job at purchasing power parity



WHY IS THE PROPENSITY OF QUEBEC COMPANIES TO INVEST SO LOW?

While the cause of Quebec's low economic productivity has been clearly identified, the reasons behind Quebec businesses' low propensity to invest have long been misunderstood. Through research conducted over the past fifteen years, the CPP has identified three factors that, being intrinsically linked, may explain this lag:

1) Historically shielded from external competitive pressures by the province's geographic location and complacent public policies, Quebec and Canadian businesses have not developed the instincts necessary to face foreign competition[4].

2) Boosted by a favorable exchange rate, the competitiveness of Quebec manufacturing collapsed when the Canadian dollar appreciated in the early 2000s. As global market integration accelerated simultaneously, Quebec companies quickly fell behind in terms of competitiveness[5].

3) Deeply rooted in a reality that has long since passed, industrial policy has not been adjusted to the changing needs of the Quebec economy. Even today, the Quebec government indirectly subsidizes job creation rather than stimulating investment, and advocates for economic interventionism rather than seeking to establish an economic environment that benefits all businesses in the province[6].

Competition and Exchange Rate Shocks

Fundamentally, the issue of low investment stems from a lack of competition.

When faced with strong competitive pressures, companies are incentivized to invest and innovate in order to maintain or increase their market share. Overall, these pressures drive a cycle of economic growth that benefits society as a whole – whether through wage increases linked to productivity gains, the expansion of government tax bases, or simply a supply of goods and services that diversifies in price and quality to the benefit of consumers. However, this cycle does not appear to have fully taken hold in Canada, and particularly in Quebec.

Operating in small markets that are economically and legislatively segmented, and spread across a vast geographic territory, Quebec and Canadian businesses have not been exposed to competitive pressures as intense as those faced by U.S. firms, which operate in the world's largest domestic market, or by firms in the European Economic Area, which benefit from the forces of integration into a single market. In the absence of adequate competitive pressures, companies have not been driven to differentiate themselves through innovation and investment to preserve their market share.

Aware that Canadian companies operate in a small, dispersed market within a vast geographic territory and that they are situated alongside an economic giant, most of the successive governments that have led the country since the end of World War II have deemed it preferable to limit foreign competition in order to preserve the integrity of Canadian companies and ensure the country's economic development through Canadian interests.

To give an idea of the scale of the problem, one need only recall that in the early 1970s, at a time when trade barriers were gradually disappearing in industrialized countries, the Government of Canada subjected all foreign investments to an eligibility review so that "control of Canadian business enterprises may be acquired by persons other than Canadians[7]".

It was not until the 1980s that a fundamental shift took place – a shift that had become unavoidable given the prevailing economic conditions: severe recessions, high inflation, persistent unemployment, and growing and recurring budget deficits. Within a short period of time, the three pillars of competition as we know them today were established: the Investment Canada Act in 1985, the Competition Act in 1986, and the Canada-United States Free Trade Agreement signed in 1989, followed by the North American Free Trade Agreement (NAFTA[8]) in 1994.

Through these reforms, the Government of Canada hoped to stimulate economic growth by expanding Canada's presence in foreign markets – a strategy that required a resilient and competitive domestic market.

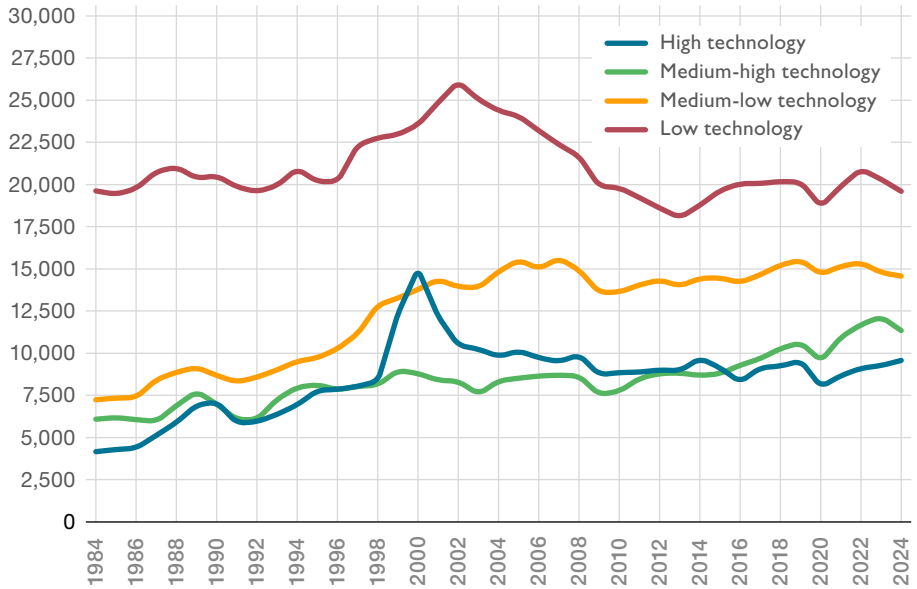
At first glance, the changes appeared to produce the desired results. Boosted by the relative weakness of the Canadian dollar against the U.S. dollar, Canadian exports skyrocketed, masking the need to continue reforming the regulatory framework for competition in the domestic market into the background. The institutional dynamics surrounding investment and innovation remained unchanged, and businesses failed to develop the necessary instincts to strenghten their competitiveness. Entire sectors of the economy were caught off guard when competition from emerging economies intensified and the dollar appreciated in the early 2000s. Ill-equipped Canadian companies were unable to establish themselves in increasingly integrated markets.

The impact was particularly significant in Quebec due to the structure of the province's manufacturing sector. Historically concentrated in low-tech industries (*see box*), Quebec's manufacturing sector was unable to adapt to the changes brought by the integration of global markets and the loss of competitiveness associated with the appreciation of the Canadian dollar. In less than a decade, the real value of manufacturing GDP had fallen by about 15%, with losses mostly occurring in low-tech industries (*Chart 12*).

CHART 12

TRENDS IN QUEBEC'S MANUFACTURING GDP BY TECHNOLOGY SECTOR, 1984 TO 2024

In millions of 2017 Canadian dollars



WHAT IS A TECHNOLOGICAL LEVEL?

Developed by Hatzichronoglou, T. (1997)[9], this classification divides manufacturing industries into four categories based on the direct and indirect intensity of their research and development (R&D) activities[10]. The low-technology sector includes industries that conduct little R&D (*Table A*). It encompasses the food, textile, apparel, and paper industries, as well as industries related to everyday consumer goods. Next in order are the low-to-medium technology sector, which includes industries related to the processing of natural resources; the medium-to-high technology sector, which includes – among others – industries related to the manufacture of machinery and transportation equipment; and the high-technology sector, which includes industries known for their high R&D intensity: pharmaceuticals, aerospace, information technology, and telecommunications.

TABLE A

DISTRIBUTION OF INDUSTRIES BY TECHNOLOGY SECTOR

Classification of industries by NAICS code

Low technology	Low-to-medium technology	Medium-high technology	High technology
311 – Food	**324** – Petroleum and coal products	**325** – Chemicals, except pharmaceuticals (3254)	**3254** – Pharmaceutical products
312 – Beverages and tobacco	**326** – Plastic and rubber products	**333** – Machinery manufacturing	**334** – IT and telecommunications
315 – Apparel	**327** – Non-metallic mineral products	**335** – Electrical equipment, appliances, and components	**3364** – Aerospace
316 – Leather and similar products	**331** – Primary metal processing	**336** – Transportation, excluding aerospace (3364)	
31A – Textile	**332** – Metal products		
321 – Wood products			
322 – Paper			
323 – Printing			
337 – Furniture and related products			
339 – Miscellaneous manufacturing			

It is important to note that the decline in manufacturing activity in Quebec did not follow the normal trajectory of the shift toward the service sector observed in most Western economies.

While the rise of the service sector occurred alongside continuous growth in manufacturing output among most major Western manufacturing economies (*Chart 13*), Quebec followed a different trajectory. Not only did the process of economic tertiarization begin later than in major Western economies (*Chart 14*), but its growth was largely driven by the decline in manufacturing activity.

It is essentially this context that gave rise to the industrial policy that has guided the province's economic development over the past 30 years.

The Emergence of Quebec's Industrial Policy

Aware of its economic fragility, the Quebec government sought to accelerate the transition toward high-value-added service sectors in the mid-1990s in order to create productive and well-paying jobs. In a 1998 document titled *Objectif emploi*[11], the following is notably stated: "The government will effectively support the key drivers of competitiveness and employment to ensure business development and create the desired jobs: workforce training, innovation, market development, and investment. (*free translation*)" To achieve this, the government is implementing an industrial policy that simultaneously pursues two objectives: creating well-paying jobs and developing sectors of the future.

To reach as many businesses as possible, the government relied heavily on tax incentives. Given that it is pursuing a dual objective – namely, facilitating the economy's transition by creating well-paying jobs – the government structures these credits to encourage businesses to invest, innovate, and develop new market niches by effectively financing a portion of the associated wages.

CHART 13

TREND IN REAL MANUFACTURING GDP, QUEBEC AND MAJOR WESTERN PRODUCERS, 1984 TO 2024

1984=100

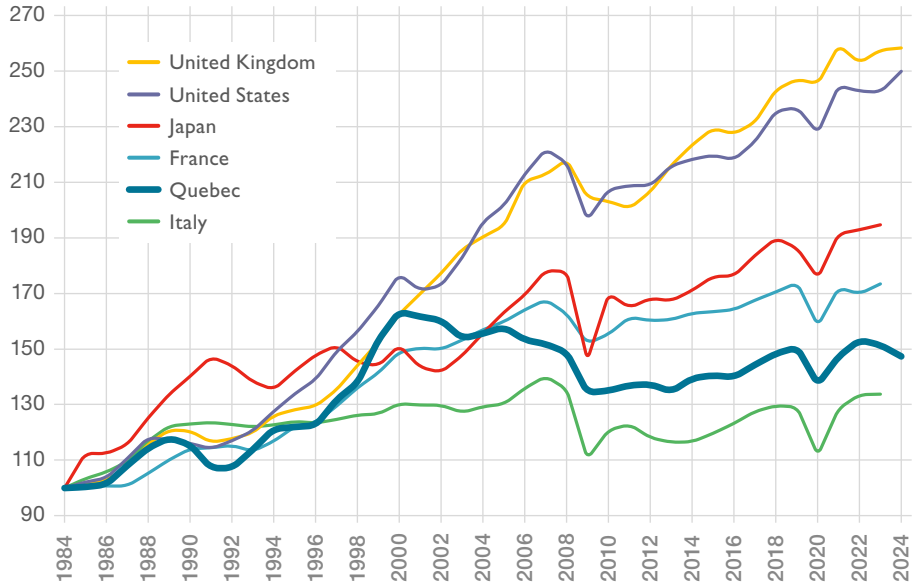
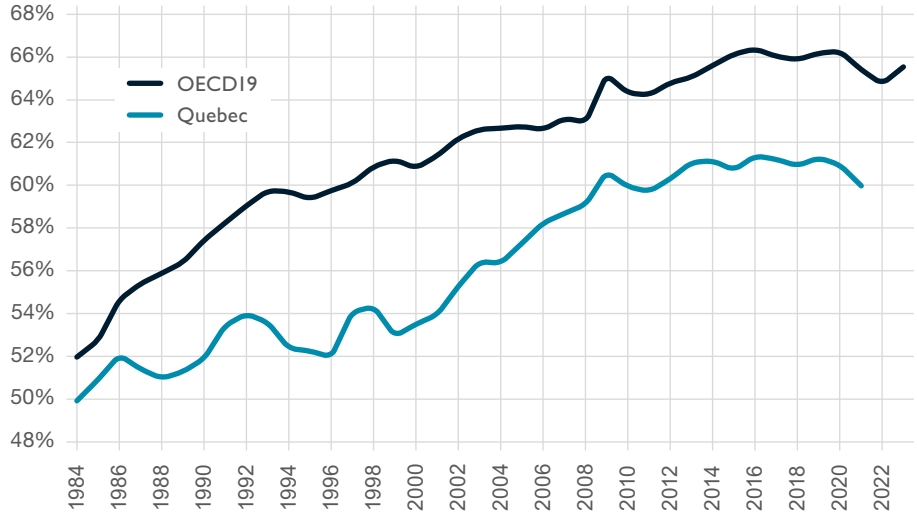


CHART 14

CHANGES IN THE SHARE OF SERVICE SECTOR INDUSTRIES IN THE BUSINESS SECTOR'S GDP, 1984 TO 2023



In principle, this approach was not an issue when unemployment was high. Although this strategy came with a significant cost and did not directly target the real drivers of productivity, it allowed the government to support the economic transition by promoting job creation in promising sectors. The problem is that the same strategy was maintained even after the economic transition had clearly come to an end. The province had closed its employment gap, and labour shortages associated with an aging population were looming on the horizon.

Until very recently, approximately 80% of the funds allocated in the form of tax credits were employment-based (*Table 1*), a misguided strategy as it was ineffective when labour shortages were hampering economic growth.

TABLE 1

CHANGES IN THE PERCENTAGE OF TAX CREDITS FOR BUSINESSES INTENDED TO SUBSIDIZE WAGES

Based on the total cost of tax credits

	2005	2010	2015	2022
Tax credits subsidizing wages	89.9%	73.5%	80.6%	**79.9%**
Tax credits not subsidizing wages	10.1%	26.5%	19.5%	**20.1%**

A DIRECT THREAT TO THE VITALITY OF THE BUSINESS SECTOR

By remaining committed to preserving jobs and favoring projects that are most human capital intensive, the government interfered in the process of resource reallocation in the economy by ensuring the survival of firms that could not have survived without ongoing government support, and by diverting resources that could have been used to develop new firms or support existing, more productive firms.

The statistics on business creation and closure speak for themselves: between 2002 and 2023, Quebec has consistently posted lower entry, exit, and renewal rates than those observed in Ontario and Canada as a whole (*Charts 15–17*), while the share of businesses two years old or younger has remained significantly lower (*Chart 18*). This demonstrates a less dynamic business sector, where the adjustments, reallocations, and investments necessary for a sustainable increase in productivity materialize more slowly.

CHART 15

ENTRY RATE OF COMPANIES, 2002 TO 2023

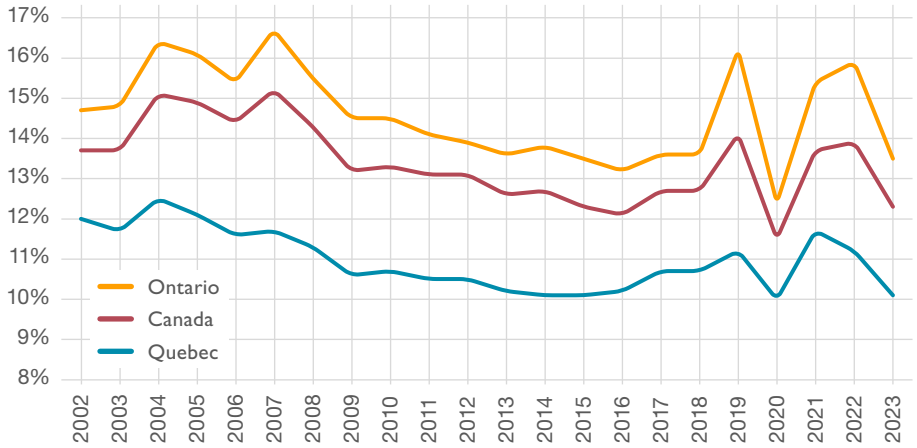


CHART 16

BUSINESS EXIT RATE, 2002 TO 2023

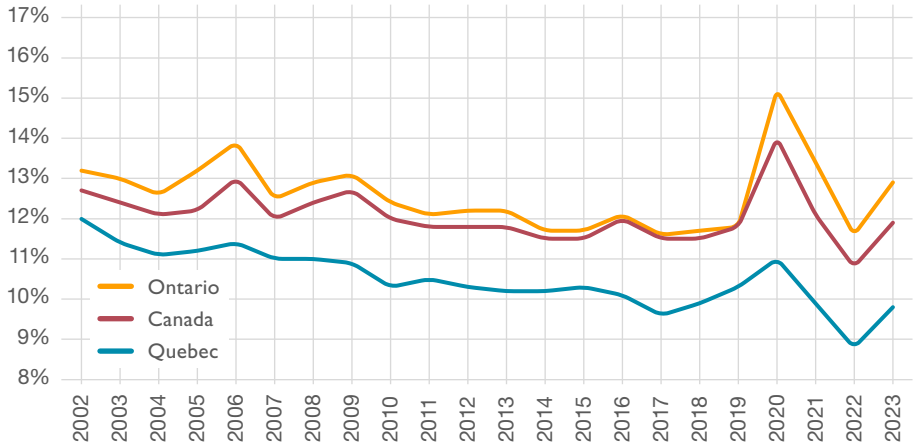


CHART 17

BUSINESS TURNOVER RATE, 2002 TO 2023

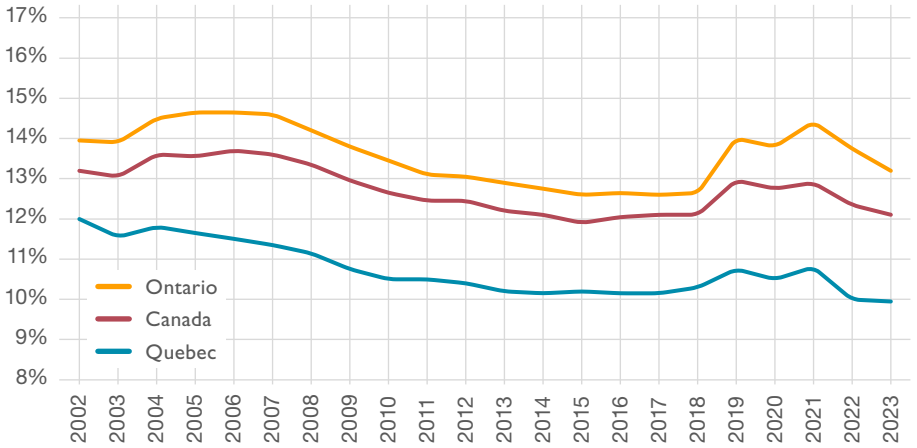
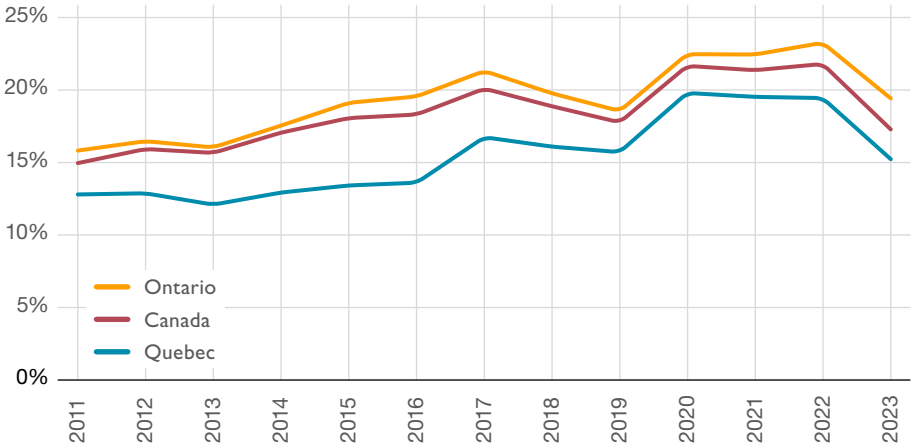


