Montreal Economic Institute
Ideas for a More Prosperous Nation

ECONOMIC NOTE

May 2007

QUEBEC'S DISAPPOINTING ECONOMIC PERFORMANCE IN THE LAST 25 YEARS

Quebec's socio-economic problems, in areas such as health care, education, infrastructure, support for cultural industries and sustainable development, are interrelated phenomena that stem largely from Quebec's relative underperformance in demographic growth, economic development and job creation. This situation goes back 25 years. It is time to put an end to it. A number of voices have already sounded the alarm.[1] This Economic Note, which takes account of the latest available data and presents the main indicators of a society's economic health, shows that Quebec's economic situation is not improving and that, despite these appeals, it is actually continuing to deteriorate in relation to its competitors.[2]

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Even with real economic growth of 2.3% per year since the early 1980s, Quebec's relative situation is worsening, and it will become increasingly difficult, or even impossible, to maintain services that compare in quality with those of its closest economic partners, namely the rest of Canada and the United States. Quebec needs substantial and courageous reforms on an urgent basis to emerge from the rut of systematic underperformance in which it is caught.

Economic growth

Between 1981 and 2006, average annual growth in Quebec's real gross domestic product (GDP) was 2.3%, compared to 3.0% in the rest of Canada. This represents a 76.6% rise in real GDP, in contrast to 109.9% elsewhere in Canada. Quebec's real GDP accounted for only 20.5% of the Canadian total in 2006, down 2.9 percentage points from 1981.

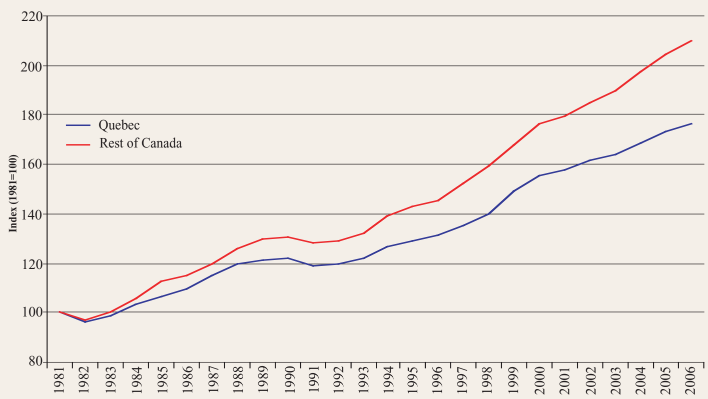
The annual growth rate in the last seven years (1999-2006) was 2.5% in Quebec and 3.3% in the rest of Canada. At this pace, Quebec's GDP would rise by 84.1% in the next 25 years compared to 123.8% in the rest of Canada. Quebec would then account for only 17.5% of the Canadian economy.

Changes in GDP per capita (real GDP divided by total population) are following a somewhat different trend. Since the population is growing more slowly in Quebec than in the rest of Canada, real GDP per capita is advancing at roughly the same pace in Quebec and the other provinces: an increase of 51.1% in Quebec compared to 53.6% in the rest of Canada between 1981 and 2006. Some people may be comforted by this fact. This is a serious error: growth rates are similar but the levels differ. In fact, the gap in living standards is widening. As a result, the difference between real GDP per capita in Quebec and that in the rest of Canada rose (in constant 1997 dollars, to take account of inflation) from $3,652 in 1981 to $6,137 in 2006, a real increase of 68%.

Moreover, the share of private investment in real GDP has been lower in Quebec than elsewhere in Canada over the last 25 years. For the period from 2000 to 2006, the gap was 2.75 percentage points, amounting to a $6.8-billion private investment deficit in Quebec in 2006. Even if public investments as a percentage of GDP have been greater in Quebec since 1994, the share of investment spending in

1. In particular, Léon Courville and Paul Daniel Muller – *Place à l'initiative* (2003); the manifesto *For a clear-eyed vision of Quebec* (2005); Alain Dubuc – *Éloge de la richesse* (2006); Luc Godbout, Pierre Fortin, Matthieu Arseneau and Suzie St-Cerny – *Oser choisir maintenant* (2007).
2. For a more detailed study of these issues, see Marcel Boyer, *La performance économique du Québec : constats et défis (III)*, CIRANO, May 2007, http://www.cirano.qc.ca/pdf/publication/2007S-12.pdf.

