

Québec focus on jobs

Shaping an innovative economy



Gouvernement du Québec
Ministère des Finances

*An economic
development
strategy
for job creation*

In preparing its economic development strategy, the government reviewed its entire range of activities. Many government departments and agencies were consulted, and contributed to this review.

■ DEPARTMENTS

- ❑ Affaires municipales
- ❑ Agriculture, Pêcheries et Alimentation
- ❑ Conseil du trésor
- ❑ Conseil exécutif
 - Secrétariat du Comité ministériel de l'emploi et du développement économique
 - Secrétariat à la déréglementation
 - Secrétariat du Sommet sur l'économie et l'emploi
- ❑ Culture et Communications
- ❑ Éducation
- ❑ Emploi et Solidarité
- ❑ Environnement et Faune
- ❑ Industrie, Commerce, Science et Technologie
- ❑ Métropole
- ❑ Régions
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- ❑ Tourisme
- ❑ Transports
- ❑ Travail

■ AGENCIES

- ❑ Bureau de la statistique du Québec
- ❑ Commission de la Capitale nationale

■ GOVERNMENT CORPORATIONS

Foreword

**by the Deputy Prime Minister
and Minister of State for the Economy and Finance**

Some 600 days before the dawn of the new millennium, Québec is adopting a rigorous, coherent, ambitious economic development strategy to guide and underpin its actions in the years to come.

To date, the government's economic policy has found concrete expression in a number of key decisions, primarily regarding budget policy—specifically the elimination of the deficit — but also regarding manpower training, investment and fiscal measures, to name but a few. In keeping with commitments made, as of this year, we will cease borrowing to fund current spending and will eradicate the budget deficit by next year. Although we had little choice but to take this route, we did so resolutely and rigorously. I scarcely dare imagine the consequences of a laissez-faire policy complete with repeated annual deficits on the competitiveness of the Québec economy, and particularly that of our business firms. Had the government not restored order to Québec's public finances, we would never have had the basis to create the flexibility required to tackle our number one objective: job creation.

The government has acted decisively in instituting major investment incentives: measures were introduced, last year, to promote \$4 billion and this year, to promote \$19 billion in increased or accelerated private investment over the next five years.

We have used fiscal measures, in the form of tax credits, to achieve strategic economic objectives, for multimedia productions, for example, and have maintained and consolidated some of the world's most advantageous R&D tax breaks. Last year, we overhauled the personal income tax system which, despite the increase in QST, represents a \$500-million decrease in the taxpayers' burden for the 1998 taxation year.

The results are astounding. The headway made in job creation is highly encouraging: 48 000 jobs created in 1997 and close to 88 000 generated since the fall 1996 Summit Conference. The economy is healthy and will soon be even healthier. The unemployment rate has decreased to approximately 10.5%, and private non-residential investment will increase 9.5% in 1998, twice the rate for Canada as a whole, for a spectacular 31.5% rise over three years.

* * * * *

But our work is far from finished. We must create even more employment opportunities, to offer each and every Quebecer the possibility of growing within our society and to use the potential of one and all. We must develop the skills of young Quebecers to enable them to hold down the jobs of the year 2000.

*We are proposing concrete objectives based on the themes outlined in the strategy. To attain them, we must take advantage of every opportunity and mobilize the entire population. Above all, the economic development strategy I am releasing today is a comprehensive policy framework, proposed to the people of Québec to ensure their well-being. Entitled **Focus on Jobs**, the strategy will enable us to work together to make Québec an innovative economy focusing on job creation. Such was the challenge, and such is our commitment.*

*The 1998-1999 Budget contains a series of measures through which **Focus on Jobs** will begin to materialize. Naturally, the current state of public finances does not yet allow the government to go as far or as fast as it would like.*

While the economic strategy addresses businesses directly, since they are our prime source of job creation and will play a critical role in the labour-market turnaround, it also exhorts the government to enhance its own organization and adopt more effective tools, without, however, tending toward interventionism. We must remember that it is not up to the government to create jobs, but rather to provide conditions conducive to businesses creating employment opportunities. This strategy also targets the creation and strengthening of partnerships between the various economic players in order to focus our collective efforts on improving the job situation. On the whole, the government is outlining its action priorities for the coming years.

*These aims are ambitious. The economy we want to build must be **competitive**, in order to respond and adapt to upheavals in the world economy, yet **caring and focused on shared values**, on the solidarity and community spirit which are part and parcel of the Québec culture. Finally, the development targeted must be **sustainable**, meeting environmental imperatives, ensuring fairness throughout all levels of society, and offering a vision for the future which respects the needs of future generations. Where the environment is concerned, we will not reduce requirements, but rather the bureaucracy that causes delays and frustration.*

*Instituting an innovative economy marked by job creation and general well-being constitutes the glorious challenge the government is giving all Quebecers. **Focus on Jobs** is everyone's business. I am convinced that this challenge reflects our innermost aspirations, as well as the capabilities we alone can develop.*

BERNARD LANDRY

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1 ***Introduction***

1. INTRODUCTION

1.1 Objective: Accentuating job creation

The Québec government's two main priorities are sounder public finances and job creation.

Public finances are rapidly becoming a non-issue since the zero-deficit objective will be achieved in 1999-2000. Despite the difficult adjustments that restoring order to public finances has entailed, the positive repercussions are already making themselves felt in, for instance, low interest rates, renewed investor confidence and increased consumer spending.

The government is just as determined to turn the job situation around. Despite recent progress, the Québec economy's job creation rate remains inadequate and unemployment levels are unacceptable.

Job creation involves many of society's major players, as evidenced by the Summit Conference on the Economy and Employment, which was held in Montréal in the fall of 1996 and enabled union leaders, CEOs, community group representatives, spokespersons for the social economy, and youth representatives to take a critical look at the Québec economy. All agreed that we must work together to have it focus increasingly on job creation.

A specific goal was defined: to match and even surpass the Canadian job creation rate within three years. Initiatives were not long in coming in the form of private and public-sector investment and legislative measures, which have already resulted in the creation of thousands of jobs.

In its 1997-1998 Budget, the government all but exhausted its financial flexibility to support Summit Conference job creation guidelines. The PIJCPF, notably, will help create private investment to the tune of almost \$4 billion, in only 18 months.

While past progress is encouraging, we must do even better to enable Quebecers wishing to enter the labour market to find employment.

In the wake of the Summit Conference, the government's strategy, Focus on Jobs, proposes that ambitious ten-year objectives be identified to make Québec one of the most innovative industrialized economies where job creation is concerned. In the coming months, the

government will hold consultations to try to reach a consensus on the objectives to adopt.

1.2 An innovative economy benefiting all Quebecers

Freer trade, de-regulation of major sectors, the information-technology revolution, more rapid communications and the emergence of new economies intensify competition on all markets. The upheavals marking the current world economy, however, are just so many opportunities for Québec to seize.

The ability of our businesses to shine in the new international context is critical to achieving our job-creation objectives.

The government will actively support businesses in their efforts to become and remain competitive throughout their various growth phases. But the government itself must show exemplary effectiveness in all of its activities.

An innovative economy will use the best technologies and the best management methods to produce top-quality goods and services.

The government must also ensure that economic growth improves the standard of living of all Quebecers. It feels that the best way to achieve this goal is to promote access to paid employment for the greatest possible number of people.

For most young people, quality education and training programs adapted to labour market requirements remain the best guarantee of financial self-sufficiency in the long term. Some Quebecers, however, have been excluded from the labour market for too long, and various re-entry programs, adapted to their specific needs, are necessary.

An innovative economy will make full use of the human resources able to help create wealth.

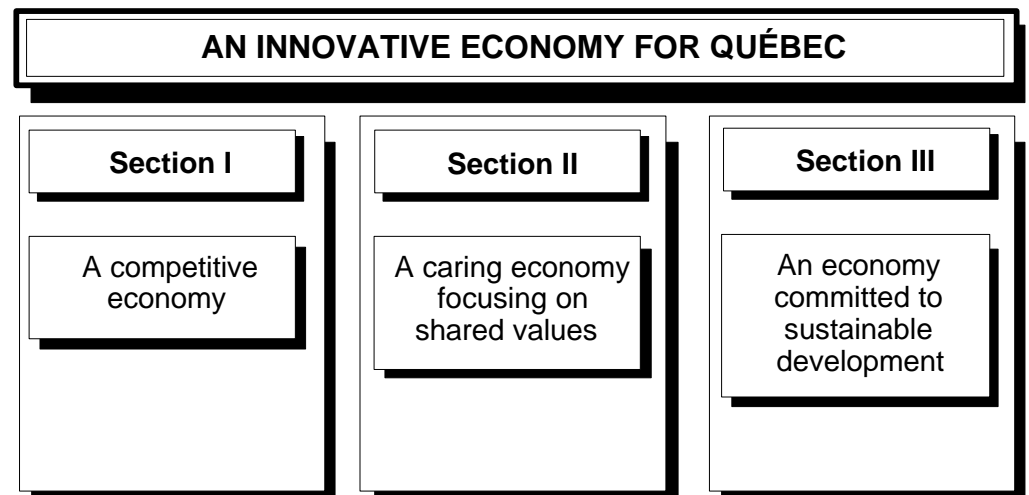
Lastly, the government must ensure that its search for the greatest well-being possible for Quebecers today does not adversely affect the potential wealth accessible to future generations.

An innovative economy will use its resources and carry out all of its activities in a spirit of fairness and with the utmost respect for the environment.

In short, the strategy **Focus on Jobs** targets an environment which is more conducive to job creation and more favourable to business initiatives, within the context of a caring economy focusing on shared values, in order to provide all Quebecers with the means of becoming full-fledged members of this more competitive, innovative economy.

The Québec government, therefore, proposes a strategy which enables us to develop:

- I** **a competitive economy** able to pull ahead of its competitors and meet the challenge of moving toward a knowledge-based economy;
- II** **a caring economy focusing on shared values**, which allows the greatest possible number of Quebecers to participate in the labour market and derive maximum benefits from this involvement;
- III** **an economy committed to sustainable development**, which successfully meets Quebecers' current needs, while ensuring that the needs of future generations can also be met.



1.3 Québec's aims for the next decade

Focus on Jobs presents the government's vision for the Québec economy at the turn of the century, and its aims for working with all its partners **to make Québec an innovative economy focusing on job creation**, while espousing economic, human, social and sustainable development imperatives.

The presentation of the strategic aims contained in this document are supplemented, where applicable, by references to 1998-1999 Budget measures. These measures constitute key elements in implementation. The current state of public finances does not allow the government to move ahead as far or as fast as it would like. The strategy will be implemented as government financial resources become available, and may, therefore, be spread over several years.

In the coming months, consultation documents will be released. They will present the broad options and specific measures envisaged by the government to make Québec an innovative economy focusing on job creation. Consultations will then be held, on the basis of which the government will endorse certain goals, define priorities and select the means to be used to enact the strategy.

Part I

An Innovative Economy for Québec

2 *Québec's Economy Today*

2. QUÉBEC'S ECONOMY TODAY

2.1 Québec's place among industrialized economies

While Québec, with its huge area, is relatively under-populated, its economy has secured it an advantageous position on the world scene. A few comparisons are enough to show that its economic development places it among the world's most industrialized economies.

Québec's population of 7.4 million is comparable to that of Switzerland and Sweden, and greater than that of 41 American states. In 1996, Québec ranked 17th among OECD countries in terms of output (\$175.4 billion). The size of its economy is comparable with that of Sweden and Austria. Its standard of living is similar to that of Italy, France and the Netherlands, and it ranks 16th in terms of per capita output.

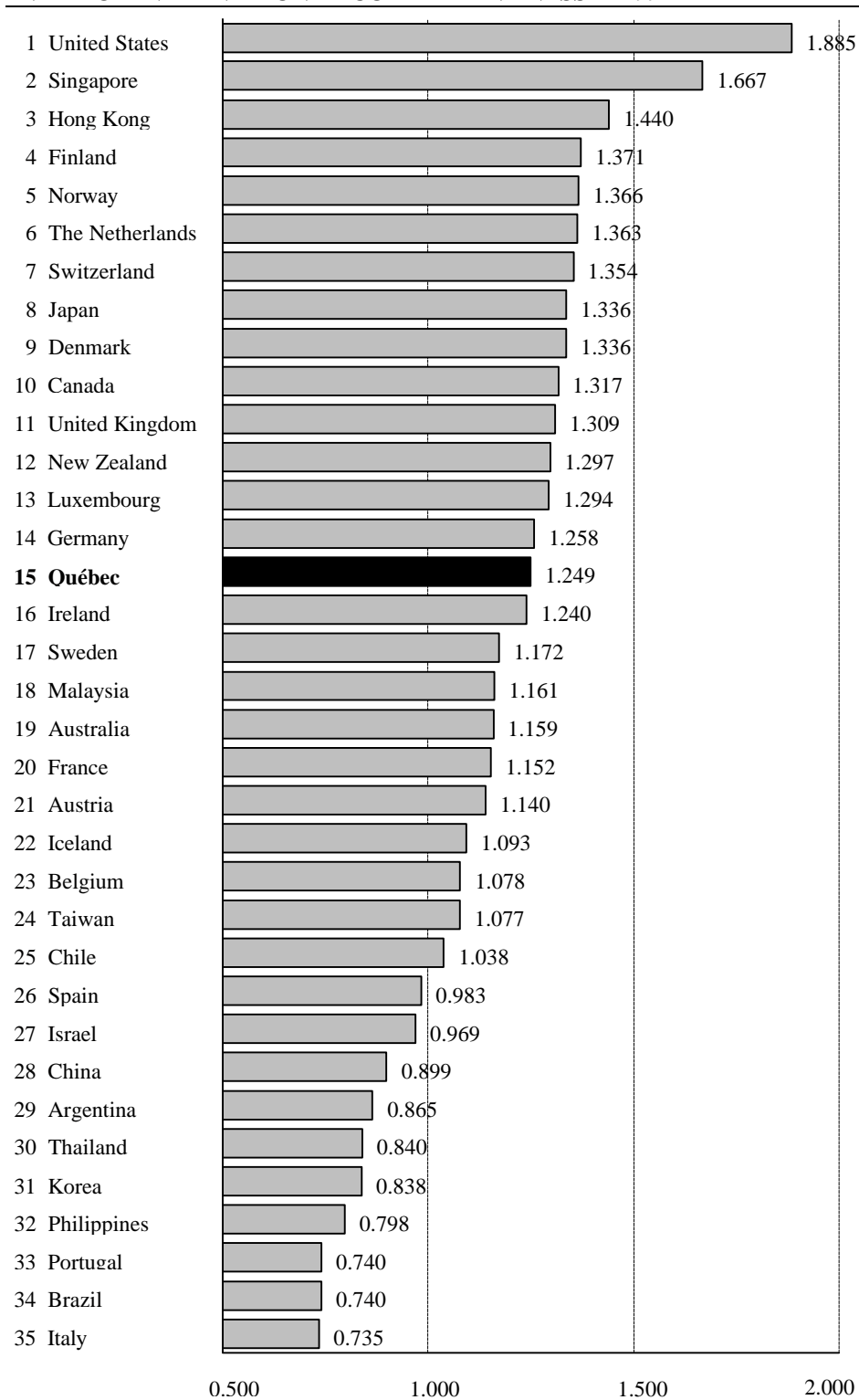
Québec's competitiveness is comparable with that of the most industrialized countries

In 1997, comparing Québec with the seven largest industrialized countries (G-7), its overall competitiveness is close to that of Germany, in fifth place, and ahead of France and Italy.

Compared with all industrialized countries (including the G-7), Québec's economy ranks 15th out of 47 (see Appendix A) according to the overall index of competitiveness of *The World Competitiveness Yearbook 1997*.¹ In terms of its capacity to develop and maintain a favourable environment for wealth creation, Québec outstrips countries such as Sweden, Austria, Ireland and Australia.

¹ Estimate produced by the Bureau de la Statistique du Québec based on a methodology used by the International Institute for Management Development for *The World Competitiveness Yearbook 1997*. Overall competitiveness is measured using indicators on the domestic economy, internationalization, the public sector, financial markets, infrastructures, management, science and technology and population.

GRAPH 1
INDEX OF INTERNATIONAL COMPETITIVENESS — 1997



Sources: The World Competitiveness Yearbook 1997 and Bureau de la Statistique du Québec.

TABLE 1 EMPLOYMENT AND OUTPUT BY INDUSTRIAL SECTOR QUÉBEC, 1996				
ACTIVITY SECTOR	EMPLOYMENT		OUTPUT ¹	
	Thousands	%	\$M	%
Primary sector	116	3.6	3 725	3.1
Agriculture	78	2.4	1 926	1.6
Fishing and trapping	2	0.1	67	0.1
Forest development	22	0.7	527	0.4
Mines, quarries and oil wells	14	0.4	1 206	1.0
Secondary sector	713	22.2	31 689	26.4
Manufacturing industries	577	18.0	25 845	21.6
Construction	136	4.2	5 843	4.9
Tertiary sector	2 384	74.2	84 454	70.5
Transportation, communications and public services	224	7.0	15 013	12.5
Transportation and storage	115	3.6	4 354	3.6
Communications	72	2.2	5 911	4.9
Electricity, gas and water	37	1.2	4 749	4.0
Commerce	552	17.2	14 955	12.5
Wholesale	155	4.8	7 153	6.0
Retail	397	12.4	7 802	6.5
Finance, insurance and real estate	192	6.0	16 197	13.5
Financial intermediaries and insurance	126	3.9	n.a.	n.a.
Real estate services and insurance agencies	66	2.1	n.a.	n.a.
Services	1 208	37.6	30 690	25.6
Business services	199	6.2	6 459	5.4
Educational services	229	7.1	7 183	6.0
Health and social services	346	10.8	7 726	6.4
Accommodation and food	204	6.3	2 315	1.9
Other services	230	7.2	7 006	5.8
Public administration	208	6.5	7 599	6.3
All activity sectors	3 213	100.0	119 867	100.0

Note: The components may not add up to the total shown since the data are rounded off.

1 In constant 1986 dollars. The gross domestic product in current dollars, which totaled \$175 396 M in 1996, is not available by activity sector for that year.

Sources: Statistics Canada, Provincial Gross Domestic Product by Industry, 1984-1996 and Labour Force Survey.

2.2 Québec, a modern economy open to the world

Today's Québec affirms itself as a resolutely modern economy among the most open to the world.

2.2.1 An evolving economy

Sources of job creation are changing and becoming more diverse

In today's Québec, the major activity sectors and the types of companies that create jobs are different from those of twenty or thirty years ago, when the focus was on natural resources and labour-intensive manufacturing. The new sources of job creation are those of a *post-industrial* economy, which is increasingly knowledge-based.

■ *Growing employment in the tertiary sector*

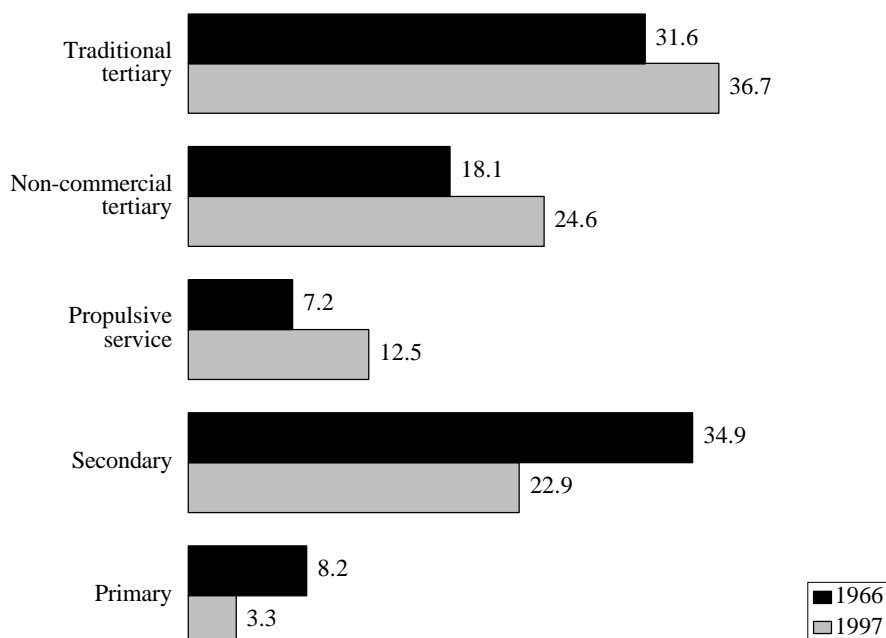
Between 1986 and 1997, Québec's economy generated 312 000 jobs. Almost all of this job creation resulted from expansion in the tertiary sector, which alone accounted for 305 000 new jobs.

The tertiary sector is essentially responsible for job creation

Accordingly, while continuing to rely on the secondary sector (manufacturing, construction), which accounted for 22.9% of jobs in 1997, Québec's labour market now depends, in a proportion of 73.8%, on the activities of the tertiary sector, while the primary sector contributes no more than 3.3% of all jobs.

The growing importance of the tertiary sector for employment indicates profound changes that are reshaping Québec's economy.

GRAPH 2
EMPLOYMENT BY INDUSTRIAL SECTOR
QUÉBEC, 1966 AND 1997
 (as a percentage)



Sources: Statistics Canada, ministère de l'Industrie, du Commerce, de la Science et de la Technologie and ministère des Finances.

Traditional tertiary	Transportation and storage, radio and television broadcasting, postal and courier services, wholesale and retail trade, insurance agencies and real estate services, amusement and recreation, personal services, accommodation and food, other public services.
Non-commercial tertiary	Education, health and social services, religious organizations, public administrations and defense.
Dynanic service	Telecommunications, electrical energy, financial services and business services including placement bureaus and temporary personnel services, computer and related services, accounting services, advertising services, architectural, engineering, and other scientific and technical services, management consulting services, legal and notarial services.
Secondary	Manufacturing and construction industries.
Primary	Agriculture, fishing and trapping, logging and forestry, mines, quarries and oil wells.

Employment in the **traditional tertiary** sector rose 79.9% from 1966 to 1997, while remaining relatively stable in the secondary sector and falling 37.6% in the primary sector.

Employment in the **non-commercial tertiary sector** more than doubled over the same period (+110.2%). Activity in this sector has a significant impact on competitiveness, by providing services and infrastructures and by upgrading the quality of human resources required by the entire economy.

The dynamic service sector, where employment is growing fastest

However, of all the major activity sectors, the **dynamic service** sector, with a gain in jobs of 167.8% from 1966 to 1997, posted the greatest growth by far. The emergence of the dynamic service sector reflects that of *the new knowledge-based economy*. Its vitality is of strategic importance to job creation and Québec's economic future.

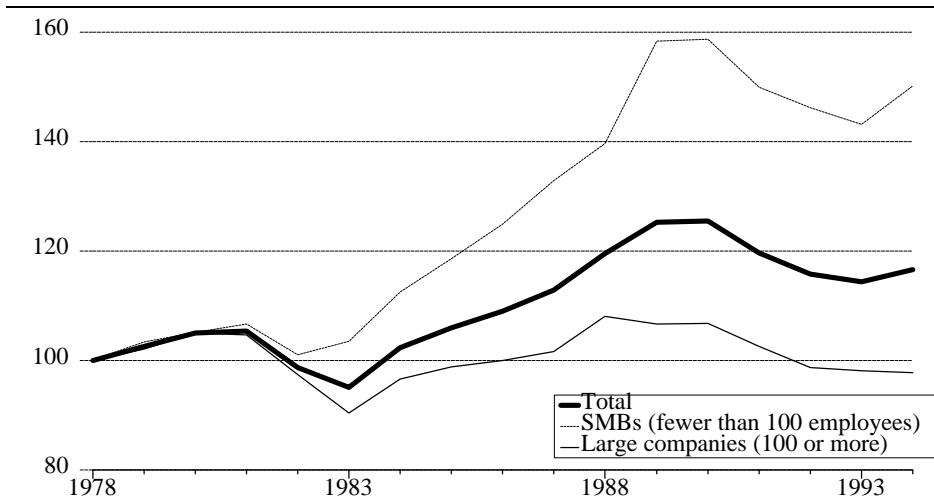
■ **SMBs crucial to job creation**

While job creation depends on different activity sectors, the type of employer has also changed substantially.

The private sector: engine of job creation

Public administrations have reached a mature stage of development and are no longer the major job creators they once were. The private sector, and especially SMBs, now account for most job creation.

GRAPH 3
**GROWTH IN TOTAL NUMBER OF JOBS
BY SIZE OF BUSINESS, 1978 TO 1994**
(1978 indices = 100)



Source: Ministère de l'Industrie, du Commerce, de la Science et de la Technologie.

From 1978 to 1994, while employment in large companies was stable, the number of jobs in SMBs rose by 50%.

A more detailed examination shows that from 1989 to 1995, 55% of jobs created by SMBs were in companies in existence for five years or less. In addition, a recent Canadian study showed that during the expansion of the 1980s, barely 5% of companies with exceptional growth were responsible for the largest share (43%) of job creation among SMBs.²

SMBs: an expression of the vitality of entrepreneurship in Québec

The strong job creation performance by small independent local firms that are young and energetic is a good illustration of the spirit of enterprise that infuses Québec's economy today. This phenomenon has also benefited considerably from the deployment of new organizational practices in large firms (contracting-out, sub-contracting, etc.).

Large companies: a key role

While, in relative terms, SMBs play a major role in the creation of new jobs, in absolute terms, **the importance of large companies is still crucial**. They declare more than half of business income in Québec and employ 54% of manpower.

Large companies account for a significant portion of Québec's manufacturing exports and play a leadership role, in particular enabling SMBs to gain access to major distribution networks.

■ *The number of self-employed workers is constantly growing*

The structural changes at work in our economy have produced another significant transformation: more and more people are creating their own jobs and are becoming self-employed.

Self-employment: a new source of job creation

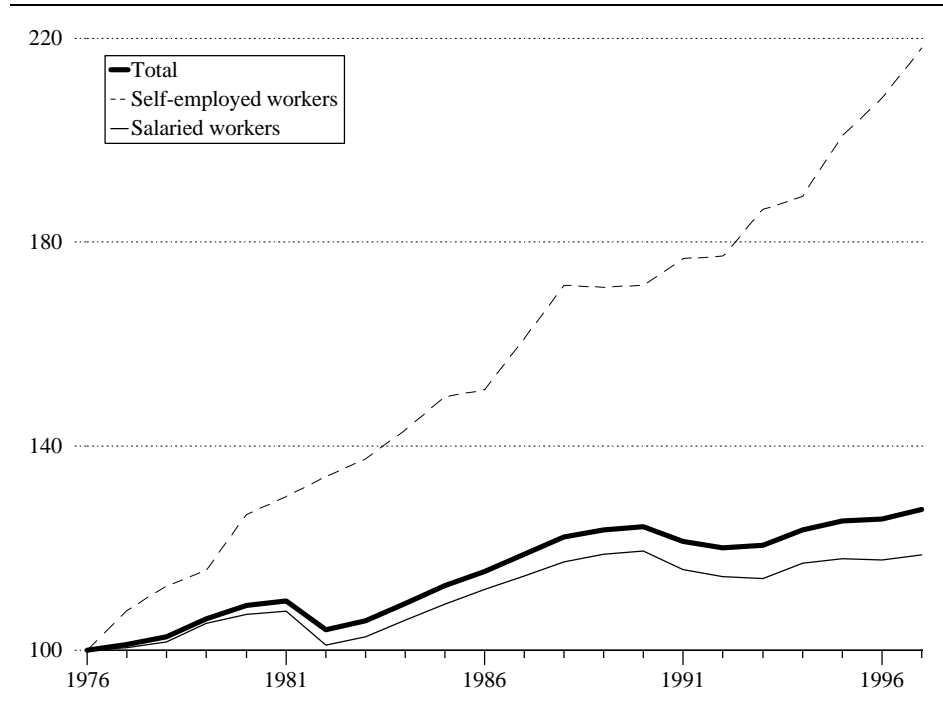
From 1976 to 1997, the number of self-employed workers doubled (+118%). Self-employment has risen 4.2 times more quickly than employment for all workers (+28%) and 6.2 times more quickly than employment for salaried workers (+19%). More than 85% of the increase in the number of self-employed workers has occurred in the service sector.

Benefiting from the development of information and communications technology, self-employment allows employers to reduce costs and improve flexibility in the organization of work, particularly through telecommuting.

² G. Picot and R. Dulay, "La concentration de la création d'emplois dans les entreprises", *L'Observateur économique canadien*, August 1996.

The growth in self-employment, which accounted for 15.3% of total employment in 1997 compared with 9% in 1976, also reflects the growing popularity of work at home. In addition, it is an indication of Quebecers' sense of initiative and the rise in entrepreneurship.