CHART 18

SHARE OF BUSINESSES TWO YEARS OLD OR YOUNGER, 2011 TO 2023



This decline in entrepreneurial dynamism has significantly undermined the competitiveness of the Quebec economy, which was already constrained by historically protectionist policies and insufficient competitive pressures. By failing to rely on a business sector dynamic to foster the emergence and growth of competitive firms, Quebec has been unable to expand its presence in foreign markets, even when the depreciation of the Canadian dollar boosted the competitiveness of Quebec exports during the 2010s. The comparison with several small, highly open Western economies is telling in this regard (*Chart 19*). While real exports from these economies continued to grow, Quebec saw its own exports plummet at the turn of the 2000s. And when the exchange rate began to weaken in the mid-2010s[12], its impact on exports remained limited. It was not until 2022 that the real value of Quebec's exports surpassed the level reached in 2000.

The limited capacity for expansion of the Quebec economy becomes clear when exports are measured as a share of GDP (*Chart 20*). In the early 2000s, Quebec was still on par with small open economies such as Sweden, Finland, and Denmark. Two decades later, the gap has widened significantly with exports still accounting for less than 30% of Quebec's GDP, while their share exceeds 50% in Denmark and Sweden, and remains significantly higher in Finland.

CHART 19

CHANGES IN REAL EXPORTS OF GOODS AND SERVICES

1981=100

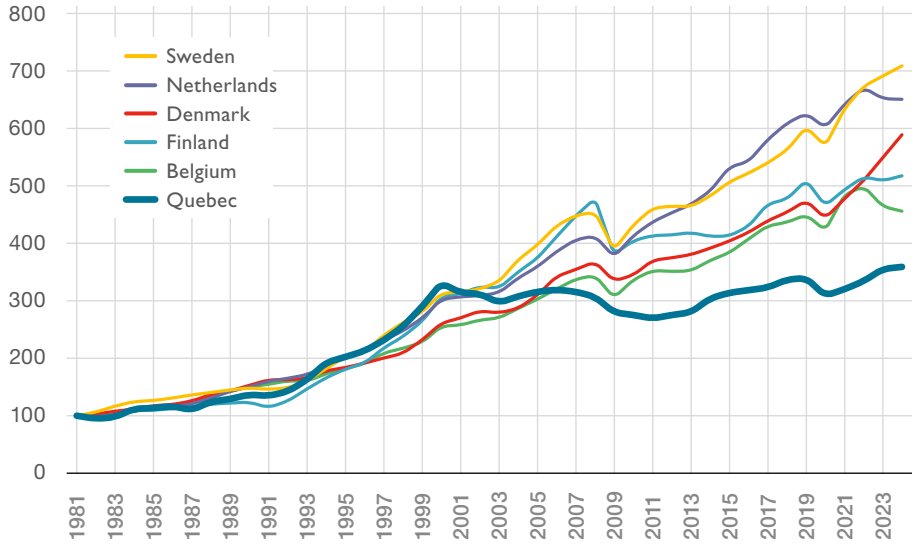
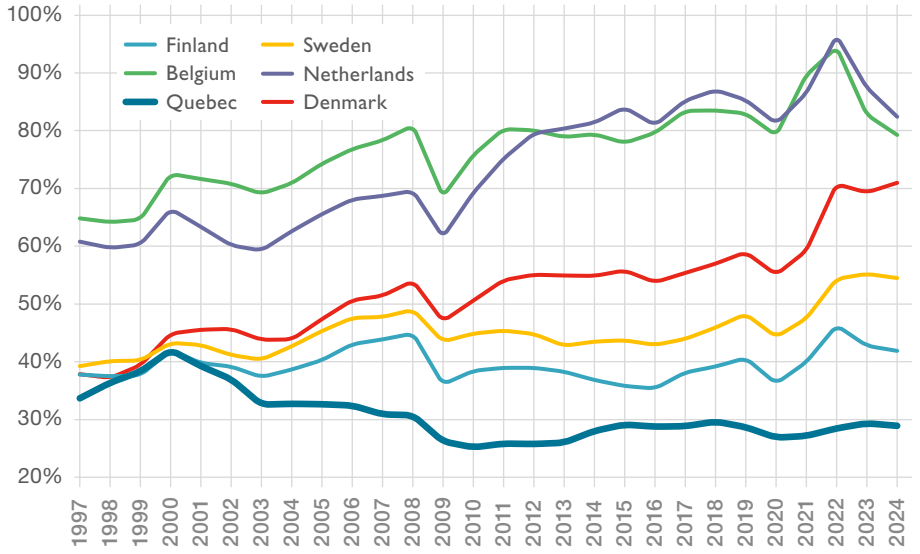


CHART 20

CHANGES IN THE SHARE OF EXPORTS IN GDP FOR SELECTED OECD COUNTRIES, 1997 TO 2024



VERDICT

Our analysis leads to a clear conclusion. Because it was designed to address a structural problem that is gradually subsiding, Quebec's industrial policy has entrenched flawed mechanisms by perpetuating a focus on job creation and preservation, even as the challenges shifted toward investment, innovation, and competitiveness. By persisting in the wrong direction, the Quebec government has spent billions of dollars to fund ill-suited economic development tools, resulting in a now-familiar chain of events: companies that invest too little, innovate insufficiently, generate too few productivity gains, struggle to compete with foreign rivals, and fail to sufficiently expand their presence in foreign markets. Under these circumstances, the province's economic growth remains excessively dependent on domestic demand, a foundation far too narrow to support growth.

The consequences of this vulnerability, which businesses have clearly underestimated, have been laid bare by the emergence of the trade conflict with the United States, as Quebec companies have proven particularly exposed to tariff threats. The situation is all the more concerning when one realizes that the advantage provided by the relative weakness of the Canadian dollar can no longer compensate for their structural inadequacy in productivity.

In this context, the federal government may increase its trade missions abroad to expand Canada's export markets, but its efforts will remain in vain if companies do not improve their competitiveness by sustainably boosting their productivity. The challenge facing Quebec is only growing.

PART 2:
RESETTING QUEBEC'S INDUSTRIAL POLICY

The work conducted by the CPP in recent years has clearly shown that the failure of Quebec's industrial policy was not due to a lack of resources, but rather to the government's methods of intervention. By recklessly increasing interventions without rigorously measuring their impacts, the government fueled a significant phenomenon of public aid sedimentation: while new measures were introduced – sometimes to correct structural deficiencies in the strategy being implemented, more generally to support new missions – mechanisms that were losing their effectiveness were maintained, thereby diverting financial resources into unproductive instruments. Over time, this dynamic has gradually transformed business assistance into a complex system where the proliferation of stakeholders unduly increases administrative costs.

It is primarily for this reason that the redefinition of industrial policy cannot be reduced to simply aggregating a series of disparate mechanisms and measures without a clear hierarchy or serious reflection on which mechanisms need correction. To ensure its effectiveness, the business support system as a whole must be rebuilt.

Such an undertaking proves difficult. Not only does it run up against the inertia of the government apparatus and the institutional rigidities that limit the state's capacity for renewal, but it also faces opposition from corporate interests that advocate for the *status quo*. For by being repeatedly renewed and remaining fully refundable, the main tax credits have ultimately given the tax assistance program such budgetary significance that the survival of certain sectors now seem dependent on it. In short, the real challenge is no longer to demonstrate the failure of Quebec's industrial policy, but to identify the principles capable of guiding its overhaul. This is precisely the value of the partnership established with the QG100 Network.

By providing access to the export experience of a group of exceptional companies, this partnership makes it possible to clearly identify the behaviours, investment strategies, and innovation activities that a renewed industrial policy should seek to promote in order to address the true determinants of business competitiveness.

Before identifying the principles that should guide such an overhaul, it is important to revisit the rationale that has shaped Quebec's industrial policy over the past 30 years. For while the failure we are seeing today calls for a fundamental overhaul of the business support system, we must first gain a clear understanding of the mechanisms at play.

PERSPECTIVE ON QUEBEC'S ECONOMIC DEVELOPMENT STRATEGY

The first part of the analysis briefly outlined the reasons for the failure of Quebec's industrial policy, drawing on findings from previous editions of *Productivity and Prosperity – Overview*. The following pages take the analysis a step further by drawing on concrete examples to demonstrate how the rigid mechanisms established by industrial policy have hindered the province's economic development, and to illustrate the extent to which the lack of impact assessment has undermined its effectiveness. The goal is not to provide an exhaustive portrait of the current strategy, but to highlight its limitations.

Tax Incentives for Innovation

The reform of the tax strategy to support innovation proposed in 2025 is an illustrative example of the inertia that undermines government intervention[13]: despite efforts to renew itself, the government has attempted to revitalize innovation efforts among Quebec businesses by relying on a tool designed over forty years ago.

The Quebec government laid the groundwork for its innovation support strategy in the early 1980s by introducing the tax credit for wages spent on SR&ED. Unlike the federal government, which had been offering a similar measure since the late 1970s, the Quebec government opted for a fully refundable credit, effectively giving the Quebec program a quasi-fiscal scope: in the event of losses, or when the credit exceeds the tax otherwise due, the company receives a cash transfer from the government.

For more than forty years, the foundations of this strategy remained unchanged. Yet this mechanism was clearly no longer meeting its targets. In 2021, the average level of private spending per job on SR&ED in Quebec was 37% lower than the OECD19 average, whereas the province had been on par with that same average 20 years earlier. By persisting in the wrong direction, the government has since foregone more than $14 billion in revenue to fund this credit.

In an attempt to turn the tide, the Quebec government overhauled its tax strategy to support SR&ED in March 2025. Under this new support framework, the government eliminated six corporate tax credits[14] and two tax holidays applicable to individuals[15] to consolidate its entire offering into a single measure – the Tax Credit for Research, Innovation, and Commercialization (CRIC), "a more effective policy tool better suited to the needs of innovative companies[16] (*free translation*)".

Under the guise of a major reform, the changes introduced in 2025 were nevertheless a direct continuation of the existing system. The simplification cited is largely a sham, as the abolished credits together account for less than 5% of the value of the refundable tax credit for researchers' salaries – the cornerstone of the old system. The reform does not substantively address the structural problems of the latter.

Despite the addition of new eligible expenses, the CRIC continues to subsidize employment even though this approach has clearly reached its limits. The reform exacerbates the structural shortcomings of the old system by seeking to address all businesses indiscriminately through a single measure – an approach that runs counter to the trends identified in the literature[17]:

1) By raising the exclusion threshold[18], i.e., the portion of expenses the business must cover before becoming eligible for the credit, the reform limits the liquidity provided to small businesses – a segment where the marginal effectiveness of the tax tool is nevertheless considered higher because financing constraints are more significant there.

2) By increasing the generosity of the credit for large firms[19], the reform channels a large portion of public aid toward a segment where the effectiveness of tax incentives is limited, partly because large firms are generally better capitalized and more resilient to financial uncertainty, but also because they are naturally incentivized to invest in SR&ED due to competitive pressures.

Analyses by the CPP based on tax data from thousands of Canadian companies tracked over nearly two decades clearly confirm this assessment: as companies grow in size, the impact of provincial SR&ED tax credits diminishes, to the point where they are ineffective for large companies. These results suggest that in this segment, tax credits act more as a mechanism for subsidizing existing activities than as a genuine mechanism for expanding research efforts, raising serious doubts about the reform's ability to produce the expected results. This finding is all the more concerning given that the government expects to forgo more than $2 billion in tax revenue over the next four years to fund this credit[20].

A Systemic Issue

The evolution of the tax incentive strategy for innovation highlights two persistent flaws that undermine the effectiveness of the entire tax strategy: the lack of rigorous analysis of the impacts of the tools implemented by the government and the government's stubborn insistence on continuing to prioritize blanket instruments. In short, the government is not unaware of the challenges or the mechanisms capable of stimulating the competitiveness of its economy. The problem lies rather in its ability to translate this diagnosis into coherent action, and then to ensure its effectiveness over time. The four changes made in the late 2000s to stimulate investment clearly illustrate this reality.

Recognizing that "Quebec manufacturing companies must invest in modernization and use modern, productive equipment to remain competitive and meet the challenges they face[21] (*free translation*)" the government reinstated an accelerated depreciation measure for manufacturing and processing equipment in the 2007–2008 budget, with the aim of reducing financing constraints related to investments.

That same year, the government announced a plan to eliminate the capital gains tax, a highly counterproductive form of taxation because, by "increasing the cost of investments for businesses, it reduces their incentive to make them and, consequently, affects the growth of our economy, employment, and our standard of living[22] (*free translation*)".

In the following budget, the government proposed a 5% investment tax credit on manufacturing and processing equipment[23]. By design, the measure seeks to prioritize SMEs: they have access to full refundability, a benefit not offered to large companies. The rate is also increased for businesses located in resource regions. It can reach 40% for SMEs and then decreases linearly based on the size of the business, down to 5% for large corporations[24].

Finally, the government suggests that it has learned certain lessons from its past failures. Aware of the limitations of the designated-site approach – a strategy through which the government attempted to accelerate the development of the IT sector by offering tax incentives to new-economy companies located in specific areas[25] – the government is revising its approach by proposing "a new **temporary** refundable tax credit[26] (*free translation*)" in 2008. While the assistance is no longer conditional on a geographic preference, the Tax Credit for the Development of E-Business (CDAE) follows the same logic as its predecessors. Rather than directly supporting IT investment by Quebec businesses, the government intervenes upstream by attempting to foster the development of an IT industry through supply-side stimulation.

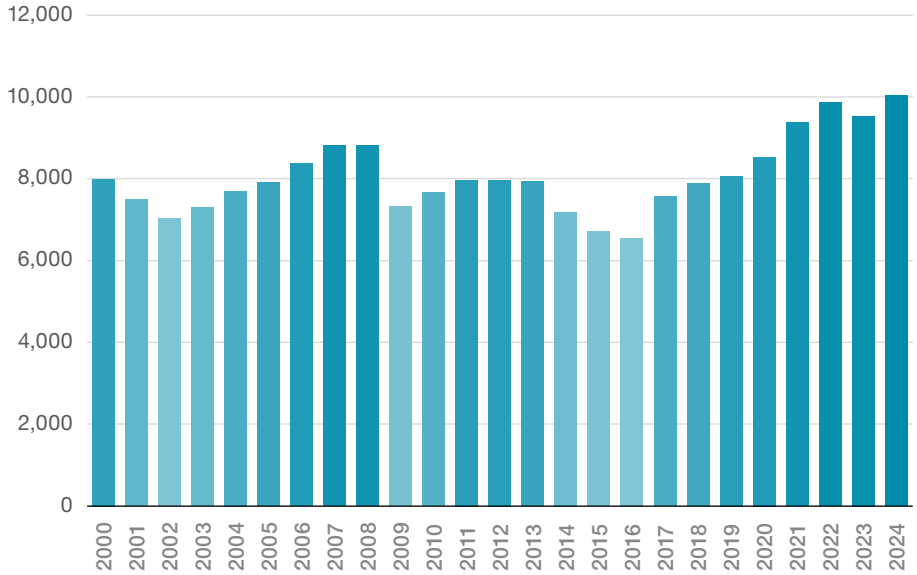
The changes made during this brief interval were seemingly prudent. On one hand, the government could still hope to foster the growth of the IT sector, and since Quebec had not yet fully caught up in terms of employment and the expected effects of demographic aging were not yet apparent, employment-based tax assistance remained justifiable. On the other hand, it was acting strategically to revive investment by coordinating its interventions with a focus on liquidity, both by introducing new incentives and by eliminating a major disincentive to investment.

