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## **BOOSTING PRODUCTIVITY IS THE ONLY SOLUTION TO AN ARTIFICIALLY FUELLED LABOUR SHORTAGE**

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**Montréal, March 2, 2022** – As it begins to recover after two years of ups and downs because of efforts to manage the pandemic, the Quebec economy is now faced with a worsening labour shortage and the spectre of inflation. In such volatile times, the province must more than ever focus on labour productivity, according to the latest edition of *Productivity and Prosperity in Quebec – Overview*, produced by the Centre for Productivity and Prosperity – Walter J. Somers Foundation.

“This twelfth edition of *Productivity and Prosperity in Quebec* was put together as the Quebec economy was gradually beginning to grow again, and as the problem of labour shortages was re-emerging as a particularly acute problem,” explains Robert Gagné, CPP Director and co-author of the study. “During the pandemic emergency, all kinds of studies were done and the Quebec government was inundated with calls to assist businesses. But in fact none of the solutions proposed addressed the real root of the problem, i.e. companies’ low productivity.”

### **Labour shortages: a problem artificially fuelled by 20 years of bad government policies**

Contrary to what one usually hears, the phenomenon of labour shortages in Quebec is a problem created in large part by companies’ failure to invest and innovate and by misguided government policies, the *Overview* concludes. The phenomenon of an ageing population has been known and documented for many years, and productivity also been clearly identified as the solution. But since companies have become used to drawing on an abundant pool of inexpensive workers for decades, they have not invested and have done little to innovate. Worse still, the Quebec government has supported their negligence with its misguided fiscal policies.

“The evidence is particularly clear,” Gagné adds. “If we analyze all the income tax credits offered to businesses in 2015, when the problem of vacant positions was first surfacing, we can see that just over 80% of the amounts granted through these credits was based on payrolls. In short, the government was trying to encourage businesses to adopt practices or behaviours to promote productivity growth, but was actually financing the related wages.” Caught in this trap, businesses haven’t increased their investments in machinery, materials and intellectual property, while the government has maintained fiscal policies focusing on employment, exacerbating the labour shortage rather than trying to address it through policies to encourage productivity growth.

### **Productivity to break a vicious circle**

The authors feel that the effective and lasting solution to the issue of labour shortages is for Quebec to encourage the use of available resources to attract potential workers by offering better working conditions. And this is where stronger labour productivity growth can play an important role.

“The province is currently in an impasse,” explains Jonathan Deslauriers, CPP Executive Director and co-author of the study. “To attract new workers to fill vacant positions, businesses have to increase their pay and improve their working conditions. But because this won’t result in productivity gains, many of them can’t afford the higher wages required. These businesses are caught in a vicious circle:

because they can't attract the most skilled available workers, their productivity stagnates, and without higher productivity, they can't offer competitive pay. As a result, the positions remain unfilled."

To get out of this impasse, the researchers think that a significant improvement in productivity is the only tool allowing businesses to offer the wage increases necessary to attract workers, in the short term, and in the longer term to boost their investments so that they can afford future wage increases on the basis of productivity gains. And the authors feel that action is urgent, since "without sufficient productivity gains, the inflationary pressures arising from labour shortages will drive up businesses' sales prices," says Deslauriers.

#### **A solution within reach**

The Quebec government already has a solution available, one that would have the desired effects in the very short term: abolishing the mandatory contribution to the Health Services Fund, an annual tax on businesses based on their payroll. This would free provincial businesses from a tax burden amounting to approximately \$4 billion, giving them the room to manoeuvre they need to increase wages.

"To partly compensate for this lost revenue, the government could eliminate many of the payroll-based tax credits granted to businesses, a practice identified as being at the root of the problem of labour shortages and whose effectiveness has never been proven," concludes Gagné.

#### **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. [hec.ca/cpp](http://hec.ca/cpp) - [info.cpp@hec.ca](mailto:info.cpp@hec.ca)

#### **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 enhance its productivity but also by supporting excellence in youth education.

#### **Source:**

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