GRAPH 4
NUMBER OF SELF-EMPLOYED WORKERS, 1976 TO 1997
 (1976 indices = 100)



Sources: Statistics Canada and ministère des Finances du Québec.

Self-employed workers enjoy advantages which include more control over their availability for work and their movements, though their work is more precarious and they are often without social protection.

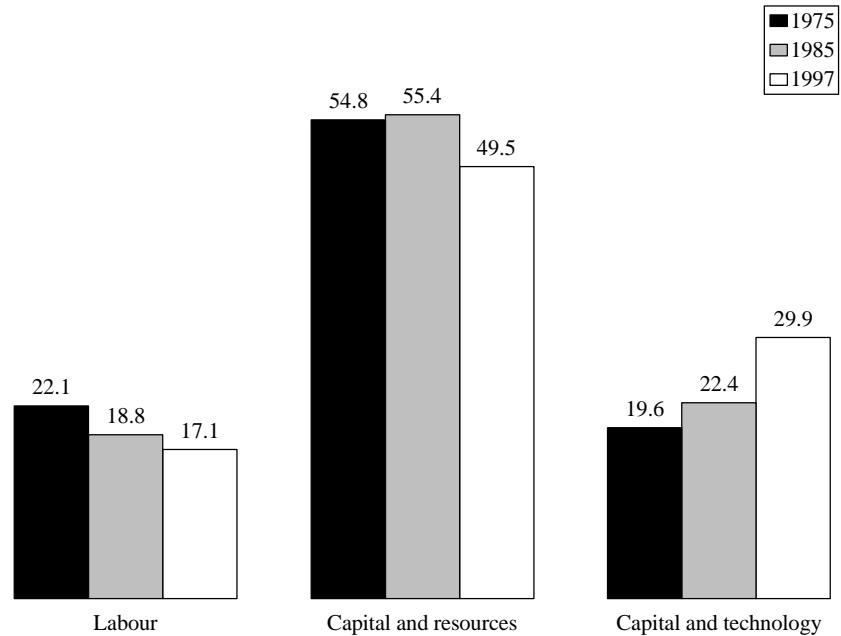
Innovation changes methods of production and fosters the development of leading sectors

These new sources of jobs are themselves the result of transformations within the economy that are revolutionizing the production process.

The manufacturing sector is more capital and technology-intensive

From 1975 to 1997, the most capital and technology-intensive industries grew most rapidly, increasing their share of manufacturing shipments by 50%, from 19.6% to 29.9%.

GRAPH 5
STRUCTURE OF MANUFACTURING SHIPMENTS¹
BY FACTOR INTENSITY, 1975, 1985 AND 1997
 (as a percentage)



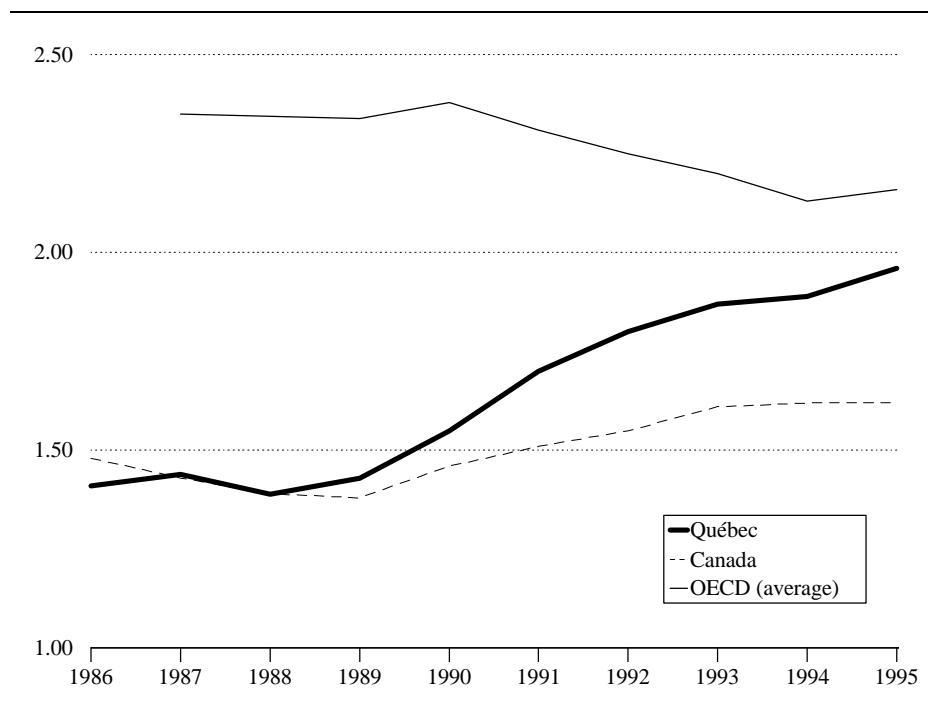
1 The total does not equal 100% because some data is confidential.
 Sources: Statistics Canada and ministère des Finances du Québec.

The importance of the most labour-intensive traditional industries, such as textiles, clothing and footwear, is constantly declining. While industries focused on natural resources development, such as pulp and paper, wood products or metals processing, still account for almost half of manufacturing shipments (49.5%), their share is also falling.

Industries are relying more on R&D

All these transformations also point to another remarkable change that continues to reshape Québec's economy: the growing importance of research and development to foster innovation.

GRAPH 6
RESEARCH AND DEVELOPMENT SPENDING
QUÉBEC, CANADA AND OECD, 1986 TO 1995
 (as a percentage of GDP)



Sources: OECD and Statistics Canada.

The number of companies actively carrying out research more than doubled from 1990 to 1995, rising from 1 047 to 2 556. Most companies also stepped up their “technology conversion”: according to the most recent study, 85% of manufacturing SMBs in 1994 had incorporated general application technology³ into their production systems, compared with 35% in 1989. Half of the companies had even adopted three or more generic technologies, compared with only 5.7% five years earlier, and this trend is continuing.

***R&D growth above the
Canadian average***

As a result, between 1986 and 1995, total R&D spending as a proportion of Québec's GDP rose by one third, from 1.41% to close to 2%, and overtook the Canadian average (1.63%). However, Québec still lags behind the most industrialized countries, such as the United States (2.58%) and Japan (2.78%). The disadvantage is even greater when the intensity of R&D by manufacturing companies is compared. In Québec, it represented 3% of manufacturing valued-added compared to an average of 6.6% in OECD countries. However, the intensity of R&D by Québec-based companies still exceeded the average for Canada in 1995.

³ Examples: computer-assisted design and manufacturing, manufacturing process control, automated goods handling, robots, etc.

Another positive indicator is that in 1997, Québec-based companies were among the leaders in North America in adopting new forms of work organization. With 1 417 ISO 9000 certified sites, Québec trails only Ontario, with 1 948 sites, and California, with 1 435.

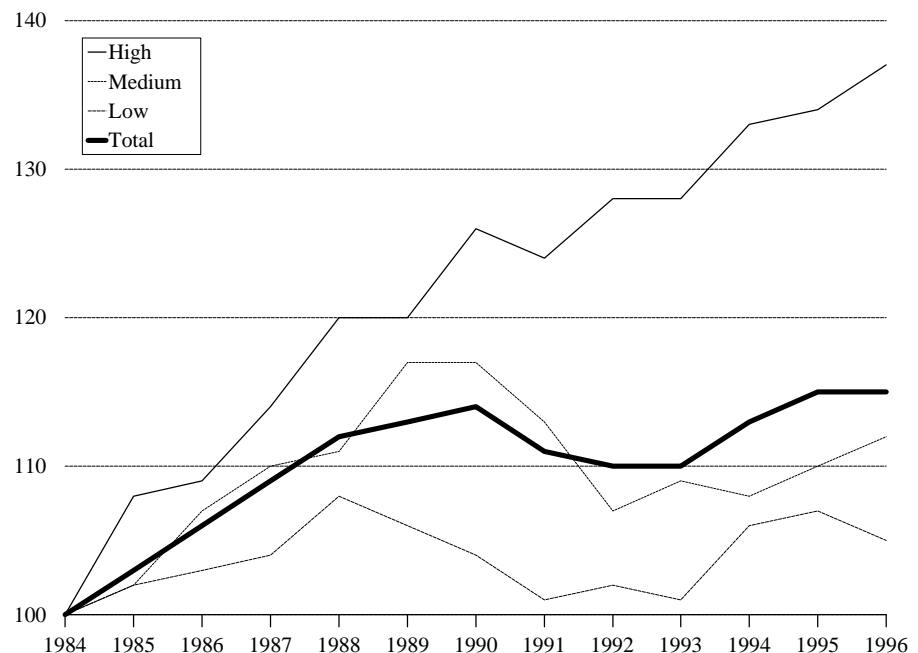
Innovation reinforces the growth potential of the economy and employment

Innovation has become indispensable for increasing productivity, renewing product lines and both developing and maintaining markets. But above all, in the medium and long term, technological development and productivity improvement do not hamper job creation. In fact, the opposite is true.

A recent OECD study of the manufacturing sector of G-7 countries shows that for the period from 1970 to 1993, high-technology industries created the most jobs by far, followed by medium-technology industries.

In Québec from 1984 to 1996, employment grew much more rapidly in industries with a high knowledge content than in those with a medium or low knowledge content.

GRAPH 7
EMPLOYMENT IN QUÉBEC BY INDUSTRY GROUP ACCORDING TO LEVEL OF KNOWLEDGE, 1984 TO 1996
(1984 indices = 100)



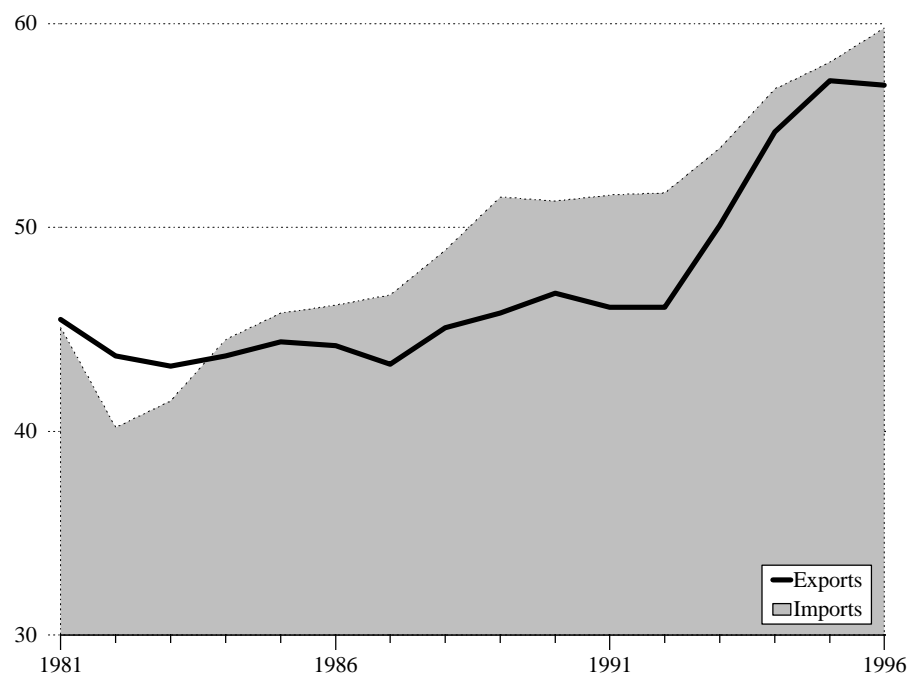
Sources: Industry Canada, Statistics Canada and Conseil de la science et de la technologie.

Efforts in recent years to make innovation a central factor of economic development in Québec are accordingly helping to reinforce the growth potential of the economy and job creation.

2.2.2 Québec, an open economy well-integrated with North America

Because of the limited size of its domestic market, Québec's economy has for a long time been open to the outside, both to sell its products and obtain supplies of goods and services. This trend has accelerated in recent years, with the advent of free trade.

GRAPH 8
QUÉBEC'S EXTERNAL TRADE, 1981 TO 1996
(as a percentage of GDP)



Source: Statistics Canada, Bureau de la statistique du Québec and ministère des Finances du Québec.

Exports are booming

Continuing a trend that has accelerated since 1992, the volume of external trade has grown more rapidly than the economy, with the total volume of Québec's exports rising from 45.5% of GDP in 1981 to 57% in 1996.

Supported by the business community and the Québec government, the Free Trade Agreement and NAFTA have clearly helped increase Québec's exports. These trade agreements, as well as those concluded under the World Trade Organization, have enabled many Québec-based companies to benefit from economic globalization.

As a result, Québec's growing openness to the outside world stems not so much from interprovincial trade as from the growth in international trade.

This trend has become more marked since the Free Trade Agreement with the United States became effective in 1989. The volume of international exports rose by 7.9% annually from 1989 to 1996, while the growth rate of exports to the rest of Canada fell, on average, by 0.9% a year over the same period.

TABLE 2
QUÉBEC'S EXPORTS¹
(average annual percentage change)

	1982-1988	1989 ² -1996	1982-1996
Rest of Canada	1.9	-0.9	0.4
International	3.9	7.9	6.0
Total	2.9	3.9	3.4

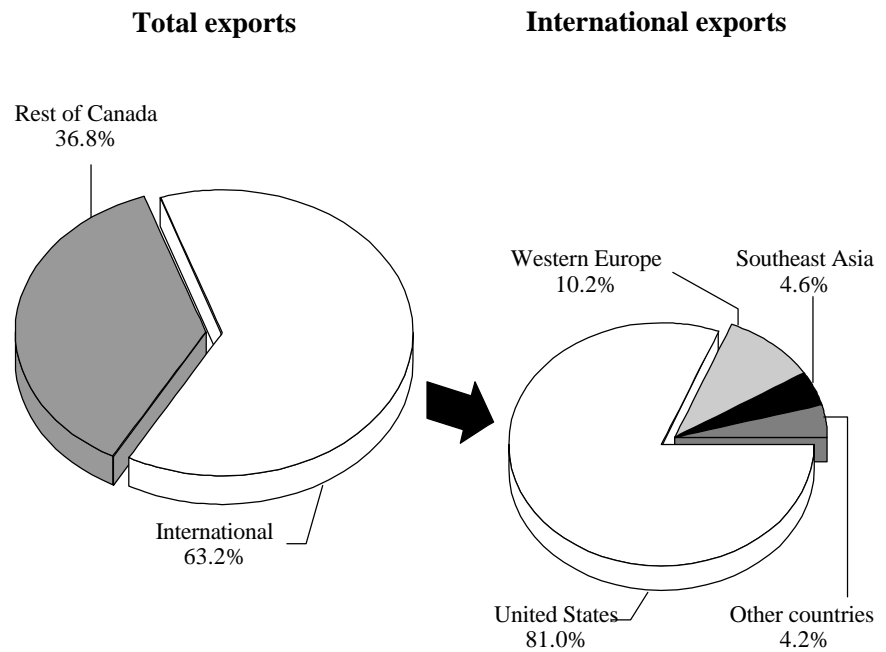
1 Constant 1986 dollars.

2 The Free Trade Agreement with the United States became effective on January 1, 1989.

Sources: Statistics Canada, Bureau de la statistique du Québec and ministère des Finances du Québec.

Currently, Québec's international exports are heavily concentrated toward the American market, which received 81% of exports in 1996, compared with about 65% in the early 1980s.

GRAPH 9
DISTRIBUTION OF QUÉBEC'S EXPORTS - 1996



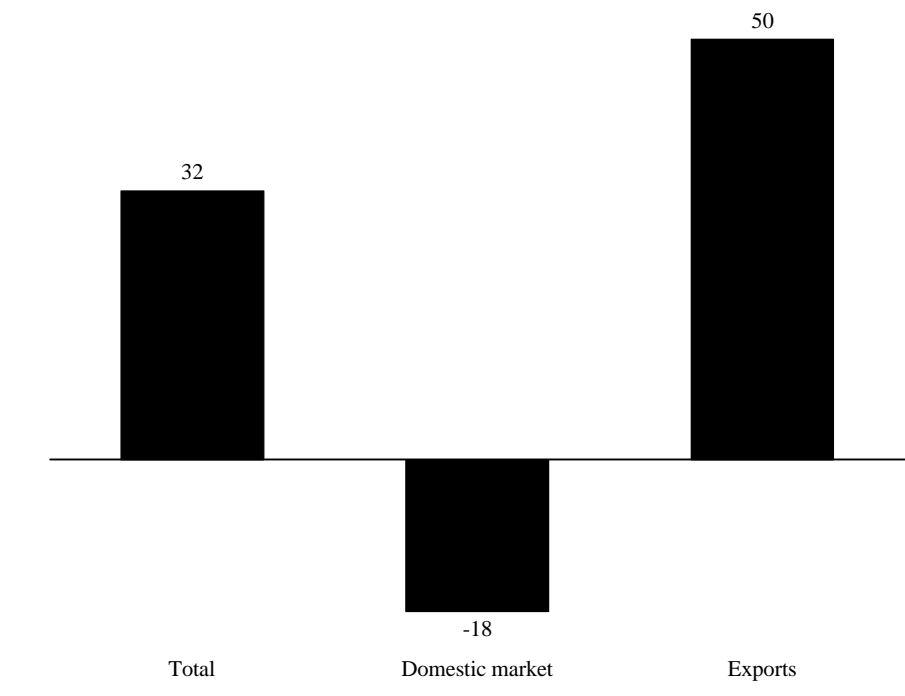
Sources: Statistics Canada, ministère de l'Industrie, du Commerce, de la Science et de la Technologie and ministère des Finances du Québec.

While SMBs are increasingly turning to international markets, the volume of their exports is still limited. At about 15%, the proportion of exports attributable to SMBs is much less than their share of manufacturing shipments (24%).

Exports: a major factor in job creation

Companies that focused their development on export markets have generated the most jobs in recent years. Between 1990 and 1995, interprovincial and international exports contributed to the creation of 50 000 jobs. Without export markets, Québec would have lost 18 000 jobs, rather than gaining 32 000.

GRAPH 10
JOB CREATION IN QUÉBEC, 1990 TO 1995
(in thousands)



Sources: Statistics Canada, Bureau de la statistique du Québec, ministère de l'Industrie, du Commerce, de la Science et de la Technologie and ministère des Finances du Québec.

It is estimated that in Québec, each additional \$132 000 of international exports contributes to the creation of one new, frequently well-paid and high-quality job.

2.2.3 Sectors of excellence that position Québec in the new economy

Propelled by the growth in international trade and the competitiveness that this demands, the restructuring in Québec's economy in recent years has also helped develop sectors of excellence which now consolidate and position Québec in key niches of the "new economy".

World-class companies generate jobs in leading sectors

AEROSPACE

- Site of several industry leaders, Québec ranks sixth in the world in the aerospace industry. More than half (55%) the output and 70% of R&D related to Canada's aerospace industry are located here. Québec excels in avionics, flight simulators, navigation equipment, engines, landing gear, and the manufacturing of airplanes, helicopters and satellites.

CONSULTING ENGINEERING

- Half of all consulting engineering jobs in Canada are concentrated in Québec, contributing directly to Canada's third-place standing among the world's exporters of consulting engineering services, after the United States and the United Kingdom.

INFORMATION TECHNOLOGY

- Between 1988 and 1993, exports by companies in the information technology sector (telecommunications equipment, electronic and computer components) rose 114%, substantially more than for Canada as a whole (73%). Important gains have also been made in the multimedia industry.

BIOTECHNOLOGY

- Research centres of international standing have developed expertise in the health and agri-food sectors. Most global pharmaceutical companies have places of business in Québec, where 36% of the jobs in this sector in Canada are located. These large research centres have already turned Montréal into the world's tenth largest biotechnology centre.

ELECTRICITY

- Québec ranks third among the world's producers of hydro-electricity and has developed know-how that puts it among the leading designers, developers and manufacturers of products relating to electricity, because of the size of its dams and its technological breakthroughs.

2.3 Difficult adjustments to the new context

While the upheavals that enabled Québec to become a modern economy focused on the future were necessary, the restructuring that accompanied them required difficult adjustments.

2.3.1 Changes that affect the entire world

The changes to which Québec-based companies have tried to adapt in recent years are at the confluence of the major transformations that continue to shape the world economy:

- market globalization;
- free trade;
- accelerating technological change;
- increased mobility of factors of production;
- deregulation in major activity sectors.

Economic globalization and free trade

In most industrialized countries, many factors have combined to reduce the potential growth on which economic development has relied since the 1950s.

Increased competition in a new environment

Free trade, which essentially seeks to improve economic efficiency by eliminating tariff and non-tariff barriers that impede optimum allocation of resources at a global level, has substantially changed the rules of the game and created a new environment in which international competition is fiercer than ever.

To grow in a context of globalization, large companies locate their investments wherever comparative advantages at the global level are greatest, while highly skilled workers are more mobile than ever. National SMBs, which have become more dependent on sub-contracting to gain access to international markets, must adopt new ways of doing things that satisfy the more exacting requirements of large companies and markets.

The remarkable growth in jobs related to external trade is an indication of the positive net spin-offs Québec's economy has enjoyed by adapting to the new international context. However, as in other industrialized economies, these gains have been achieved through at times painful adjustments. In particular, such was the case for persons working in traditional industries that relocated to other countries where labour costs are lower.

Accelerated technological change

***Advances in the new
information and
communications technologies
sector: a genuine revolution***

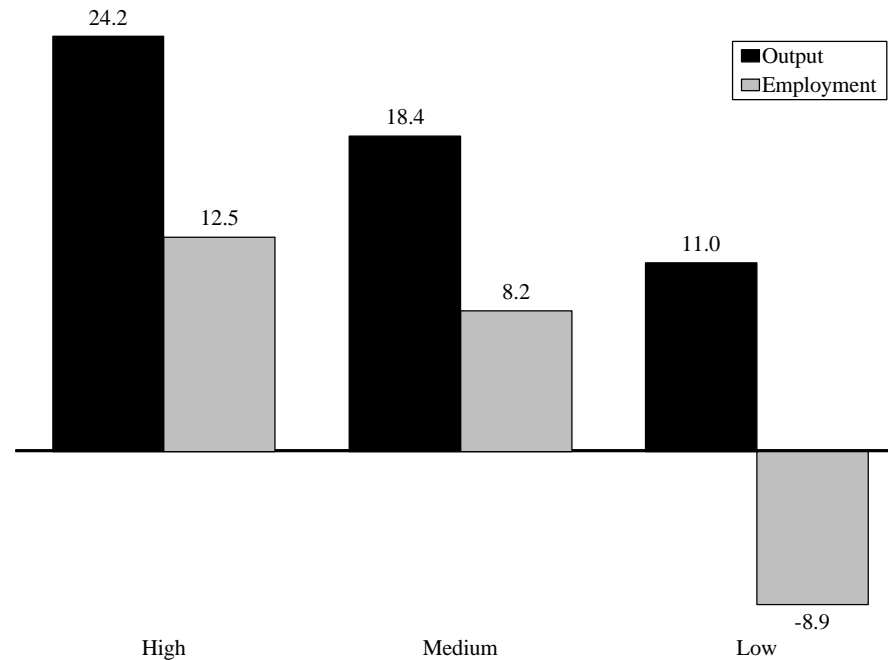
Globalization of companies, in a context of world trade, would not have been possible without the recent extraordinary technological advances, mainly in the new information and communications technologies (NICTs) sector. Some experts maintain that the advent of NICTs is a technological revolution of the same order as the first industrial revolution.

In Québec, as in developed economies, the acceleration and rapid dissemination of NICTs have unleashed a shock wave whose effects continue to reverberate on output and employment.

In Canada, growth in production and employment is higher in sectors that make more intensive use of NICTs, while employment tends to decrease in sectors that do not use them.

GRAPH 11
**GROWTH IN OUTPUT AND EMPLOYMENT ACCORDING
 TO THE INTENSITY OF UTILIZATION OF INFORMATION
 AND COMMUNICATIONS TECHNOLOGIES IN CANADA,
 1986 TO 1995**

(average annual percentage change)



Sources: Statistics Canada and Conference Board of Canada.

According to the OECD, employment tends to grow more quickly in countries that have invested massively in new technologies, such as the United States and Japan, than in countries that have made less substantial investments, as in Europe.

These observations tend to confirm that, on the whole, new information and communications technologies have a positive effect not only on productivity, but also on employment.

The restructuring imposed by these advances has meant demanding adjustments, however, particularly for workers who have had trouble updating their skills.

Deregulation in major activity sectors

In recent years, most OECD countries have initiated a major process of deregulation of economic activities on their territory.

In North America, the deregulation of major sectors of economic activity has had a substantial effect on the competitive environment, affecting the development of many industries of importance to Québec.

<p>TELECOMMUNICATIONS</p> <ul style="list-style-type: none"> ■ Arrival of new suppliers, freer access and greater leeway to set rates. ■ Direct competition in long-distance service and lower rates.
<p>FINANCIAL SERVICES</p> <ul style="list-style-type: none"> ■ Elimination of restrictions on ownership and activities leading to an expanded range of services and improved integration of the distribution system. ■ Greater concentration. ■ Increase in the critical mass of Québec institutions.
<p>TRANSPORTATION</p> <ul style="list-style-type: none"> ■ Increased competition among air carriers, lower rates and replacement of independent regional carriers with companies affiliated with large carriers. ■ Elimination of unprofitable railway lines, including 25% of track in Québec, and job losses. ■ Greater competition in the trucking industry.
<p>ENERGY</p> <ul style="list-style-type: none"> ■ Deregulation in the electricity sector, as had been done in the North American oil and natural gas markets, since the beginning of the 1980s. ■ Streamlining of existing regulation and greater competition.

Deregulation: new opportunities for development, but significant transition costs

While deregulation may offer new opportunities for development for major sectors of Québec's economy, the experience of recent years shows that it can also involve, particularly in the short term, substantial transition costs.

For Québec's economy, other changes, concerning its internal environment, have also meant difficult adjustments.

2.3.2 Slower economic and job growth

Slower economic growth over the last thirty-five years

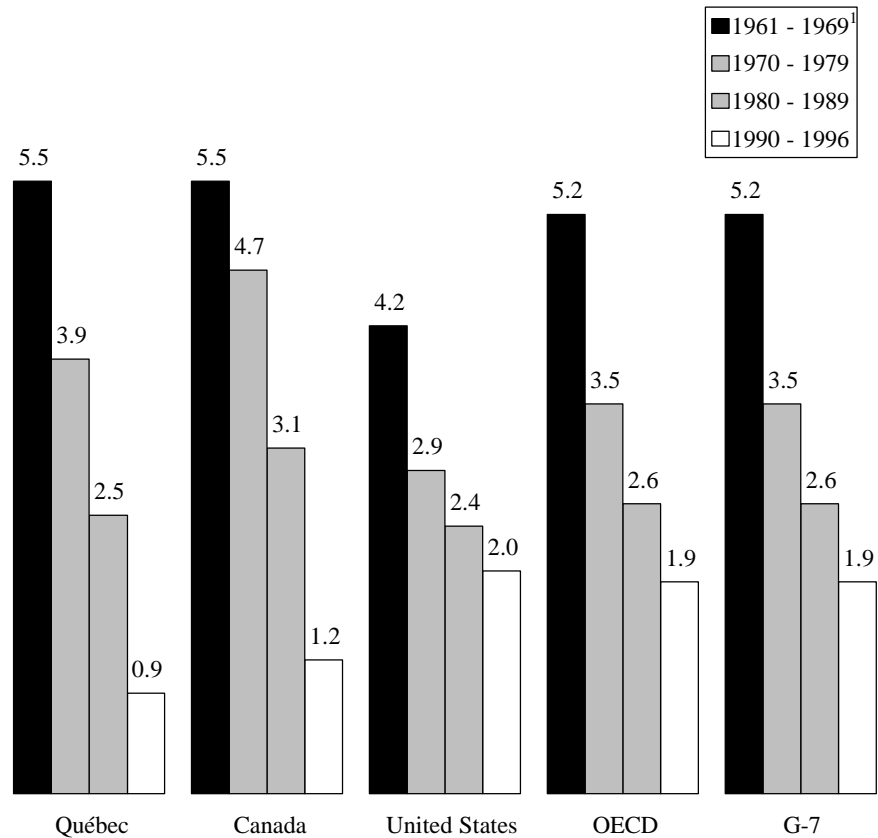
Québec's economic growth has slowed considerably over the last thirty-five years and more. From an average of 5.5% a year in the 1960s, growth in the volume of output slid to 3.9% in the 1970s, to 2.5% in the 1980s, and to 0.9% between 1990 and 1996.