After a number of years, it became evident that the measures put in place to stimulate private investment were not producing the desired effects (*Chart 21*). The government nevertheless persisted in the same direction, limiting itself to parametric changes – that is, making marginal adjustments to the parameters of existing measures. The only major change was in 2017, when the investment tax credit applicable to manufacturing and processing equipment was refocused on remote regions[27]. This reorientation had the effect of temporarily excluding nearly 85% of Quebec's manufacturing activity[28] from the main tax incentive designed to support investment. Despite this change, private investment in machinery and equipment and in intellectual property per job in Quebec increased significantly in the following years.

CHART 21

PRIVATE INVESTMENT IN MACHINERY AND EQUIPMENT AND INTELLECTUAL PROPERTY PRODUCTS PER EMPLOYEE, QUEBEC

In 2022 Canadian dollars per employee at purchasing power parity



The government revised its strategy in 2020 by introducing the Tax Credit for Investment and Innovation (C3I)[29], which significantly broadened the scope of the former credit. The definition of eligible property was expanded to include, notably, management software packages, thereby extending access to the credit to all sectors of activity. Rates are now tiered based on the concept of "economic vitality" rather than on the basis of administrative region, and regions with high economic vitality – which notably includes the Montreal metropolitan area – are once again eligible for government assistance. The base rate has also been raised. While it was capped at 4% before being abolished under the previous regime, the C3I base rate is initially set at 10%, to then be raised to 20% between 2021 and 2023, and subsequently lowered to 15% starting in 2024. The C3I initially retains the principle of refundability based on company size, inherited from the previous regime, which ensured favorable treatment for SMEs. Starting in 2024, the government extends the refundable nature of the credit to all eligible companies, regardless of their size[30].

TABLE 2

INVESTMENT AND INNOVATION TAX CREDIT RATES

Territory where the property is acquired for primary use	Rates applicable after March 10, 2020, but before March 26, 2021	Rates applicable after March 25, 2021, but before January 1st, 2024	Rates applicable after December 31, 2023, but before January 1st, 2030
Economically underdeveloped area	20%	40%	25%
Region with moderate economic vitality	15%	30%	20%
Region with high economic vitality	10%	20%	15%

Reproduction of Table C.57 – Tax Credit Rates for Investment and Innovation (courtesy translation) from the Quebec Government's *Dépenses fiscales – Édition 2025*.

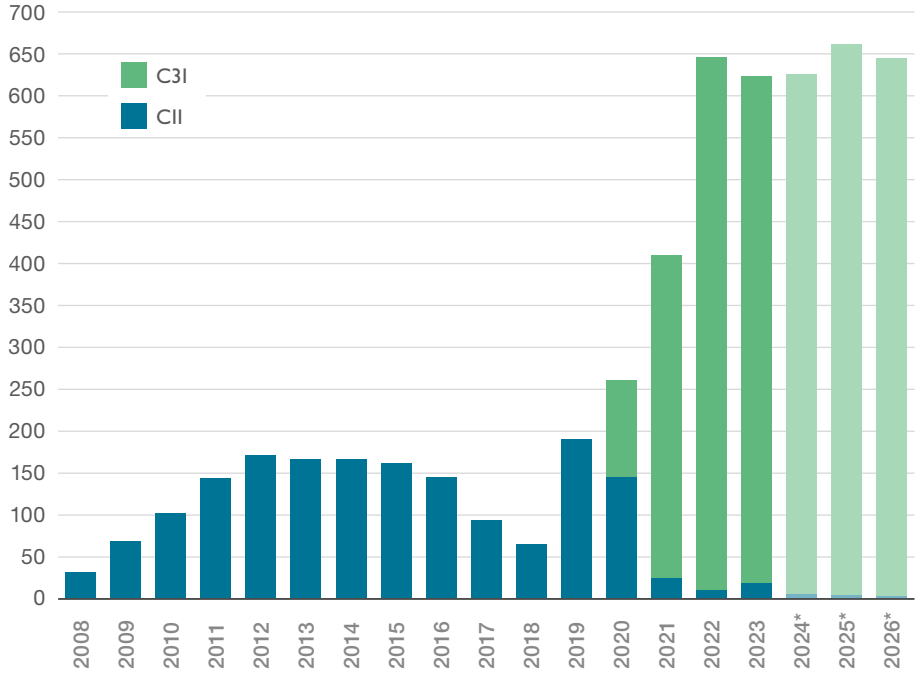
While these changes have had an impact on private investment in machinery and equipment and in intellectual property, its impact has so far remained limited to the continuation of the upward trend that began in 2017. In contrast, the related tax expenditure has skyrocketed (*Chart 22*). Since the C3I's implementation, the government estimates that it has foregone $3 billion in tax revenue to fund it.

CHART 22

NOMINAL COST OF TAX EXPENDITURES ASSOCIATED WITH THE C3I AND THE INVESTMENT CREDIT FOR MANUFACTURING AND PROCESSING EQUIPMENT

In millions of dollars

The data for the years 2024 through 2026 are projections



The assessment is similar in the case of the CDAE. Not only does the credit fail to stimulate business investment, but its direct effect on supply appears to be limited as well. Employment in industries eligible for the CDAE certainly grew faster than in Ontario starting in 2008 (*Chart 23*), but this growth was clearly insufficient to sustainably consolidate the sector. In 2024, industries eligible for the CDAE[31] accounted for 3.9% of private-sector jobs in Quebec, compared to 4.4% in Ontario (*Chart 25*).

CHART 23

EMPLOYMENT TRENDS IN INDUSTRIES ELIGIBLE FOR THE CDAE

2008=100

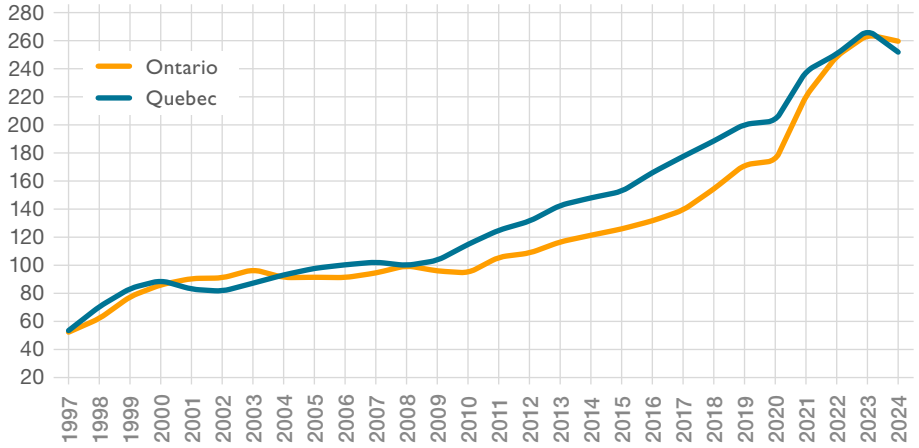
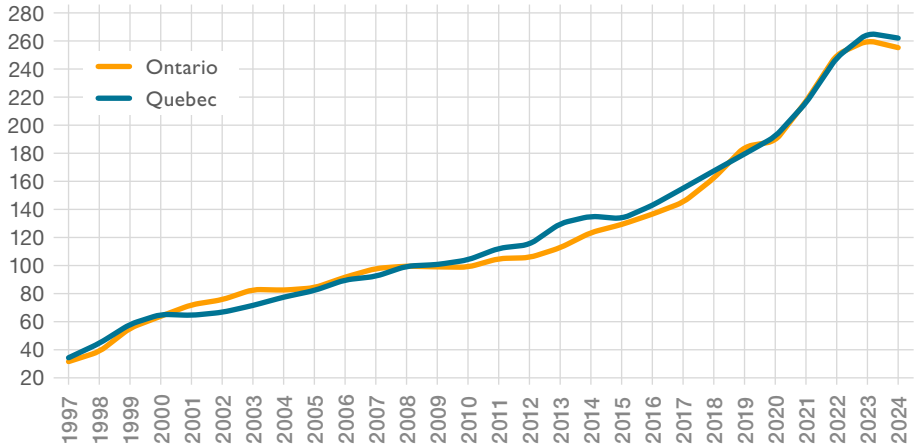


CHART 24

CHANGES IN REAL VALUE ADDED GENERATED BY INDUSTRIES ELIGIBLE FOR THE CDAE

2008=100



The introduction of the credit also coincides with stronger growth in the value added generated by these industries (*Chart 24*), but the effect remains marginal, both in comparison to employment growth in Quebec and to the evolution of economic activity in the unsubsidized sector in Ontario (*Chart 26*). In short, the government has foregone billions of dollars in revenue to generate jobs without truly stimulating wealth creation.

CHART 25

CHANGES IN THE SHARE OF CDAE ELIGIBLE INDUSTRIES IN PRIVATE EMPLOYMENT

In percentages

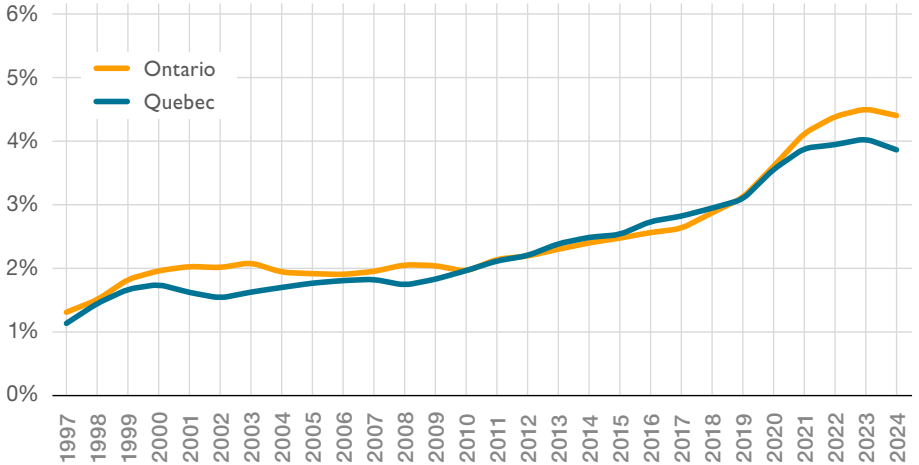
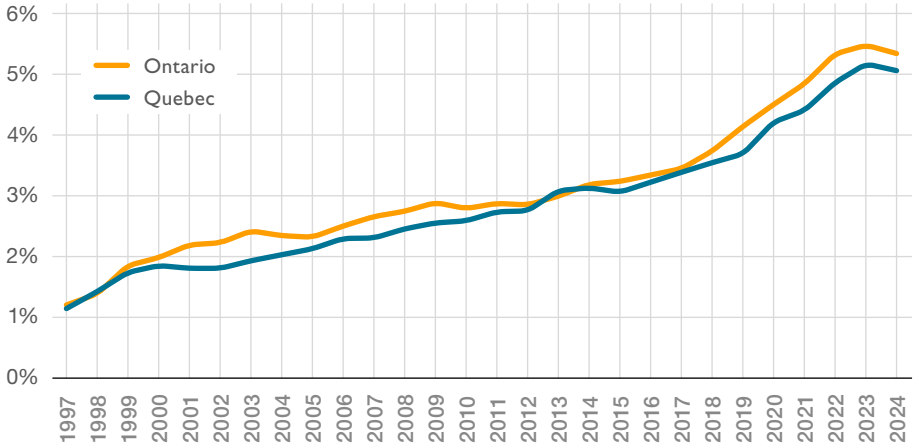


CHART 26

CHANGES IN THE SHARE OF INDUSTRIES ELIGIBLE FOR THE CDAE IN THE GDP OF THE BUSINESS SECTOR

In percentages



While the CDAE's ineffectiveness can largely be attributed to the fact that the strategy proved to be poorly designed, the real issue lies in the failure to reform a program that was intended to be temporary.

By being repeatedly extended without substantial adjustments, a gap inevitably widened between the "cutting-edge technologies" targeted by the credit and the evolving technological needs of the economy. It was not until the transition to the Tax Credit for the Development of E-Business integrating Artificial Intelligence – *courtesy translation* (CDAEIA) in 2026 that the government addressed the structural shortcomings of its strategy.

Under this revised program, "activities eligible for the CDAE have been modernized to focus on higher-value-added activities, namely those primarily related to e-business that significantly incorporate artificial intelligence (AI) functionalities.[32] (*free translation*)" This adjustment became essential following an assessment that "found that certain activities supported by the CDAE are no longer considered innovative, high-value-added activities. This review also found that some of the technologies whose adoption it promotes are no longer considered emerging technologies.[33] (*free translation*)"

These findings are demonstrative of the inertia that undermines the effectiveness of government intervention. On the one hand, they reveal that for years the government maintained a budget whose scope no longer corresponded to the activities it claimed to support. Considerable sums were spent to fund an incentive program that was clearly out of step with the technological needs of businesses. On the other hand, it highlights the government's persistence in maintaining measures whose effectiveness has not been clearly established. While the 2026 reform certainly corrects the scope of eligible activities, it does not question the underlying mechanism of the program. The government therefore continues to seek to stimulate the digital transformation of businesses by subsidizing employment in service provision rather than directly supporting technology adoption by end-user companies – a strategy that has so far proven ineffective.

The failure is even more evident in the case of the Tax Credit for Multimedia Titles[34]. Introduced in 1996 as an extension of cultural tax credits supporting Quebec-controlled companies producing multimedia content in French[35], this credit was restructured the following year to support sectors then considered emerging[36], thereby paving the way for public support of the video game industry[37]. Thirty years later, the industry still does not seem capable of ensuring its long-term viability without government support, with every reduction in the program's generosity immediately denounced by the video game lobby[38]. In this specific case, the government's inaction is all the more difficult to justify given that this credit subsidizes a skilled workforce that is in demand in other sectors of the economy. The government estimates it has foregone more than $2 billion in revenue to fund these jobs over the past five years. In 2021 alone, the 20 largest companies benefiting from this credit received $256 million, representing an average cost of $12.8 million per beneficiary[39].

Fiscal Strategy: The Lion's Share

In addition to being visibly ineffective, the tax strategy to support economic development suffers from a twofold allocation problem.

Because it favors blanket approaches, the Quebec government's tax strategy channels a large proportion of its support toward large corporations – a situation that is problematic not only because liquidity constraints in this segment are significantly less severe than among SMEs, but also because the impact of tax incentives on their investment decisions appears weaker.

The fact that a significant portion of the tax strategy relies on mechanisms targeting job creation creates an even greater disconnect, as this approach distances the credits from the objectives they are intended to achieve. According to the most recent data, large corporations[40] accounted for 53.4% of the tax assistance granted in 2021 (*Table 3*). While this share seemingly appears to be consistent with their tax burden – 56.6% of the government's tax revenue from businesses comes from this segment (*Table 4*) – it is out of step with large companies' contribution to employment[41], as they generate approximately 30% of jobs in Quebec's business sector (*Table 5*). In this context, maintaining the strategy resembles a mechanism for reducing the tax bill of large corporations than an incentive program aimed at influencing corporate behaviour.

The problem is all the more serious given that the cost of the tax strategy is considerable. In fiscal year 2024–2025, the Quebec government expects to forgo $2.4 billion to fund these four credits, equivalent to 0.55% of the business sector's GDP. Relatively speaking, this budget is three times larger than the relative value of tax credits supporting economic development in Ontario[42], which account for less than 0.18% of the GDP generated by the business sector.

TABLE 3

BREAKDOWN OF THE COST OF THE FOUR MAIN TAX CREDITS OFFERED BY THE GOVERNMENT OF QUEBEC BY COMPANY SIZE, 2021

In millions of dollars

	Small	Medium	Large	Total
SR&ED (Replaced by the CRIC in 2025)	150	96	179	**426**
CDAE	121	98	260	**480**
C31	93	100	152	**345**
Multimedia Titles	36	46	256	**338**
FOUR MAIN CREDITS	**400**	**341**	**848**	**1,589**
	25.2%	21.4%	53.4%	

In this table, company size is not defined by the number of employees but rather by the value of assets and/or gross income reported on their tax returns.

TABLE 4

DISTRIBUTION OF THE GOVERNMENT OF QUEBEC'S TAX REVENUES BY COMPANY SIZE, 2021

In millions of dollars

	Small	Medium	Large	Total
Income tax	2,922	1,525	5,553	10,000
Social Security Contribution	1,173	1,035	3,119	5,327
TAX DEDUCTIONS	**4,095**	**2,560**	**8,672**	**15,327**
	26.7%	16.7%	56.6%	

In this table, company size is not defined by the number of employees but rather by the value of assets and/or gross income reported on their tax returns.

TABLE 5

SHARE OF EMPLOYMENT BY BUSINESS SIZE IN QUEBEC IN 2023

	Part de l'emploi
Fewer than 5 employees 8.6%	8.6%
5 to fewer than 20 employees 15.0%	15.0%
20 to fewer than 50 employees 14.7%	14.7%
50 to fewer than 100 employees 11.4%	11.4%
100 to fewer than 500 employees 20.5%	20.5%
500 or more employees 29.8%	29.8%

Budgetary Aid: a Complex System

When it comes to direct aid, failures such as the Gaspésia plant[43] or the battery industry naturally come to mind, both because of the scale of the resources mobilized and because they highlight the inherent risk of cherry-picking. Such episodes – like many other public interventions aimed at fostering the emergence of companies or sectors – tend to discredit budgetary aid and legitimize the massive use of tax incentives to support strategic mechanisms such as investment and innovation.

Direct aid remains, nonetheless, an effective tool when the mechanisms are calibrated based on a competitive, objective, and transparent selection process and are administered within a framework that allows for clear measurement of their impact. If necessary, aid can be quickly adjusted, refocused, or even discontinued when results are not forthcoming.

