

Productivity and Prosperity in Quebec – 2022 Overview

QUEBEC MUST RETHINK ITS INDUSTRIAL POLICY

Montréal, March 16, 2023 – Without a fundamental reform of Quebec’s many business-support programs, it will not be able to meet the government’s objective of matching Ontario’s standard of living by 2036; worse yet, the province may well enter the same downward spiral that has afflicted the Canadian economy as a whole since 2015. This is the main conclusion of *Productivité et prospérité au Québec – Bilan 2022*, the latest edition of the annual overview of Quebec’s productivity and prosperity, released today by the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP).

“Poor productivity has always been the Achilles’ heel of Quebec’s economy,” says Robert Gagné, CPP Director and co-author of the study. “Even though the province has made some headway in recent years, simply focusing new business-support policies on productivity will not be enough to maintain these gains. In the short term, Quebec is in danger of hitting a wall if it doesn’t bring in reforms. Basically, its strategy continues to aim at the wrong targets, and so will remain just as costly and ineffective as it has been for 25 years now.”

The misguided goal of job creation at all costs

The CPP’s annual overview condemns the way that job creation remains the central tenet of the province’s economic development strategy. In 2021, the Quebec government granted some \$2.4 billion in tax credits to businesses, proportionally twice as much as similar credits in Ontario.

“The problem isn’t just the huge amounts,” explains Jonathan Deslauriers, Assistant CPP Director and co-author of the study. “Over 80% of the Quebec government’s tax support for businesses is still aimed directly or indirectly at stimulating employment rather than competitiveness. Not only is this strategy inadvisable at a time of labour shortages, but it also tends to reinforce the harmful effects of federal competition-management policy, by favouring large companies rather than helping businesses of all sizes to become more dynamic.”

The government must give serious thought, and soon, to eliminating the emphasis on protecting jobs. “This way of looking at economic development has never served Quebec’s interests,” adds Gagné. “Since it didn’t know when and how to reform its strategy, the government ended up granting billions to large companies that would have done what it wanted in any case. Meanwhile, smaller firms were neglected. In the end, Quebec’s constantly lagging productivity is no surprise, despite the billions injected by the state. The government is preaching to the choir, without really supporting SMEs, even though they are the heart of the Quebec economy.”

Essential reform that has to focus on competition

If Quebec wants to reach the goal it has set itself for 2036, it will have to learn to take advantage of the benefits of competition to stimulate businesses’ competitiveness. “Quebec’s economic

development strategy has clearly derailed, but no one really seems to know how to get it back on track,” says Gagné.

Consequently, the HEC Montréal researchers suggest a fundamental reform of the province’s fiscal strategy, with the goal of limiting government intervention. “Rather than constantly offering new income tax credits, and refundable ones at that, the government would get better results by reducing businesses’ tax burden and giving them more room to manoeuvre so that they can thrive in a healthy competitive environment,” offers Gagné. “In the end, the economy as a whole would benefit! Companies would be more competitive, more profitable and hence better able to survive. Some of them might well make gains on foreign markets and, more important still, Quebec consumers would have access to higher-quality goods at competitive prices.”

In the authors’ view, Quebec cannot afford to wait before launching this reform. “Like Canada as a whole, Ontario has been losing ground in comparison with the main Western economies. This gap is even likely to widen in years to come, according to Finance Canada forecasts. So the Quebec government’s goal of reaching parity with Ontario by 2036 will absolutely have to be a minimum – otherwise Quebec may fall even further behind in economic terms,” concludes Gagné.

For more information:

- [Productivité et prospérité au Québec – Bilan 2022](#) (in French)
- 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. www.hec.ca/cpp – 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:

Liette D’Amours
Media Relations Officer
(514) 649-2347 – info.cpp@hec.ca