GRAPH 12

GROWTH IN OUTPUT

QUÉBEC, CANADA, UNITED STATES, OECD AND G-7, 1961 TO 1996

(average annual percentage change)



1 The average annual change for Québec covers the period 1962-1969.

Sources: OECD, Statistics Canada, Conference Board of Canada and ministère des Finances du Québec.

This slowing trend in economic growth, common to most industrialized countries, seems to be relatively more pronounced in Québec. Apart from industrial restructuring, many factors can be advanced to explain this phenomenon, in particular, demographic change, the rate of investment by businesses and the tax burden.

More pronounced demographic slowdown in Québec

From 1962 to 1996, Québec's population rose by an average of 0.9% a year, compared with 1.4% for the population of Canada.

TABLE 3

DEMOGRAPHIC GROWTH – QUÉBEC AND CANADA, 1962 TO 1996 (average annual percentage change)

	1962-1969		1970-1979		1980-1989		1990-1996	
	Québec	Canada	Québec	Canada	Québec	Canada	Québec	Canada
Population	1.6	1.8	0.6	1.2	0.7	1.2	0.9	1.3
Natural growth¹	1.4	1.4	0.8	0.9	0.7	0.8	0.6	0.7
Balance of migration¹	0.2	0.4	-0.2	0.4	0.0	0.5	0.3	0.6

1 Contribution to the growth of the total population, as a percentage.

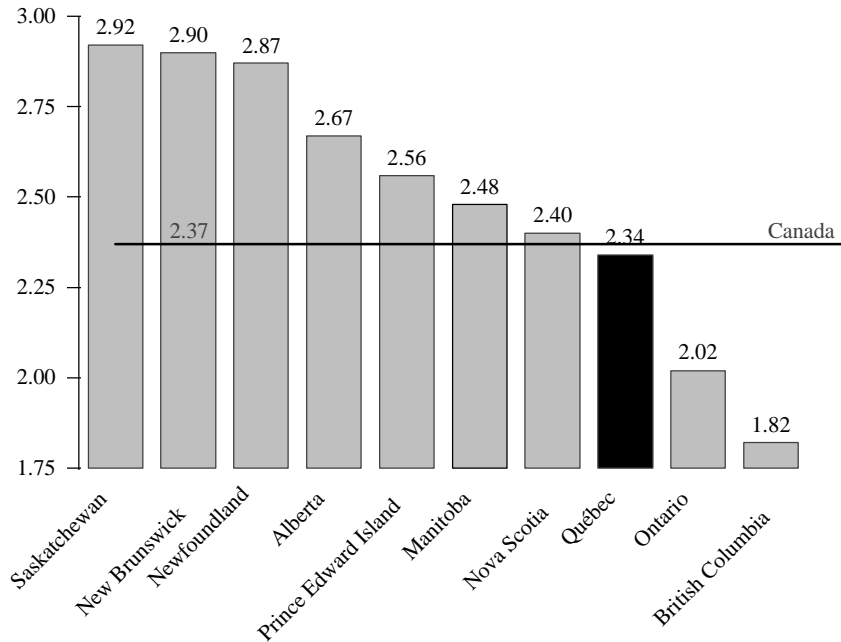
Sources: Statistics Canada and ministère des Finances du Québec.

The favourable demographic trends that were characteristic of the post-war period, namely, the baby boom and the significant contribution of international immigration, gradually reversed in the 1960s, with a drop in the fertility rate and a reduction in the proportion of Canadian immigrants deciding to establish themselves in Québec. In addition, Québec's interprovincial migratory balance has remained negative since 1963. These declines in the contribution from migration were not unrelated to the shift west of economic activity and job opportunities, a tendency noted throughout North America.

Québec's more pronounced demographic decline explains its more marked economic slowdown

As Graph 13 shows, annual growth in per capita output in Québec averaged 2.3% over the last 35 years, equal to the Canadian average for the same period. Accordingly, the more pronounced demographic decline is largely responsible for the more marked economic slowdown in Québec.

GRAPH 13
GROWTH IN REAL PER CAPITA GDP
QUÉBEC AND CANADA, 1962 TO 1996
 (average annual percentage change)

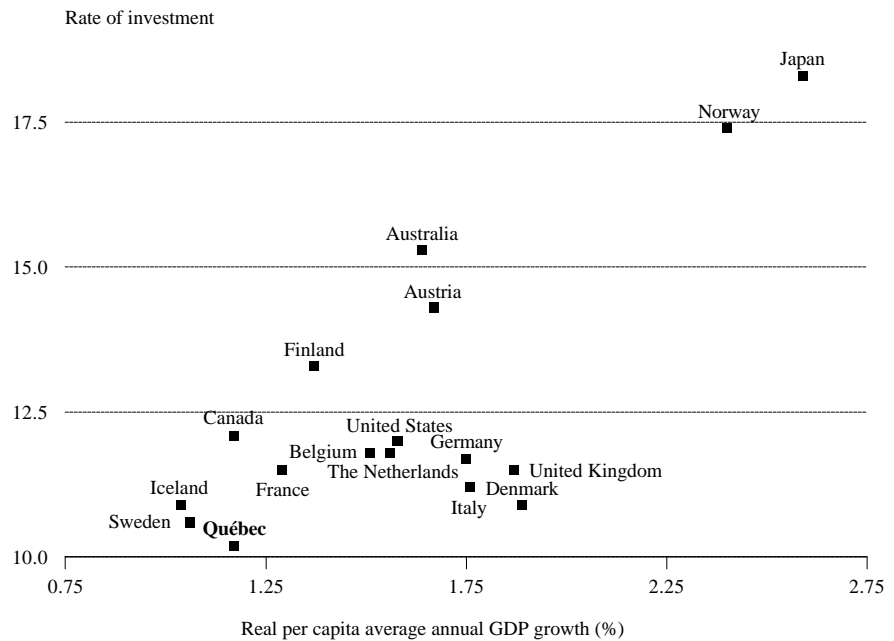


Sources: Statistics Canada, Conference Board of Canada and ministère des Finances du Québec.

A chronically low rate of investment by business

A review of the performance of OECD countries since 1980 clearly shows that countries where businesses maintain a high rate of investment enjoy stronger economic growth.

GRAPH 14
**RATE OF INVESTMENT BY BUSINESSES AND GROWTH
 IN REAL PER CAPITA GDP, QUÉBEC AND INDUSTRIALIZED
 COUNTRIES – 1980 TO 1995**



Sources: OECD, Statistics Canada, Conference Board of Canada and ministère des Finances du Québec.

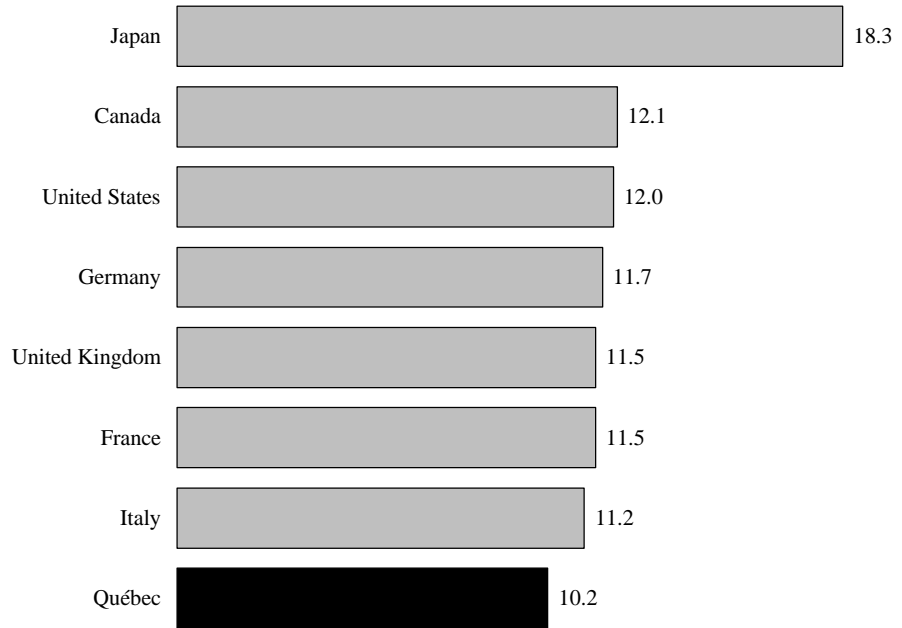
On the other hand, countries where the rates of investment are lowest post the smallest increases in per capita output.

As a corollary, it is not surprising to note that job creation goes hand in hand with capital accumulation. In Canada, from 1985 to 1996, Québec and the Atlantic region have the lowest employment rates (respectively 63.5% and 58.1%) and the lowest values of physical capital stock per working age individual (\$27 000 and \$26 000).

***Business investment in Québec
 falls short of the standard set in
 industrialized countries***

Since 1980, non-residential investment by businesses has accounted for 10.2% of output in Québec, compared with 12.6% in the G-7 countries. A similar gap of 2.5% also separates Québec from the sixteen OECD countries for which comparable data are available.

GRAPH 15
BUSINESS NON-RESIDENTIAL INVESTMENT
QUÉBEC AND G-7 COUNTRIES — 1980 TO 1995
(as a percentage of GDP)



Sources: OECD and Statistics Canada.

It should be noted that the disparity in the rate of investment between Québec and Canada (12.1%) is mainly attributable to the concentration outside Québec of the oil and gas industry, which is very capital intensive. Québec's rate of investment is not very different from that in Ontario (10.6%), notwithstanding certain differences between the industrial sectors, in particular the transportation equipment industry where Québec lags by 3.8%.

TABLE 4
BUSINESS INVESTMENT AND GDP BY SECTOR¹
 (average 1984-1993²)

	Investment as a % of sector GDP			Distribution of GDP by sector		
	Québec	Ontario	Difference	Québec	Ontario	Difference
Agriculture	30.7	31.8	-1.1	1.9	1.4	0.5
Fisheries	15.9	9.5	6.4	0.1	0.0	0.0
Forests	3.3	6.0	-2.7	0.8	0.3	0.5
Mines, quarries and oil wells	36.2	23.3	12.9	1.2	1.7	-0.5
Manufacturing	16.8	13.7	3.1	26.9	29.5	-2.6
• excluding transportation equipment	16.9	12.3	4.6	24.5	23.7	0.8
• transportation equipment	15.6	19.4	-3.8	2.4	5.8	-3.4
Construction	4.6	4.0	0.6	8.1	7.4	0.6
Retail trade	5.0	7.6	-2.6	8.4	7.2	1.1
Communications, electricity, gas and water	47.8	49.5	-1.7	9.5	7.1	2.3
Transportation and storage	13.4	23.2	-9.8	4.6	4.2	0.4
Wholesale trade	4.0	4.8	-0.8	6.9	6.9	0.1
Finance, insurance and real estate	14.5	15.0	-0.5	17.2	19.6	-2.4
Business services	4.3	6.4	-2.1	5.8	6.3	-0.5
Accommodation and food	8.1	14.5	-6.4	3.2	3.0	0.2
Other commercial services	12.6	17.8	-5.2	5.6	5.4	0.3
Total businesses³	15.5	15.3	0.2	100.0	100.0	
• as a percentage of total GDP at market prices	10.6	10.7	-0.1	--	--	--

Note: The sum of the components may not correspond to the total shown since the figures are rounded off.

1 GDP used for the calculations in this table is measured at factor cost in constant dollars, since GDP at market prices is not available by economic activity sector.

2 GDP by industry is not available for the period 1984-1993.

3 Business investment is expressed as a percentage of business GDP, which gives rise to a rate of investment that is higher than in the preceding graph, where business investment is expressed as a percentage of GDP for the economy as a whole.

Sources: Statistics Canada and ministère de l'Industrie, du Commerce, de la Science et de la Technologie.

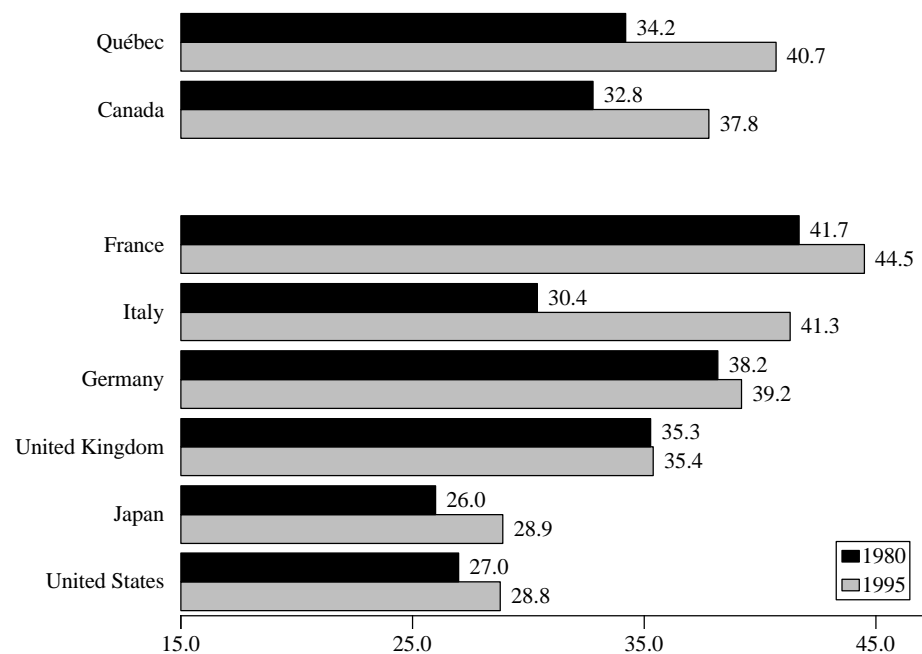
In spite of the growth in various leading sectors, Québec has a low investment rate, with consequences felt throughout the entire economy: acquisition of new technologies, associated development of human resources, productivity and competitiveness on markets and, finally, employment.

A relatively onerous personal tax system

The tax system is not without an impact on economic growth and competitiveness. In particular, it affects saving and investment, the cost of capital and labour, and the ability to attract and retain so-called strategic workers.

In general, the tax burden is higher in Québec than among the G-7 countries. Québec's relative situation has not improved since 1980. While total tax receipts as a percentage of GDP rose by 6.5 percentage points in Québec between 1980 and 1995, the increase averaged 5.0 points in Canada and only 1.8 points in the United States. In 1995, only Italy and France had a higher ratio than Québec.

GRAPH 16
TOTAL TAX RECEIPTS AS A PERCENTAGE OF GDP - 1980 AND 1995

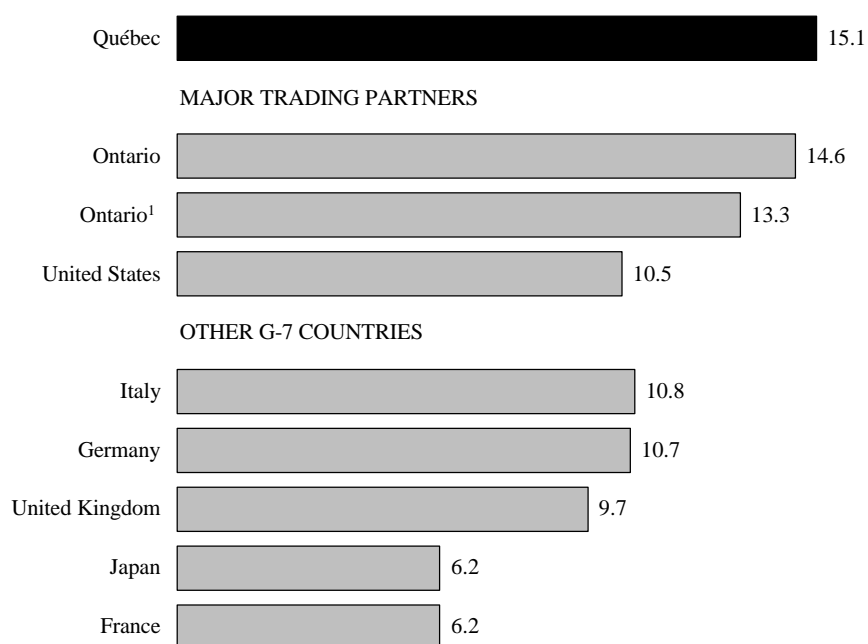


Sources: OECD, Statistics Canada and ministère des Finances du Québec.

A heavy personal tax burden

This heavy personal tax burden is particularly evident in substantial personal income tax levies. As a proportion of GDP, personal income tax receipts levied in Québec are significantly greater than in the rest of Canada and the other G-7 countries.

GRAPH 17
**PERSONAL INCOME TAX RECEIPTS COMPARED TO GDP - QUÉBEC,
 MAJOR PARTNERS AND G-7 COUNTRIES - 1995**



1 After tax cuts

Sources: OECD, Statistics Canada and ministère des Finances du Québec.

Since factors of production tend to locate where the after-tax return is highest, Québec's competitive capacity and consequently its long-term growth rate may have been affected over the years by the difference in tax burden compared with neighbouring jurisdictions. This difference is particularly pronounced for higher income brackets.

TABLE 5
MAXIMUM MARGINAL TAX RATES
 (as a percentage)

	1976	1983	1991	1996	1997	After reforms¹
Québec	68.4	60.4	51.1	52.9	52.9	52.5
Ontario	61.3	50.7	49.1	52.9	51.6	49.6
United States:						
New York	74.5	56.8	36.4	43.7	43.7	43.7
Massachusetts	71.5	50.0	35.3	43.2	43.2	43.2
Pennsylvania	70.7	51.2	33.0	41.3	41.3	41.3

1 Maximum marginal tax rates after tax cuts in Ontario in 1999 and the personal income tax reform in Québec in 1998.

The effects of a relatively onerous tax system have been exacerbated recently with the internationalization of economies, which has made capital and labour more mobile, particularly highly skilled workers increasingly in demand given the development of the knowledge-based economy.

While these so-called strategic workers pay less than elsewhere for current consumption goods and services,⁴ the cost of living in Montréal is higher than in some American cities, among other things because of higher marginal tax rates.

2.3.3 An unacceptable rate of unemployment

Economic growth and job creation directly linked

Job creation follows economic growth

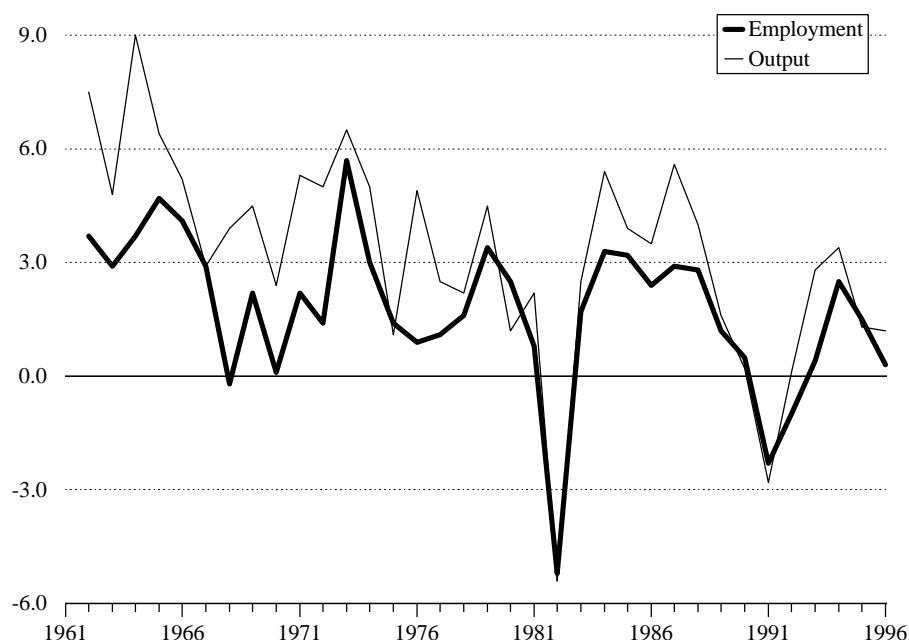
Economic activity is the main determinant of job creation, which, over the past 35 years, has closely followed the business cycle.

⁴ According to a study carried out by the ministère des Finances and Runzheimer International Inc., the overall cost of living in Montréal is lower than in large Canadian cities like Toronto or Vancouver.

Compared to American cities:

- In all cases, Montréal is the best place for low-income households.
- For middle-income households, Montréal retains its advantage for households with children. For single persons, the cost of living is generally comparable to major American cities as a whole.
- For high-income households, the cost of living in Montréal is often lower than in the largest American cities. However, it is higher than those cities of a size comparable with Montréal's.

GRAPH 18
GROWTH IN EMPLOYMENT AND OUTPUT
QUÉBEC, 1962 TO 1996
 (annual percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

The gradual slowdown in economic growth since the early 1960s has consequently been accompanied by a similar slowing in growth in employment.

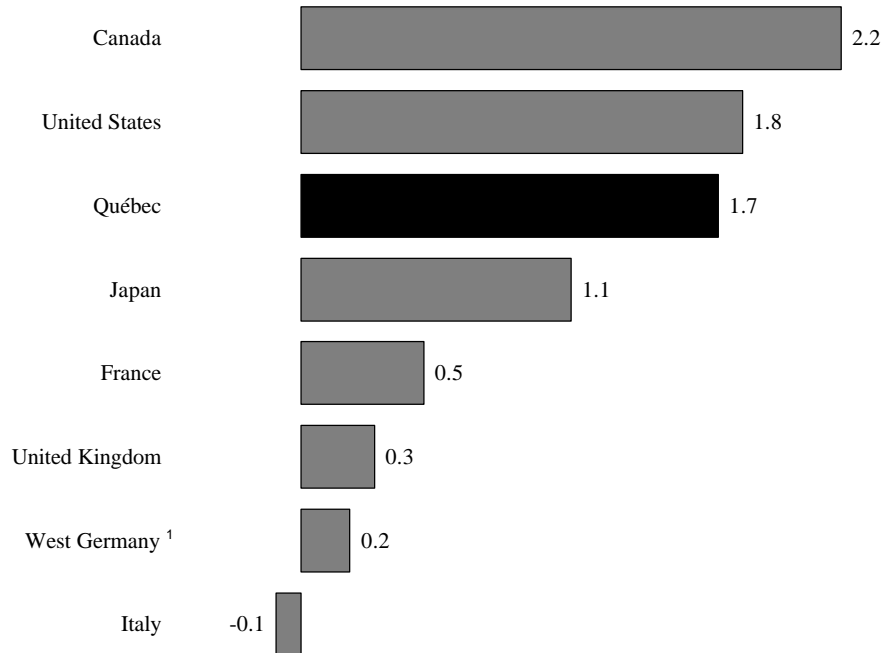
TABLE 6
OUTPUT, EMPLOYMENT AND PRODUCTIVITY, QUÉBEC, 1961 TO 1996
 (average annual percentage change)

	1962-1969	1970-1979	1980-1989	1990-1996
Output	5.5	3.9	2.4	0.9
Employment	3.0	2.1	1.5	0.3
Production per worker	2.4	1.8	0.9	0.6

Sources: Statistics Canada, Conference Board of Canada and ministère des Finances du Québec.

On the whole, the current labour market situation does not reflect the job creation performance of the last thirty years. In absolute terms, the number of jobs in Québec over this period has almost doubled: an increase which, while lower than that of Canada, is nonetheless similar to that of the United States and better than that of all other G-7 countries, as shown in Graph 19.

GRAPH 19
EMPLOYMENT GROWTH
QUÉBEC AND G-7 COUNTRIES, 1961 TO 1996
 (average annual percentage change)



¹ 1961 to 1994.

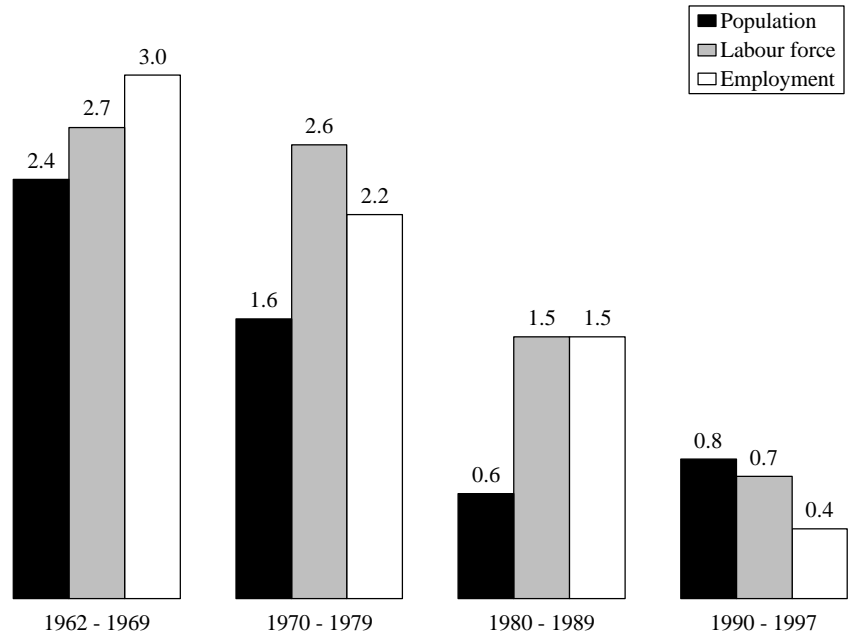
Sources: OECD, Statistics Canada and Société québécoise de développement de la main-d'œuvre (SQDM).

Essentially, the current situation stems from the fact that the equilibrium between supply and demand with respect to jobs on the labour market that existed in the 1960s was subsequently upset. Between 1961 and 1990, Québec outperformed the G-7 countries, with the exception of Canada, in terms of the rate of increase of the labour force.

Exceptional employment growth, but not enough to absorb the entire increase in the labour force

From 1970 to 1997, employment growth, at an average annual rate of 1.4%, was not enough to fully absorb the growth in the labour force, which was 1.6%. The exceptional growth in the population seeking work is reflected in the rise of 0.4 percentage points per year in the participation rate during this period.

GRAPH 20
POPULATION, LABOUR FORCE AND EMPLOYMENT
(15–64-YEAR-OLDS), QUÉBEC, 1962 TO 1997
 (average annual percentage change)



Sources: Statistics Canada and ministère des Finances du Québec.

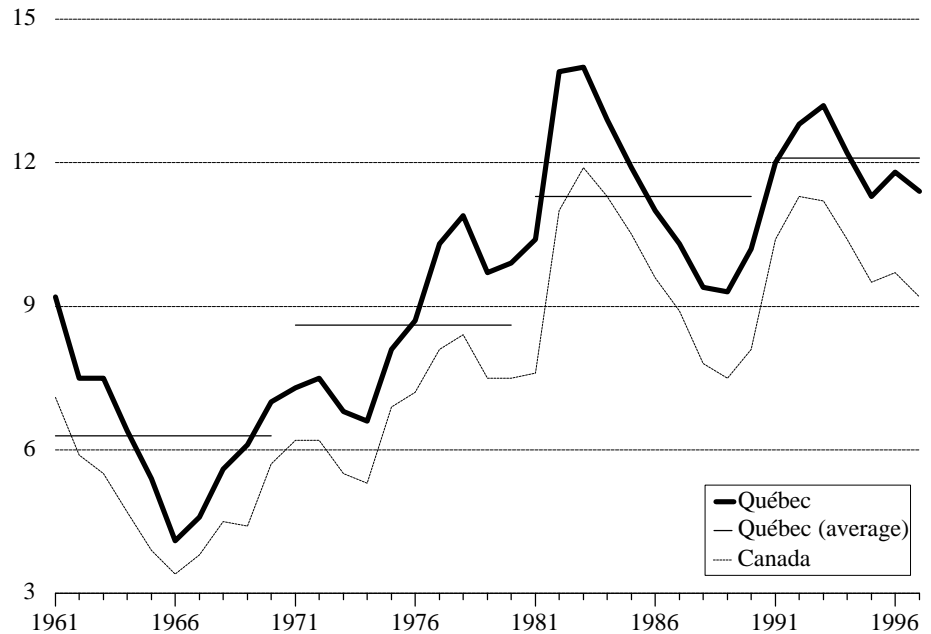
The increase in the overall rate of participation is mainly attributable to the rapid rise in the participation of women in the labour market, which doubled from 31.5% in 1961 to 64.2% in 1997.

Gradual rise in unemployment

Unemployment in Québec: up gradually over the last 25 years

Over the period from 1962 to 1997, Québec's economy was accordingly able to absorb only about 85% of the increase in the labour force. From one business cycle to the next, this *relative* inability to generate enough jobs caused a gradual rise in the unemployment rate in Québec.

GRAPH 21
UNEMPLOYMENT RATE
QUÉBEC AND CANADA, 1961 TO 1997
(as a percentage)



Source: Statistics Canada.

This rate fell to as low as 4.1% during the expansion of 1966, and reached 9.3% in 1989, at the peak of the last business cycle. In 1997, a number of years after the end of the last recession, the unemployment rate still averaged more than 11%.