Taken in isolation, the components of the Quebec government's current fiscal strategy generally meet the stated standards. The objectives are explicit, the timeframe is defined, the criteria for intervention are not without logic, and evaluation mechanisms have been put in place. The problem is that what serves as a direct aid strategy is in reality a disparate mix of programs, measures, grants, and other instruments whose implementation depends on a vast network of organizations. The result is a cumbersome, costly, and difficult-to-manage structure that increases administrative costs and weakens the overall effectiveness of public intervention.

A brief overview of the structure under the Ministry of Economy, Innovation, and Energy – *courtesy translation* (MEIE) reveals the fragmented nature of this ecosystem.

A large portion of the MEIE's interventions is channeled through Investissement Québec (IQ), which manages the *Fonds du développement économique*[44], the most significant business support tool under the MEIE's authority, with an estimated budget of $1.5 billion in 2024–2025[45]. In principle, part of this budget is dedicated to implementing the government's discretionary mandates – for example, the development of the battery sector. The remainder is used to fund a wide range of programs[46] through which IQ provides support services and grants funding, tasks whose implementation relies on external organizations.

As part of its support for exporting companies, IQ relies, for example, on the network of Organismes régionaux de promotion des exportations[47] (ORPEX), which are directly supported by the MEIE under the Programme d'appui au fonctionnement d'organismes de développement économique – Soutien au fonctionnement des organismes en appui à l'exportation (PAFODE, Component 3[48]). The same dynamic applies to investment funds in which Investissement Québec participates as the government's agent. The Eurêka Fund, a venture capital fund aimed at supporting companies "in the pre-seed stage whose intellectual property stems from Quebec public research[49] (*free translation*)", provides a good example.

As an agent for the Government of Québec, IQ provides the allocated capital to 10 specialized investors[50] who evaluate projects and determine funding needs. Axelys[51], a non-profit organization funded by the Programme de soutien aux organismes de recherche et d'innovation du MEIE[52], acts in this context as an intermediary between public research organizations and private investment funds selected by IQ. The situation is the same with the Impulsion Fund[53], where IQ relies on a network of 40 partners[54] to "accelerate the growth of local startups by offering them structural capital, tailored support, and privileged access to a strategic network of stakeholders committed to their development[55] (*free translation*)."

The situation is no different when interventions come directly from the MEIE. In 2024–2025, the ministry had a budget of $802 million to promote the development of the economy, science, research, and innovation. Nonprofit organizations accounted for 41.7% of this budget[56].

While these may seem like isolated examples, they are symptomatic of a larger issue. Year after year, the Quebec government's main ministries deploy their own tools to support economic development initiatives related to their areas of responsibility. Taken in isolation, these frameworks may seem coherent, but when considered together, they form a fragmented set of policies, plans, and strategies whose overlaps obscure the overall picture of government intervention.

For example, the Ministry of Agriculture, Fisheries, and Food (MAPAQ) has a budget of $1.05 billion to fund the first five years of the 2025–2035 Bio-Food Policy[57]. This allocation allows the ministry to intervene directly to stimulate the development of strategic sectors, as it did with greenhouses[58]. The 2025–2030 Implementation Plan for the 2030 Plan for a Green Economy[59] is based on a total financial framework of $10.1 billion and explicitly includes a focus on supporting the transformation of society and the economy. For its part, the Northern Action Plan 2023–2028[60], coordinated by the Société du Plan Nord, provides investments valued at over $2.6 billion, including $1,665.3 million from the Government of Quebec, with the participation of approximately 25 ministries and agencies.

We could go on, but the cumulative information is sufficient to illustrate the real issue: the weakness of the fiscal strategy stems less from the government's poor industrial bets – which are visible and politically costly – than from the fragmentation of the system of direct aid for economic development that it has gradually put in place.

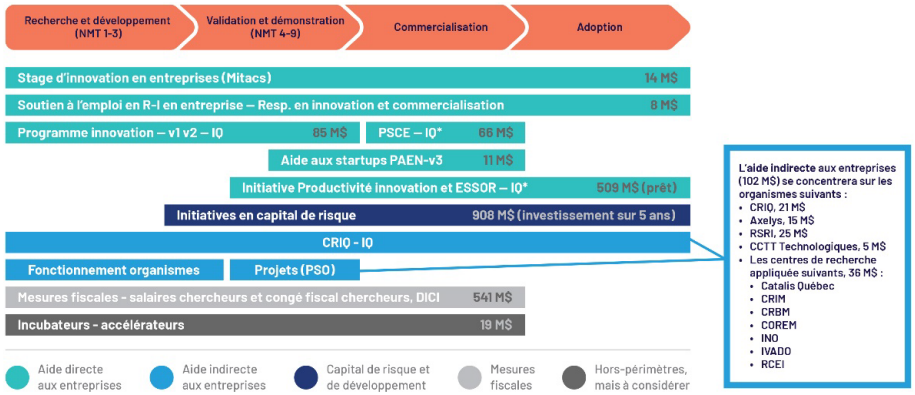
The Failure of Industrial Policy

The failure of industrial policy is becoming hard to ignore. By propping up outdated programs that channel aid to sectors that respond poorly to this type of incentive, fiscal policy has clearly failed. The situation is no better on the fiscal policy front. By constantly adding new agencies and intermediaries, the government has built a system so complex that it is now virtually impossible to assess its sprawling scope.

Mapping the scope of government intervention in innovation perfectly illustrates the complexity of this ecosystem and the institutional redundancies it imposes (*Figure 2*). Rather than relying on a few mechanisms, government intervention spans the entire innovation chain by simultaneously mobilizing direct business assistance, indirect support, venture capital initiatives, tax measures, funding for organizations, as well as incubators and accelerators. The effect of this fragmentation is not limited to a governance issue, as it leads to higher administrative costs, complicates access to support for SMEs, dilutes responsibilities, and makes impact assessment much more difficult.

FIGURE 2

SCOPE OF THE STUDY: DISTRIBUTION OF 2022–2023 FINANCIAL DATA FOR MEIE PROGRAMS AND MFQ TAX MEASURES BY TYPE OF GOVERNMENT INTERVENTION



Note : Pour le Programme de soutien à la commercialisation et à l'exportation (PSCE) et le programme ESSOR, programmes administrés par Investissement Québec (IQ) uniquement la portion concernant la recherche et l'innovation est soumise à l'examen, mais les montants présentés comprennent l'ensemble des aides de ces programmes.

Reproduced in full. Source: Conseil de l'innovation du Québec (2024). *Vers un Québec innovant.* Recommendations Report, April. Page 4

THE QG100 EXPERIENCE

Given Quebec's poor performance in innovation, investment, and productivity, there should be no doubt: the Quebec government can no longer settle for piecemeal reforms. Its entire industrial policy must be rethought to ensure its coherence and efficiency.

In principle, the mechanisms on which industrial policy should be based are well known. If Quebec wants to sustainably boost the competitiveness of its businesses, it must stimulate business investment in machinery, equipment, intellectual property, and innovation to increase their productivity. Only under this condition will Quebec businesses succeed in expanding their presence in foreign markets, thereby stimulating the growth of the Quebec economy.

The problem is that we are clearly struggling to identify the formula for activating these mechanisms. Productivity has certainly become a watchword in the policies, strategies, programs, and other instruments put forward by the government, but these intentions still do not translate into tangible progress.

It is at this level that the partnership between the QG100 and the CPP comes into its own. By documenting the export experience of a group of exceptional companies, it provides a concrete foundation for identifying the conditions underlying their success.

To identify the key determinants of the QG100's performance, the CPP designed a survey by selecting specific segments from major surveys conducted by Statistics Canada among Canadian businesses[61]. While this does not provide a ready-made solution for redefining the province's industrial policy, the trends identified by cross-referencing the results with those from Statistics Canada's official surveys allow us to pinpoint the behaviours and strategies associated with better export performance.

The questions are organized around three themes identified based on the CPP's research: human capital, investment and innovation strategy, and competitive position.

A NON-REPRESENTATIVE SAMPLE – AND THAT IS PRECISELY THE POINT OF THE EXERCISE

From this perspective, the QG100 sample more closely reflects the industrial structure of Quebec exporters than that of all businesses. Quebec exporters are also heavily concentrated in manufacturing, which accounts for 41% of them, compared to 55% of QG100 respondents. Certain differences remain significant. Wholesale and retail trade accounts for a significant share of Quebec exporters – 30% in total – while it represents only 7% of QG100 respondents.

Since this study falls somewhere between a targeted survey and a structured case study, these differences do not undermine the analysis but rather clarify its scope. In other words, its value lies not in its statistical representativeness, but in its ability to highlight the behaviours, trade-offs, and practices that distinguish high-performing companies in an economy that is still struggling to broaden its export base. It should be noted that sensitivity analyses were conducted to ensure that the findings do not simply reflect the overrepresentation of manufacturing establishments in the QG100 sample. The results remain largely unchanged when the comparison with Statistics Canada surveys is restricted to the manufacturing sector, the only notable difference being a slightly higher proportion of exporting establishments.

TABLE B

DISTRIBUTION OF COMPANIES BY INDUSTRY

		QG100	Quebec as a whole	Exporters
Goods Production	Agriculture, forestry, fishing, and hunting	1%	5%	5%
	Construction	7%	13%	3%
	Mining, quarrying, and oil and gas extraction	3%	0%	0%
	Manufacturing	55%	5%	41%
	Subtotal – Goods	**67%**	**22%**	**49%**
Service Production	Retail trade	3%	12%	9%
	Wholesale trade	4%	4%	21%
	Finance and insurance	4%	2%	1%
	Information and cultural industries	4%	1%	1%
	Education services	1%	1%	0%
	Professional, scientific, and technical services	4%	10%	6%
	Health care and social assistance	1%	10%	1%
	Transportation and warehousing	1%	5%	5%
	Services – Other	1%	26%	7%
	Subtotal – Services	**26%**	**72%**	**51%**
	Unclassified	7%	6%	0%
	Total number of companies	**69**	**278,278**	**10,980**

Human Capital

Because decision-making in smaller businesses is carried out by a limited number of people – often just one – the performance of SMEs and their ability to adapt generally depend on that of their leader(s). The literature in this area points to clear findings[62], and Canada is no exception to this trend.

The Survey on Financing and Growth of Small and Medium Enterprises (SFGSME) conducted by Statistics Canada shows, in particular, that SMEs led by a university graduate are more likely to adopt cutting-edge technology, have a greater propensity to innovate and export, and are more likely to hold intellectual property[63]. However, the SFGSME also shows that Quebec business leaders are proportionally less likely than their Canadian counterparts to hold a university degree, a trend suggesting that part of Quebec's lag in technology adoption, innovation, and exports may be due to the quality of human capital at the helm of these businesses. The trends identified in the survey of QG100 members tend to confirm this hypothesis.

At the time of the survey, 91.3% of QG100 executives held a degree equivalent to or higher than a bachelor's degree (*Chart 27*), a proportion significantly higher than the Quebec average (38.3%) and the Canadian average (44.5%). QG100 executives also appear to have more extensive management experience (*Chart 28*) and follow distinct entrepreneurial trajectories, partly because these are more often family-owned businesses, but also due to a stronger propensity to grow through acquisitions (*Chart 29*). Unsurprisingly, this distinctive profile is reflected in the performance of QG100 companies, with the proportion of gazelles and high-growth firms being significantly higher than in the rest of the economy (*Chart 30*).

CHART 27

HIGHEST LEVEL OF EDUCATION ACHIEVED BY THE PERSON PRIMARILY RESPONSIBLE FOR DECISION-MAKING

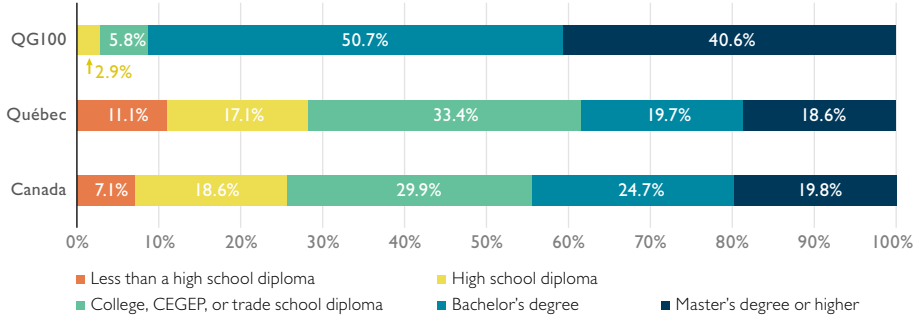


CHART 28

NUMBER OF YEARS OF EXPERIENCE OF THE PERSON PRIMARILY RESPONSIBLE FOR DECISION-MAKING

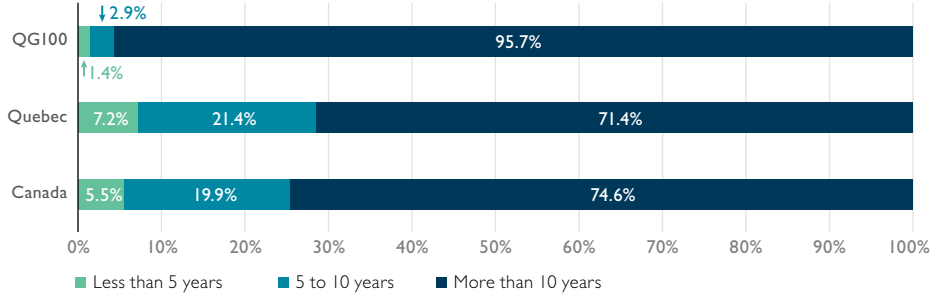


CHART 29

METHOD OF ACQUISITION OF THE COMPANY

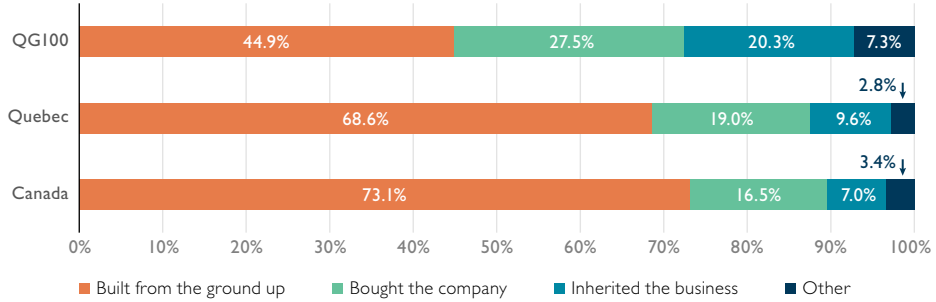
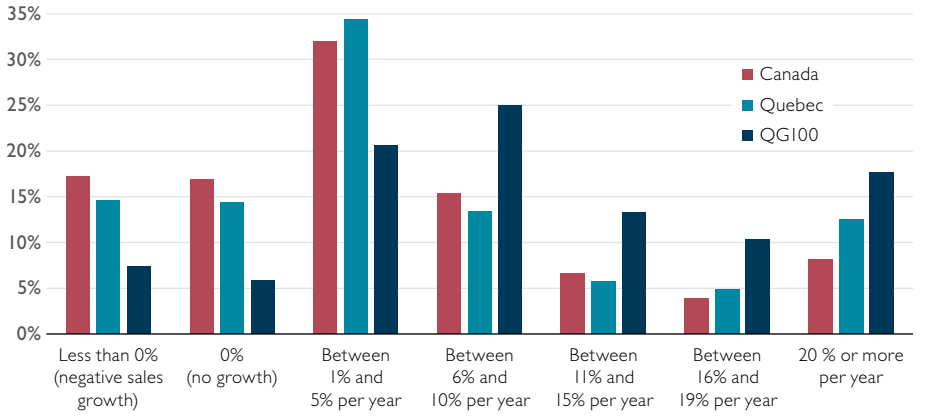


CHART 30

AVERAGE ANNUAL SALES GROWTH OVER THE LAST THREE FISCAL YEARS



These findings should not be interpreted as a mere snapshot of the highest performing companies. Above all, they help explain why one-size-fits-all approaches rarely produce the expected results.

By treating SMEs and large companies as a homogeneous group, blanket approaches assume that all companies have the same ability to identify their needs, structure their projects, and absorb the risks associated with innovation, automation, or exporting. However, the QG100's experience tends to confirm that among SMEs, this capacity depends heavily on the skills, experience, and strategic ambition of their leaders. For this reason, instruments designed to boost the competitiveness of SMEs cannot be modeled on those intended for large companies, which generally have more extensive management teams, specialized functions, and a greater capacity to recruit the skills needed to ensure their competitiveness.

This difference is crucial, as it implies that access to a financial incentive does not automatically translate into a decision to invest, innovate, or export. In many cases, SMEs lack not only financial resources but also the internal capabilities required to convert these resources into transformative projects. Under these conditions, an effective industrial policy cannot simply assume that the incentive is sufficient; it must also take into account the companies' ability to capitalize on it.

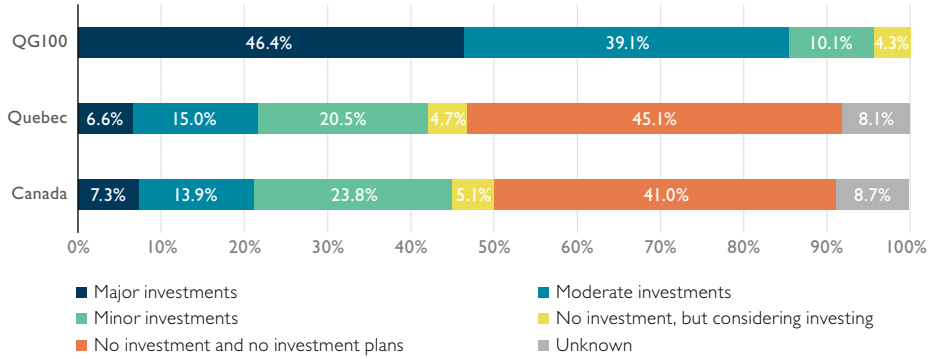
Investment and Innovation Strategies

The distinctive profile of QG100 executives is not merely a descriptive trait. Before impacting their companies' profitability, it manifests itself in how these companies invest, innovate, and adapt their business processes.