FIGURE 1
Annual growth in real GDP
(1981-2006)



Source: Statistics Canada (data in constant 1997 dollars).

real GDP has remained systematically lower in Quebec in the last 25 years. This suggests a continual decline in capacity for production and innovation, and thus eventually in Quebec's competitive position. This situation is all the more worrying since Quebec exported nearly 60% of its production from 2000 to 2006 (meaning three jobs in five depend on outside markets), with two-thirds of this going to international markets.

Demography

In 25 years, the population aged 15 and under has declined by 11.8% in Quebec while rising 6.8% in the rest of Canada and 20.3% in the United States. The loss of 166,000 young people from 1981 to 2006, although significant, came in addition to a decline of nearly 400,000 young people between 1971 and 1981 for a total of 558,000 (or a 31% drop). Over the same period the rest of Canada lost 230,000 people 15 and under, or 5%. In the last 25 years, the population aged 15 to 64 increased by 16.8% in Quebec, compared to 40.4% in the rest of Canada. Data on GDP per capita thus hide a complex and troubling reality: in relative terms, Quebec is *losing* its population. Moreover, the aging of the population is occurring much more rapidly in Quebec than in the rest of Canada or in the United States.

Quebec has had a disappointing economic performance since 1981 but, due to weak population growth, it has been able to maintain growth in GDP per capita close to that in the rest of Canada. The total cost of public and social goods and services includes a far from negligible fixed share at a given level of quality. Thus, many types of infrastructure (for example, a super-hospital or a highway) cost just as much even when the population is declining. Accordingly, we can expect to see Quebec facing greater difficulty in the future in maintaining the same quality of public and social goods and services that the rest of Canada will be able to afford.

Employment

Between 1981 and 2006, the total number of jobs rose by 34.9% in Quebec, 49.5% in the rest of Canada and 43.8% in the United States. During this period, Quebec created 18.8% of the jobs in Canada (16.6% of the full-time jobs and 25.3% of the part-time jobs). In other words, the Quebec economy has systematically created fewer jobs, and in particular fewer full-time jobs, in proportion to its population (which accounted for 23.5% of the Canadian population in 2006). If, over the last 25 years, Quebec had created jobs at the same pace as the rest of Canada and the United States, there would have been 261,000 (or 26.8%) more jobs created.

Quebec's disappointing economic performance in job creation is linked to its weak demographic growth. Lower job growth suggests lower population growth, to the extent that this population is sufficiently mobile to react quickly to differences in the number and quality of jobs created. In an

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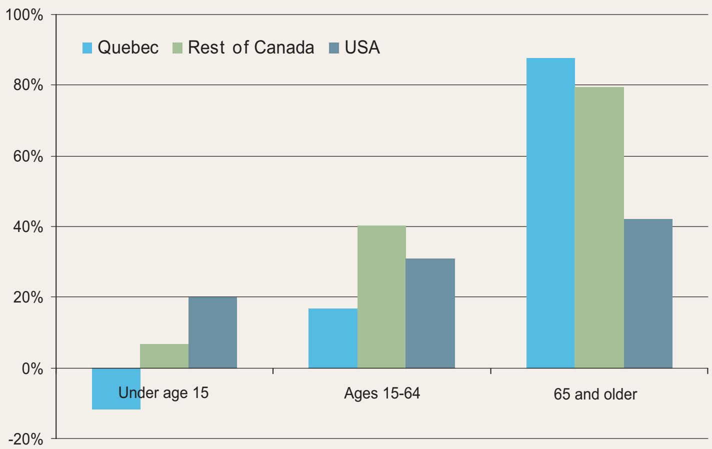
FIGURE 2
Population growth by age group (1981-2006)



Sources: Statistics Canada and United Nations (Population Division).
Note: The period for the U.S. is 1980 to 2005.

open economy such as Quebec's, it is reasonable to state that relatively weak job growth in Quebec explains its relatively weak demographic growth, in terms of both reproduction and immigration.

The aging of the population is occurring much more rapidly in Quebec than in the rest of Canada or in the United States.