The rest of Canada did not escape the trend noted in the industrialized countries and the unemployment rate in Canada has risen comparably to that in Québec since 1961.

However, from 1961 to 1997, the unemployment rate in Québec systematically exceeded that in Canada, the spread varying from 0.7% to 2.9% and averaging close to 2%. This unemployment gap can be considered structural since it persists regardless of whether economic conditions are favourable or not.

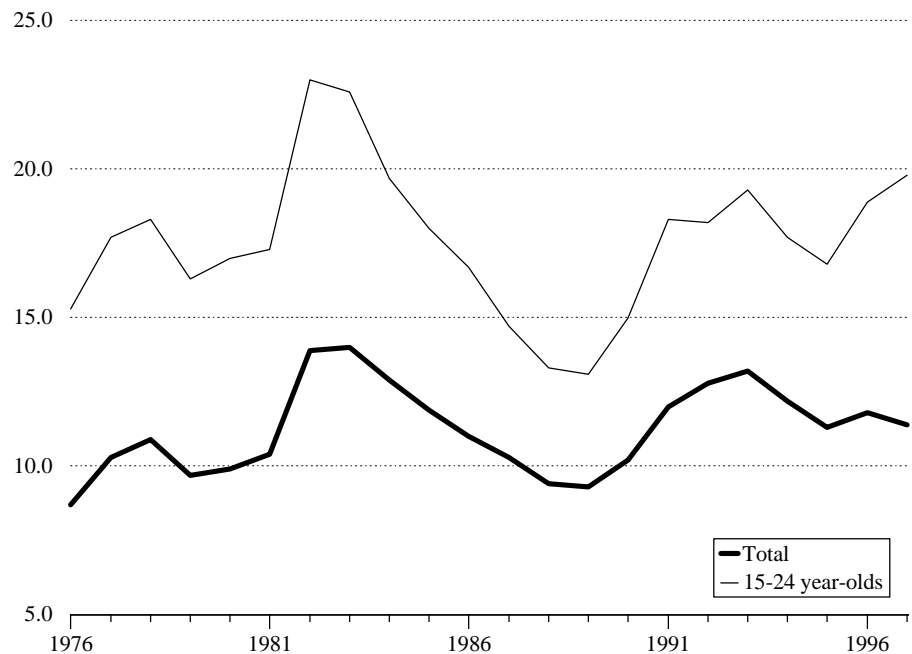
High unemployment among young people, a structural problem

Individuals more particularly affected by unemployment

The unemployment rate among 15-24 year-olds, already higher than the average during times of economic expansion, rises even more during a recession. Youth unemployment reached a peak of 23% in 1982. In 1997, it was 19.8%, i.e., 8.4 percentage points higher than the Québec average.

GRAPH 22

UNEMPLOYMENT RATE BY AGE, QUÉBEC, 1976 TO 1997
(as a percentage)



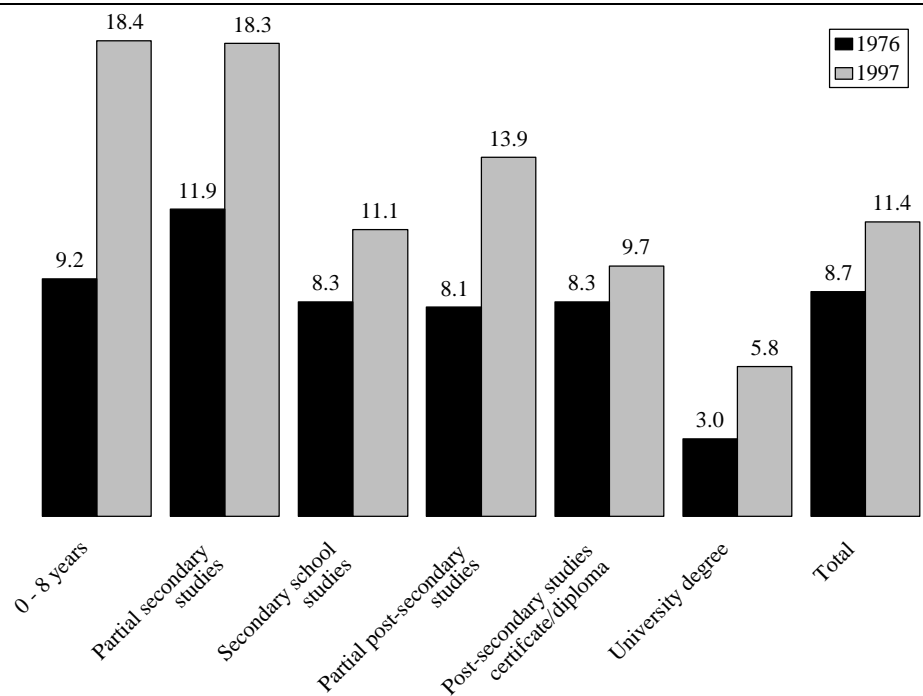
Source: Statistics Canada.

Differences in unemployment rates depending on level of education have also grown, with unemployment increasingly affecting those with less schooling.

The rise in unemployment has been greater for those with less schooling

While the unemployment rate in 1976 for individuals with the least schooling was barely higher than the average of 8.7%, it rose two-fold to 18.4% in 1997, exceeding the average rate (11.4%) by 7 percentage points. On the other hand, university graduates maintained their advantage on the labour market.

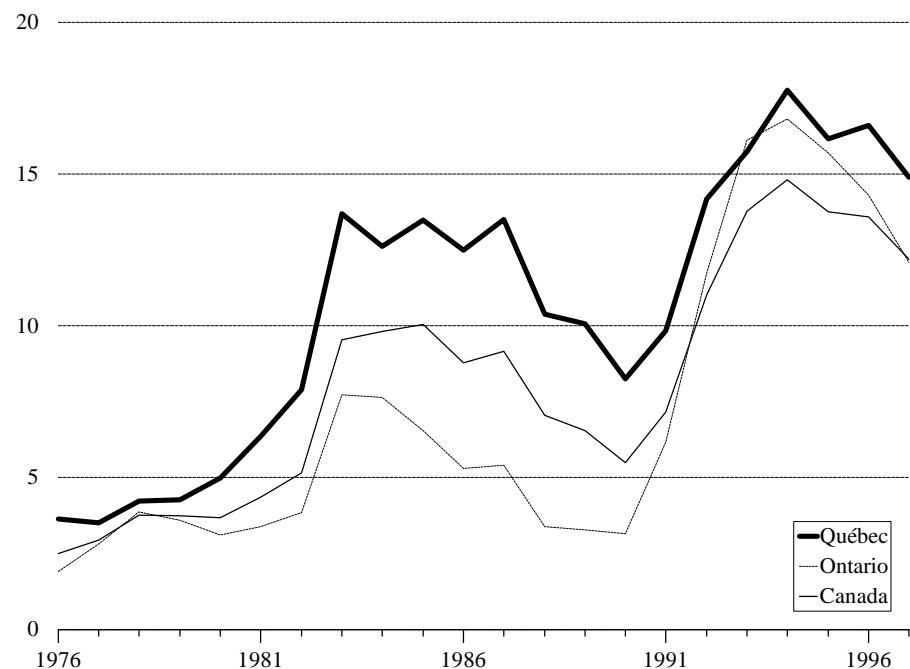
GRAPH 23
UNEMPLOYMENT RATE BY LEVEL OF SCHOOLING
QUÉBEC — 1976 AND 1997
 (as a percentage)



Sources: Statistics Canada and Secrétariat du Comité des priorités.

Unemployment today carries with it more insecurity and anxiety than previously. Twenty years ago, the average person took 16.3 weeks to find a job, whereas in 1997, in Québec, the time needed was 25.8 weeks. The increase in the length of unemployment goes hand in hand with the rise in the number of long-term unemployed. In 1997, one unemployed person in seven sought work for more than one year, compared with only one in twenty-seven in 1976.

GRAPH 24
LONG-TERM UNEMPLOYED (1 YEAR OR MORE), 1976 TO 1997
 (as a percentage of the total number of unemployed)



Source: Statistics Canada.

***Workers in transition sectors
 have been affected by long-term
 unemployment***

The increase in the proportion of long-term unemployed, which has been more pronounced particularly since the 1990-1991 recession, reflects a growing imbalance between the supply of labour, the unemployed, their qualifications and experience, and demand, the number of jobs and their characteristics. It has particularly affected workers in sectors in transition.

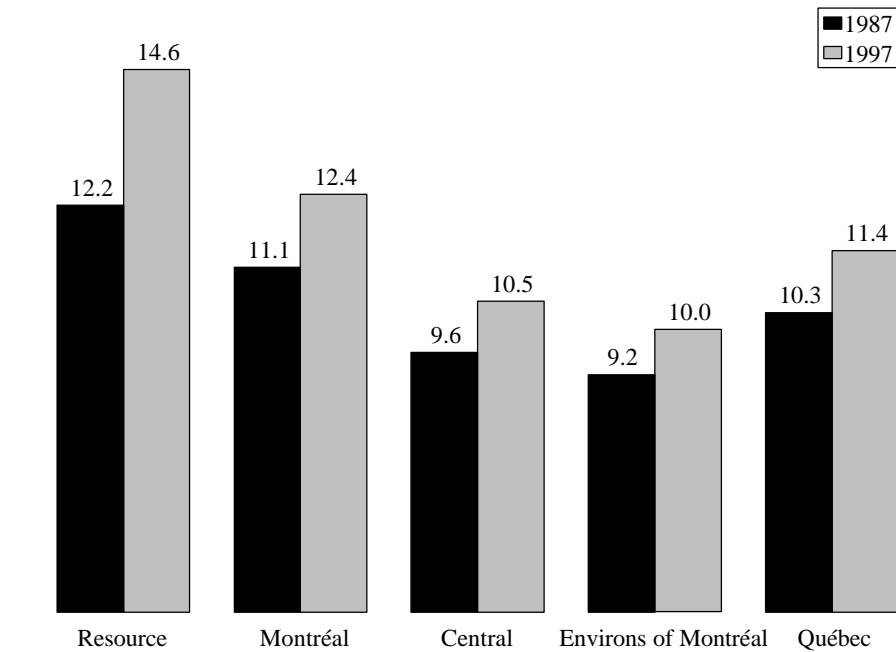
Regions more affected

***Regions dependent on resources
 are the most affected***

Lastly, while the worsening unemployment situation has affected workers in every region of Québec, the regions dependent on resources have been hit hardest, with 1997 a particularly difficult year. From 1987 to 1997, the unemployment rate in these regions rose from 12.2% to 14.6%.

Until 1996, the unemployment rate in the metropolitan Montréal region rose sharply, by 2.6 percentage points compared with 1987. Like other large cities of the American northeast, Montréal has been particularly affected by its historical specialization in certain sectors in which activity has been relocated to countries offering cheaper labour. However, the situation improved substantially in 1997 and Montréal's unemployment rate declined by 1.3 points.

GRAPH 25
UNEMPLOYMENT RATE BY GROUP OF REGIONS - 1987 AND 1997
 (as a percentage)



Sources: Statistics Canada and ministère des Finances du Québec.

Resource	Gaspésie–Îles-de-la-Madeleine, Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Outaouais, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec.
Montréal	Montréal.
Central	Québec City, Mauricie–Bois-Francs, Estrie, Chaudière-Appalaches.
Environs of Montréal	Laurentides, Lanaudière, Montérégie, Laval.

For its part, because its economic structure is more heavily concentrated on administration and public services, the Québec City region has been particularly affected in recent years by the rationalization of government spending and the reduction in public service staff levels.

2.4 An economic potential that is up to the jobs challenge

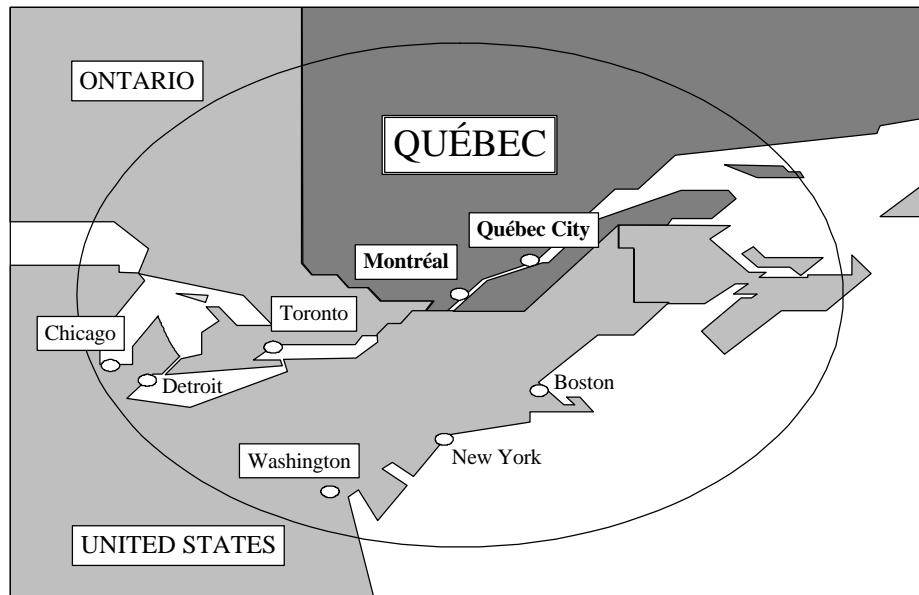
Québec enjoys major competitive advantages it can put to good use to continue to develop in the new context of the global economy and meet the jobs challenge.

2.4.1 Proximity and access to large markets

An economy near a market of more than 100 million consumers, expanded to include close to 400 million consumers under NAFTA

Because of its geographic position, Québec is located, within a radius of 1 000 km, at the heart of a huge market of more than 100 million consumers, in Canada and the United States, whose disposable income is among the highest in the world.

QUÉBEC'S KEY GEOGRAPHIC POSITION IN NORTH AMERICA



In addition, under NAFTA, Québec has preferred access to a potential market of more than 380 million consumers, including the American and Mexican markets, one of the largest markets of goods and services in the world.

Lastly, because of its advantageous geographic position, Québec is an attractive strategic choice for many companies as a location and centre for trade between Europe and North America.

2.4.2 Quality infrastructures

*Transportation and
communications infrastructures
of international calibre*

Québec has modern infrastructures linking the domestic and export markets, affording rapid access to the resources, products and information required, and reducing production costs.

Integrated and efficient transportation systems

With 7 200 km of railway and 60 000 km of roads, including 2 000 km of expressway, the road and rail systems efficiently connect all regions of Québec to markets. These systems are well integrated into the Canadian systems and linked to those in the United States.

Québec is also accessible to European and international trade through the St. Lawrence River, one of the most important waterways in North America. Montréal is Canada's largest container transshipment port, as well as being a major civil aviation hub.

A leading-edge telecommunications system

Québec has always been and remains a leader in telecommunications technology. Montréal is one of the first centres in the world to make use of digital telephone communications. The quality and reliability of its telephony, data transmission and fax networks have made Montréal the largest centre for international connections in Canada.

2.4.3 Abundant natural resources and attractively priced renewable energy

*Abundant and accessible
natural resources*

Québec has 3% of the world's fresh water supplies. In addition, most of Canada's forest lands are in Québec and half of Québec's forest is accessible to development. This area is equivalent to the entire territory of France.

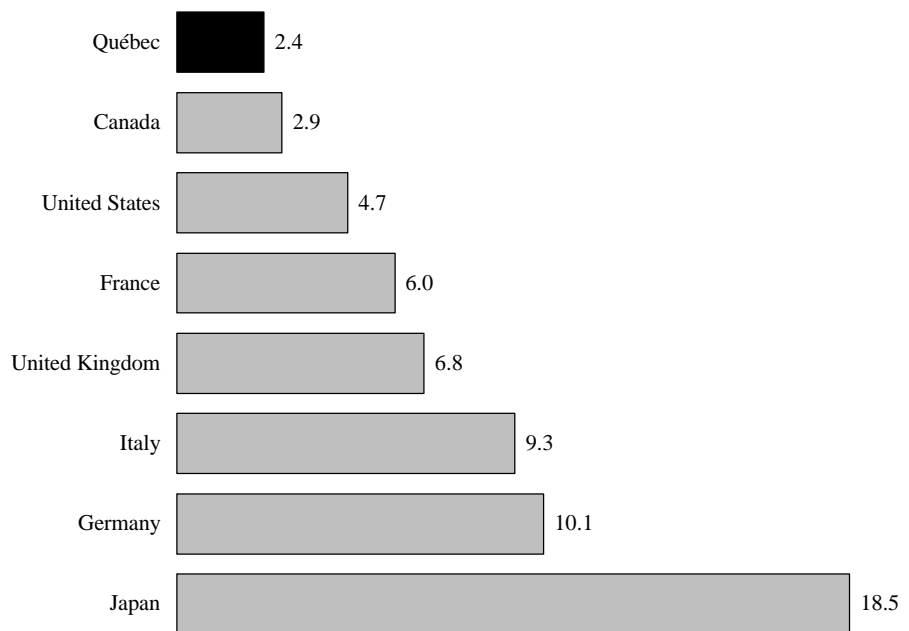
Québec's sub-soil also boasts a wide variety of minerals. It ranks among the world's ten leading mining producers. It is one of the largest producers of asbestos, Canada's second-largest producer of metallic substances, including gold and iron, and the second-largest producer of industrial minerals.

While the abundance and accessibility of natural resources no longer play the role they did in the past, they remain a major comparative advantage for Québec. In addition, Québec enjoys one of the highest rates of energy self-sufficiency among the industrialized economies: 72% in 1996.

Clean, renewable and low-cost electrical energy

Hydro-Québec's production cost level and structure make electricity produced in Québec one of the most competitive sources of energy on North American markets, and its rates are lower than those in any G-7 country. The essentially hydroelectric source of Québec's electricity offers an additional advantage in terms of cleanliness and renewability, in view of the requirements of sustainable development.

GRAPH 26
AVERAGE INDUSTRIAL ELECTRICITY RATES
QUÉBEC AND G-7 COUNTRIES - 1995
(US cents per kilowatt-hour)



Sources: The World Competitiveness Yearbook 1997 and ministère des Finances du Québec.

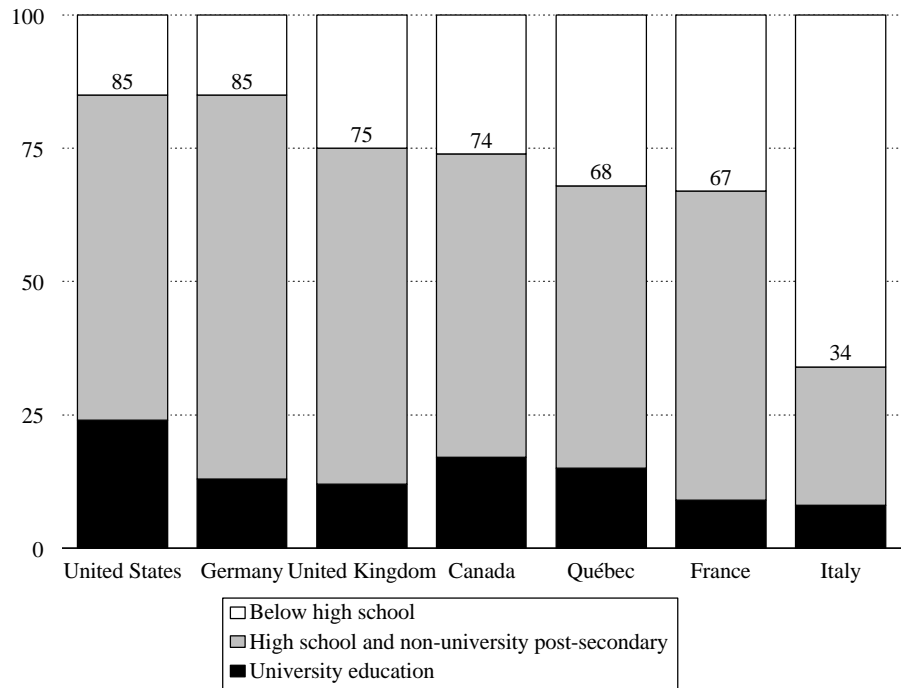
2.4.4 Well-trained, skilled and multilingual human resources

During the second half of this century, Québec has made remarkable progress in terms of the education of its population.

An educated population, skilled and versatile manpower

In 1994, 68% of Québec's population from 25 to 64 years old had at least a high school education. Compared to the G-7 countries (other than Japan), Québec's general level of schooling ranks fourth, just below the Canadian average, i.e., at a level comparable to France and ahead of Italy. Young Quebecers from 15 to 24 years of age have the highest level of schooling in North America.

GRAPH 27
**DISTRIBUTION OF THE 25-TO-64 AGE GROUP BY LEVEL OF
 SCHOOLING COMPLETED, QUÉBEC AND G-7 COUNTRIES¹ — 1994**
 (as a percentage)



1 Excluding Japan for which data are not available.

Sources: OECD, Statistics Canada and ministère des Finances du Québec.

*Young Quebecers among the
 best in mathematics and science*

Concerning the quality of basic education, young Quebecers at the primary and secondary levels regularly place among the top ranks in interprovincial and international mathematics and science tests and obtain comparable results in reading and writing. As for higher education, the skills profile is very revealing: the proportions of post-secondary graduates specializing in engineering and applied sciences, and in business administration, are higher in Québec than in the rest of Canada. Lastly, this skilled and well-trained pool of labour is available at very competitive wages. Total labour costs, including wages, payroll taxes and fringe benefits are lower than those in the United States and many European countries.⁵

⁵ *The Competitive Alternative. a comparison of business costs in Canada, Europe and the United States*, KPMG, October 1997.

Québec has Canada's largest pool of bilingual workers

In addition, at a time when the availability and retention of qualified workers are crucial to site location decisions, the characteristics of Québec society are major advantages. The French fact in Québec helps maintain a lower personnel turnover rate, its bilingualism affords special access to the worlds of science, technology and business, while the cosmopolitan nature of the Montréal region provides an opening to most countries in the world.

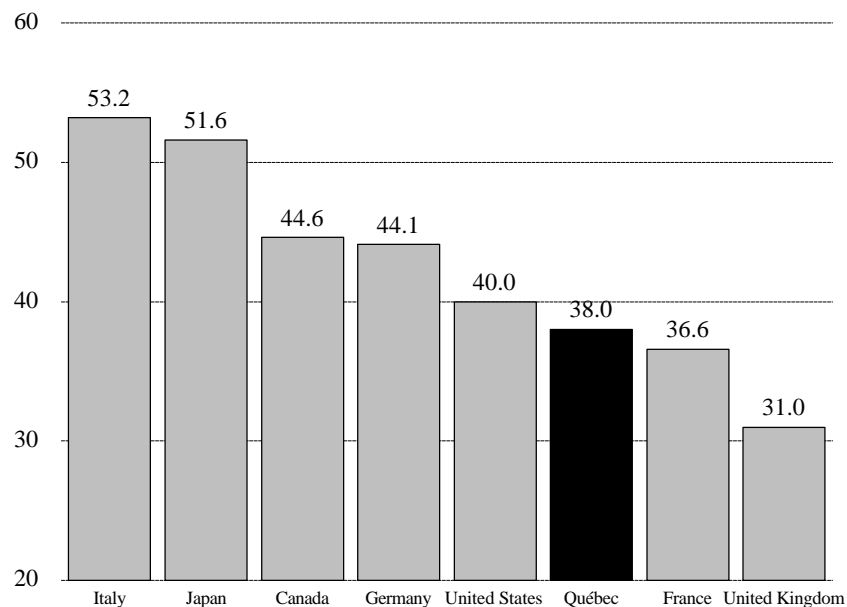
2.4.5 A corporate tax system that is competitive on the whole

On the whole, Québec's corporate tax system is competitive and particularly advantageous for manufacturing companies. The following factors are chiefly responsible for the competitiveness of Québec's tax system:

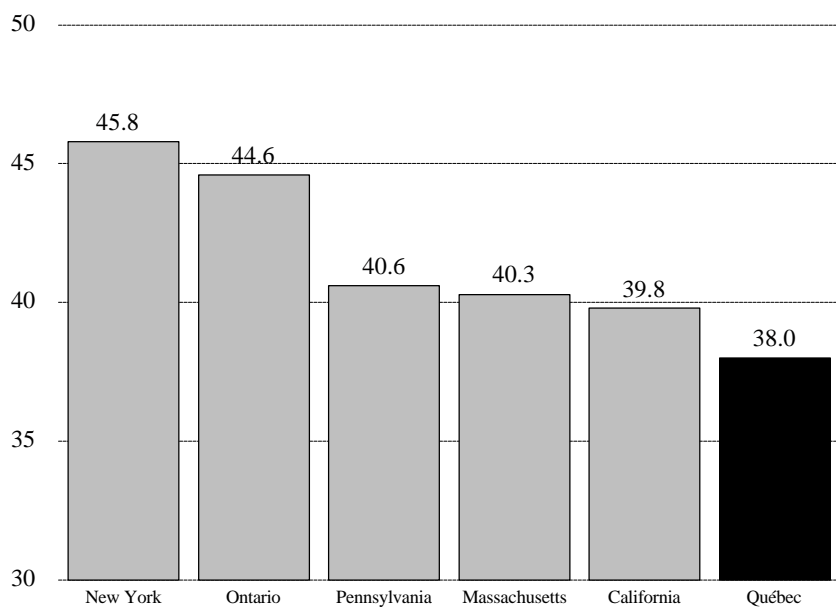
- corporate income tax rates that are considerably lower than in Ontario and generally lower than in most American states and the G-7 countries;
- developmental tax measures that encourage R&D and investment;
- input tax refunds under the QST system.

GRAPH 28
COMBINED CORPORATE INCOME TAX RATES¹
 (as a percentage)

*Québec and G-7 countries as at
 July 1, 1997*



*Québec, Ontario and certain
 American states, as at December
 31, 1997*



1. Maximum tax rates applicable to active corporate income by various levels of government.
 Sources: KPMG, *Corporate Tax Rate Survey*, Price Waterhouse and ministère des Finances
 du Québec, March 1998.

Comparison with certain jurisdictions in North America

Many studies show that Québec's corporate tax system is very competitive compared with that of other highly industrialized countries.

For instance, in 1997, the ministère des Finances and Price Waterhouse jointly produced a comparison of the overall tax burden of a Québec company subject to the tax system of another jurisdiction. The results obtained show that, regardless of the analysis context considered, Québec's corporate tax system is generally highly competitive, in particular if the company carries out an investment project or significant R&D expenditures.

TABLE 7
COMPARISON OF TAX STRUCTURE COMPETITIVENESS
ACCORDING TO VARIOUS ANALYSIS CONTEXTS¹
(indices, Québec=100)

	Québec	Ontario	New Brunswick	Massachusetts	Michigan	New York	Pennsylvania
SMALL BUSINESS							
No investment project	100	101	85	126	122	133	120
With an investment project	100	105	118	138	131	145	147
For an R&D expenditure ²	100	112	120	192	198	196	200
LARGE COMPANY							
No investment project	100	99	89	130	127	133	124
With an investment project	100	107	145	129	121	135	134
For an R&D expenditure ²	100	110	106	138	143	143	144

1 An index greater than 100 indicates that the tax structure in effect in the jurisdiction concerned is less competitive than Québec's tax structure.

2 Results obtained when the research is carried out in-house.

Source: Price Waterhouse and ministère des Finances du Québec, *Corporate Taxation in Québec: A Competitive System That Favours Investment*, February 1997.

Low operating costs

Similarly, in 1997, KPMG did a comparison of the costs of companies located in 42 cities in Canada, Europe and the United States. This study also confirmed Québec's highly competitive position. It drew on a broader analysis framework which incorporates, in addition to taxation, other factors that influence investors' decisions. According to this study, Québec is an attractive site for companies not only in taxation terms, but also in terms of other site-sensitive costs such as land acquisition costs, building construction expenses and wages.

TABLE 8
RANK OF MONTRÉAL AMONG CITIES STUDIED¹
COMPETITIVENESS INDICES EXPRESSED AS A DECILE
BY INDUSTRY

Industry	Including cities in the Maritime provinces	Excluding cities in the Maritime provinces
Electronics	2	2
Fabricated metal products	2	2
Plastics	2	2
Food processing	3	2
Medical apparatus	2	2
Pharmaceutical products	2	1
Software production	2	1
Telecommunications equipment	2	1

1. The 42 cities included in the comparison are: Edmonton, Calgary, Charlottetown, Halifax, Hamilton, Sarnia, Sudbury, London, Moncton, Montréal, Québec City, Ottawa, Saskatoon, St-John's, Toronto, Vancouver, Winnipeg, Austin, Bellingham, Colorado Springs, Columbus, Manchester, Minneapolis, Raleigh, Sacramento, Scranton, Boston, Norfolk, Telford, Cardiff, Grenoble, Toulouse, Valenciennes, Darmstadt, Dresden, Dusseldorf, Avezzano, Modena, Turin, Goteborg, Karlskoga, Malmö.