The compiled data show, in particular, that QG100 companies invest heavily in their digital infrastructure (*Chart 31*). At the time of the survey, 46% of the companies surveyed reported having made major investments over the previous three years, while 39% reported moderate investments. The differences from trends observed in Statistics Canada surveys are striking. Even when major, moderate, and minor investments are combined, the Quebec average does not match the proportion of major investments recorded within the QG100.

CHART 31

PROPORTION OF COMPANIES THAT HAVE MADE INVESTMENTS IN THEIR DIGITAL INFRASTRUCTURE OVER THE PAST THREE YEARS



When it comes to innovation, QG100 companies stand out both for the intensity of their activities and their scope. A significantly higher number of surveyed companies engage in innovation activities (*Chart 32*), and these activities impact a much broader range of business processes – functions through which the company adapts its organization, improves its efficiency, and renews its offerings (*Chart 33*). The gap with the average is far from negligible: over the three years preceding the survey, QG100 companies introduced an average of five major changes to their business processes, compared to 2.9 in Quebec. This contrast is all the more significant given that all QG100 companies reported having carried out innovation activities, whereas just over half of Quebec companies did so.

Trends in investment and innovation strategies extend to the adoption of cutting-edge technologies (*Chart 34*). In 2024, 94.2% of QG100 companies reported using such technologies, compared to less than 50% of Quebec companies. The gap is also evident in the intensity of use: QG100 companies reportedly use an average of 6.4 distinct technologies, compared to 2.5 for all companies in Quebec.

The survey also reveals that QG100 companies exhibit a distinct technological profile, particularly due to their significant use of artificial intelligence technologies: nearly 80% of surveyed companies reported using them in their operations, compared to less than 10% across Quebec. A similar pattern is observed with regard to clean technologies.

CHART 32

PROPORTION OF COMPANIES THAT HAVE CONDUCTED ONE OR MORE OF THE FOLLOWING INNOVATION ACTIVITIES

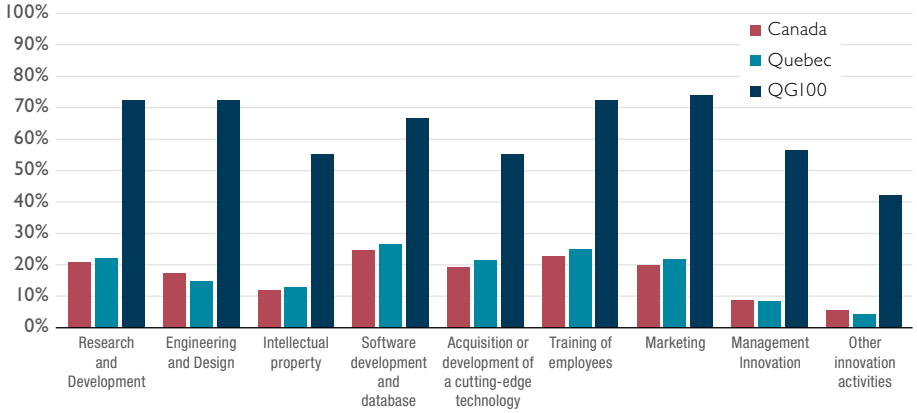


CHART 33

PERCENTAGE OF COMPANIES THAT HAVE USED OR BROUGHT TO MARKET NEW OR IMPROVED BUSINESS PROCESSES OVER THE PAST THREE YEARS

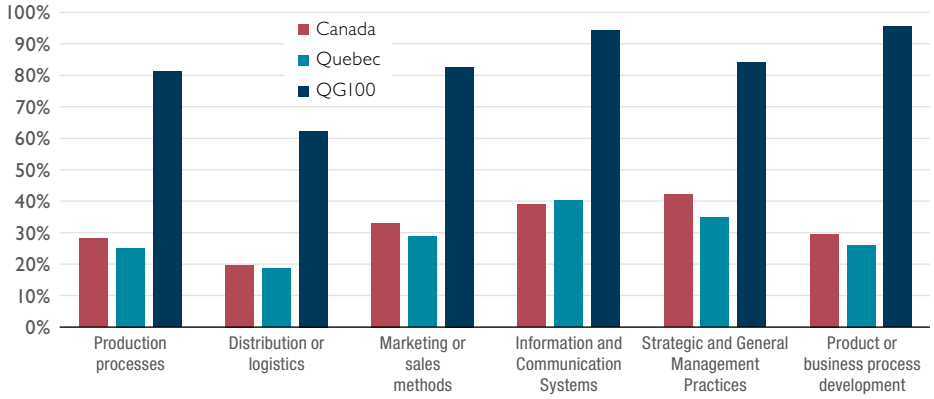
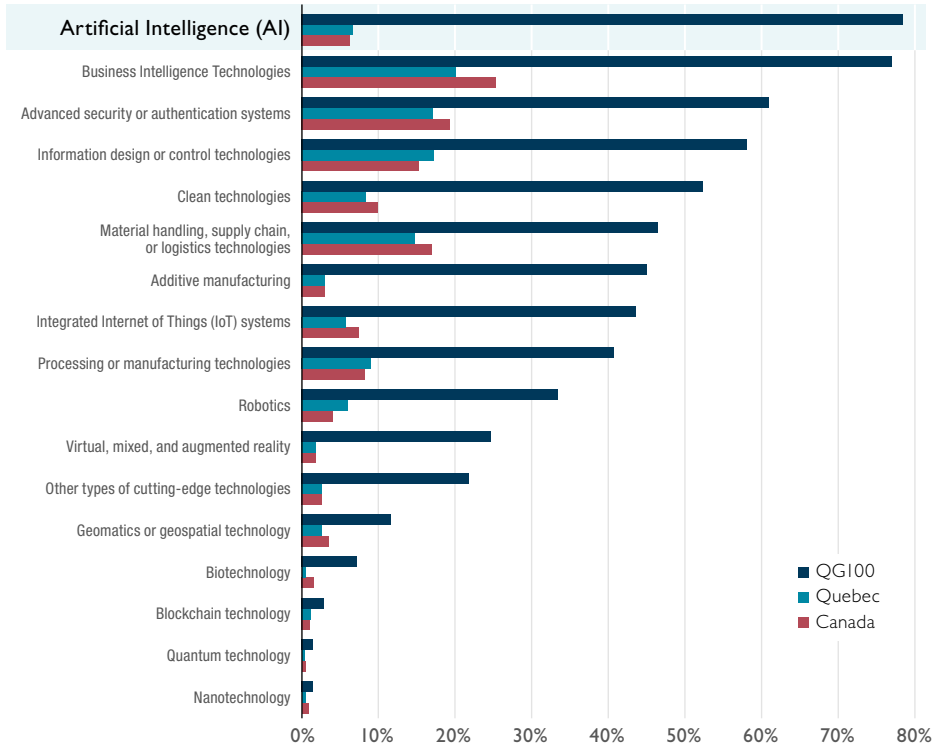


CHART 34

PROPORTION OF COMPANIES USING THE FOLLOWING CUTTING-EDGE TECHNOLOGIES



QG100 members also stand out in terms of the types of AI technologies they use (*Chart 35*). The gap is particularly pronounced in the case of robotic process automation, a trend that is partly due to the overrepresentation of the manufacturing sector in the sample, but it is also evident in the more frequent use of automated decision-making systems based on artificial intelligence, and in data analysis using AI.

While they demonstrate a superior ability to reinvent themselves and adapt ahead of major technological changes, the investment and innovation strategies of QG100 companies also suggest that incentives for SMEs should not be structured in silos as tightly compartmentalized as the current credits for investment, innovation, and e-business development.

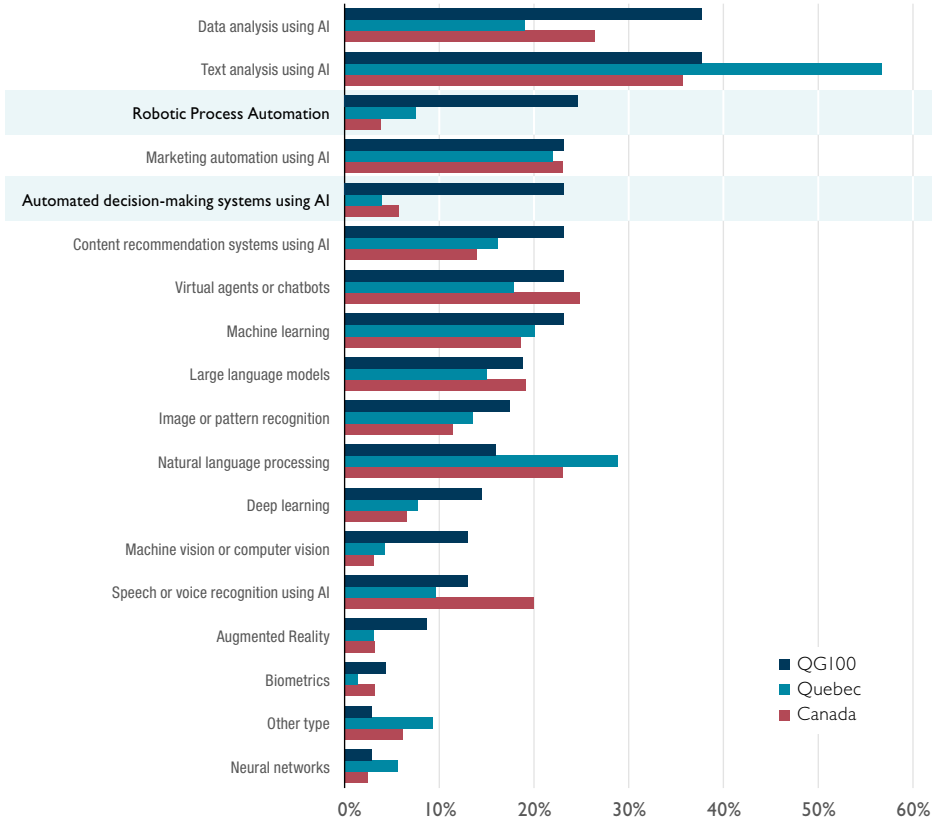
For QG100 companies, these characteristics clearly do not fall under distinct frameworks but are part of a single dynamic aimed at strengthening their competitiveness, which simultaneously combines more frequent new product launches, frequent updates to their business processes, more sustained and far-reaching innovation activities, more intensive use of cutting-edge technologies and artificial intelligence, and massive investments in their digital infrastructure.

Compared to trends observed across the province, the difference is striking. A much smaller proportion of companies engage in these types of activities, and when they do, they do so less intensively.

The comparison with the QG100 is obviously not neutral – it is a group of exceptional companies – but it is nonetheless instructive. It suggests that outside this group, investment, innovation, digital transformation, and technology adoption do not reinforce one another with the same intensity. In other words, the synergy effect that seems to characterize QG100 companies appears much less prevalent in the rest of the business landscape.

CHART 35

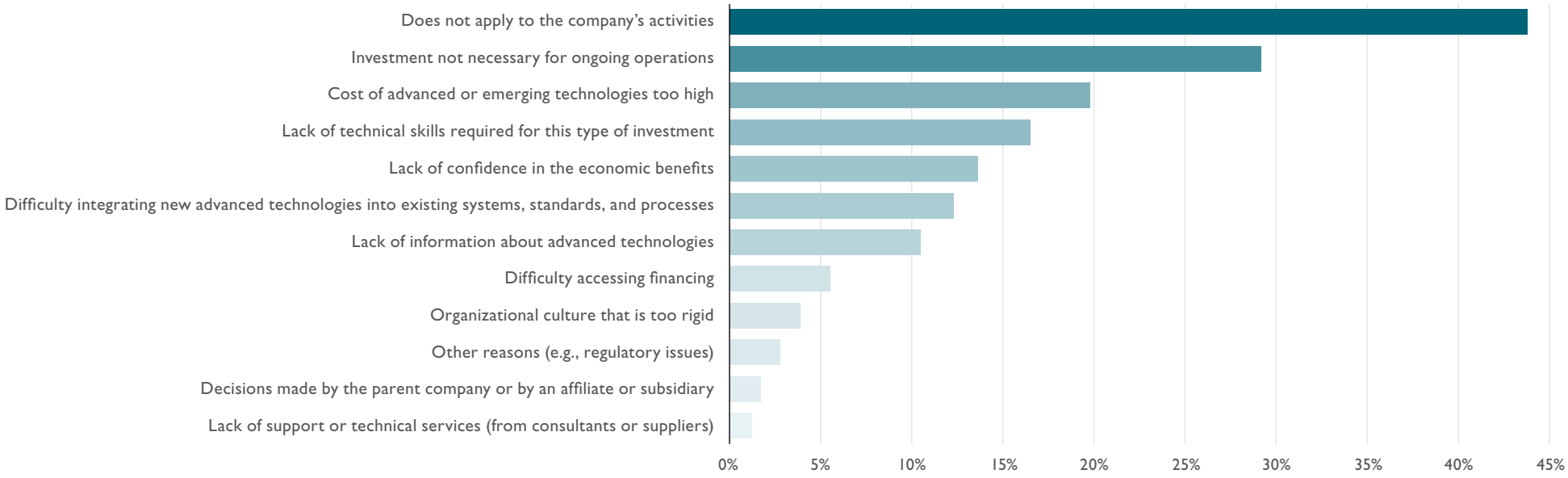
PROPORTION OF COMPANIES USING THE FOLLOWING ARTIFICIAL INTELLIGENCE TECHNOLOGIES



In this context, offering support to businesses in a siloed manner – by targeting specific activities under strict conditions – is unlikely to reverse the trend, especially since a significant number of businesses clearly see no value in these investments. As shown in Chart 36, a considerable proportion of businesses that do not use cutting-edge technologies believe that these investments do not apply to their operations or are simply unnecessary. Others cite the high cost of the technologies, a lack of the required technical skills, or insufficient confidence in their economic benefits. In short, when a company is already hesitant about the relevance of investing, perceives the costs as too high, and acknowledges its own limitations in terms of technical skills, it is difficult to believe that a collection of measures offered in silos sufficient in triggering a coherent modernization process.

CHART 36

REASONS CITED BY QUEBEC MANUFACTURING COMPANIES FOR NOT HAVING ADOPTED OR USED CUTTING-EDGE TECHNOLOGIES



Competitive Position

QG100 companies do more than just export more: they operate in a competitive environment that is far more demanding than that of the average Quebec business.

In 2024, just over 60% of surveyed companies indicated that their primary market was outside Canada, a proportion nearly five times higher than that observed in Quebec (*Chart 37*). This expansion is not limited to the U.S. market. QG100 companies also have a stronger presence in Asia, Europe, and South America (*Chart 38*), which exposes them to more numerous, more diverse, and often better-equipped competitors. While it is difficult to precisely measure the intensity of this competition, one statistic speaks for itself: 87% of them reportedly face multinationals in their primary market, a proportion twice as high as the Quebec average (*Chart 39*).