The employment rate, measured as the proportion of the population aged 15 and over who hold jobs, stood on average at 56.5% in Quebec, 61.3% in the rest of Canada and 62.0% in the United States during the period from 1981 to 2006. From 2000 to 2006, the employment rate was 59.4% in Quebec and 63.0% in the rest of Canada and the United States. To get to this latter figure, Quebec would need 192,000 (or 5.1%) more jobs than it had in 2006. These results suggest not only that Quebec's unemployment rate (8.0% in 2006) compares unfavourably with the rates in the rest of Canada (5.8%) and in the United States (4.6%), but that the true gap between unemployment rates (or, to be more precise, non-employment rates) is wider in reality. In effect, an overly low rate of job creation may lead some people to retire early or simply to give up looking for work, in which case they are no longer considered unemployed even if they are not working. This phenomenon means that the true unemployment rate in Quebec in 2006 was probably closer to 11% than to the official rate, compared with its neighbours.

The employment rate for men aged 55 to 64 in some ways corroborates this statement. This rate fell significantly in Quebec (66.8% in 1981 versus 55.9% in 2006) compared to the rest of Canada (71.6% versus 65.2%) and the United States (68.1% versus 67.5%). Thus, in 2006, Quebec was 9.3 percentage points behind the rest of Canada and 11.6 points behind the United States. This fact is worrying considering that this group of workers represents a major source of experience and know-how that is being underused.

With respect to employment insurance recipients, Quebec's unenviable situation within Canada has not changed for the better in the last 25 years. Year in and year out, about one-third of Canada's employment insurance recipients come from Quebec, resulting in a much higher rate of recipients in Quebec than in the rest of Canada: 61.3 recipients per 1,000 inhabitants (aged 20 to 64) in Quebec compared to 47.8 in the rest of Canada in 1986; 37.4 in Quebec and 22.3 in the rest of Canada in 2006. Thus, per-capita recipient levels were 28.2% higher in Quebec than in the rest of Canada in 1986 and 67.7% higher in 2006.

With respect to average weekly earnings (including overtime), Quebec's position compared to the rest of Canada has also deteriorated in the last 15 years (latest comparable data). While the relative level of average weekly earnings in Quebec compared to Canada was close to 98% in the period from 1991 to 1995, it was only 95% from 1996 to 2006 and just 94.1% in 2006.

Conclusion

Despite the presence of high-growth sectors and a real improvement in living standards, Quebec's economic performance has been dragging dangerously behind that of the rest of Canada and the United States for the last 25 years. The data shown here are the main indicators of the economic health and performance of a society. They indicate that, *in relation to* its main social and economic partners, Quebec is continuously losing ground. The reasonably favourable growth in GDP per capita masks a complex reality that should be sending us a message. Quebec is losing its population, especially its young people, who do not seem to find the challenges and opportunities here that are likely to stimulate them. Despite a recent jump in births, people in Quebec are still not having many children, perhaps because they fear a future that may seem too bleak, too uncertain and too demanding. In addition, Quebec is not economically attractive enough to immigrants, compared to its neighbours, to compensate for the low rate of internal population renewal. Quebec's disappointing economic performance points to the possibility of increasingly serious difficulties in every sector and in every region.

The gap between employment rates means that the true unemployment rate in Quebec in 2006 was probably closer to 11% than to the official rate, compared with its neighbours.

Why does such a situation exist, and how can it be remedied? How can gaps in relative underperformance be filled to move Quebec among the top North American regional economies? First and foremost, it must be made clear that there is no reason to believe that people in Quebec differ from other North Americans in their individual and collective desires to improve their own and their children's standards of living and in their ability to achieve this aim. But a number of challenges must be met. We are somehow condemned to becoming more efficient and more innovative than our main competitors, especially in the next 20 years during which it will be essential to reverse the current trend.

The reforms that must be instituted need to rely on three principles: (1) stronger incentives for greater participation by the entire population in wealth creation (and therefore placing greater responsibility upon individuals, businesses and elected representative at every level of government); (2) price liberalization and market development in every sector, including energy, health care and education; and (3) a greater opening to competition in the production and distribution of public goods and services. It is thus necessary to call upon the creativity, innovation and entrepreneurship of all Quebecers. This program clearly is bold, but it can be fulfilled provided we show the intelligence and courage of our ambitions – the intelligence to identify the means required to fulfil our ambitions and the courage to put them into practice.

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