Source: *The Competitive Alternative. a comparison of business costs in Canada, Europe and the United States*, KPMG, October 1997.

In spite of the generally competitive nature of Québec's tax system, it still has a number of specific problems discussed in the document on the reform of corporate taxation.

2.4.6 The capital: a powerful force of attraction

Québec City and its surrounding region form one of Québec's major economic and administrative centres. As both a mirror of and a window on the situation in Québec, the capital has earned an enviable international reputation. Recognized as a world heritage city, it provides a unique testimonial to Québec's past, present and future.

As Québec's chief administrative centre, Québec City has first-class infrastructures and institutions: renowned universities and research centres, cultural organizations and institutions, a convention centre, exhibition grounds, international airport, deepwater port and technology park.

Québec City's vitality is evident in numerous fields of excellence

Québec City's vitality is particularly evident in numerous fields of excellence where it has distinguished itself on the international scene. Artistically and culturally, the variety and energy of its productions reflect Québec culture, which while remaining faithful to its roots, is also creative, inventive and innovative. In tourism, the capital is a world-class destination offering a high-quality product on national and international markets. Moreover, the Québec City region has an impressive pool of more than 5 000 researchers and many successful SMBs, particularly in biomedicine, bio-food, geomatics, forestry, optics, lasers and the light materials sector.

2.4.7 Québec's largest city, with world-leading quality of life

Because of the size and diversity of its economy, its wealth of human resources and the quality of its facilities and infrastructures, metropolitan Montréal is a major North American city.

A centre for international activities, Montréal is the seat of some fifty international organizations, more than all other large Canadian cities combined. It offers many strategic advantages which confirm it as a leading North American business centre.

Québec's largest city plays a leadership role in the new economy, as shown by the intensity of research and development and its highly educated human resources.

Montréal also ranks first among the 23 largest North American cities for employment in high-technology companies on a per capita basis.⁶

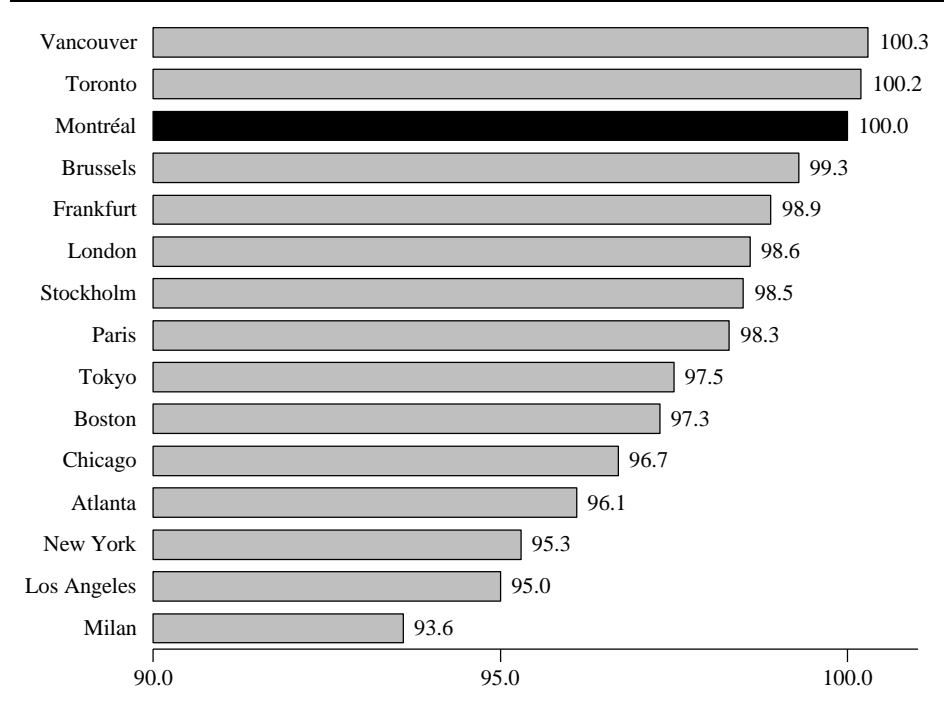
Montréal enjoys a unique position in the cultural and tourism sectors. Its French nature gives it a distinctive cultural and tourism appeal while its cosmopolitan atmosphere enriches its cultural, economic and social life.

Montréal offers a quality of life among the highest in the world

Its low cost of living and the quality of its surroundings explain why Montréal ranks third among leading international cities for its quality of life.

⁶ Price Waterhouse, "Le développement économique en bref", October 1995.

GRAPH 29
**QUALITY OF LIFE INDEX, MONTRÉAL AND MAJOR
 INTERNATIONAL CITIES - 1995**
 (Montréal = 100)



Sources: Corporate Resources Group and Montréal Urban Community.

The most commonly cited features which make Montréal an attractive large city include its European character, wide variety of cultural and recreational activities, its ethnic diversity, which is reflected in the quality of its restaurants, and a particularly safe urban environment with ample green space.

2.4.8 The vitality of Québec entrepreneurship

Entrepreneurship booming in Québec

The growth of SMBs and, to a lesser degree, the growing number of individuals working for themselves are among the most obvious signs of the vitality of entrepreneurship in Québec.

However, what is even more important is that the entrepreneurial spirit is no longer the sole preserve of entrepreneurs. The success stories of Québec companies have instilled a general climate favourable to business and the spirit of enterprise is also evident in numerous local and regional institutions where representatives increasingly act as catalysts of economic development in their communities.

Similarly, the community and cooperative sectors in Québec have developed remarkable expertise for creating non-profit and cooperative

enterprises and offering services that meet needs not satisfied by the public or private sectors. This explains the emergence of what is called the *social economy*, a sector with a job-creation potential to be developed.

2.4.9 A well-established tradition of joint action and partnership

Since the mid-1970s, a tradition of partnership has gradually developed in Québec. In the regions and in a variety of sectors of activity, following formulas that have changed over time, stakeholders have learned to work in concert and taken practical steps to ensure that their respective actions are consistent and efficient.

The conference on the economic and social future of Québec and, in particular, the Summit Conference on the Economy and Employment in October 1996, drew on this experience and mobilized an unprecedented number of partners, reflecting the plurality of Québec society to a greater degree. The conference of last March 4, 5 and 6 on agriculture and the agri-food sector confirmed the pertinence and transposability of this model to various sectors of activity. This broader concerted action has helped enhance the relevance and usefulness of consensus as a decision-making tool and shown the maturity of the partnership concept in Québec.

This form of partnership is bearing fruit. In addition to helping mobilize the vital forces of Québec around common objectives, it gives rise to transparency of action that promotes the elimination of barriers between various sectors of activity and clearly designates the responsibilities of each partner.

In addition, there have been many signs of the community basis of economic development in Québec, notably the improved labour relations climate, the involvement of labour funds in the development of companies and job creation, and the importance of industrial concerted action and regional economic promotion. Quebecers share the feeling that the success of their local companies is a success for the entire community, and that the two are in fact interdependent.

2.5 Conclusion

To benefit from the realignment of the world economy, Québec can rely on its assets, its strengths and its sectors of excellence.

Concerted action by all stakeholders will be needed to consolidate these advantages and eliminate the structural difficulties that up to now have hampered the ability of Québec's economy to adapt.

3 Renewing our Approach to Economic Development

3. RENEW OUR APPROACH TO ECONOMIC DEVELOPMENT

3.1 The stakes

An economy focusing increasingly on job creation

Québec's key challenge: create more jobs

The key challenge facing Québec in the coming years is to end the labour market's inability to utilize all available manpower and allow the Québec economy to derive maximum benefit from its human resources, notably the vitality of young Quebecers and the experience of those Quebecers who are currently excluded from the labour market. The solution clearly entails job creation.

A more effective labour market

Moreover, the people who take up these new positions must possess the necessary skills and be unhampered by unnecessary obstacles or barriers. Québec must eliminate hindrances to labour market entry and better match worker qualifications to job skills in what is becoming an increasingly knowledge-based economy.

3.2 Role-sharing

3.2.1 Businesses: the driving force behind job creation

Businesses: the driving force behind job creation

Major corporations, SMBs, self-employed workers, co-operatives and businesses in the social economy all have different ways of meeting the demand for consumer goods and services, intermediate products, and raw materials.

Businesses which are starting up, which come to Québec from elsewhere, which increase their goods and services production and which invest anew are the ones that provide new jobs and hire workers. **As such, they constitute the driving force behind job creation,** particularly in a context where public administrations have restricted their own growth.

With economic globalization, businesses must face more competition from foreign producers to meet the demand for goods and services both in Québec and abroad.

The employment challenge is linked to the challenge of business competitiveness

In this competitive, ever-changing environment, the survival of Québec businesses, their growth and the resulting capacity for job creation depend on the ability to adapt and to meet the following challenges:

- produce quality goods and services at lower cost;
- innovate in both production techniques and products;
- conquer new foreign markets and develop the Québec market;
- hire staff whose qualifications meet the requirements of increasingly complex production processes, service delivery and marketing, and provide professional development opportunities;
- adapt work organization to new production requirements and new technologies.

3.2.2 The government's job creation responsibilities

State intervention must be tailored to the new economic context

Recent years have seen most industrialized nations re-assess their economic institutions and policies, and the State's role in the workings of the economy.

In many cases, deterioration of public finances, linked to sluggish growth, has necessitated public-sector reform. Freer trade has also forced States to review their economic development responses.

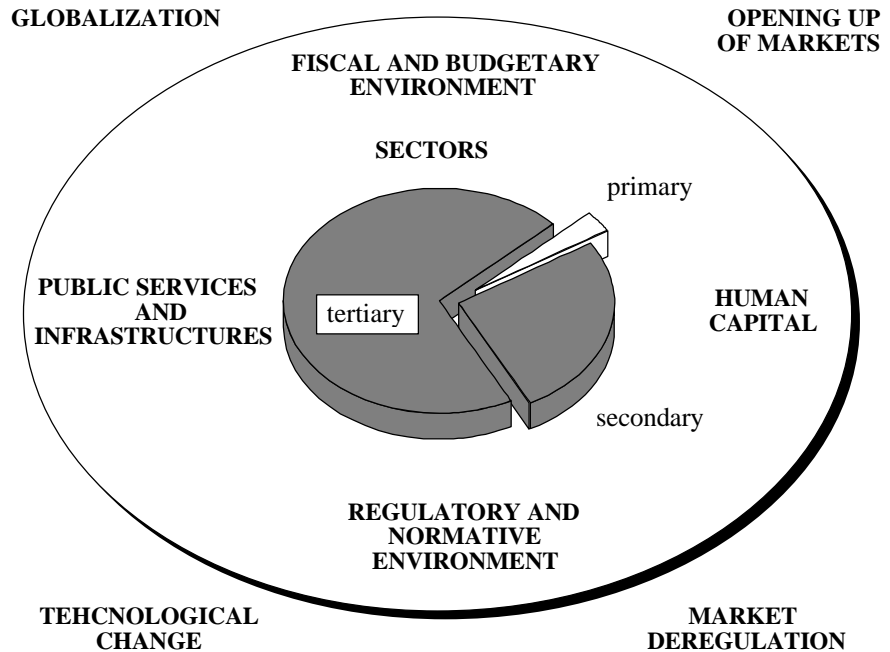
Above and beyond these new outside constraints, governments also noticed that some of the measures implemented did not have the desired results.

On the whole, the goal of the reforms carried out in recent years has been to make public-sector activities more effective and to leave the production of goods and services to the private sector, which is much better equipped to do so.

Moreover, given the need to increase economic growth and job creation rates, the governments of most OECD member nations are working to improve private-sector performance. This has been done by overhauling policies which hamper economic activity and business competitiveness, or which decrease competition on markets. Nations have also chosen to bolster the ability of their economies to react to technological change and new trends in the competitive environment.

On the whole, they have tried to improve market operations, promote innovation, increase business competitiveness, step up the dissemination of new technologies, and enhance manpower development.

THE QUÉBEC ECONOMY AND ITS ENVIRONMENT



The Québec government endorses this new trend in government intervention and responsibility-sharing with the private sector.

3.3 An economic development strategy focusing on job creation

To meet the job creation challenge and enhance labour market efficiency, the government is proposing a strategy which reviews its entire range of activity—one which is adapted to the context of the first decade of the new millennium and which reflects the responsibilities of the modern State.

In the current context, economic development and job creation require that Québec be able to rely on a competitive economy. However, this cannot be achieved unless the government takes into account the effects of economic growth and the place reserved for citizens from all walks of life. It must also ensure that today's actions are not prejudicial to future generations.

The government's strategy has three main components designed to make Québec an innovative economy focusing on job creation.

SECTION I	
DEVELOPING A COMPETITIVE ECONOMY	

➤ *The government will implement conditions promoting the development of competitive businesses, able to create jobs:*

- *high-quality public services and infrastructures;*
- *consolidation of a competitive corporate taxation system;*
- *a competitive personal taxation system;*
- *flexible, efficient regulations governing economic activities;*
- *a high-performing financial system.*

High interest rates linked to excessive public indebtedness, an excessively heavy tax burden, and excessive regulatory controls represent costs which harm business competitiveness vis-à-vis foreign companies. On the other hand, high-quality public services and infrastructures help improve business performance.

➤ *The government will effectively support key determinants of competitiveness and employment to bolster business growth and create the jobs targeted:*

- *manpower training;*
- *innovation;*
- *market development;*
- *investment.*

In an increasingly knowledge-based economy, the ability to innovate and the quality of the labour force are major assets for successful businesses. Resources devoted to innovation and training are essential if businesses are to adapt on an ongoing basis to the changes which constantly undermine their competitiveness.

State assistance is essential since the investments required to bolster innovation or improve labour force quality often entail a level of risk that businesses are reluctant to assume.

The same is true for the spending required to develop new markets. In the new economic context, products are often highly specialized and require broad distribution. Consequently, businesses must conquer new markets to succeed. Given the scope and diversity of international markets, the search for potential export outlets is a promising avenue in which the government should support businesses, especially SMBs.

Investments in new production capacities often entail risks which even big businesses consider high. Yet, these investments are critical, not only because they bolster production capacity but also since they make it possible to incorporate leading-edge technology into production and management processes. In this respect, foreign investment constitutes a particularly important source for acquiring state-of-the-art technologies. Like most industrialized economies, the government will encourage businesses to invest more in Québec.

SECTION II

DEVELOPING A CARING ECONOMY FOCUSING ON SHARED VALUES

➤ *The government will give Quebecers the tools they need to benefit from, rather than suffer, this transformation of the economy:*

- *an effective education system;*
- *suitable manpower training and adaptation programs;*
- *active employment measures;*
- *a labour market with fewer barriers to entry.*

➤ *The government will promote solidarity and joint action by:*

- *developing the social economy;*
- *encouraging local and regional initiatives.*

The goal of this component is to provide Quebecers with all of the assets they require to adapt to increasingly rapid change, participate in the economy as paid workers, and enjoy all of the related advantages.

SECTION III

ENSURING SUSTAINABLE DEVELOPMENT

➤ *The government is proposing a strategy based on sustainable development and the fair treatment of present and future generations. It seeks to:*

- *improve the standard of living of Quebecers today and in the future;*
- *meet the social needs and personal aspirations of all members of society;*
- *respect environmental quality and the sustainability of renewable resources;*
- *act with the utmost fairness.*

3.4 Ambitious employment objectives

Convinced of the importance of mobilizing Québec's energies around objectives which most members of society support, the government is proposing a number of goals to guide its actions once the objectives of the Québec City and Montréal summit conferences have been achieved.

At the Québec City Summit Conference of March 1996, the government and its partners set the objective of eliminating Québec's budgetary deficit before the decade is out. In recent years, and various ways, all have helped to achieve this goal. The result is that this year, the Québec government will post its first current account surplus and, next year, it will achieve its zero-deficit goal.

Participants in the fall 1996 Montréal Summit Conference agreed on a three-year job creation objective aimed at matching and exceeding the average job creation rate for Canada as a whole in order to reduce and, as quickly as possible, eliminate the gap between the unemployment rates for Québec and for the rest of Canada. Once again, everyone put their energies to work. The projects and legislation resulting from the Summit Conference have generated some 20 000 jobs to date and, since the Montréal Summit Conference, close to 88 000 jobs have been created in Québec. Despite the progress made, last February, the annualized rate of growth in employment since the Summit Conference was 2.2% for Québec versus 2.7% for the rest of Canada.

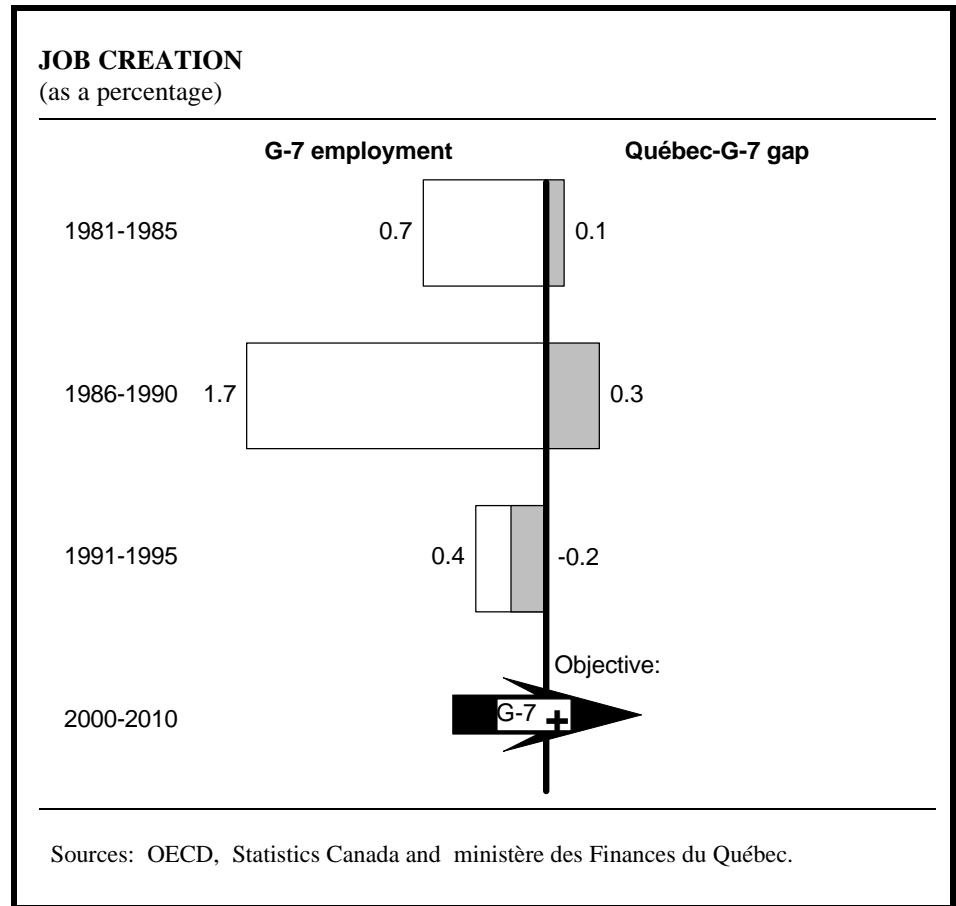
Although a portion of the job creation gap between Québec and Canada in February was due to the ice storm that hit Québec early in the year, much remains to be done to achieve our target goal before the end of 1999. Many 1998-1999 Budget measures are important elements in the strategy, supplementing action already taken to achieve this priority objective.

We are successfully reducing the deficit, and will now turn our whole-hearted efforts to surpassing the Canadian job creation rate before the end of 1999.

However, on the cusp of the new millennium, as a basis for discussion on which objectives should guide its action once the zero-deficit goal has been reached, the government is proposing **a number of goals**, which are ambitious, yet realistic.

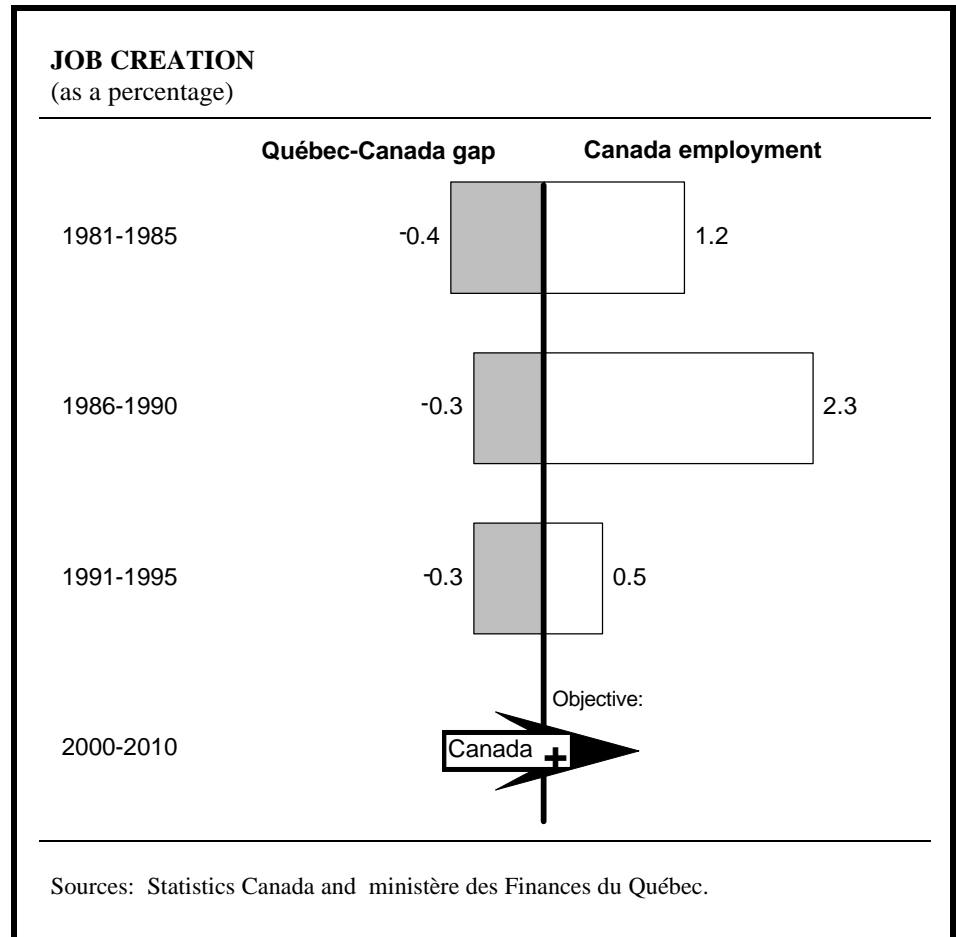
Heading the list is job creation. Over the past few decades, Québec has ranked among the top twelve industrialized economies for successful job creation endeavours. The first objective here might be to become one of the most innovative economies where job creation is concerned, exceeding the average job creation rate of G-7 countries for 2000-2010.

Proposed objective: Surpass the average G-7 job creation rate



Or, we might decide to be even more ambitious, carrying on where the Montréal Summit Conference left off, and set our sights on surpassing the Canadian job creation rate for 2000-2010.

Proposed objective: Surpass the Canadian job creation rate



For several decades now, Québec's unemployment rate has been systematically higher than Canada's, with the gap varying between about one and three percentage points. Another objective might be to eliminate this historic Québec-Canada gap in the unemployment rate no later than ten years from now.

Proposed objective: Eliminate the Québec-Canada gap in the unemployment rate



With the launching of this economic strategy, the wheels are set in motion for making Québec an innovative economy focusing on job creation. In addition to its job creation and unemployment reduction objectives, the government is also proposing a series of goals involving areas of action related to competitiveness, R&D, exports, investment and manpower training. The government intends to consult its partners over the coming months, not only on the objectives proposed and on realistic goals but also on which measures to implement in order to achieve them.

Once these objectives have garnered a consensus, regular monitoring will be needed to determine progress, to assess the potential for success, and to make adjustments, where necessary.

This is why the government is announcing its intention to create the **Institut pour le développement de l'économie et de l'emploi (IDÉE)**, which is mandated to monitor the economic development strategy's results indicators, conduct research on measures to improve Québec's economic performance, and make recommendations to the government.

The government hopes to be able to capitalize on the effective formula developed in the wake of the Summit Conference on the Economy and Employment. The government will discuss the institute's composition and exact mandate with its partners in the coming months.

Furthermore, quantitative objectives will be incorporated into the strategic planning of departments and agencies to ensure maximum public-sector contribution to the development of an innovative Québec economy focusing on job creation.

Part II

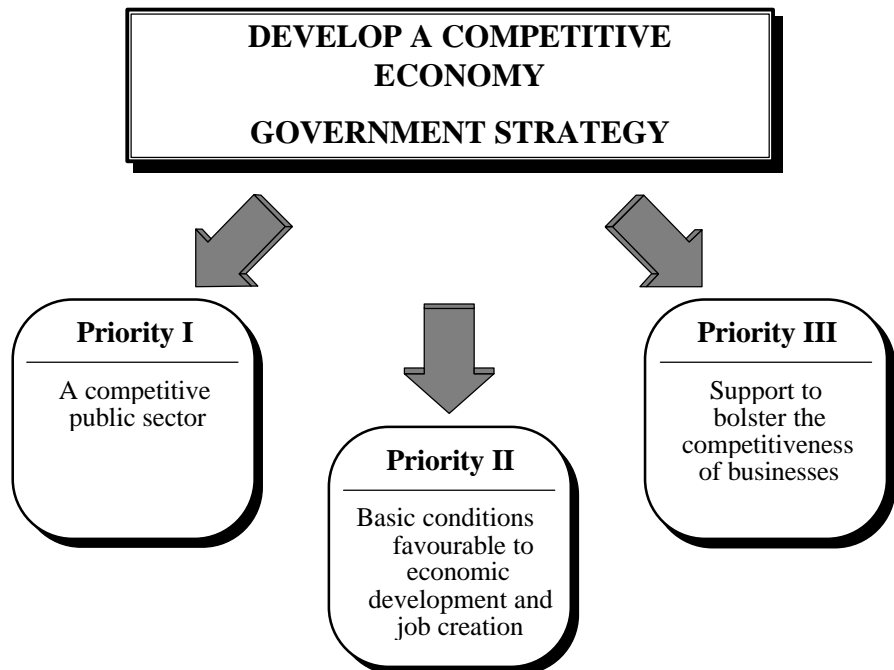
*A Strategy
Centred on
Job Creation*

4 *Develop a Competitive Economy*

4. DEVELOP A COMPETITIVE ECONOMY

An innovative economy that creates jobs must rely extensively on competitiveness. For this reason, in its strategy the government intends to create conditions even more conducive to the establishment and expansion of private-sector businesses, and of cooperatives and enterprises in the social economy.

First, the development and maintenance of an environment favourable to business requires the most effective public sector possible in order to provide the optimum level of public services delivered as efficiently as possible. This condition is necessary to establish competitive personal and corporate taxation systems. Second, other basic conditions in addition to taxation must prevail to ensure a competitive environment. Businesses must be able to develop within a flexible, efficient economic regulatory framework and capitalize on a strong, dynamic financial system. Specific support must be provided in respect of the key factors that bolster the competitiveness of businesses, e.g. human resources development, innovation, market development or investment.

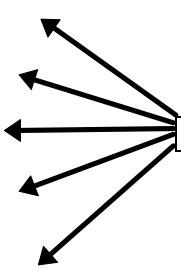


Bolster Québec's competitiveness in order to join the ranks of the most competitive economies

From the standpoint of global competitiveness, Québec ranks 15th among 47 economies. In order to attain the proposed objectives concerning job creation and the reduction of the unemployment rate, Québec must aspire to figuring among the most competitive economies internationally. **The government is therefore proposing as an objective that Québec rank among the 10 most competitive economies by 2006-2010 at the latest.**

Proposed objective: Rank among the world's 10 most competitive economies

INTERNATIONAL COMPETITIVENESS INDEX, 1997					
Rank	Country	Rank	Country	Rang	Pays
1	United States	11	United Kingdom	21	Austria
2	Singapore	12	New Zealand	22	Iceland
3	Hong Kong	13	Luxembourg	23	Belgium
4	Finland	14	Germany	24	Taiwan
5	Norway	15	QUÉBEC	25	Chile
6	Netherlands	16	Ireland	26	Spain
7	Switzerland	17	Sweden	27	Israel
8	Japan	18	Malaysia	28	China
9	Denmark	19	Australia	29	Argentina
10	Canada	20	France	30	Thailand



2006-2010 objective

Sources: Bureau de la statistique du Québec, ministère des Finances du Québec and *The World Competitiveness Yearbook 1997*.

