Centre for Productivity and Prosperity
Walter J. Somers Foundation
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MORE COMPETITION:
THE ONLY OPTION TO REVERSE CANADA'S GRADUAL DECLINE

Montreal, November 16, 2022 - A study released today by the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) sheds new light on the nature of the productivity problem slowing the growth of the Canadian economy. According to the HEC Montréal researchers, there is simply not enough competition in Canada to create the incentives necessary to stimulate companies' competitiveness.

"Given the geographic dispersion and segmentation of its economy, Canadian firms have historically developed in small domestic markets, limited to provincial scale and protected by administrations that deemed foreign competition a threat to a small economy like ours," explains CPP Director Robert Gagné. "Since businesses here were not exposed to strong competitive forces, they haven't had to develop the proper reflexes in terms of investment and innovation in order to boost their productivity."

Ill equipped to handle competition, Canadian businesses were rapidly overwhelmed when markets became more integrated in the early 2000s. "Since then Canada's economy has been gradually declining," notes Gagné. "Whereas it had a lead of nearly $2,000 per capita in the average standard of living in the Western economies in 1981, by 2021 Canada had fallen behind this same average by approximately $7,000, after inflation and differences in currency purchasing power are taken into account. And judging by the projections in the latest federal budget, it may end up trailing the group by 2060 if nothing is done to correct the path our economy is taking."

Outdated policies

In the authors' opinion, this decline is due essentially to the inaction of federal administrations since the early 1990s. Canada, unable to shake off its protectionist past, has been unable to prepare its enterprises to meet the challenges of integrated world markets. "As international conditions gradually changed, Ottawa remained firm in its belief that it had to help companies grow and protect their jobs," explains CPP Assistant Director Jonathan Deslauriers, co-author of the study. "As a result, many of the institutions structuring and governing competition in Canada today tend to limit competitive forces rather than stimulate them. Not only is this attitude contrary to consumers' interest, but it also strangles the Canadian economy's growth potential."

To illustrate their point, the authors cite the process for evaluating Air Canada's proposed purchase of Air Transat in 2019. Whereas Canadian authorities openly favoured the transaction, on the grounds that consolidating the two companies would save jobs and that government controls would suffice to protect consumers, the European Commission instead opposed the deal, feeling that the creation of a transportation giant to and from Canada would not be in European consumers' interest.

"This case may seem fairly simple, but it is a perfect example of how Canada lacks a culture of competition," explains Deslauriers. "While European institutions are more geared to preserving true competition as a way of protecting consumer interests, Canadian authorities approach competition with the goal of protecting

companies and jobs. This is a particularly inadvisable strategy for an economy with a poor record of innovation and one that is also facing a serious labour shortage."

Advice ignored

The report reviews the history of competition management in Canada since Confederation, and shows that most of the current issues relating to competition were clearly identified by the Macdonald Commission in the early 1980s. "The Commission not only pointed out these problems, but also offered viable solutions to improve the country's competitiveness. Unfortunately, government authorities acted only on its recommendation of a free-trade agreement with the United States," laments Gagné.

Many free-trade agreements have been signed with other countries since then, but the basic problem remains. "Without the necessary reforms, Canadian firms have continued to operate in an outdated institutional environment that gives short shrift to competitive forces," he continues.

To reverse this trend and end Canada's gradual decline, the authors suggest that governments address the gap between the country's economic development strategy and its public policies governing competition. Among the many issues to be considered, they say, priority should be given to the obstacles to a strong and resilient domestic market. This means the regulatory barriers to interprovincial trade, but also stricter control over how competition is managed in Canada. "Governments can sign as many trade agreements as they like, Canada's economic growth will remain inadequate to preserve Canadians' standard of living if nothing is done to boost our economy's competitiveness," concludes Gagné.

For more information:

- Consult the report, titled *Canada's Lagging Productivity: Could the Problem Be Insufficient Competition?*
- 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**. cpp.hec.ca/ - 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 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 enhance its productivity but also by supporting excellence in youth education.

Source:

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