
PRESS RELEASE

For immediate publication

PRODUCTIVITY IN QUEBEC: AS WORRISOME AS EVER

Montréal, March 18, 2019 – To mark a decade of research into the issue of productivity in Quebec, the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) is pleased to release the tenth edition of *Productivity and Prosperity in Quebec – Overview*. “This overview was originally intended to alert decision-makers to the challenge of productivity and its impact on Quebec’s economic prosperity,” explains CPP Director Robert Gagné. “Back then, there was serious cause for concern: after 30 years of particularly lethargic productivity growth, a wide gap had opened up in terms of economic prosperity between Quebec and the main Western economies. Since then the political discourse has evolved, but the same basic problem remains: because it hasn’t improved its productivity, Quebec is still having trouble generating wealth.”

The result is that even today the findings of the *2018 Overview* are still cause for concern. For all practical purposes, labour productivity has flatlined over the past four years, posting average annual growth of barely 0.1%. In short, the new government faces a considerable challenge.

Troubling findings, tangible consequences

Quebeckers have eventually had to pay for their economy’s laggard growth. They have less money to spend and save than the residents of other provinces. With average per capita disposable income of \$28,455 in 2017, Quebec now sits at the bottom of the heap, whereas barely 20 years ago the province outperformed the Canadian average.

“People sometimes try to downplay the importance of disposable income, claiming that there is less income inequality in Quebec, or that we have a lower cost of living,” says Jonathan Deslauriers, Assistant CPP Director. “But these arguments can’t explain the gap between Quebec and the other provinces. For example, as compared with Ontario, there is less inequality in Quebec because the richest people here are not as wealthy as their Ontario counterparts, and not because the poorer people here are better off. Even when we adjust our calculations to reflect the cost of living in Quebec, the fact remains that without adequate economic prosperity, the vast majority of Quebec households have less money to spend and save.”

Real solutions possible

Based on ten years of studying this issue, the researchers have identified three areas to focus on in order to boost the province’s productivity and improve its performance: invest in education, stimulate private investment and encourage innovation.

“Quebec has long lagged behind all the other provinces when it comes to public spending on education, and would do very well to boost its investment in human capital,” suggests Robert Gagné. “With barely 9% growth in real spending on education over the past ten years, the province clearly hasn’t invested enough upstream to boost its workers’ productivity. By

investing wisely in education, the government could eliminate two major obstacles to Quebec's productivity: the high drop-out rate and the low university graduation rate, which currently limits the province's ability to innovate."

In addition, to improve its innovation ability, Quebec would do well to invest more in research and development (R&D). In 2016, the province devoted \$2,171 per job to R&D, substantially less than countries like Finland, Sweden and Denmark, which outspend Quebec by 90% on R&D. The researchers say that the relative weakness of private spending on R&D reflects a broader problem: generally speaking, businesses in Quebec do not invest much. "With private non-residential investment of \$8,212 per job in 2017, Quebec compares poorly with the 20 OECD countries used for our comparisons year after year," notes the Director. "For instance, private investment in Finland was 1.7 times greater than in Quebec, and yet even that country was far from the top of this ranking."

The solution lies with business

The researchers report that the relative weakness of investment in human capital, physical capital and R&D have eventually had an impact on the performance of Quebec firms. "In the late 90s, the productivity gap between firms in Quebec and Ontario was attributable essentially to a structural effect," explains Gagné. "In other words, if Quebec's economic structure had been identical to Ontario's at the time – i.e. if the distribution by industry of hours worked in Quebec had been identical to that in Ontario – Quebec's labour productivity would have been marginally higher than in its neighbouring province."

But since then this effect has faded and less than 25% of the difference between the two provinces is attributable to their structures. "Because it was unable to make the necessary changes, Quebec is now faced with a pure productivity problem," concludes Gagné. "If no action is taken to remedy this situation, the wealth gap between Quebec and other economies is bound to widen."

For more information:

- Consult the report (in French), entitled *Productivité et prospérité au Québec – Bilan 2018* (English edition coming soon).
- Téléchargez le communiqué [en français](#).

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 Walter Surface Technologies. 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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