4.1 Make the public sector more competitive

Given the importance of the services it provides and the need for the government to levy taxes to finance such services, the public sector is a major component of the environment in which economic agents operate. Indeed, the public sector's performance appreciably affects the economic performance of a society.

In the developed economies, between one third and half of national output is channeled through the State budget. The globalization of the economy is compelling the public sector to be competitive, failing which it becomes a heavy burden for the rest of the economy.

The Québec public sector accounts for 43.1% of GDP

The Québec public sector has achieved a degree of development that compares with that found in other societies in the West. Per capita program spending by all levels of government in Québec slightly exceeds that of the United States, Ontario and the rest of Canada and is similar to the average figure in the other G-7 countries.

However, Québec devotes to the financing of the public sector a proportion of its output that significantly exceeds that observed among its neighbours. Québec allocates 43.1% of its gross domestic product, i.e. 13.7 percentage points more than the United States, six percentage points more than the rest of Canada and two percentage points more than the average in the other G-7 nations. Part of this discrepancy is attributable to the lower per capita GDP figure in Québec.

Public sector debt, a handicap

In addition to bearing the cost of higher spending on public services than in other jurisdictions, Québec taxpayers must also assume a higher government debt service cost. Given the high indebtedness rate, per capita debt service is appreciably higher in Québec and Canada than in the United States and the other G-7 countries.

The consequence, a heavy tax burden

The combination of high per capita program spending, a high level of debt service and reduced fiscal capacity, as measured by per capita gross domestic product, explains why the overall tax burden in Québec is the highest in Canada, notably as regards personal income tax. The tax burden is also much heavier than in the United States and in the most of the G-7 countries.

CHALLENGES

Québec society will have to make crucial choices in the realm of public finances once the deficit has been eliminated. In particular, it will be essential to determine the importance and role that the public sector must play in the future.

On the one hand, Quebecers rely on the government to deliver an array of public services that meet their expectations. On the other hand, it has been noted that the tax burden is too high and that it must be reduced substantially. Under the circumstances, the key issue is to ascertain how the Québec public sector must change, given that the taxation system must be made appreciably more competitive.

The public sector must offer infrastructure and quality public services at the lowest possible cost

Regardless of the level of public goods and services adopted, it is essential that such goods and services be of high quality and delivered at the lowest possible cost.

The government is proposing as a target that by 2006-2010 the Québec public sector's performance rank among the best recorded both in Canada and by its main trading partners.

The government is aware that the policy directions it is proposing are major societal choices. It is therefore committed to holding consultations on these questions and publishing a report on the budgetary and financial issues that will shape Québec in the 21st century.

POLICY DIRECTIONS

➤ Enhance the effectiveness of the public sector: an obligation to produce results

An effective public sector to satisfy public needs and boost competitiveness

The government must strive to be as effective as possible if it is to continue to offer public services that satisfy Quebecers' expectations, while bolstering the competitiveness of Québec's taxation system.

The government must continue to examine its ways of doing things and do its utmost to ensure that taxes are used as effectively as possible to provide public services. To this end, it intends to adopt a strategy to optimize the performance of the public sector.

In particular, this strategy will focus on an ongoing evaluation of public sector performance. The government will carry out regular follow-up in respect of certain performance indicators that measure the public sector's productivity and effectiveness and will make comparisons with its main trading partners. It will also regularly assess its programs and initiatives in order to ascertain which ones are no longer necessary,

useful or desirable. Moreover, it will examine on a regular basis the methods of managing and organizing public services.

Systematic evaluation will make it possible to provide the necessary information to better set the direction of government initiatives concerning the level and organization of public services.

➤ ***Maintain a balanced budget once the deficit has been eliminated***

It is essential for the government to achieve a balanced budget according to the timetable adopted and to subsequently maintain a balanced budget.

As the data presented in the 1998-1999 Budget Speech reveal, the Québec government has until now achieved its objective of gradually reducing the deficit, which will soon be eliminated. Once the situation has been remedied, there is no question of repeating the mistakes of the past.

TABLE 9
QUÉBEC GOVERNMENT BUDGET DEFICIT
(in billions of dollars)

	1996-1997	1997-1998	1998-1999	1999-2000
Budget deficit	3.2	2.2	1.2	0

Deficit reduction is already producing benefits

The reduction in the budget deficit is already largely benefiting the Québec economy overall. Government efforts to turn around public finances have, for over a year, helped keep Canadian interest rates below American rates, a highly unusual situation that has spurred consumption and investment.

The results are encouraging. However, efforts must be pursued. The government deems the elimination of the budget to be a prerequisite in its efforts to make the public sector more competitive.

➤ ***First reduce the tax burden***

The discrepancy in the tax burden, mainly in respect of personal income tax, between Québec and its main trading partners, notably Ontario, is worrisome.

It is imperative to reduce the tax burden

High marginal rates and the personal income tax burden are affecting economic growth. They are a major constraint for Québec businesses wishing to attract highly specialized workers, for which there is a growing need.

It is therefore imperative to reduce the personal tax burden and make it more competitive. To make the Québec economy more competitive and stimulate job creation, the government deems it a priority to reduce the tax burden.

The government is committed to gradually reducing the discrepancy in the tax burden between Québec and its main trading partners and is proposing to use the largest portion of its initial leeway for this purpose once the deficit has been eliminated.

➤ ***Reduce the indebtedness rate***

Québec has one of the highest indebtedness rates among the provinces. Debt service monopolizes an overly large portion of government resources, thereby reducing the resources available for public services. This situation must be remedied.

The government is therefore committed to gradually reducing the weight of the debt. This process is already under way given the significant reduction in the deficit. At the end of the 1998-1999 fiscal year, the debt/GDP ratio should fall to 43%, then to 41% in 1999-2000, when a zero deficit will be achieved. If the government subsequently maintains a balanced budget and if the nominal average annual growth rate of the economy reaches 3.5%, the government's indebtedness will decrease significantly and stand at 34% of GDP at the end of the 2009-2010 fiscal year. This rate could be further reduced if the government decides to repay part of its debt.

A high indebtedness rate is a handicap in several respects. It curtails the government's autonomy from the standpoint of the management of public finances, since the payment of debt service puts pressure on the tax burden and acts as a constraint on the level of public services.

Furthermore, since a significant portion of the debt has been contracted to finance current spending rather than capital expenditures, governments have imposed an unfair transfer of the burden to future generations. Government borrowing can reduce the pool of savings available to finance private projects, which is detrimental to the economy.

Make the public sector more competitive

Policy directions

- ***Enhance the effectiveness of the public sector: an obligation to produce results***
- ***Maintain a balanced budget once the deficit has been eliminated***
- ***First reduce the tax burden***
- ***Reduce the indebtedness rate***

4.2 Create an environment more favourable to businesses

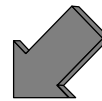
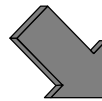
More competitive businesses mean more jobs

Against a backdrop of the globalization of the economy and freer trade, businesses are facing keen competition and have no other choice than to bolster their competitiveness. It is essential that the environment in which they do business favours their development and growth.

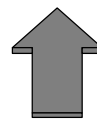
To enhance the competitiveness of businesses, which are primarily responsible for creating jobs, the government will give priority to enhancing the competitiveness of the corporate taxation system. Moreover, the government intends to make its regulations more flexible, but effective, with a view to promoting the expansion and vitality of the Québec financial system.

**A COMPETITIVE
TAXATION SYSTEM**

**EFFICIENT, FLEXIBLE
REGULATIONS**



**ENHANCE
THE BUSINESS
ENVIRONMENT**



**A STRONG, DYNAMIC
FINANCIAL SYSTEM**

4.2.1 Enhance the competitiveness of the corporate taxation system

As the paper on corporate taxation reform indicates, the Québec taxation system is generally competitive for profitable, dynamic businesses, especially those in the manufacturing sector, which invest to boost production capacity and upgrade technology.

The competitiveness of the Québec taxation system in relation to other taxation systems in North America is attributable, by and large, to low tax rates on business income, developmental fiscal measures fostering R&D and investment, and the QST input tax refund.

CHALLENGES

While the Québec taxation system overall is competitive in relation to the taxation systems of its leading competitors, the corporate taxation system is noteworthy in that it relies more heavily on fixed tax expenses, notably payroll taxes.

The Commission on Taxation and the Financing of Public Services and a number of stakeholders are of the opinion that the Québec taxation system relies too heavily on fixed tax expenses.

The challenge facing the government is to reorganize the basic structure to remedy this situation and improve the corporate taxation system overall.

POLICY DIRECTIONS

In the paper on corporate taxation reform published along with this strategy, the government is implementing **a taxation system better geared to job creation.**

Several key features of the Québec corporate taxation system, which make it one of the most competitive in North America, are being maintained. In particular, mention should be made of the low tax rates on business income and the significant tax assistance accorded in respect of investment and research and development (R&D).

➤ ***Reduce the tax burden of SMBs to foster job creation***

The corporate taxation reform will improve the structure of corporate taxation in order to boost job creation in Québec in addition to reducing the tax burden of SMBs. Under the reform, the payroll tax will be reduced 37% for SMBs and such businesses will also obtain tax relief in respect of the sales tax paid on their purchases.

These reductions in the tax burden will benefit the Québec economy overall. The reduction in the payroll tax rate will benefit over 99% of Québec businesses and directly foster hiring and job creation. Large companies, which now enjoy a clearly competitive taxation system, will also benefit from reductions in production costs through their purchases of inputs from SMBs.

The corporate taxation reform will be implemented in keeping with the objective of eliminating the deficit in 1999-2000.

➤ ***Enhance the corporate taxation system***

The corporate taxation reform proposes other measures that will promote investment and job creation. In particular, the tax holiday for new businesses will be enhanced and guaranteed tax rates will be introduced for businesses that commit themselves to major investment projects in Québec.

All told, the corporate taxation reform will be neutral from a financial standpoint until a balanced budget is achieved in 1999-2000. Once the zero deficit has been attained, government revenue from businesses will decrease by nearly \$300 million a year.

Enhance the competitiveness of the corporate taxation system

Policy directions

- ***Reduce the tax burden of SMBs to foster job creation***
- ***Enhance the corporate taxation system***

1998-1999 Budget Measures

CORPORATE TAXATION REFORM

- ***Reduce the tax burden of SMBs to foster job creation***
 - ***Reduction of up to 37% in the payroll tax paid by SMBs***
 - ***Reduction in the sales tax on the purchases of SMBs***
 - ***Partial financing through:***
 - *the elimination of the small business deduction for income tax purposes*
 - *the elimination of the refundable tax credit for losses*
- ***Enhance the corporate taxation system***
 - ***Enhancement of the tax holiday for new companies***
 - ***Introduction of guaranteed tax rates for businesses that commit themselves to major investment projects in Québec***
 - ***Enhancement of the dividend tax credit to take into account the elimination of the small business deduction for income tax purposes***

4.2.2 Relax and enhance the effectiveness of economic regulations

Regulation is costly both for businesses and the government

All too often, government regulations significantly hamper business initiatives, make their operations cumbersome and increase operating costs. Such regulations are detrimental to competitiveness and can be especially damaging given the globalization of the economy and the conclusion of major trade agreements. It is imperative that the regulations of any country engaged in international trade not be more stringent than elsewhere.

It is hardly surprising that most of the industrialized nations have undertaken a sweeping review of their legislation and regulations in order to streamline the content and relax the provisions therein.

The cost of regulation is considerable and it affects government budgets and the results of businesses. Broadly speaking, studies conducted in the United States suggest that the total cost of administering US federal regulations is equivalent to roughly 10% of GDP. In Canada, a survey carried out among businesses revealed that administrative formalities arising from federal government regulation alone, excluding provincial and municipal regulations, account for as much as 8% of business income.

CHALLENGES

Regulatory streamlining affects competition

The regulatory streamlining undertaken by the leading industrialized nations directly affects an open economy such as the Québec economy. It modifies the conditions governing competition on markets where Québec firms are very active. The regulatory review process initiated notably in the United States and several Canadian provinces makes it necessary to adapt Québec regulations.

A daunting challenge for the industrialized nations

It must be noted that regulatory streamlining is a daunting challenge for the industrialized nations overall. In most instances, there is a long-standing bureaucratic tradition whereby all manner of rules have been formulated over the years to take into account often legitimate concerns. To call into question certain of these rules, which are no longer justified, or to alter their method of application is a demanding task.

Improve relations with businesses

The challenge of streamlining regulations is not confined to the legal, regulatory and administrative framework. Relations must also be improved between businesses and governments with respect to regulation. The objective is, here again, to reduce the operating costs of businesses, promote their development and thus create an environment favourable to business operations.

POLICY DIRECTIONS

A key factor in the enhancement of the competitiveness of Québec businesses

The Québec government regards regulatory streamlining and the simplification of administrative practices as key factors in enhancing the competitiveness of Québec businesses. They offer a promising means of maximizing performance and creating jobs.

To this end, **the government will make public a paper on regulatory streamlining and administrative simplification**, containing the policy directions the government proposed and the means of implementing them.

Three main policy directions will be proposed to meet the challenge of regulatory streamlining.

➤ First streamline certain facets of existing regulations

First focus on certain major irritants

To establish a climate that promotes economic development and job creation, the government will announce concrete, immediate means of streamlining certain aspects of the regulatory framework applying to businesses. The means adopted will seek to **deal with certain major irritants** pinpointed by businesses (new environmental approaches, examination of certain facets of tax and indirect taxation legislation, and the regulatory framework respecting employers and employees), and to **streamline the framework governing strategic economic sectors** (mining, transportation, tourism, financial institutions).

The government will receive advice from a task force on regulatory streamlining set up by the Prime Minister in September 1997.⁷ The task force is expected to submit its report in May 1998.

➤ Strengthen and consolidate existing tools in order to regulate more effectively

Strengthen the tools already available to the government

In the paper to be made public, initiatives will be announced in order to make more effective the regulatory streamlining process undertaken by the government. Government departments and agencies will be asked to conduct a **systematic review of regulations** affecting business. An **impact analysis** of the regulations contemplated will be carried out systematically. **Automatic review** clauses will be incorporated into new regulations and the government's **socio-economic partners** will be **associated** with the entire array of initiatives undertaken.

⁷ The task force on regulatory streamlining, chaired by Bernard Lemaire, was set up on September 10, 1997. It is made up of 10 members, mainly from the business community and the labour unions.

➤ *Simplify administrative practices*

Re-think relations between the government and businesses

The government will **improve the quality of its relations** with businesses with respect to regulation, by relying notably on new information technologies. It will introduce new procedures and will reduce the effort demanded of businesses to comply with existing regulations.

Measures will be announced concerning the reduction in the number of permits, licences and authorizations, the systematic use of the information highway, and more widespread recourse to single information outlets. The government will streamline bureaucratic red tape and simplify relations between businesses and the public administration that regulates them.

Objective

Generally speaking, the government is seeking to **better regulate** while **assuming various societal choices** adopted by Quebecers.

In this way, the government is clearly confirming its intention to pursue and broaden its efforts to streamline the legislative, regulatory and administrative burden.

Among businesses, SMBs will be the first to benefit from regulatory streamlining and the enhancement of services. Such businesses are most often poorly equipped to respond to the demands formulated by government, especially during the start-up phase. The taxes and duties that SMBs must pay and their relations with the government demand significant resources. Such expenses are a direct burden on operating costs and may jeopardize commercial and industrial initiatives. The measures proposed to streamline the regulatory framework and simplify administrative practices will focus, first and foremost, on SMBs, which are largely responsible for economic growth and job creation in Québec.

Relax and enhance the effectiveness of economic regulations

Policy directions

- *First streamline certain facets of existing regulations*
- *Strengthen and consolidate existing tools in order to regulate more effectively*
- *Simplify administrative practices*

4.2.3 Foster the development of the financial sector

The financial system is a strategic component of economic activity

The financial system is a strategic component of economic activity. The services it provides, such as the system of payment and settlement for transactions, the mobilization and allocation of savings, or the redistribution of risk, affect all economic agents, individuals, businesses and governments.

Moreover, the financial sector is important in itself. In 1996, it accounted for 7.3% of total output in Québec. Nearly 170 000 people work in the sector.

An efficient financial sector helps improve the competitiveness of businesses by making accessible to them the sources of financing needed for growth. Moreover, the sector's development leads to job creation.

The Québec financial system has been affected by major changes over the past 20 years

Like other financial systems in the world, the Québec financial system has been affected by the major changes that have occurred over the past 20 years.

Financial enterprises have had to deal with the consequences of the **globalization of markets and the advent of new technologies**. While these changes have led to new business opportunities, keener competition has also resulted. Financial enterprises must now compete at the world-wide level.

Moreover, **deregulation in four traditional sectors**, i.e. banks, trust and insurance companies, and securities firms, starting in the early 1980s, has been accompanied by extensive consolidation in the industry. Among other things, deregulation has made it possible to broaden the range of products and services offered to an increasingly well informed, demanding clientele. At the same time, in recent years, **decision-making centres have shifted outside Québec**.

CHALLENGES

Access to capital and first-rate services, and Montréal's status as an international finance centre

In light of the changes the Québec financial system has had to face in recent years, it is vitally important to ensure that:

- Québec businesses and institutions have proper access to first-rate financial services and the capital they need;
- Québec, and Montréal in particular, earn a reputation as an international finance centre.

POLICY DIRECTIONS

➤ *Implement an efficient, effective legislative and regulatory framework*

A streamlined, updated regulatory framework

The government is committed to continuing to **streamline** and **update** the legislative and regulatory framework within its jurisdiction. It will focus on bolstering the efficiency of the financial system and maintaining the stability and competitiveness of financial enterprises operating in Québec. Moreover, the government will update provisions governing consumer protection.

Concrete measures have already been adopted in this respect. The government tabled three bills in the fall of 1997, one to amend the *Savings and Credit Unions Act*, the second to amend the *Securities Act*, and the third one dealing with the distribution of financial products and services.

These regulatory streamlining measures must not be compromised by additional duplications or overlapping with the federal government. The Québec government will continue to vigorously defend its **constitutional jurisdiction** in these fields.

➤ *Develop the mutual fund and portfolio management industry*

Support for the development of mutual funds managed in Québec

Since the early 1990s, the mutual fund industry has enjoyed spectacular growth in Canada. Several factors, such as the aging of the population and low interest rates, explain this situation. In Québec, mutual funds have been slower to gain popularity. However, over the past two years, Québec investors have taken a growing interest in such funds. The assets of Quebecers invested in mutual funds rose from \$25 billion in 1995 to \$46 billion in 1997, a \$21-billion increase in only two years. Mutual funds are accounting for a growing portion of Quebecers' savings, to the detriment of more traditional types of deposits.

Québec must be in a position to take advantage of spinoff from this industry, although it must overcome a number of obstacles. Deposit institutions whose decision-making centres are located in Québec, which tend to maintain a broader presence on the traditional savings market, hold only a small proportion of mutual funds. Furthermore, few mutual fund companies operate out of Québec and they hold only 3.6% of Canadian assets.

The government will adopt measures to ensure that the mutual fund and portfolio management industry can develop in Québec, thus encouraging the creation of quality jobs in the financial sector, notably for young people. However, the government's initiatives will comply with the principles of the free movement of capital and the free choice of investors and consumers.

➤ ***Develop Montréal as an international finance centre***

The development of Montréal as an international finance centre

A concerted effort will be made to ensure that Québec, and Montréal in particular, take their place as an international finance centre.

The international financial centre (IFC) program will be significantly improved in order to increase the volume of international financial operations effected in Montréal and contribute to creating and maintaining quality jobs in Montréal's financial sector.

The government will also bank on Montréal's competitive advantages in the back office operations industry, now undergoing extensive reorganization the world over. The IFC program will be broadened to include back office operations for international financial transactions.

The government also intends to support advanced training and research in areas that are of strategic importance for the development of the financial services industry.

Foster the development of the financial sector

Policy directions

- *Implement an efficient, effective legislative and regulatory framework*
- *Develop the mutual fund and portfolio management industry*
- *Develop Montréal as an international finance centre*

1998-1999 Budget Measures

ACTION PLAN TO FOSTER THE DEVELOPMENT OF THE FINANCIAL SECTOR

- *Implement an efficient, effective legislative and regulatory framework*
 - *Tabling in the National Assembly of three bills to update and streamline the regulatory framework governing savings and credit unions, securities trading, and the distribution of financial products and services*
 - *In conjunction with the draft legislation, adoption of rules governing the protection of the interests and privacy of the consumers of financial products and services*
- *Develop the mutual fund and portfolio management industry*
 - *Financial assistance for companies that create new mutual funds promoted, administered and managed in Québec*
 - *Tax credit to support portfolio management companies while young portfolio managers are in training*

➤ ***Develop Montréal as an international finance centre***

MAJOR REVISION OF THE INTERNATIONAL FINANCIAL
CENTRE (IFC) PROGRAM

- ***Adoption of a specific law on IFCs***
- ***Inclusion of new operations under the program, such as:***
 - *back office operations pertaining to international financial transactions*
 - *the promotion, administration, management and distribution of mutual fund units sold to foreigners or, when such units are sold to residents of Canada, units made up of foreign securities*
 - *financial engineering services*
 - *cash management operations for activities carried out almost entirely outside Canada*
 - *the issuing and acceptance of letters of credit for the purpose of importing and exporting*
 - *financial leasing services*
 - *factoring services*
 - *fiduciary services*
 - *the operation of a clearing house handling international operations*

- *Guarantee of the tax benefits granted to companies operating an IFC until at least December 31, 2008*
- *Extension from two to four years of the income tax exemption for foreign specialists*
- *Tax credit to support IFCs during the training of young employees specializing in international financial transactions*
- *Implementation of a promotional, reception and canvassing strategy to develop Montréal as an international finance centre*

TRAINING AND RESEARCH

- *Establishment of an international training and research institute devoted to mathematical finance and financial intermediation, notably to enable specialized staff from financial institutions to upgrade their training in leading-edge sectors and support institutions through strategic research*

4.3 Bolster the competitiveness of businesses

In a setting of increasingly keen competition, Québec businesses must develop their ability to promptly respond to the changing needs of customers, to offer quality products and services on domestic and external markets, and to adopt new production methods that assure the lowest possible cost. More than ever, with the shift to the knowledge economy, the challenge to preserve and create jobs in Québec is tied to the development of the ability to imagine, innovate, call into question work methods and boost the performance of each enterprise.

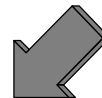
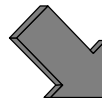
A strategy intended to bolster the competitiveness of businesses and create more jobs

To ensure that Québec develops an innovative economy, the government will take significant steps to help businesses bolster their competitiveness in the new economy and encourage them to penetrate markets. The government's strategy will focus on four key areas:

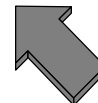
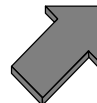
- the development of human resources;
- innovation and technological development;
- the development of domestic and external markets;
- investment.

**SUPPORT THE
DEVELOPMENT OF
HUMAN RESOURCES**

**SUPPORT INNOVATION
AND TECHNOLOGICAL
DEVELOPMENT**



**BOLSTER THE
COMPETITIVENESS OF
BUSINESSES**



**SUPPORT
INVESTMENT**

**SUPPORT THE
DEVELOPMENT OF
MARKETS**

4.3.1 Support the development of human resources

Given rapid technological advances, most jobs created today demand higher qualifications than was the case in the past. Over the last decade, job opportunities for the least skilled workers have dwindled in most industrialized nations. At the same time, opportunities for the most qualified workers, notably those who master the information and communications technologies, have increased markedly.

Qualified workers help attract investment

Various studies reveal that businesses that invest in the development of human capital more rapidly boost productivity, thereby making their investments more productive. For this reason, the availability of qualified workers capable of quickly adapting to technological change is a key factor in decisions concerning the location of new projects and new businesses that create jobs.

Therefore, the development of human resources is a key issue in this strategy, all the more so as the shift to the knowledge economy will accelerate in the coming years. Québec will exercise broad responsibility in this field. It has at its disposal the tools necessary to implement policies and integrated services in the realm of worker training.

While Québec is recognized for its substantial pool of qualified workers, certain adjustments nonetheless need to be made. This is true, in particular, of problems in recruiting workers in certain sectors, the education system's overly long response time in adapting to certain specific labour market needs, and the limited financial resources that businesses devote to worker training.

It is in this perspective that must be examined the initiatives of the government and its labour market partners to develop and promote occupational and technical training. Various measures and initiatives grouped into four components have been proposed. **A steering committee, chaired by the Minister of Education and bringing together various partners, including several members of the committee to ensure follow-up to decisions made at the Summit Conference on the Economy and Employment, has been set up to implement these measures.**

One component concerns a fast-track pilot operation to encourage prompter, more efficient collaboration to satisfy the worker adaptation needs deemed urgent or top priority from the standpoint of economic development. This special mandate has been entrusted to the secretariat for follow-up to the Summit Conference.

CHALLENGES

Given the shift to the knowledge economy, one major issue in the coming years will be to ensure that supply is better matched to demand in respect of qualified workers and that workers more readily adapt to changing technologies and markets.

Since the Québec government has extensive responsibilities in the field, it is seeking to provide integrated solutions to the needs of businesses through the implementation of a series of adapted policies and measures in education, training and apprenticeship, in order to support the development of human resources.

POLICY DIRECTIONS

In its proposals, the government will emphasize four main policy directions.

➤ *Broaden the education system's ability to adapt*

The education system takes a long time to respond to new training needs, i.e. a minimum of three to five years for a technician or a professional. New means must be contemplated to enable the education system to react more quickly when recruiting problems arise in niches deemed strategic for Québec's economic development.

Increase the education system's ability to react promptly to worker recruiting problems in strategic niches

To this end, the government is committed, in the wake of the pilot project mentioned earlier, to supporting development and encouraging the establishment of **short programs** in colleges and universities in order to **direct individuals who are already trained toward new fields that are in high demand**. Such programs will also make it possible to more promptly satisfy the training needs of rapidly growing sectors and take advantage of opportunities offered by investment projects in sectors that are deemed to be of strategic importance to the Québec economy.

Furthermore, **coordination must be pursued and stepped up** between the different levels of the education system and the business community by seeking a more sustained, efficient partnership.

➤ *Encourage young people to focus on sectors in high demand*

One key objective that must be pursued is better matching of the training profiles of graduates and the skills sought by employers. There is no way of predicting with certainty what occupational groups that will be affected by shortages, and even less so, which specialists will be in heavy demand in these professions. Approaches in this domain must be reviewed.

Improve information on the labour market

In collaboration with its partners, the government intends to introduce measures aimed at ensuring that **students are better informed**. The enhanced information will be accompanied by **study programs that satisfy clearly identified needs** with a view to better matching training and the manpower needs of the knowledge economy.

➤ *Accelerate the development of on-the-job training*

Draw the schools and businesses closer together

Several vocational and technical training programs require or offer on-the-job training that allows students to gain experience in the workplace. Such training is demanding from a pedagogical and organizational standpoint and generates additional costs for educational institutions.

In order to encourage on-the-job training, the government is committed to continuing to **reduce the cost of placing trainees and of the management of on-the-job training** for educational institutions and businesses.

Once the government has taken stock of the apprenticeship program, it will **step up its implementation**. The introduction of the apprenticeship program is another concrete means drawing educational institutions closer to businesses. The program focuses on the development of various occupations and allows apprentices to acquire vocational skills in the workplace, under the supervision of experienced journeymen.

➤ *Encourage businesses to invest in worker training*

No educational system can satisfy all of the training needs of businesses. **Ongoing training** is the best means of adapting to changing, specific needs.

Broaden the role of businesses in the training partnership

As part of this strategy to support businesses, the education system will be called upon to play a more effective role in ongoing worker training to encourage the constant adjustment of workers' initial qualifications in light of changing knowledge and employers' needs. However, these initiatives can only bear fruit if businesses assume their share of responsibility in the development of human resources.

Only close synergy between the education system and businesses will make it possible to meet the challenge posed by the rising demands of the labour market.