CHART 37

COMPANY'S MAIN MARKET

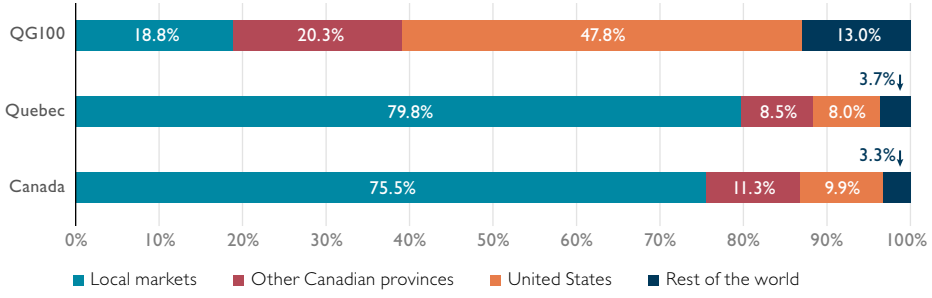


CHART 38

REGIONS WHERE THE COMPANY MADE SALES OUTSIDE CANADA

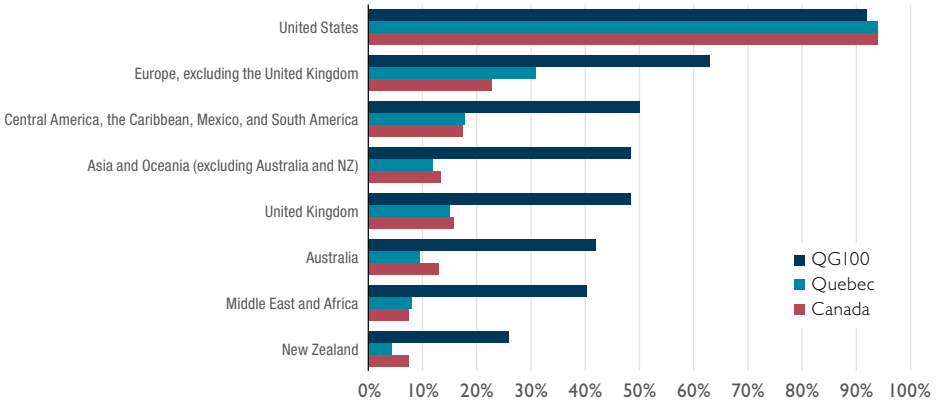
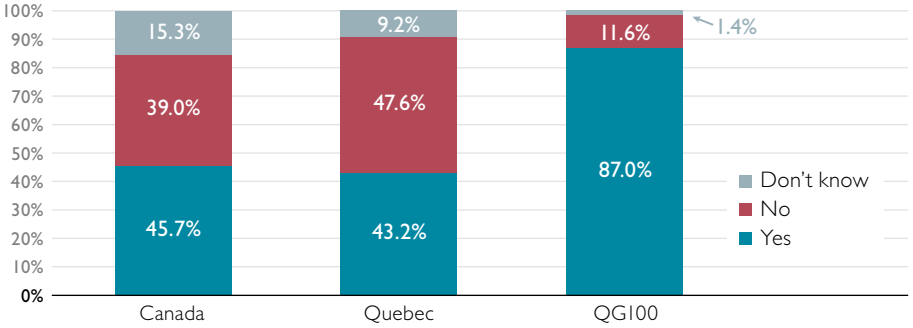


CHART 39

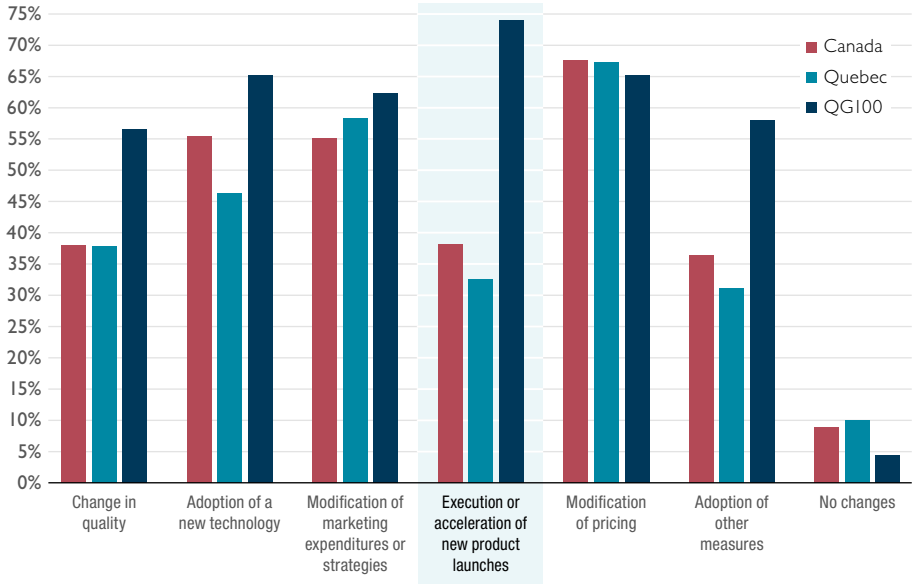
PERCENTAGE OF COMPANIES COMPETING WITH MULTINATIONAL ORGANIZATIONS IN THEIR PRIMARY GEOGRAPHIC MARKET



The extent to which QG100 companies are exposed to competition explains part of their dynamism: by operating in a competitive environment that is more demanding than the domestic market, they are naturally incentivized to pursue more intensive investment and innovation strategies to ensure their competitiveness in foreign markets, and to renew their product offerings more rapidly. The data collected on their response to competition is highly revealing in this regard. While the adjustments made in response to changing competition remain comparable to the average, QG100 companies stand out in one key respect: nearly 74% of them reported having launched or accelerated the launch of a new product in response to changing competition in their primary market (*Chart 40*). The contrast is all the more striking given that the dominant response among Quebec and Canadian firms involves price adjustments.

CHART 40

CHANGES IMPLEMENTED IN RESPONSE TO CHANGES IN COMPETITION IN THEIR PRIMARY GEOGRAPHIC MARKET



The greater propensity of QG100 companies to launch new goods and services is therefore not unrelated to the competitive pressures they face in foreign markets, highlighting a circular dynamic: QG100 companies have a stronger presence in foreign markets because they invest more, innovate more intensively, and make greater use of cutting-edge technologies; but the reverse is also true. It is also because they operate in more open, competitive, and demanding markets that they are driven to pursue more intensive strategies regarding investment, innovation, and the renewal of their product offerings.

This is undoubtedly one of the main challenges facing Quebec's industrial policy. In an environment where competitive pressures remain relatively low for a large number of companies[64], it is difficult to expect them to invest voluntarily in innovation, machinery, or equipment if the incentives available to them are not precisely calibrated. For this reason, a more effective industrial policy must not only seek to break down the silos between existing instruments but must also ensure that it puts in place mechanisms powerful enough to encourage businesses to invest despite the absence of adequate competitive pressures. And if it cannot fully compensate for the low intensity of these pressures, it must at the very least avoid disrupting the balance, for example by funding jobs in companies that would not survive without its support.

From Survey to Results

Although the sample size calls for some caution, data collected in conjunction with the survey of QG100 companies[65] that participated in the initiative suggest that greater exposure to competition does have an impact on the performance of participating companies. Since 2015, the first year in which it was possible to compile this data, investment growth among QG100 companies has nearly doubled, while growth across the economy as a whole was limited to 14%[66] (*Chart 41*). And since 2019, the productivity of participating companies has increased by 16.3%, while in Quebec on average, growth has been limited to 2.8% (*Chart 42*). While not constituting definitive proof, these results tend to confirm that the behaviours highlighted in the previous sections are not merely rhetorical but are accompanied by tangible economic impacts.

CHART 41

CHANGES IN THE REAL NET INVENTORY OF COMPANIES

2015 = 100

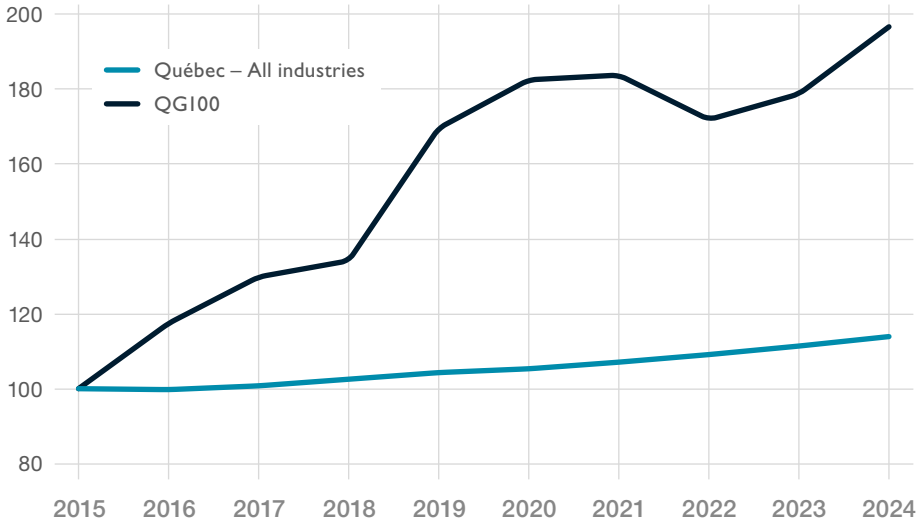
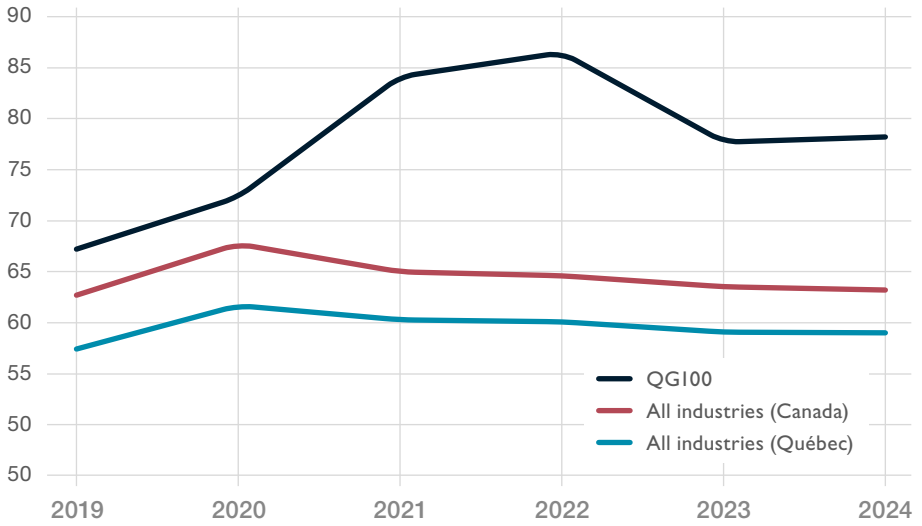


CHART 42

CHANGES IN LABOUR PRODUCTIVITY

In 2017 dollars per hour worked



RESETTING QUEBEC'S INDUSTRIAL POLICY

The failure of Quebec's industrial policy stems neither from a lack of resources nor from a poor understanding of the issues, but from the government's inability to structure its intervention in a coherent, targeted, and adaptive manner. By maintaining a blanket approach that did little to meet the needs of businesses, by fueling an aid system that was already difficult to manage, and by struggling to support the true drivers of competitiveness, Quebec's industrial policy has lost its coherence as the government has multiplied its interventions. The result is an inefficient, costly, and fragmented framework, where the lack of reform condemns the government to scatter its aid rather than provide concrete support for the competitiveness of its economy.

In this context, the experience of the QG100 Network proves particularly instructive. It shows that an effective industrial policy should not seek to increase measures, but rather to better align the mechanisms it mobilizes with the specific needs, realities, and limitations of the businesses it targets. By breaking down silos in its approach and structuring its incentives to ensure they align with the actual conditions of investment, innovation, and adaptation, the government could establish an efficient framework for intervention, in which smaller but carefully targeted budgets would yield better results than those achieved today. In other words, the government must move away from a mindset focused on reducing the corporate tax burden, which drives it to intervene in everything and everywhere.

DIRECTIVE #1

Reduce the corporate tax burden by abolishing the payroll tax

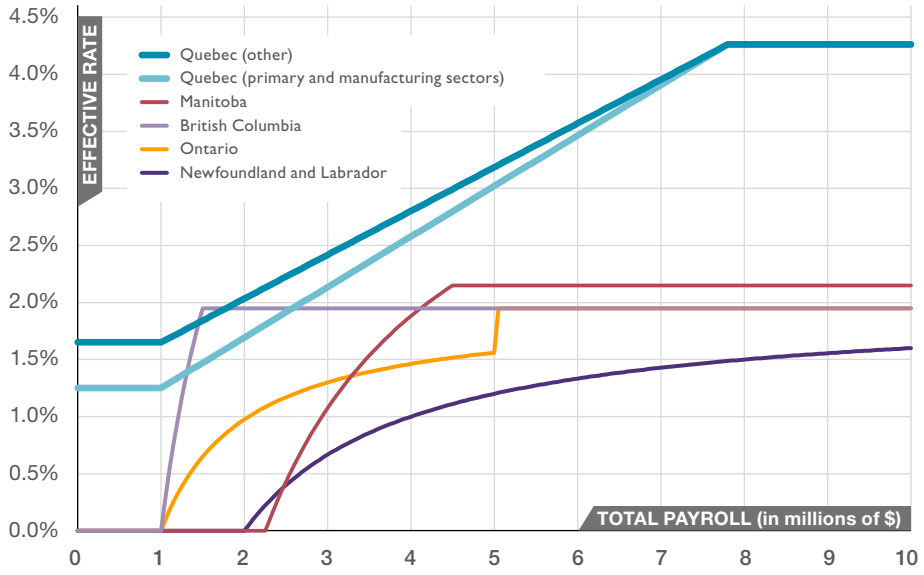
The issue of the tax burden has so far been outlooked, even though it is central to establishing an efficient industrial policy. Rather than seeking to alleviate the cash flow constraints of a limited number of companies through a wide range of tax incentives, the government could take preemptive action by reducing the tax burden it imposes on all businesses.

While discussions on this topic almost invariably revolve around the corporate tax system – as evidenced by the recent tax cut for small and medium-sized enterprises[67] – they tend to sidestep two key issues. On the one hand, only a minority of companies actually pay income tax. While it gives the impression of taking active measures by reducing corporate tax rates, the government is in fact intervening in a limited manner. On the other hand, it obscures the burden of the contribution to the Health Services Fund (HSF), a tax disguised as a social contribution that generated $5.3 billion in revenue for the government in 2021[68]. Collected alongside contributions to the Québec Pension Plan (QPP) and the Québec Parental Insurance Plan (QPIP), which fund programs serving workers, the HSF contribution does not fund any programs benefiting workers. Furthermore, it has no direct link to the funding of health services, other than that it feeds into the Consolidated Revenue Fund, just like corporate income tax. A notable difference sets these collection mechanisms apart: while businesses are able to periodically avoid the corporate tax system, they rarely escape the collection of the HSF contribution when they employ workers. And the levies are significant.

The HSF contribution is levied based on a company's total payroll at a rate that increases with the size of the company (*Chart 43*). In 2025, small businesses paid a minimum contribution of $1.25 per $100 of compensation, while the contribution was $4.26 per $100 of compensation for large businesses[69].

CHART 43

CHANGES IN EFFECTIVE PAYROLL TAX RATES IN CANADA



To give an idea of the magnitude of the burden associated with the HSF contribution, it suffices to note that in 2021, the average cost was $6,005 for small businesses, $104,503 for medium-sized businesses, and $646,826 for large businesses (*Table 6*). Since this is a tax on a factor of production, the vast majority of businesses that employ workers bear this cost every year[70], regardless of their financial situation.

TABLE 6

DISTRIBUTION OF REVENUE FROM HEALTH SERVICES FUND CONTRIBUTIONS BY BUSINESS SIZE, 2021

	Small	Medium	Large	Total
Cost (millions of dollars)	1,173	1,035	3,119	**5,327**
Number of contributors	195,330	9,904	4,822	**210,056**
Average cost	6,005	104,503	646,826	**25,360**

In this table, company size is not defined by the number of employees but rather by the value of assets and/or gross revenue reported on their tax returns.

In addition to directly increasing the tax burden on businesses, this form of taxation has particularly damaging economic effects. CPP research shows that in Canada, payroll taxes are almost entirely passed on to workers in the form of lower wage increases. Drawing on administrative data from millions of Canadian workers over more than a decade, the CPP has established that each percentage point of payroll taxation reduces wage growth by 0.47% per year, simultaneously weakening employment, labour market attractiveness, and business productivity[71].

The elimination of this levy would represent a substantial revenue shortfall, but this loss must not serve as a pretext for inaction. The government abolished the capital gains tax when it became incompatible with business competitiveness; the same logic must now apply to the payroll tax.

DIRECTIVE #2

Industrial policy must prioritize direct aid for large businesses

The cumulative evidence in this regard is clear: by favoring blanket approaches where aid is granted without distinction based on company size, the government has considerably weakened the impact of its interventions. Rather than systematically providing incentives to companies that would not have undertaken the targeted activities without state support, many measures have been misused to reduce the tax burden of companies that would have initiated these activities regardless. The empirical evidence of the CRIC 's effectiveness is conclusive in this regard[72]. For these reasons, industrial policy must separate its strategies to clearly distinguish between large firms and SMEs.

In the case of large firms, aid should be allocated entirely through competitive project calls. Rather than automatically granting tax support to any firm meeting certain criteria, the government would define its priorities – investment, innovation, exports – and then invite firms to submit projects. This approach, similar to a competitive bidding process, would allow companies to compete, enable a comparison of expected benefits, and better calibrate the aid granted, without forcing the government to "select winners" blindly. This shift would move away from the logic of automatic subsidies inherent in tax aid toward a project-based approach, where the government can track outcomes, adjust its interventions, and withdraw support when it becomes unproductive. Under these conditions, and given the liquidity freed up by Directive #1, access to tax credits should be limited to SMEs.

Finally, it should be noted that the argument that direct aid is too complicated to administer is hardly convincing. Quebec has fewer than 1,000 establishments with 500 or more employees[73] and, given the institutional framework already in place around the MEIE and Investissement Québec, the government can hardly cite a lack of administrative capacity or human capital to rule out a project-based approach. If the government has been able to maintain such a vast ecosystem of programs, funds, intermediaries, and partner organizations, it should *a fortiori* be capable of ensuring targeted monitoring of such a limited scope of intervention.

DIRECTIVE #3

Industrial policy must break down the silos in the tax strategy for SMEs

For SMEs, tax assistance remains clearly relevant given the number of businesses it reaches. To be effective, it must stop being conceived as a collection of separate credits.

The lessons learned from the QG100 Network's experience clearly demonstrate why the current compartmentalization is counterproductive. Among the most dynamic SMEs, investment, innovation, digitalization, and the adoption of cutting-edge technologies reinforce one another. By treating these activities as isolated silos, where assistance is granted based on strict eligibility criteria and within specific niches, the tax strategy has clearly failed to foster this synergy. It has primarily supported trajectories already underway rather than encouraging more hesitant companies to embark on modernization.

It must be acknowledged here that, in this regard, the C3I was a step in the right direction. By broadening the range of eligible investments and making the credit accessible to all sectors, the government moved closer to a "decompartmentalization" approach suited to how SMEs actually strengthen their competitiveness. However, its tendency to impose blanket measures has diminished the effectiveness of the funds allocated. While the most recent *Corporate Tax Statistics* (*courtesy translation*) do not allow us to identify the nature of the increase in the cost of credit since its implementation – the data ends in 2021 – it is presumed that the explosion in related tax expenditures since its implementation is not unrelated to the demands of large corporations.