Support the development of human resources

Policy directions

- *Broaden the education system's ability to adapt*
- *Encourage young people to focus on sectors in high demand*
- *Accelerate the development of on-the-job training*
- *Encourage businesses to invest in worker training*

1998-1999 Budget Measures

**Financial impact
over two years
(millions of dollars)**

- *Broaden the education system's ability to adapt*
 - *Financial assistance for the development of short training programs* 4.0
- *Accelerate the development of on-the-job training*
 - *Financial support for the development of alternating periods of work and study* 5.3
 - *Extend the tax credit for on-the-job training and enhance the apprenticeship program* 28.0
 - *Participation in the Fonds étudiant solidarité travail du Québec (FESTQ) for summer internships* 10.0
 - *Enhancement of the Science and Technology Skills Improvement Program* 20.8
 - *Québec-World internships* 3.4

➤ *Encourage young people to focus on sectors in high demand*

- *Development of doctoral programs in collaboration with industry* 2.7
- *Program to encourage unemployed engineers to enter the information technologies sector* 1.0
- *Support for the establishment of an International Telecommunications Training Centre (ITTC)* 3.1

4.3.2 Support innovation and technological development

The ability to innovate, an essential tool for economic development

The knowledge economy has come to the fore because innovation demands it. In the new economy, businesses either innovate or they vanish. The ability to innovate is the key to growth and determines an economy's potential to create quality, highly paid jobs.

Businesses are the conduit through which technological development and innovation give an impetus to the economy. It is businesses that make it possible to absorb scientific progress, integrate it in technical terms and exploit it on markets. Innovative businesses develop more rapidly than their competitors. Analyses show that, overall, they create more jobs than they replace.

The government also has a role to play in the realm of innovation and technological development. Governments are in a good position to efficiently, inexpensively disseminate strategic information. In some instances, governments alone are in a position to assume the necessary leadership to mobilize various partners and ensure collaboration among them. They often play a basic role in the establishment of an environment favourable to innovation, notably as regards taxation, training and regulation.

R&D: remarkable results but Québec lags behind in some areas

In Québec, a considerable effort has been made over the past 15 years to increase the ability to innovate, especially with respect to research and development. This effort has produced remarkable results and spectacular successes.

However, in some areas, Québec is lagging. Research and development overall and the R&D efforts of businesses fall below the average for the OECD countries. In addition, progress must be made in commercially developing the findings of scientific and technical research. Within businesses, innovation has not yet been fully integrated into management practices and overall operations.

The knowledge-based economy relies, by and large, on the development of new information and communications technologies, through which it is possible to produce, acquire, handle and distribute information. The new facilities required by innovative firms make extensive use of such technologies.

The new information and communications technologies are developing at an extremely brisk pace. They are now affecting all facets of economic and social life and are a key component of production, just like capital and labour. These technologies have consequently acquired greater importance as regards the competitive and strategic position of an economy.

CHALLENGES

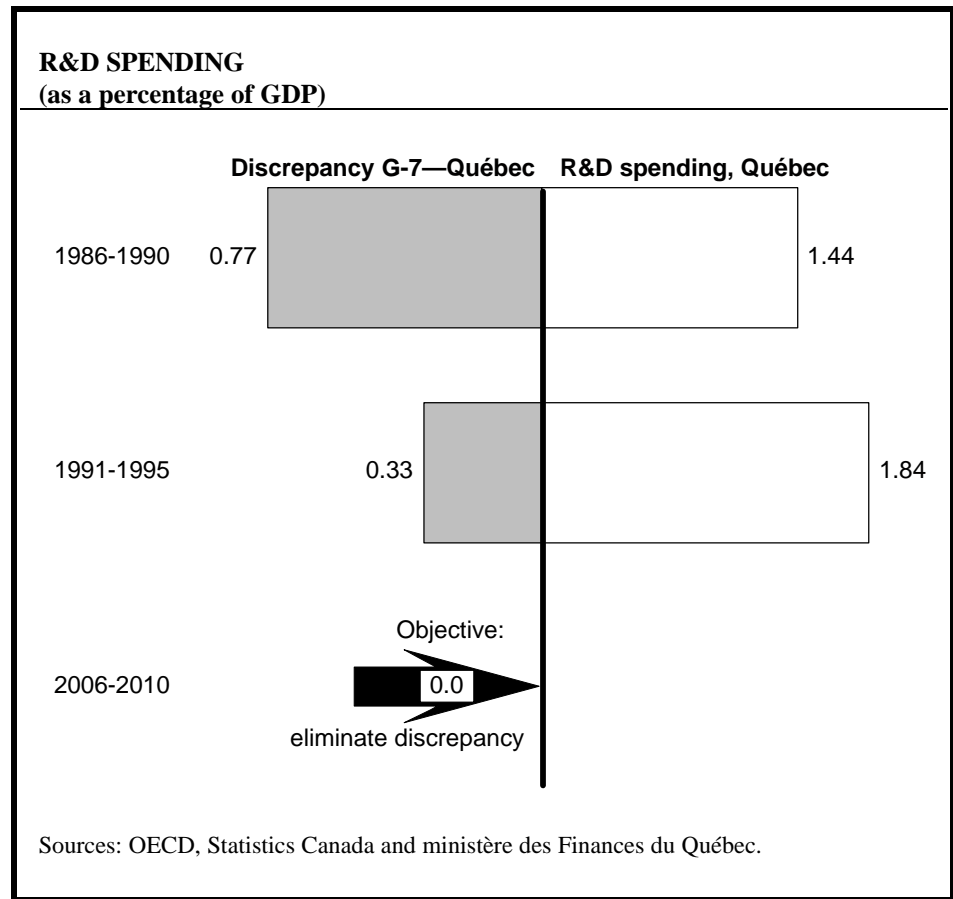
In light of the foregoing observations, the challenges facing Québec in the realm of technological development and innovation are of several kinds. Efforts must focus upstream, on innovation throughout Québec, and downstream, on specific businesses.

The key challenge is to accelerate the shift to a knowledge economy

The main challenge facing Québec is to accelerate the shift to a knowledge economy while building on past achievements and ensuring the availability of highly qualified human resources. Moreover, Québec must broaden its involvement so that the Québec economy derives the maximum benefit from the new information and communications technologies.

The government is proposing, as a target to be attained on the 2006-2010 horizon, **to achieve the average R&D spending level of the G-7 countries**. Emphasis must be placed primarily on R&D conducted by businesses, which are the driving force of innovation.

Proposed objective: Match average R&D spending in the G-7 countries



POLICY DIRECTIONS

The government will make public a background paper on the policy directions it advocates in the realm of science, technology and innovation. The paper will propose a series of initiatives intended to support these policy directions.

Aside from support for the development of skills in science and technology, the policy directions adopted centre on three priority issues:

- The performance of the Québec innovation network must be enhanced by **bolstering support for research and development**.
- These initiatives must be better incorporated into those undertaken by businesses, by **encouraging industrial innovation, especially among small and medium-sized businesses**.
- Government involvement must be stepped up in favour of new information and communications technologies.

➤ ***Bolster support for research and development***

The first policy direction adopted by the government concerns the entire range of R&D. Support for R&D, which is already significant, will be maintained and broadened in some respects.

Support for research and development will focus on businesses and the public and parapublic agencies involved in R&D. In addition, it will seek to more extensively involve the regions in innovative initiatives and support international cooperation in science and technology.

■ ***Maintain the competitiveness of the Québec taxation system as it applies to research and development***

Maintain the competitiveness of the taxation system as it applies to R&D

The government is committed to **maintaining the competitiveness of Québec's taxation system from the standpoint of research and development. The tax measures that Québec has adopted to support R&D are already among the most advantageous in the world.** This advantage will at least be maintained since the measures have proven to be a highly efficient way to foster innovation.

■ ***Support research conducted in partnership and bolster the innovation network***

Support research conducted in partnership

Since the early 1990s, research conducted in partnership has been a key component of development and technological innovation in Québec. Such research makes it possible to combine the efforts of the producers of knowledge and the producers of goods and services. Collaboration that benefits everyone is established between businesses and the research community.

The government will propose various initiatives that take into account the results of existing programs and mobilize the necessary support. **The government is convinced that businesses must be encouraged to collaborate more extensively with research establishments in conjunction with R&D projects.**

The government intends to bolster Québec's innovation network. In particular, it intends to develop, with the main partners concerned, a policy respecting public liaison and transfer centres and submit for consultation a policy statement on public research.

■ ***Make the best possible use of R&D findings through development and marketing***

Develop and market research findings

The government intends to **support development and marketing initiatives, thereby contributing to the maximization of economic spinoff from R&D.**

Like a number of other economies, Québec is experiencing problems in converting R&D findings and existing innovations into patents, processes and marketable products. The government believes that it is essential for a larger body of university and public research to move from the innovative idea stage to marketable products.

■ ***Foster innovation throughout Québec***

All regions of Québec must focus on innovation

At present, most of Québec's innovative businesses are located in the Greater Montréal area. This geographic concentration has the advantage of facilitating the establishment of business networks. The government wishes to reinforce this asset and involve larger numbers of regions in innovation and technological development in order to take the fullest possible advantage of existing potential and spread benefits to the regional economies.

The regions will be encouraged to adopt science, technology and innovation plans, whose objectives and initiatives focus on the enhancement of the competitiveness of businesses.

■ ***Support international cooperation in the realms of science, technology and innovation***

Support for international cooperation

The government will support international cooperation in science, technology and innovation. International cooperation is a key to success in scientific and technological matters. Ideas must circulate, innovations must be transferred and exchanges must be encouraged. The Québec scientific and technical sector is already open to the world and is participating fully in debate and discussion the world over. **The government will maintain its support for international scientific cooperation, notably with the United States.**

Ties with the European Union

Moreover, specific initiatives will focus on **broader ties with the European scientific community.** The European nations offer some of the world's most important scientific and technical potential. Several countries, including the United States and Australia, have concluded cooperation agreements with the European Union. Québec must also do so. The government will take certain initiatives to establish more

sustained partnerships and alliances with the European countries. To this end, programs will be elaborated for Québec researchers and industrialists.

➤ ***Encourage industrial innovation, especially among SMBs***

The second policy direction adopted by the government with respect to innovation and technological development specifically concerns **businesses** and innovation. The government will propose a number of measures to **encourage industrial innovation**, with particular emphasis on **small and medium-sized businesses** and activities related to research and development, e.g. market information and technology monitoring, product design, prototypes and marketing.

■ ***Support technology monitoring and the dissemination of strategic information***

Master and transfer strategic information

In a rapidly changing economic environment, businesses must be able to rely on organized technology monitoring networks that enable them to keep abreast of change and take advantage of the appropriate business opportunities.

Large companies are aware of the importance of strategic information and have set up over the years their own monitoring services. However, the same is not true of SMBs, which do not have the human and financial resources to establish such systems.

The government intends to support the development of monitoring networks for SMBs and to implement measures that encourage the heads of such businesses to adopt monitoring strategies.

■ ***Foster the adoption of new technologies and advanced management practices***

Step up the dissemination and use by businesses of new technologies

With the advent of the globalization of the economy, businesses and, in particular, SMBs, must have at their disposal the right tools to obtain the most advanced knowledge. The government deems it essential to step up the dissemination and use of technology by Québec businesses. It will propose initiatives to this end, which will also focus on the adoption of innovative management practices.

■ ***Support the establishment and development of innovative enterprises***

Support innovative enterprises

Innovative enterprises are the key to success in the shift to a knowledge-driven economy. It is innovative businesses in each sector of the economy that quickly pinpoint changes on markets and in competition. Based on the market analyses that they conduct, these businesses seek constantly to use the most efficient technologies and the best management practices.

Innovative businesses face specific challenges at the time of start-up and as they develop. They often come up against unusual risks because of their extensive need for specialized knowledge and know-how. **The government will take steps to ensure that innovative businesses benefit from the appropriate support during start-up and as they develop.**

■ ***Showcase Québec technological innovations***

Public sector support for innovative businesses

The public sector can play an important role in spawning innovation. It may be crucial for innovators seeking to penetrate new markets to promptly find an initial user, when an innovation is developed, when a commercial demonstration is conducted, or to find a technology showcase.

The public sector must be able to play this role fully. To this end, the government will ensure that public and parapublic markets undertake the **systematic promotion, prospecting and follow-up in favour of innovative Québec firms** so that the latter can rely on the public sector as a test bench and showcase for their innovations. The government also intends to encourage developmental technology showcase projects, to be organized on behalf of industry by an entity other than the public sector.

➤ ***Broaden the government's promotion of new information and communications technologies***

The government has already implemented measures to foster the development of new information and communications technologies, such as the Information Highway Fund, the Greater Montréal Development Fund and the Information Technology Development Centres, not to mention generous fiscal measures. It intends to broaden its involvement to ensure that Québec derives the maximum benefit from the development of the new economy.

The Québec government will unveil its information highway policy, which focuses on five key priorities: access, education, language and

culture, the economy and employment, and the modernization of the government and the enhancement of public services. Businesses will be asked to play a leading role under the policy, in partnership with the government.

Support innovation and technological development

Policy directions

- ***Bolster support for research and development***
 - ***Maintain the competitiveness of the Québec taxation system as it applies to research and development***
 - ***Support research conducted in partnership and bolster the innovation network***
 - ***Make the best possible use of R&D findings through development and marketing***
 - ***Foster innovation throughout Québec***
 - ***Support international cooperation in the realms of science, technology and innovation***
- ***Encourage industrial innovation, especially among SMBs***
 - ***Support technology monitoring and the dissemination of strategic information***
 - ***Foster the adoption of new technologies and advanced management practices***
 - ***Support the establishment and development of innovative enterprises***
 - ***Showcase Québec technological innovations***
- ***Broaden the government's promotion of new information and communications technologies***

4.3.3 Support market development

External markets provide decisive leverage for economic development and job creation

External markets are a powerful driving force for the development of Québec businesses, which cannot afford to overlook.

By taking advantage of opportunities on international markets, businesses can overcome the limitations of the domestic market and boost output and, possibly, staffing levels. Through economies of scale and productivity gains, businesses increase the yield on their investments. They can also gain access to world-wide distribution networks and thus benefit from more effective dissemination of information and technological advances, and obtain new orders, which in turn spark new investments.

Market diversification

Québec has, without a doubt, taken advantage of more open markets. However, it is in the interests of Québec businesses to further diversify their markets in the future, and for greater numbers of SMBs to penetrate foreign markets.

Such markets are located first and foremost in North America, the traditional external market for Québec companies. According to forecasts, this market will continue to enjoy worthwhile growth prospects.

The World Bank believes that the developing nations will double their share of international trade, from 15% to nearly 33% over the next 25 years. These markets, concentrated in Asia and Latin America, should offer Québec businesses worthwhile opportunities for growth and diversification.

With the signing of interprovincial agreements, broader access to public procurement in Canada has become a reality. Québec businesses must benefit fully from this opportunity to develop. The Canadian market should offer sound growth prospects in the coming years.

Products and services with high added value offer considerable potential

The improved distribution of markets must be accompanied by the diversification of exported products and services. In an advanced economy, products and services with high added value have a promising future on international markets. Progress has been made, since in 1996 Québec manufacturing exports included 23.3% technology-intensive products, a figure similar to that in the leading industrialized nations.

However, processed products derived from natural resources still account for a high proportion of exports. Québec businesses will have to market products and services with higher added value in order to carve out a niche on markets.

CHALLENGES

The government believes that it is essential to depend on exporting in order to attain its job-creation objectives.

Québec businesses are facing an array of challenges. On the domestic and external markets, competition is keen with other businesses. The Québec subsidiaries of foreign firms are fighting to obtain world-wide markets, while businesses controlled in Québec are facing foreign firms on the Québec market.

The restructuring and integration of major distribution networks across North America is posing a challenge of another kind to Québec businesses. The arrival in Québec of large foreign commercial enterprises with enormous buying power and sophisticated distribution methods means that decisions concerning the products available in Québec retail outlets are being made increasingly outside Québec. However, the arrival of large distribution companies opens up the prospect of special access not only to the domestic market but to the American market as well.

Penetrate new markets to develop the economy and employment

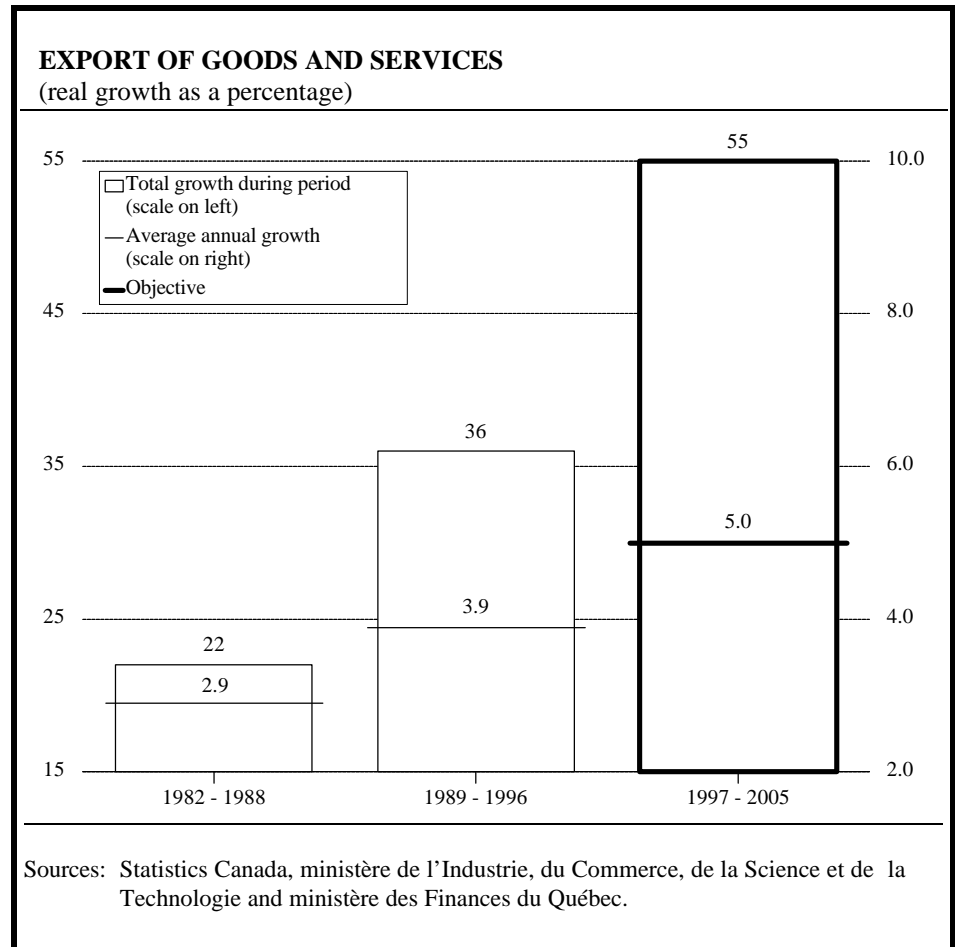
The challenges facing Québec's large companies and SMBs alike are daunting. In the coming years, such enterprises will have to preserve and develop local markets, seize business opportunities on the domestic market, continue to develop on the US market, and diversify their export markets to profit from brisk growth in the developing nations.

To meet these challenges, businesses will have to market products and services with higher added value. Moreover, they will have to focus on market niches. They will have to face competition to obtain world-wide mandates while broadening their dealings with major distributors and contract givers.

Overall, their efforts, supported by the government, should make it possible to more rapidly develop Québec exports.

The government is proposing as a target 5% real annual average growth in exports by the year 2006.

Proposed objective: Increase Québec exports by 5% a year



POLICY DIRECTIONS

To achieve this objective, the government will emphasize six policy directions, some of which focus specifically on SMBs. **These policy directions and the means contemplated to achieve them will be spelled out in a background paper on the development of businesses and markets.**

The key components of the government policy are outlined below.

➤ *Assist SMBs*

Help SMBs penetrate international markets

In the past, Québec SMBs have displayed a strong ability to adapt, with the result that they can develop in a highly competitive environment. However, to maintain and increase their external market share, SMBs must make a special effort, in respect of which the government will provide assistance.

Such an effort must focus, first and foremost, on the **development by businesses of marketing and exporting skills.**

At the same time, **government export assistance services** will be geared to **the needs of SMBs**, with a view to ensuring that such businesses have access to the appropriate technical and financial assistance.

The government's initiative in this respect will be considered on **each enterprise's experience on international markets.** The needs of SMBs differ, depending on whether they are exporting for the first time or are seeking to diversify their markets. To satisfy these different needs, the government will design an assistance program geared specifically to the challenges to be met.

➤ *Establish networks*

The importance of business networks

Entrepreneurs are often put off by the problems inherent in penetrating new markets outside Québec.

The government will launch several initiatives in order to **set up networks of businesses wishing to trade on foreign markets.** It is doing so to facilitate partnerships between businesses active on external markets and to encourage cooperation between Québec firms wishing to establish themselves on foreign markets or boost exports.

➤ *Collect and disseminate strategic information*

Obtain strategic information and transmit it to businesses

The success of businesses on external markets largely depends on the strategic information available to them concerning their target markets. One frequent problem that businesses face is not the lack of information but the ability to distill from a barrage of information that which is relevant to the development of markets of interest to the companies.

To overcome this problem, **Québec will broaden existing support for businesses** in the realm of **strategic information**. This policy direction will focus first of all on the network of delegations, offices and representatives abroad, available to Québec on foreign markets. The existing network will be systematically made available to businesses, and its initiatives will be broadened. The dissemination of strategic information will benefit, in particular, companies that have recently begun exporting to external markets, notably SMBs.

➤ ***Bolster export financing***

Initiatives to facilitate export financing

All too often, SMBs encounter problems financing their export market prospecting and promotion activities and end up forgoing exporting.

The government will help them develop markets and will propose measures to **broaden access to venture capital** and **supplemental financing for exports**.

Furthermore, **it intends to encourage trading houses and the extension of distribution networks outside Québec**. This initiative is intended to accelerate the establishment of Québec distribution infrastructure on external markets in order to take advantage of the growing importance of commercial networks as a springboard for market penetration.

➤ ***Support infrastructure and construction projects***

Infrastructure and construction projects offer considerable potential at the international level. Large companies dominate this market. They have considerable assets and can rely on their experience of the construction and operation of public infrastructure in their countries of origin. Turnkey projects have developed in recent years on this market, under which a facility is built and operated, after which ownership is transferred after a predetermined time to the government of the host country.

The government will support businesses wishing to engage in this type of project. To this end, it will foster initiatives aimed at creating strong alliances around key enterprises that are highly credible among clients and financial institutions. In this way, the government will satisfy the needs of businesses that are often too small and have difficulty providing the guarantees demanded by clients.

➤ ***Develop the Québec domestic market and the Canadian market***

Adapt to changing distribution networks

The government's initiatives will first focus on **integration into existing networks** and **the expansion of networks outside Québec**. To enhance their performance on the Québec domestic and Canadian markets, Québec businesses will have to adapt to the new distribution networks.

These networks have undergone streamlining, restructuring and integration. Major distributors now exercise considerable influence on the Québec, Canadian and American markets. The government will foster the integration of businesses into these networks and the development of Québec networks, notably by relying on the new information technologies and by supporting sectoral cooperation.

Take advantage of public procurement

The government will also focus on **access to public procurement in Canada**. Québec businesses have not taken full advantage of more open public procurement in Canada. In particular, they are under-represented on certain federal public markets, such as the Canadian International Development Agency and the Canadian Commercial Corporation. These agencies are very important since they act as intermediaries for Canadian exporters.

The government will provide businesses with technical support to enable them to find out more about the opportunities available to them, with a view to ultimately boosting their share of public procurement.

Support market development

Policy directions

- *Assist SMBs*
- *Establish networks*
- *Collect and disseminate strategic information*
- *Bolster export financing*
- *Support infrastructure and construction projects*
- *Develop the Québec domestic market and the Canadian market*

4.3.4 Support investment

Business investment is of vital importance to economic growth and job creation.

Investment enhances business productivity and competitiveness

When a business invests, it increases its ability to produce better quality goods and services at the lowest possible cost by means of equipment and facilities that integrate the most efficient technologies. Investment bolsters productivity and competitiveness. Foreign investment makes it possible to acquire new managerial skills and gain access more readily to world-wide information and marketing networks.

Consequently, competition between countries to sell their products and services on international markets is accompanied by keen competition to attract investment. Such competition affects all of the factors that directly or indirectly concern the yield of an investment and the risk inherent therein.

CHALLENGES

The challenge facing Québec businesses is a daunting one. More than ever before, Québec businesses are subject to competition from foreign products and services and are dependent on exports to expand. Today, they cannot afford to invest less than their competitors in the rest of the world, at the risk of losing their market share, stagnating or disappearing.

For Québec as a whole, the investment of capital is, along with investment in R&D, human resources and new management practices, one of the most powerful levers to foster economic growth and job creation. However, it is private-sector firms that are responsible for investment decisions.

As the analyses presented in Chapter 2 reveal, business investment accounts for a smaller proportion of GDP in Québec than in the G-7 countries. Given the strategic importance of investment for job creation and Quebecers' standard of living, **the government has adopted the objective of increasing the investment rate in the Québec economy so that between 2000 and 2010 it exceeds the best performance over the past 20 years.**

Two targets are being proposed in this respect.

Target A: The objective of outstripping Québec's best performance over the past 20 years could be broken into two stages.

- The first goal would be to **at least attain a level of investment of 11% on average for the period 2001-2005**. This intermediate target reflects an increase of nearly 25% in the average investment rate (8.9%) observed since the beginning of the decade.
- The second goal would be to subsequently **exceed the 12.1% average rate until 2010**, which would mean raising by over 35% the average rate observed (8.9%) since the beginning of the decade.

or

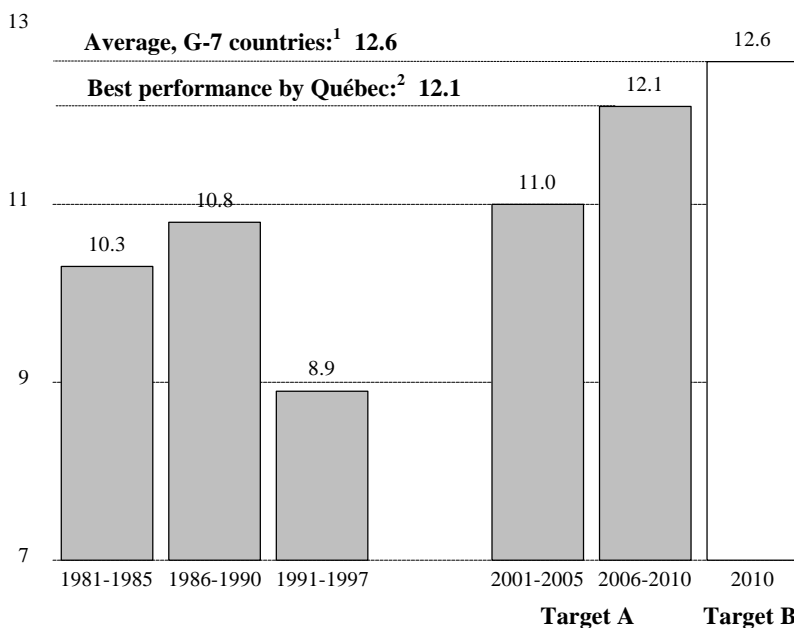
Target B: The objective of exceeding the best result achieved over the past 20 years is also compatible with a more ambitious target, that of equalling the performance of the G-7 countries. In this case, the objective would be:

- **to eliminate by 2010 at the latest the discrepancy in the investment rate with the G-7 countries.**

The effort needed to join the ranks of the best performing countries can be illustrated by using the average investment rate in the G-7 countries over a long period (1980-1995), i.e. 12.6%. Under target B, Québec would have to raise its average investment rate for the period 1991-1997, in this example, by over 40% by the year 2010.

NON-RESIDENTIAL INVESTMENT RATE OF BUSINESSES — QUÉBEC

(as a percentage of GDP)



1 For the period 1980-1995.

2 Over the past 20 years (1978-1997).

Sources: OECD, Statistics Canada and ministère des Finances du Québec.

POLICY DIRECTIONS

Québec already possesses key comparative advantages that enable it to attract investment. In its strategy, the government is proposing to create the most favourable conditions possible for economic development as a means of making Québec even more attractive as a place in which to invest. In particular, mention should be made of sound public finances, a competitive corporate taxation system, the streamlining of regulations, and support for innovation and the development of human resources. However, additional, vigorous effort will be needed to significantly raise the level of investment by businesses in Québec.

Boost the return on investment projects and promote Québec as a place to invest

In this perspective, the government is proposing measures to **boost the return on investment projects** to encourage more investors to turn to Québec. Furthermore, the government will take steps to **promote Québec as an advantageous place to initiate major investment projects** in order to attract greater numbers of foreign investors.

➤ ***Reorganize services to promote Québec and investment prospecting services***

To attract major investment projects in an extremely competitive world, the government must be able to quickly make offers to investors that clearly reveal a decisive advantage to investing in Québec.

The adoption of a marketing plan in order to polish Québec's image abroad and increase awareness of Québec as a place of business was one of the proposals adopted at the Summit Conference on the Economy and Employment.