The situation is similar in the case of the CRIC. By including capital expenditures and pre-commercialization activities among eligible expenses, the reform also helped break down the silos in the tax strategy supporting innovation. Here again, this progress was undermined by the use of uniform parameters for all businesses. By inadequately calibrating the exclusion thresholds, the government has reduced the credit's scope where liquidity constraints are most severe, while expanding access to a segment of businesses for which the marginal effect of the aid is negligible.

Under these conditions and subject to Directive #2, maintaining tax assistance for SMEs remains justified, but only if it is reorganized. Activities eligible for the C3I should be expanded to encourage a broader range of investments, particularly those indirectly targeted by the CDAE, which would allow for its abolition. The complex mechanism of the CRIC thresholds, based on the basic personal amount applicable to each employee assigned to eligible activities, should also be reviewed, but the reform as a whole should be maintained, subject to a rigorous assessment of its impacts. The credit for the production of multimedia titles should be abolished.

DIRECTIVE #4

Transforming legacy instruments into mechanisms of competitiveness

The outright abolition of certain business support instruments may prove difficult, either because they are deeply institutionalized or because they benefit well-organized recipients. In such cases, the government should not simply renew them on the fringes of the system. Instead, it should review their parameters to align them with the fundamental objectives of industrial policy of boosting business productivity, strengthening competitiveness, and expanding market presence abroad.

In cases where abolishing an existing instrument proves difficult to envisage, the government must at the very least ensure that its use is in line with the objectives pursued by industrial policy. The example of the tax policy regarding tax-advantaged funds[74] is particularly revealing in this regard.

In a study published in 2025[75] and based on administrative data from supported companies, the CPP concluded that maintaining this policy in its current form was difficult to justify. While the funds certainly meet the job creation objectives assigned to them over forty years ago, this is precisely where the system's weakness lies. The government continues to fund a policy in an economy where the main challenge is no longer to create jobs, but to increase business productivity, stimulate investment, and strengthen competitiveness.

The government has acknowledged the disconnect between the historical foundations of this policy and the current needs of the Quebec economy[76], without seeing the reform through to completion. Instead, short-term thinking has prevailed as a part of the investment has been redirected toward housing construction, while the inclusion of productivity in the mission statement has remained largely symbolic. The government could make much better use of the funds' expertise by directing their investments toward exporting companies or those seeking to break into foreign markets, and more broadly toward the issues that determine their long-term competitiveness.

DIRECTIVE #5

Industrial policy must invest in the human capital at the helm of SMEs

Findings from the QG100 Network's experience show that the competitiveness of SMEs depends on the quality of the human capital at the helm of the company. The leaders of the most dynamic companies are better educated, more experienced, and better equipped to steer investment, innovation, and the adaptation of their organizations. Given that the low level of competition in the domestic market means that a significant portion of companies do not internalize the need to modernize. Public assistance cannot be limited to funding projects: it must also help leaders recognize the transformations that need to be undertaken and see them through to completion. Under these circumstances, all support strategies must be reviewed and consolidated to align with industrial policy objectives. Rather than multiplying fragmented programs and initiatives, the government must structure its support offerings around the transformations it seeks to encourage investment, innovation, technology adoption, process modernization, and the development of foreign markets.

Only then can export efforts yield sustainable results. Until a critical mass of companies is sufficiently equipped with both physical and human capital to face competition and sustain their growth in foreign markets, the province's export ambitions will remain largely theoretical. No matter how many trade missions the government sends abroad, these efforts alone will not create exporters.

CONCLUSION

Quebec's industrial policy can no longer be reformed through incremental changes. By refusing to reassess its foundations, the Quebec government would not only be perpetuating costly measures: it would be prolonging a strategy that has failed to equip Quebec businesses with the level of competitiveness needed to absorb trade shocks, withstand adverse exchange rate fluctuations, and establish a lasting presence in foreign markets.

The experience of companies in the QG100 Network offers a key lesson for redefining industrial policy on a solid foundation: led by executives better equipped to identify and implement necessary transformations, these companies stand out for their ability to invest, innovate, modernize their processes, integrate cutting-edge technologies, and tackle more demanding markets. It is precisely this combination – which links human capital to innovation-intensive strategies – that Quebec's industrial policy must seek to generalize. Job creation must no longer be the starting point of industrial policy, but rather the culmination of a strategy centered on a sustainable increase in business competitiveness.

The five directives proposed in this report are consistent with this approach. By tangibly reducing the tax burden on all businesses while scaling back the scope and cost of its interventions, the government will move away from a culture of inaction to foster a genuine culture of innovation.

In this context, breaking down the silos in tax assistance for SMEs has become essential. Rather than multiplying programs, measures, and strategies dedicated to specific activities, the government must consolidate its support around two integrated tax measures: one designed to stimulate investment, the other to support innovation. Such an approach would support coherent transformation projects rather than forcing companies to fragment their initiatives to fit into specialized schemes.

Conversely, support for large companies should be limited to direct aid instruments. This shift would move away from an automatic support model and bring government intervention back to a project-based approach: the funds committed would be time-limited, tied to specific objectives, and contingent on measurable outcomes.

This approach requires moving beyond the false dichotomy between tax aid – presumed to be neutral – and direct aid, often equated with an arbitrary selection of winners. The current strategy already involves selection: it channels aid toward a limited number of large companies, without guaranteeing that public resources finance the most promising projects. A call for projects would have the advantage of making this selection explicit, competitive, and measurable. The government would not choose winners blindly; it would support projects capable of demonstrating the greatest benefits in terms of productivity, innovation, and competitiveness. This logic is by no means hypothetical. Not only is it observed at various levels within the OECD19, but it is already in practice in Canada under the umbrella of innovation superclusters[77]. The real challenge is not to invent a new model, but to stop treating tax incentives as the only legitimate instrument of industrial policy.

NOTES

1 The QG100 Network is a private, non-profit organization whose objective is to contribute to the success of Quebec's leading companies by accelerating their sustainable growth on a global scale. Bringing together 100 Quebec companies with over $25 million in revenue and operations across multiple continents, the Network facilitates the practical sharing of expertise.

2 The CPP evaluates Quebec's performance by comparing it to member countries of the Organization for Economic Cooperation and Development (OECD). Initially, the selection of countries was designed to target Western economies with historical data. Twenty countries were selected for the analysis: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, New Zealand, Norway, South Korea, Spain, the United Kingdom, and the United States. Italy, Japan, New Zealand, Norway, the Netherlands, Sweden, Switzerland, and the United Kingdom. However, a change in the composition of this group is necessary. Since 2015, Ireland has stood out for its exceptional GDP growth, driven by the massive influx of multinational corporations into the country, attracted by a particularly favorable tax regime. As a result, the growth of the Irish economy alone is driving a disproportionate rise in the average standard of living within the OECD20 group, which is why Ireland has now been removed from our comparison framework.

3 Intellectual property products represent the fruits of research and development and studies that benefit the company during production. Knowledge is an asset only when it is usable and beneficial exclusively to the company. Source: Statistics Canada. *Components of Gross Domestic Product (expenditure-based)*.

4 For more information, see, in particular: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Productivity: The key to a strong, resilient domestic market*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, May 2025; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Canada's Lagging Productivity: Could the Problem Be Insufficient Competition?* Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, November 2022; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Productivité et prospérité au Québec – Bilan édition 2025*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, May 2025; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Productivité et prospérité au Québec – Bilan 2023*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, March 2024.

5 For more information, see in particular: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Manufacturier 4.0 : dynamiser l'activité manufacturière au Québec*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, September 2019; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Productivité et prospérité au Québec – Bilan 2023*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, March 2024; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Des solutions pour stimuler l'innovation au Québec*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, March 2017.

6 For more information, see in particular: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Tax credit for research, innovation and commercialization: advocating for a genuine overhaul of innovation support*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, February 2026; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Évaluation de la politique fiscale relative aux crédits d'impôt pour les fonds fiscalisés*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers, HEC Montréal, February 2025; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Productivité et prospérité au Québec – Bilan édition 2025*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, May 2025; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Productivité et prospérité au Québec – Bilan 2023*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, March 2024; Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Des solutions pour stimuler l'innovation au Québec*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, March 2017.

7 *Foreign Investment Review Act* (1973), section 2, subsection 1.

8 Replaced by the Canada-United States-Mexico Agreement (CUSMA) on November 30, 2018.

9 Hatzichronoglou, T. (1997), "Revision of the High-Technology Sector and Product Classification", OECD Science, *Technology and Industry Working Papers*, 1997/02, OECD Publishing.

10 Direct intensity is defined as the ratio of R&D investment to output. More complex, indirect intensity assesses R&D associated with intermediate goods, that is, the products used in the manufacture of the final product.

11 Government of Quebec (1998). *Québec objectif emploi – Vers une économie d'avant-garde. Une stratégie de développement économique créatrice d'emploi.* Page 67

12 In 2011–2012, the Canadian dollar was virtually at par with the U.S. dollar, but since then, the relative value of the Canadian dollar has declined to reach CAD 0.72 / USD 1.00 in 2025.

13 The findings in this section are based on the following CPP report: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Tax credit for research, innovation and commercialization: advocating for a genuine overhaul of innovation support*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, February 2026.

14 These include the *crédit d'impôt relatif aux salaires R-D*, the *crédit d'impôt pour la recherche universitaire ou la recherche effectuée par un centre de recherche public ou par un consortium de recherche*, the *crédit d'impôt pour la recherche précompétitive en partenariat privé*, the *crédit d'impôt relatif aux cotisations et aux droits versés à un consortium de recherche*, and the *crédit d'impôt pour le design et le crédit d'impôt pour services d'adaptation technologique*.

15 Or the tax exemption for foreign researchers and the tax exemption for foreign experts.

16 Source: Conseil de l'innovation du Québec. *Budget du Québec 2025-2026: quelle part pour l'innovation?* March 2025.

17 For more details, see: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Mémoire présenté par le Centre sur la productivité et la prospérité – Fondation Walter J. Somers dans le cadre des consultations pour combler l'écart de niveau de vie entre le Québec et ses principaux partenaires*, third quarter 2023. Page 37

18 Set at $50,000 for SMEs and capped at $250,000 for large companies under the previous system, the exclusion threshold is now determined by the higher of $50,000 and the sum of the basic personal amount applicable to each employee assigned to eligible activities, adjusted according to the time spent on them, regardless of the company's size.

19 From now on, all businesses are eligible for a 30% credit on the first $1 million of eligible SR&ED expenses, with any excess eligible expenses then covered at a 20% rate. Prior to the reform, the rate offered to larger businesses was capped at 14%, and only small businesses had access to the enhanced rate.

20 Source: Government of Quebec (2025). *Budget 2025-2026 – pour un Québec fort*. Budget Plan, March. Page A12

21 Source: Government of Quebec (2007). *Budget 2007-2008*. Budget Plan, March. Page G.11

22 Source: Government of Quebec (2007). *Budget 2007-2008*. Budget Plan, March. Page G.5

23 Source: Government of Quebec (2008). *Budget 2008-2009*. Budget Plan, March. Page F.10

24 Source: Government of Quebec (2009). *Dépenses fiscales – Édition 2008*. Pages B.206 – B.207

25 Refers to: Crédits d'impôt remboursables pour les Carrefours de la nouvelle économie; Cité du multimédia; Centre national des nouvelles technologies de Québec; Centres de développement des technologies de l'information; Cité du commerce électronique.

26 Source: Government of Quebec (2008). *Budget 2008-2009*. Budget Plan, March. Page F.17

27 In the document *Renseignements additionnels du budget 2015-2016*, it is stated regarding the investment tax credit for manufacturing and processing equipment that "since the reduction in tax assistance for the investment tax credit is eight percentage points and since the tax credit rate for eligible expenses incurred for the acquisition of property other than property acquired for use primarily in a remote area, in the eastern part of the Bas-Saint-Laurent administrative region or in an intermediate zone cannot exceed 8%, the tax legislation will be amended so that these expenses no longer qualify for the investment tax credit. (*free translation*)" See also Table A.9, *Taux du crédit d'impôt pour investissement avant et après la révision* which shows that businesses in "other regions" are no longer eligible for this credit as of 2017. Note, however, that the eligibility of businesses in "other regions" was temporarily reinstated between August 15, 2018, and December 31, 2019, under the terms set forth in Table 1 (*page 6*) of the document *Bulletin d'information 2018-7 – Mesures fiscales annoncées à l'occasion du dépôt du plan de soutien aux entreprises du Québec du ministère des Finances du Québec*. In 2020, the C3I gradually replaced the *crédit à l'investissement relatif au matériel de fabrication et de transformation* (CII).

28 Authors' calculations based on ISQ data – Principal statistics on the manufacturing sector, Québec and administrative regions, 2013-2023

29 Source: Government of Quebec (2020). *Renseignements additionnels – Budget 2020-2021*. Page A.3

30 In the Government of Québec's document *Dépenses fiscales – Édition 2025*, it is stated that "for eligible expenses incurred in a tax year beginning after December 31, 2023, an eligible corporation may fully benefit from the refundable nature of the tax credit regardless of its assets or gross income. (*free translation*)". Page C.297

31 Refers to the Software Publishers (NAICS 5112) and Computer Systems Design and Related Services (NAICS 5415) industries. According to the CDAE eligibility criteria, 50% of the gross revenue from eligible activities in the information technology sector must specifically come from these two industries (plus certain personnel leasing activities that cannot be isolated using the available data).

32 Source: Government of Quebec (2026). *Renseignements additionnels – Budget 2026-2027*. Page A.13

33 Source: Government of Quebec (2026). *Renseignements supplémentaires – Budget 2025-2026*. Page A.31

34 Source: Ministère des Finances. Tax Expenditures 2025. Crédit d'impôt remboursable pour la production de titres multimédias et crédit d'impôt non remboursable pour la production de titres multimédias

35 Source: *Discours sur le budget et renseignements supplémentaires*, delivered to the National Assembly of Quebec by Bernard Landry, Deputy Premier and Minister of State for the Economy and Finance, May 9, 1996. Pages 15-16

36 The eligibility criteria for tax assistance were then revised so that foreign companies would now be eligible. Source: Ministère des Finances. *Bonification du crédit d'impôt pour la production de titres multimédias*, May 1997. Newsletter. Page 2

37 Source: Government of Quebec. *Budget 1998-1999 – Renseignements supplémentaires sur les mesures du budget*. Pages 51-52

38 Karim Benessaieh. Réduction du crédit d'impôt en jeu vidéo, *La Presse*, March 14, 2024.

39 Source: Government of Quebec. *Statistiques fiscales des sociétés 2021*. Table 93 – Credit for multimedia titles by company size – 2021.

40 In the Government of Quebec's *Statistiques fiscales des sociétés 2021* document, company size is "determined based on the assets and gross revenue reported in its tax return. (*free translation*)" Thus, large companies are those reporting assets or gross revenue of $50 million or more. Medium-sized enterprises are those reporting either assets of less than $15 million and gross revenue ranging from $10 million to $50 million, or assets ranging from $15 million to $50 million and gross revenue of less than $50 million. Finally, small businesses have assets of less than $15 million and report gross revenue of less than $10 million.

41 Employment data by company size is not presented based on the company's assets and gross revenue, but rather on the number of employees. Thus, large companies are those employing 500 or more employees.

42 The data for Ontario is derived from information collected from the *Taxation Transparency Report, 2024* and the *Public Accounts 2024–25: Ministry Statements and Schedules*. The following tax credits are included in the calculation: Ontario Made Manufacturing Investment Tax Credit, Ontario research and development tax credit, Ontario tax credit for manufacturing and processing, Ontario business research institute tax credit, Regional Opportunities Investment Tax Credit, Ontario innovation tax credit, Ontario interactive digital media tax credit. The data for Quebec is taken from the Quebec government's document *Dépenses fiscales – Édition 2025*.

43 Source: *Rapport d'enquête sur les dépassements de coûts et de délais du chantier de la Société Papiers Gaspésia de Chandler*, Quebec, Publications du Québec, 339 pages, 2005.

44 The Fonds du développement économique (the "Fonds") was established within the Ministry of Economy, Innovation, and Energy (MEIE) pursuant to section 25 of the *Loi sur Investissement Québec* (RLRQ, c. I-16-0.1), effective April 1st, 2011. Consequently, it is not subject to Quebec or Canadian income taxes. The Fund is designated for the administration and disbursement of any financial assistance provided for under a program developed or designated by the government and any financial assistance granted by Investissement Québec in the performance of a mandate entrusted to it by the government, as well as for the performance of other mandates entrusted to Investissement Québec by the government. Under the Act respecting Investissement Québec, the government is responsible for the financial assistance programs entrusted to Investissement Québec for administration, for the financial assistance granted by Investissement Québec in the performance of a mandate entrusted to it by the government, for other mandates entrusted to Investissement Québec by the government, and for the revenues and losses of the Fund. The management of the funds constituting the Fund is entrusted to Investissement Québec. The Fund's accounts are separate from all other accounts, including those of Investissement Québec. Source: *Fonds du développement économique états financiers consolidés de l'exercice clos le 31 mars 2024*. Page 9

45 Source: Government of Quebec (2025). *Comptes publics 2024-2025 Volume 2 – Renseignements financiers sur le fonds consolidé du revenu : fonds général et fonds spéciaux*. Pages 124-128

46 Refers to the following programs administered by IQ: Programme BioMed Propulsion, Programme développement économique pour l'aide à la redynamisation des territoires, Programme d'appui au développement des attraits touristiques, Programme ESSOR, Programme d'appui à la rétention des entreprises stratégiques et à l'aide d'urgence, Programme de capitalisation des entreprises d'économie sociale, Programme Innovation, Programme de soutien à la commercialisation et à l'exportation, Programme d'immobilisation en entrepreneuriat collectif, Programme Impulsion PME.

47 Commerce International Québec

48 Source: Government of Quebec. Soutien au fonctionnement des organismes en appui à l'exportation

49 Investissement Québec. Le fonds d'investissement Eurêka

50 Refers in particular to Fonds i4 Capital, Quantacet, Seido Capital, Hidden Layers Capital, Glen Ventures, AQC Capital, and Innovobot.

51 Axelys

52 Source: Government of Quebec. Soutien au fonctionnement d'organismes de recherche et d'innovation

53 Investissement Québec. Le fonds Impulsion

54 Including: 2 Degrés; Accélérateur DEL; ACET; AdMare BioInnovations; Axeo; CDL; Centech; Centre d'entreprises et d'innovation de Montréal (CEIM); McGill's Dobson Centre for Entrepreneurship; CTS; Cycle Momentum; Développement Économique Alma Lac-Saint-Jean; District 3; Entreprenariat ULaval; Esplanade; FounderFuel; Garage&co; Groupe 3737; IRICoR; InnoHub La Centrale; IVÉO; La base entrepreneuriale HEC Montréal; La Piscine; LE CAMP; MT Lab; Next AI; Quantino; Startup en Résidence Desjardins; TandemLaunch; Zù; Centre Québécois d'Innovation en Biotechnologie (CQIB); Centre québécois de recherche et de développement de l'aluminium (CQRDA); CQDM; Consortium de recherche et d'innovation en aérospatiale au Québec (CRIAQ); Consortium de recherche et innovations en bioprocédés industriels au Québec (CRIBIQ); Consortium de recherche et d'innovation en transformation métallique (CRITM); Innovation en énergie électrique (InnovÉÉ); MEDTEQ; Pôle de recherche et d'innovation en matériaux avancés du Québec (PRIMA Québec); Prompt.

55 Investissement Québec. Le fonds Impulsion

56 Source: Government of Quebec (2025). *Financial Information on the Consolidated Revenue Fund: General Fund and Special Funds*.

57 Source: Government of Quebec (2025). *Nourrir nos ambitions – Politique bioalimentaire 2025-2035*

58 For more details: Government of Quebec. Initiative ministérielle pour le développement des serres et des grands tunnels

59 Source: Government of Quebec (2025). *2030 Plan for a Green Economy and its implementation plan*

60 Source: Government of Quebec (2023). *Northern Québec, at the Heart of Our Future – Northern Action Plan 2023-2028*

61 Refers to the following surveys: *Survey of Innovation and Business Strategy* (SIBS), 2022 survey, *Canadian Survey on Business Conditions* (CSBC), 2025 survey, *Survey on Financing and Growth of Small and Medium Enterprises*, 2023 survey, *Interprovincial trade survey*, 2023 survey.

62 By specifically framing the value of the founder's human capital through measures such as education and professional experience, Protogeroua *et al.* (2017) notably found that the innovation performance of startups was directly linked to the value of their founder's human capital. The results obtained by Chemmanur *et al.* (2019) also confirmed the link between firms' innovation performance and the human capital of senior management. According to their findings, firms with a higher level of human capital within senior management are more likely to engage in high-risk exploratory innovation strategies.

63 Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré (2021). *Performance des PME québécoises: perspectives sur la formation des dirigeants*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, March.

64 For more information: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Canada's Lagging Productivity: Could the Problem Be Insufficient Competition?* Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, November 2022.

65 The CPP requested certain information from the QG100 companies' financial statements for the 2015–2024 period to construct measures of their productivity, including their payroll, profit, and depreciation of tangible and intangible assets (measures necessary for calculating their value added), as well as measures of the factors of production used by the company (employment, hours worked, net fixed assets). At the time of writing, 25 QG100 companies had submitted this information.

66 Since some QG100 companies were unable to provide this information for the entire 2015– 2024 period, only 17 of the 25 companies that submitted their data are represented in Figure 41. It should also be noted that Figure 41 tracks changes in the value of companies' net fixed assets, which allows for an indirect assessment of investment intensity. The increase in net fixed assets depends on companies' ability to invest sufficiently to cover the depreciation (amortization) of assets already in their possession.

67 Source: Marie-Michèle Sioui and Léo Mercier-Ross. Fréchette abaisse les impôts de 75 000 PME, *Le Devoir*, April 29, 2026.

68 Source: Government of Quebec. *Statistiques fiscales des sociétés 2021*. Table 74 – Detailed corporate tax statistics by company size.

69 In 2025, businesses with a payroll of $1 million or less paid the lower rate of 1.25% (or 1.65% outside the primary and manufacturing sectors). Businesses with a payroll of $7.8 million or more paid the higher rate of 4.26%. Companies with a payroll between $1 million and $7.8 million paid the intermediate rate, which increased linearly until reaching the higher rate. Source: PwC. *Tax Facts and Figures: Canada 2025*.

70 By cross-referencing data from the Business Register (Statistics Canada, CANSIM, Table 33-10-0493-01) and the *Statistiques fiscales des sociétés 2021* document, it can be determined that approximately 85% of businesses with employees pay the CFSS. Although the comparison is imperfect due to differences in how businesses are counted in the two sources, it nevertheless provides an order of magnitude for the CFSS's share of the corporate tax burden.

71 Source: Deslauriers, Jonathan, Benoit Dostie, Robert Gagné, and Jonathan Paré, *Réforme de la taxe sur la masse salariale: Preuves empiriques*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, September 2017. Dostie *et al.* (2021) reach a similar conclusion, showing that these taxes are almost entirely borne by employees.

72 Source: Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Tax credit for research, innovation and commercialization: advocating for a genuine overhaul of innovation support*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, February 2026.

73 Source: Statistics Canada, CANSIM, Table: 33-10-1095-01

74 Namely the Fonds de solidarité FTQ, the Fondaction CSN, and Capital régional et coopératif Desjardins (CRCD).

75 Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Évaluation de la politique fiscale relative aux crédits d'impôt pour les fonds fiscalisés*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, February 2025.

76 Government of Quebec (2023). *Budget 2023-2024. Un Québec engagé*. Budget plan. Pages B.24–B.27

77 The Canadian Press. SCALE AI investit dans 24 nouveaux projets, *La Presse*, December 17, 2025.

DATA SOURCES

CHART 1 – 2 – 3

Standard of Living in Quebec and Canada

Nominal GDP: Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Chained GDP in 2017 dollars: Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Total population: Statistics Canada, CANSIM,
Table: 17-10-0005-01 (formerly CANSIM 051-0001)

Standard of Living in OECD Member Countries

Nominal GDP: OECD – Data, Annual GDP and components – expenditure approach

Chained GDP in 2020 dollars: OECD – Data, Annual GDP and components – expenditure approach

Total population: OECD – Data, Annual population and employment, national concept

Purchasing Power Parity Exchange Rates: OECD – Data, Annual Purchasing Power Parities and Exchange Rates

CHART 4

Labour productivity in Quebec and Canada

Nominal GDP: Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Chained GDP $ (2017): Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Hours worked: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Hours worked: Statistics Canada, National Economic Accounts, Special compilation

Labour Productivity of OECD Member Countries

Nominal GDP: OECD – Data, Annual GDP and components – expenditure approach

Chained GDP $ (2020): OECD – Data, Annual GDP and components – expenditure approach

Hours worked: OECD – Data, Productivity Levels

Hours worked (United States): Statistics Canada, National Economic Accounts, Special Compilation

Purchasing Power Parity Exchange Rates: OECD – Data, Annual Purchasing Power Parities and Exchange Rates

CHART 5

Breakdown of Quebec's standard of living

Nominal GDP: Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Chained GDP $2017: Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Total population: Statistics Canada, CANSIM,
Table: 17-10-0005-01 (formerly CANSIM 051-0001)

Hours worked: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Hours Worked: Statistics Canada, National Economic Accounts, Special Compilation

Employment: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Employment: Statistics Canada, National Economic Accounts, Special Compilation

Breakdown of living standards in OECD member countries

Nominal GDP: OECD – Data, Annual GDP and components – expenditure approach

Chained GDP in 2020 dollars: OECD – Data, Annual GDP and components – expenditure approach

Total population: OECD – Data, Annual population and employment, national concept

Purchasing Power Parity Exchange Rates: OECD – Data, Annual Purchasing Power Parities and Exchange Rates

Hours worked: OECD – Data, Productivity Levels

Hours worked (United States): Statistics Canada, National Economic Accounts, Special Compilation

Employment: OECD – Data, Productivity Levels

Employment (United States): Statistics Canada, National Economic Accounts, Special Compilation

CHART 6

Quebec's overall employment rate

Employment: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Employment: Statistics Canada, National Economic Accounts, Special Compilation

Total population: Statistics Canada, CANSIM,
Table: 17-10-0005-01 (formerly CANSIM 051-0001)

Overall employment rate of OECD member countries

Employment: OECD – Data, Productivity Levels

Employment (United States): Statistics Canada, National Economic Accounts, Special Compilation

Total population: OECD – Data, Annual population and employment, national concept

CHART 7

Quebec's labour intensity

Hours worked: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Hours Worked: Statistics Canada, National Economic Accounts, Special Compilation

Employment: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Employment: Statistics Canada, National Economic Accounts, Special Compilation

Labour Intensity of OECD Member Countries

Hours worked: OECD – Data, Productivity Levels

Hours worked (United States): Statistics Canada, National Economic Accounts, Special Compilation

Employment: OECD – Data, Productivity Levels

Employment (United States): Statistics Canada, National Economic Accounts, Special Compilation

CHART 8

Labour Productivity in Quebec and Canada

Nominal GDP: Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Chained GDP $ (2017): Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Hours worked: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Hours worked: Statistics Canada, National Economic Accounts,
Special Compilation

Labour Productivity of OECD Member Countries

Nominal GDP: OECD – Data, Annual GDP and components – expenditure approach

Chained GDP $ (2020): OECD – Data, Annual GDP and components – expenditure approach

Hours worked: OECD – Data, Productivity Levels, Hours worked

(United States): Statistics Canada, National Economic Accounts,
Special Compilation

Purchasing Power Parity Exchange Rates: OECD – Data,
Annual Purchasing Power Parities and Exchange Rates

CHART A

Labour Intensity in Quebec and Canada Hours

Worked: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Hours worked: Statistics Canada, National Economic Accounts,
Special Compilation

Employment: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Employment: Statistics Canada, National Economic Accounts,
Special Compilation

Labour Intensity of OECD Member Countries

Hours worked: OECD – Data, Productivity Levels

Hours worked (United States): Statistics Canada,
National Economic Accounts, Special Compilation

Employment: OECD – Data, Productivity Levels

Employment (United States): Statistics Canada,
National Economic Accounts, Special Compilation

CHART 9 – 10 – 11

Private-sector non-residential investment in Quebec, Ontario, and Canada

Gross fixed capital formation by enterprises: Statistics Canada,
CANSIM, Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Private sector employment: Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Private non-residential investment in OECD member countries

Gross fixed capital formation of enterprises: OECD – Data,
Annual capital formation by economic activity

Private sector employment: OECD – Data, STAN Database for
Structural Analysis, 2025 edition

Purchasing Power Parity Exchange Rates: OECD – Data,
Annual Purchasing Power Parities and Exchange Rates

Note: To ensure better consistency between Statistics Canada and OECD data, the private sector comprises all industries except the non-market sector (general government, non-profit institutions serving households) as well as service sector industries related to educational services (NAICS 61) and health care and social assistance (NAICS 62).

CHART 12

Real value added in chained 2017 dollars

Statistics Canada, CANSIM, Table: 36-10-0480-01
(formerly CANSIM 383-0033) Special compilation,
Statistics Canada, 1984–1996

TABLE A

Hatzichronoglou, T. (1997), "Revision of the High-Technology Sector and Product Classification", OECD Science, *Technology and Industry Working Papers*, 1997/02, OECD Publishing.

CHART 13

Real manufacturing GDP, Quebec

Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)
Special compilation, Statistics Canada, 1984–1996

Real manufacturing GDP, OECD

OECD Data Explorer, STAN Database for Structural Analysis,
2025 edition

CHART 14

Nominal GDP by industry, Quebec

Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)
Special compilation, Statistics Canada, 1984–1996

Nominal GDP by industry, OECD

OECD Data Explorer, STAN Database for Structural Analysis, 2025 edition

Note: The OECD average is the arithmetic mean of the weight of services in the business sector of OECD19 countries. However, some data are missing for the period 1984–2023.

TABLE 1

Percentage of business tax credits intended to subsidize wages

Government of Quebec, Dépenses fiscales – Édition 2015–2022

CHART 15

Business entry rate, Quebec – Ontario

Statistics Canada, CANSIM,
Table: 33-10-0087-01 (formerly CANSIM 527-0007)

Business entry rate, Canada

Statistics Canada, CANSIM,
Table: 33-10-0164-01 (formerly CANSIM 527-0001)

CHART 16

Business exit rates, Quebec – Ontario

Statistics Canada, CANSIM,
Table: 33-10-0087-01 (formerly CANSIM 527-0007)

Business exit rates, Canada

Statistics Canada, CANSIM,
Table: 33-10-0164-01 (formerly CANSIM 527-0001)

CHART 17

Business renewal rate, Quebec – Ontario

Statistics Canada, CANSIM,
Table: 33-10-0087-01 (formerly CANSIM 527-0007)

Business Turnover Rate, Canada

Statistics Canada, CANSIM,
Table: 33-10-0164-01 (formerly CANSIM 527-0001)

CHART 18

Number of active enterprises with employees

ISQ, Nombre d'entreprises actives avec employés, selon l'industrie, Québec, Ontario, Alberta, Colombie-Britannique et Canada, 2011-2023

Number of businesses two years old or younger

ISQ, Nombre d'entreprises jeunes (âgées de deux ans au plus) avec employés, selon l'industrie, Québec, Ontario, Alberta, Colombie-Britannique et Canada, 2011-2023

CHART 19

Exports of goods and services to other countries, Quebec

Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Exports of goods and services, OECD

OECD Data Explorer,
Annual GDP and components – expenditure approach

CHART 20

GDP and Exports of Goods and Services to Other Countries, Quebec

Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

GDP and Exports of Goods and Services, OECD

OECD Data Explorer,
Annual GDP and components – expenditure approach

CHART 21

Gross fixed capital formation of the business sector, Machinery and equipment – Intellectual property products

Statistics Canada, CANSIM,
Table: 36-10-0222-01 (formerly CANSIM 384-0038)

Private sector employment

Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Note: The private sector is defined as All industries excluding the Educational services (NAICS 61) and Health care and social assistance (NAICS 62) sectors, as well as the Non-commercial sector.

TABLE 2

Government of Quebec, Dépenses fiscales – Édition 2025,
Table: C.57 – Taux du crédit d'impôt relatif à l'investissement et à l'innovation

CHART 22

Government of Quebec, Dépenses fiscales – Édition 2005 à 2025

CHART 23

Employment by Industry

Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

CHART 24

Real value added by industry Statistics

Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

CHART 25

Employment by industry

Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

CHART 26

Real value added by industry

Statistics Canada, CANSIM,
Table: 36-10-0480-01 (formerly CANSIM 383-0033)

TABLE 3

Government of Quebec, Statistiques fiscales des sociétés 2021,
Tables 84-87-91-93

TABLE 4

Government of Quebec, Statistiques fiscales des sociétés 2021,
Table: 74

TABLE 5

Share of Private Sector

Employment Statistics Canada, CANSIM,
Table: 33-10-0093-01 (formerly CANSIM 527-0012)

TABLE B

Distribution of businesses by industry

QG100, special compilation

Statistics Canada, CANSIM,
Table: 12-10-0098-01 (formerly CANSIM 228-0077)

Statistics Canada, CANSIM, Table: 33-10-1095-01

CHART 27 – 28

Survey and Inquiry

QG100, special compilation

Enquête sur le financement et la croissance des petites et moyennes entreprises – 2023, Table: 37

CHART 29

Survey and Inquiry

QG100, special compilation

Enquête sur le financement et la croissance des petites et moyennes entreprises – 2023, Table: 16

CHART 30

Survey and Inquiry

QG100, special compilation

Enquête sur le financement et la croissance des petites et moyennes entreprises – 2023, Table: 19

CHART 31

Survey and Inquiry

QG100, special compilation

Canadian Survey on Business Conditions,
Statistics Canada, CANSIM, Table: 33-10-0998-01

CHART 32

Survey and Inquiry

QG100, special compilation

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 33-10-0184-01

CHART 33

Survey and Inquiry

QG100, special compilation

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 27-10-0361-01

CHART 34

Survey and Inquiry

QG100, special compilation

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 27-10-0367-01

CHART 35

Survey and Inquiry

QG100, special compilation

Canadian Survey on Business Conditions,
Statistics Canada, CANSIM, Table: 33-10-1004-01

CHART 36

Survey and Inquiry

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 27-10-0368-01

CHART 37

Survey and Inquiry

QG100, special compilation

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 33-10-0303-01

CHART 38

Survey and Inquiry

QG100, special compilation

Interprovincial trade survey,
Statistics Canada, CANSIM, Table: 33-10-0960-01

CHART 39

Survey and Inquiry

QG100, special compilation

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 33-10-0175-01

CHART 40

Survey and Inquiry

QG100, special compilation

Survey of Innovation and Business Strategy,
Statistics Canada, CANSIM, Table: 33-10-0177-01

CHART 41 – 42

QG100 Data

QG100, special compilation

CHART 43

PwC. Tax Facts and Figures: Canada 2025.
Payroll tax rates (page 29)

TABLE 6

Government of Quebec, Statistiques fiscales des sociétés 2021,
Table: 74