***Establishment of
Investissement-Québec***

The government intends to prospect more efficiently for foreign investment, notably through more widespread pooling of the initiatives of the main organizations concerned. Such a move will end the dispersal of efforts in this respect. Moreover, the government will **reorganize services to promote Québec and investment prospecting services**.

To this end, **Investissement-Québec** will be established and will report to the Minister of State for the Economy and Finance. This government corporation will be mandated to present integrated offers to investors. It will promote Québec and coordinate government initiatives with respect to reception services and financial support for major investment projects.

➤ ***Increase investment incentives***

By presenting a comprehensive proposal that is at least equivalent to those offered by competitors, bearing in mind Québec's specific advantages, the **government will help boost the profitability of investment projects in Québec**.

When offers to investors are formulated, the government now has at its disposal two key instruments for direct financial assistance in respect of investment, i.e. the Industrial Development Fund (IDF) and the Private Investment and Job Creation Promotion Fund (PIJCPF). It is advisable to merge the PIJCPF and the IDF and to mandate Investissement-Québec to manage the agency. The activities of the new PIJCPF will be extended for five years. In addition, the Commission des partenaires du marché du travail will earmark funds for skills upgrading and worker training in conjunction with major investment projects.

➤ *Use government corporations as a strategic lever*

An effective tool: five dollars of investment for each dollar advanced by a government corporation

Partnerships between certain government corporations in the economic sphere and private businesses are an effective tool for increasing investment. The funds that the government invests in government investment and venture capital corporations serve as a very important lever. Each dollar invested by the government makes it possible to realize roughly five dollars of investment in partnership with the private sector in developmental projects that create permanent jobs.

Investments made on a business basis

Over the years, the experience gained through numerous projects in which government corporations have participated have provided useful guidelines for future initiatives:

- Investment projects must be carried out on a business basis, under conditions and subject to risks equivalent to those inherent in private partnerships.
- Government corporations must only acquire minority interests in investment projects. In this way, the private sector assumes responsibility for choices, strategic decisions and current operations.
- Government corporations must focus on the initiation of investment projects, not the permanent ownership of existing businesses. When a project reaches maturity and the time is right, the government corporation must relinquish its interest at a fair price. In this way, the resources of government corporations are mobilized to search for and put into motion new investment projects.

Despite encouraging results with respect to investment, some shortcomings are apparent in the method of organizing government corporations, notably with respect to the consistency of their initiatives. Furthermore, business organization methods are changing in light of competition and the globalization of markets. The presence of major players is necessary to ensure competitiveness worldwide.

Consolidate government corporations to achieve greater competitiveness

It is in this perspective that the government will consolidate its investment corporations into a holding company. In practical terms, SOQUEM, SOQUIA, SOQUIP and REXFOR will come under the Société générale de financement du Québec (SGF) and will be consolidated with the investments the SGF holds in the same sectors in order to form affiliated entities. The **new SGF** will become the government's principal interlocutor for investors wishing to carrying out a project in partnership.

Broaden the role of the Innovatech corporations

The government will consolidate funding for the three Innovatech corporations by converting them into capital stock companies and eliminating the sunset clause stipulating that their operations will cease on March 31, 2000. The mandate of the corporations, which is to help launch technology enterprises, will be maintained. In order to broaden the presence of the Innovatech corporations in the regions, **a fourth Innovatech corporation dedicated to the resource regions** will be established.

Certain modifications will be made to the Société de développement des entreprises culturelles (SODEC), which, in its capacity as a single information outlet for the cultural enterprises, works in collaboration with financial institutions. In order to broaden the international reputation of Québec cultural products and respond more efficiently and flexibly to the needs of its clientele, **SODEC will obtain new means of intervening and new financial tools.**

Furthermore, the government will restructure the Société de développement de la Baie James (SDBJ) to enable it to engage with the private sector in joint economic diversification projects in the James Bay territory.

➤ ***Enhance financial assistance for SMBs and technology enterprises***

To encourage individuals to invest in businesses, especially SMBs, and to ensure that the latter more readily obtain financing, the government has, over the years, introduced a number of tax deductions. It has also adopted measures to facilitate the financing of investment projects launched by SMBs and the start-up of technology enterprises.

These initiatives must be pursued so that knowledge-driven businesses, exporting SMBs and newly established enterprises can obtain the capital they need to develop.

Ensure adequate financing for SMBs

The government will take the necessary steps to **ensure adequate financing for the investment projects of SMBs in promising fields that demand venture capital, and adapt procedures governing financial assistance for knowledge-driven or newly established exporting SMBs.**

To this end, Investissement-Québec will mandate a subsidiary to assume the management of the financial assistance program introduced in 1996 under the name Garantie-Québec, which offers SMBs guarantees on loans as its principal financial product.

➤ *Use public and parapublic procurement to encourage investment*

Québec's economic partnership policy allows the government to offer special access to Québec public procurement to accredited Canadian or foreign suppliers. To be recognized, such suppliers must engage in spending or be credited with economic spinoff in Québec the extent of which depends on their overall sales on the Québec market in the field of information technologies.

Maximize economic spinoff and investment in Québec arising from growth in public and parapublic procurement

The economic partnership policy is a powerful industrial development tool and an efficient means of establishing technological and commercial networking. Economic spinoff is varied: purchases of Québec products, R&D or service contracts, technology transfers and commercial partnerships, and new investments in Québec. The policy also makes possible direct contact with major contract givers in the information technologies sector in North America, through which strategic information circulates and development projects are initiated.

In order to maximize economic spinoff and investment in Québec arising from anticipated growth in public and parapublic procurement, the government will **review the application of the economic partnership policy and adapt it to new interprovincial agreements on the liberalization of Canadian public and parapublic procurement.**

Support investment

Policy directions

- *Reorganize services to promote Québec and investment prospecting services*
- *Increase investment incentives*
- *Use government corporations as a strategic lever*
- *Enhance financial assistance for SMBs and technology enterprises*
- *Use public and parapublic procurement to encourage investment*

1998-1999 Budget Measures

INCREASE PRIVATE INVESTMENT

OBJECTIVE: \$19.0 BILLION OVER FIVE YEARS

	Potential investment over five years (billions of dollars)
■ <i>Partnerships with the SGF</i>	10.0
■ <i>Partnerships with the Innovatech corporations and other government corporations</i>	1.7
■ <i>Investissement-Québec</i>	
• <i>PIJCPF</i>	5.0
• <i>Garantie-Québec</i>	1.3
• <i>Worker training</i>	0.8
■ <i>Natural resources</i>	0.2
TOTAL:	19.0

OTHER DEVELOPMENTAL INVESTMENTS

	Financial impact over two years <u>(millions of dollars)</u>
■ <i>Québec City Economic Diversification Fund</i>	15.0
■ <i>Enhancement of the Agro-environmental Investment Assistance Program</i>	12.0
■ <i>Management of private forests</i>	10.0
■ <i>Tourism promotion and development</i>	5.0

5 *Develop a Caring Economy Focusing on Shared Values*

5. DEVELOP A CARING ECONOMY FOCUSING ON SHARED VALUES

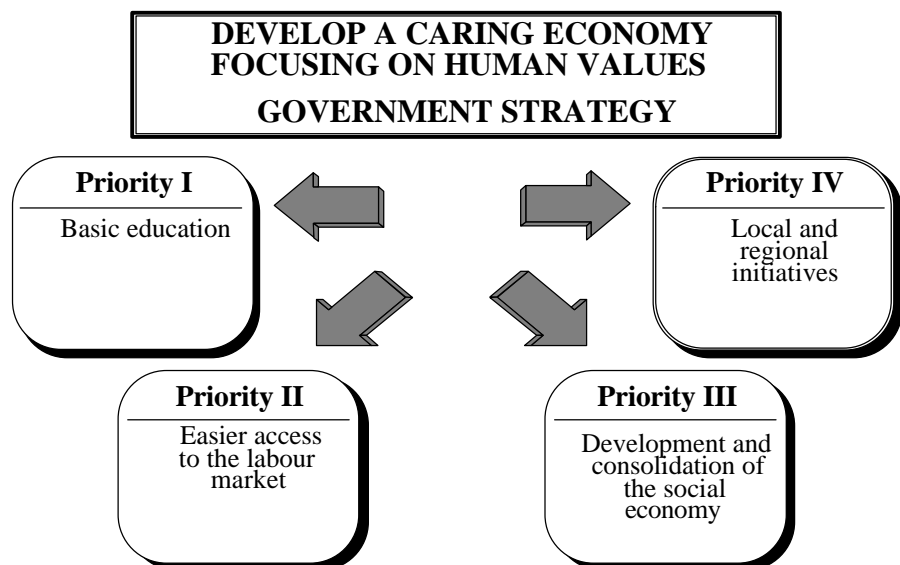
The compassion and sharing that have been traditional hallmarks of Québec society are taking on a new meaning. For all too many Quebecers, the lack of a job does not lead solely to a lower standard of living. Unemployment often engenders other problems, ranging from a loss of self-esteem to distress or even hostility toward society. Economic exclusion gives way to social exclusion. Québec as a whole is all the poorer for it.

*Québec society as a whole
must create jobs for as many
Quebecers as possible*

These problems are of concern not only to social protection agencies, families and friends, the education system and the business community itself. Québec society as a whole must display compassion and assume responsibility for enabling as many Quebecers as possible to work.

The fund to combat poverty through reintegration into the labour market, created in the wake of the Summit Conference on the Economy and Employment, to which individuals and businesses are contributing equally, is a unique demonstration of compassion and an eloquent example of Quebecers' propensity to help each other out.

Compassion also means ensuring that everything possible is done to eliminate obstacles to employment and, consequently, active participation in society. The government intends to fully assume its responsibilities in this regard.



5.1 Give priority to basic education

The school is the ideal place to acquire knowledge, skills and abilities that will enable individuals to successfully enter the labour market. The reform undertaken in Québec is aimed at adapting the education system to the needs of a modern society to **ensure the transition from access by the greatest number to the success of the greatest number of Quebecers.**

The school is the crucible of a fairer, more democratic society

The Estates General on Education afforded Québec society an opportunity to clearly express its expectations concerning the education system. One essential task of the schools is the transmission of the knowledge, skills and attitudes necessary to enable individuals to integrate fully into a society where knowledge is of the utmost importance.

The schools are also the locus of the transmission of basic values and, consequently, contribute to equal opportunities.

The schools are partners in social and economic development

The schools are not the only source of training. Other institutions, in particular the family, community groups and recreation centres, contribute to the training of students and the transmission of values. The schools are in a position to benefit from non-academic learning and collaborate with these other educational environments.

From the standpoint of vocational training, the schools engage in sustained collaboration with the business community and integration support agencies in order to develop more appropriate programs and training methods.

The acquisition of qualifying vocational training is still the best means of ensuring the occupational and social integration of young people. Studies show that under-education can lead not only to problems in entering the labour market but to low earnings, more numerous health problems and a higher risk of delinquency.

Training is the ideal means of obtaining employment

Surveys of graduates show that the higher the level of education, the lower the unemployment rate (23.9% to 4.0%). Moreover, the quality of the positions occupied increases with the level of education (the jobs are more often full time and related to the field in which the individual was trained).

TABLE 10
**SITUATION OF A COHORT OF GRADUATES
 AFTER THEY OBTAINED THEIR DIPLOMA**
 (as a percentage)

	EMPLOYED			AT SCHOOL	INACTIVE	TOTAL
	Employed	Unemployed ⁴	Total			
DIPLOMA						
Secondary vocational ¹	66.1	20.7	86.8	7.9	5.3	100
Cegep technical ¹	68.8	7.1	75.9	22.1	2.0	100
University degree						
Bachelor's ²	73.9	7.4	81.3	16.2	2.4	100
Master's	77.7	6.9	84.6	12.7	2.8	100
Doctorate ³	88.9	3.7	92.6	4.2	3.2	100

1 Situation of 1995-1996 graduates, nine months after they obtained their diploma.

Source: Ministère de l'Éducation, *La relance au secondaire* and *La relance au collégial*, 1997.

2 Situation of 1994-1995 graduates, in January 1997.

Source: Ministère de l'Éducation, Enseignement supérieur, Direction de l'enseignement et de la recherche universitaire.

3 Situation of 1991-1992 graduates, in January 1994.

Source: Conseil supérieur de l'éducation, *1996-1997 Annual Report*.

4 The unemployment rate calculated with respect to the total number of graduates who join the labour market stands at 23.9% for secondary vocational graduates, 9.4% for Cegep technical graduates, 9.1% for the holders of bachelor's degrees, 8.1% for the holders of master's degrees, and 4.0% for holders of doctorates.

CHALLENGES

The integrating role of the education system is growing in importance in an economy centred increasingly on knowledge and innovation. It is absolutely essential for all Quebecers to acquire solid basic training before they enter the labour market.

Under the reform of the education system, objectives have already been set with respect to the graduation rate between now and 2010. The target rate is **85% in the case of secondary school students under the age of 20**, as against 73% in 1995-1996. The target graduation rate at the post-secondary level is **60% for Cegep students and 30% at the undergraduate level**.

Proposed objective: Raise the graduation rate**GRADUATION RATE**

(as a percentage)

	1975-1976	1990-1991	1994-1995	1995-1996	2010 objectives
• Secondary school, under 20	53.4	65.8	71.0	73.1	85.0
• Cegep	21.0	37.6	38.5	—	60.0
• Bachelor's degree	14.8	23.4	27.7	28.5	30.0

Source: Ministère de l'Éducation.

POLICY DIRECTIONS

In order to meet the challenge of fostering the participation of young Quebecers in Québec's economic development, the education system must:

- raise the graduation rate of secondary school students under the age of 20;
- improve the content of basic training programs;
- ensure ongoing training to satisfy individual and community needs.

These policy directions are at the heart of the “shift toward success” that the government wishes to initiate with the reform of the education system made public by the Minister of Education.

➤ Raise the graduation rate of secondary school students under the age of 20

Despite an increase in the graduation rate since the 1960s, nearly three young people out of 10 still do not obtain their secondary school diploma before the age of 20.

These young people are virtually excluded from the knowledge economy. For this reason, the government is committed to raising to 85% by 2010 the graduation rate of secondary school students under the age of 20.

Measures centred on students from high-risk environments

This increase can only be achieved if we help students from environments in which scholastic success is the most seriously compromised. The reform under way contains four measures in this respect.

■ ***Educational measures geared to early childhood***

Intervene in early childhood to prevent failure

There is a direct relationship between early intervention among children and their subsequent chances for success. Learning in early childhood is decisive in terms of the child's future scholastic success. Intervention at this level offers a means of preventing failure, the repeating of grades and premature dropping-out.

Consequently, the government has decided to broaden preparation for entry into elementary school by increasing from a half day to a full day the time spent in kindergarten. Over 95% of five-year-olds are already benefiting from this measure.

■ ***Diversification of training streams***

Diversify training streams for children who do not wish to pursue post-secondary education

Existing secondary school programs are not suited to all students, partly because they are geared to post-secondary training. A number of students become demotivated and abandon programs that reflect neither their interests nor their aptitudes.

With the reform now under way, students in the second secondary cycle can choose training programs geared to the needs and interests of greater numbers of students. The full range of optional courses will be increased from 16 units to 24 units, equivalent to one third of the units in the second cycle.

Moreover, the reform will allow students to obtain specialized training earlier on, through two new streams. Thus, students will be able to engage in training for semi-skilled trades after Secondary II. Students who have made a vocational choice after Secondary III may enter a stream in which they can pursue general training related to vocational training and leading to a vocational diploma.

■ ***Increased support for students at risk on Montréal Island***

***Support students at risk on
Montréal Island***

In several schools on Montréal Island, scholastic success is still a major challenge. This challenge is even greater in some districts of Montréal with high concentrations of underprivileged individuals facing serious adaptation problems. For this reason, support measures for students in 118 targeted schools, in which most of the students are at risk, have been implemented.

Half-time kindergarten for four-year-olds is rounded out under the reform by day care services that extend educational activities for an additional half-day. Projects to support basic learning and measures intended to eliminate the repeating of grades are being tested.

■ ***Increased support for students from the cultural communities
experiencing problems entering the school mainstream***

***Respond to the needs of
immigrant students who are
experiencing specific problems***

While the scholastic performance of allophone immigrants is broadly similar to that of students whose mother tongue is French or English, one category of this group is finding it especially hard to integrate into the school mainstream. Such students usually have little education, have been forced to interrupt their studies in their country of origin, or have obtained an education that differs fundamentally from the education offered in Québec.

For such students, equal opportunities mean the implementation of specific measures that go beyond integration into regular classes after a period of initiation to the French language. The school integration and intercultural education policy that the ministère de l'Éducation is about to unveil will foster the development of innovative intervention models adapted to the needs of these students.

➤ ***Improve the content of basic training***

Workers in the knowledge economy must not only master more complex occupational knowledge but also be able to acquire new knowledge at every stage of their lives. This is not possible without solid basic training, i.e. without possessing the necessary background in languages, mathematics, and the natural and social sciences. Furthermore, the workers of the future will have to possess skills such as an ability to analyse and synthesize, creative problem-solving, the ability to work on a team, and so on.

The government has just announced a reform of the curriculum, which will focus on the twofold objective of broadening basic knowledge and developing intellectual and methodological skills. The following measures have been elaborated to this end.

■ ***Enhancement of core training***

Attach greater importance to languages, mathematics and history

In **elementary schools**, the relative importance of certain subjects will be modified in order to attach greater importance to basic learning. The teaching time devoted to languages and mathematics will be increased.

In the **first cycle of secondary school**, the teaching of basic disciplines will be bolstered by the allocation of additional time to languages, mathematics and history. Moreover, instruction in technology will be integrated into the teaching of the sciences.

■ ***The acquisition of intellectual and methodological skills***

Encourage the acquisition of the skills demanded by new jobs

The educational policy statement also seeks to bolster basic training by encouraging students to develop attitudes and behaviour dubbed “cross skills”.

The development of these skills will be included in all disciplines and ancillary activities in the schools. Aside from the skills related to socialization and the mastery of language, two types of cross skills are more directly linked to the abilities demanded by the labour market:

- **intellectual skills** focus primarily on the ability to analyse and synthesize, the ability to solve problems and complete projects, the development and use of memory, and rigour, creativity and aptitude in respect of communication;
- **methodological skills** consist notably in developing the ability to understand and apply rules, find and use the appropriate sources and methods of information processing, and in learning to work on a team and organize work according to deadlines.

➤ ***Ensure life-long ongoing training***

Ongoing training covers an array of needs to which adults must find a response if they want to adequately fulfill their social roles, as workers, citizens or parents.

The new demands that society and the labour market are making are engendering expectations that compel each individual to constantly renew his knowledge and skills. The decision to learn is a personal one, but the government must maintain diversified training services to enable the Québec economy to remain as competitive as possible in a constantly changing world.

For this reason, the government unveiled a draft ongoing training policy in June 1997 in order to clarify its policy directions for the provision of services and the sharing of responsibility at the secondary, Cegep and university levels. Further deliberations are under way and the ministère de l'Éducation will propose in the near future new policy directions that confirm the importance of life-long learning. These deliberations are being carried out in collaboration with the ministère de l'Emploi et de la Solidarité and labour market partners.

The government's policy directions will reflect other facets of the reform of the education system: rigour in training and the certification of studies, success by the greatest possible number of students, support for the least privileged students, autonomy and accountability in educational institutions, and the consolidation and streamlining of the services provided.

Give priority to basic education

Policy directions

- ***Raise the graduation rate of secondary school students under the age of 20***
 - ***Educational measures geared to early childhood***
 - ***Diversification of training streams***
 - ***Increased support for students at risk on Montréal Island***
 - ***Increased support for students from the cultural communities experiencing problems entering the school mainstream***
- ***Improve the content of basic training***
 - ***Enhancement of core training***
 - ***The acquisition of intellectual and methodological skills***
- ***Ensure life-long ongoing training***

1998-1999 Budget Measures

Financial impact
1999-2000
(millions of dollars)

➤ *Priority for basic education*

- *Non-refundable tax credit for interest paid on student loans* 16.0
- *Eligibility of expenses incurred for part-time study for the refundable tax credit for child care expenses* 15.0
- *Non-taxation of RRSP withdrawals for educational purposes* 10.0

5.2 Facilitate access to the labour market

While employment is not the only goal of training, it is nonetheless an essential source of motivation and a key factor in individual development. A caring economy focusing on human values must adopt as one of its priority objectives access to employment.

The low rate of job creation in recent years and the higher qualifications demanded of workers have meant that some Quebecers are excluded from the labour market.

This exclusion is very costly. In addition to the economic losses and cost of supplementing the income of the unemployed, unemployment engenders health and social service costs.

Access to employment depends on training and qualification. It also requires effective employment services and mechanisms that make it possible to overcome impediments to entering the labour market, increase workers' ability to adapt, help individuals who are excluded to find employment, adapt to the changing labour market and reconcile work and family life.

CHALLENGES

After nearly 30 years of repeated demands, the Québec government will manage, starting in 1998, the entire range of active manpower and employment measures financed by the Québec government and the Employment Insurance Fund. This broad responsibility poses the challenge of grouping together within a single, integrated, efficient public employment service the measures that were formerly dispersed among different government organizations.

The launching in April 1998 of more efficient, coherent public employment services will help raise the skills and bolster the ability to adapt of Québec workers and enable Quebecers wishing to enter the labour market to more readily gain access to jobs and social insertion.

POLICY DIRECTIONS

➤ *Offer efficient employment services*

The adoption of the *Act respecting the Ministère de l'Emploi et de la Solidarité and establishing the Commission des partenaires du marché du travail*, the reform of income security and the transfer of the Employment Insurance Fund are creating a new context for the active labour market policy in Québec. One important consequence of these changes is that Emploi-Québec will from now on dispose of a critical mass from the standpoint of funding and of human and physical resources.

Québec now has a single public employment service network

From now on, active employment measures will be consolidated into a single public employment service network. The services will foster the employment of available workers, support the ongoing training of individuals seeking employment and focus on demand from employers in such a way that supply and demand are kept in balance as much as possible on the labour market.

To achieve these objectives, it is essential to obtain quality information that makes it possible to anticipate and understand changing labour market conditions. The Québec government intends to assemble and closely monitor information on labour market conditions in order to offer support adapted to the needs of individuals. These services will be offered to all workers, regardless of their source of income, thus putting a halt to the traditional compartmentalization of clientele that proved to be largely unproductive in the past.

The commitment of partners at the provincial, regional, local and sectoral levels is also an essential condition for success. The development of employment benefits all segments in society and it is an essential factor to ensure balanced economic and social development.

In 1995, the Québec government adopted the regional component of the active labour market policy, which will be rounded out and reviewed shortly. It includes five components, i.e. preparation, integration, maintenance, stabilization and job creation. The review under way is focusing notably on a key issue in the active labour market policy: make of income support a springboard toward employment and social insertion.

➤ ***Eliminate obstacles to entry to the labour market***

Certain financial, familial or institutional constraints are veritable obstacles to employment. All too often, situations have been deplored where the passage from the state of a beneficiary to that of a gainfully employed worker procures only a marginal gain or, worse still, impoverishes the person or the family. This incongruity must be eliminated.

The government will take the necessary steps to ensure that it is more worthwhile to work. Several measures are possible to achieve this goal, e.g. the pursuit of a tax policy governing low-income earners, the payment of supplements to employment income, and the granting of a benefit when individuals go back to work.

Access to employment depends on specific measures to integrate individuals who are excluded from the labour market. Such measures must reconcile work and the family. Support is also necessary for certain categories of self-employed workers who start up a business.

➤ ***Foster ongoing worker adaptation***

In the wake of the reform of vocational training and the implementation of a single employment service network, the government will set up a new partnership directly linking the educational sector and labour market representatives.

Public employment services, in collaboration with labour market partners, must constantly monitor manpower adaptation needs. The government will grant them the tools and the leeway necessary to meet the important challenges entrusted to them. However, the government will demand tangible results with regard to worker adaptation. Precise indicators will be elaborated and rigorously followed.

➤ ***Assist individuals at risk of prolonged exclusion***

It becomes increasingly hard to integrate or reintegrate the labour market as the period of unemployment lengthens. This situation is affecting growing numbers of individuals, who are being marginalized and excluded from the labour market.

Exclusion from the labour market is not irreversible

The exclusion of part of the labour force must not be regarded as irreversible. The government intends to step up and diversify the means of combating exclusion through assistance services and measures, modular job search or training aids, and access to subsidized jobs.

In collaboration with labour market partners, public employment services must commit themselves to a more targeted active policy in order to overcome long-term unemployment and ensure equal opportunities on the labour market for certain groups hard hit by prolonged unemployment or at risk of exclusion. Specifically, the policy will focus on:

- certain categories of female workers, including numerous women heading single-parent families, who are dependent for prolonged periods on income security;
- certain groups of young people, especially between the ages of 15 and 19 who, because of an obvious lack of training and qualification, experience unemployment levels close to 30%;
- elderly workers, notably those who are unqualified or whose knowledge is not adapted to labour market needs, who have been laid off in sectors undergoing extensive restructuring;
- immigrants, more specifically, those who have not had any practical experience of the Québec labour market;
- the handicapped who, despite programs intended for them, still have a high unemployment rate;
- ex-inmates, who often require special assistance to reintegrate the labour market;
- certain members of the cultural communities, who have problems finding a job.

➤ *Adapt to the changing structure of the labour market*

For two decades, the structure of the Québec labour market has been changing markedly. While full-time employment still predominates, its relative importance has dwindled gradually with the advent of new forms of employment. Self-employment, part-time jobs, temporary, seasonal and contract work, casual work and work on call have become more important over the years.

While these work methods have their advantages, they are often accompanied by financial insecurity or a precarious status. Government intervention with respect to the labour market must adapt to these major structural changes.

First, it would be advisable to adopt specific employment stabilization measures in the form of financial and technical support for individuals whose status is precarious. Such intervention is intended to properly support the beneficiaries' income and repeatedly lengthen the period of employment in sectors that are subject to seasonal fluctuations.

Second, Emploi-Québec, in collaboration with local development centres, will supplement the income of individuals wishing to create their own jobs or start a microbusiness. This initiative is intended to encourage the entrepreneurial potential of the unemployed and certain categories of workers whose status is precarious by offering income support and special assistance in respect of training and the start-up of a business.

The government will also clarify the legal and tax status of the self-employed. Such clarification is necessary to attain equitable treatment of such workers in respect of various social protection programs.

➤ ***Facilitate the reconciliation of family responsibilities and work***

Today, nearly two thirds of mothers whose youngest child is under the age of 3 are employed outside the home. Moreover, in two-parent families, 70% of spouses responsible for young children both work. More and more heads of single-parent families are working outside the home. Under the circumstances, access to employment must take into account the need to reconcile work and family responsibilities.

The implementation of the family policy, in particular the extension and diversification of the network of early childhood centres, is contributing significantly to meeting this essential need.

The easing of provisions in labour legislation in favour of parental leave add to the means available to employed individuals who assume family responsibilities. Additional personalized assistance services should be made available to certain individuals, particularly the heads of single-parent families, to facilitate the transition to employment.

Other means aimed at supplementing the work income of these families will encourage them to remain on the job. The single allowance for children, established recently, eliminates an important obstacle to the reintegration of the labour market and the continued employment of parents who, although they are working, earn only limited income.

➤ ***Maintain an environment that encourages integration into the labour market***

In addition to establishing conditions that facilitate integration into the labour market, the government must eliminate obstacles to entry to the labour market and ensure that no measure dissuades individuals from working.

Minimum wage regulations are found in all industrialized countries. Such regulations seek to simplify individual and collective negotiations concerning the working conditions of low-income earners.

The minimum wage policy usually pursues four objectives. It seeks to ensure minimal participation by low-income earners in the collective wealth and maintain the financial interest for the unemployed to seek work, which militates in favour of a high minimum wage. Moreover, such a policy must not hamper job creation for low-income earners or the competitiveness of businesses, which militates instead in favour of a moderate minimum wage.

The challenge is to reconcile these conflicting objectives.

At present, the Québec government deems the Québec minimum wage to be one of the instruments, albeit a modest one, that can serve to enhance wage earners' income. Similarly, the current Québec minimum wage, which stands at \$6.80/hour, is equivalent to 180% of the basic monthly social aid benefit and is sufficiently high to encourage beneficiaries to seek employment.

Furthermore, at 47% of the average wage, the current minimum wage is not, in the opinion of a number of experts, at a level where it is likely to destroy jobs. From the standpoint of external competitiveness, the Québec minimum wage is close to the Ontario minimum wage and lower than the US federal minimum wage (at the current exchange rate).

The Québec minimum wage as it now stands appears to reflect an economic and social compromise between income support objectives and an inducement to work, on the one hand, and job protection and external competitiveness objectives, on the other.

Under the circumstances, the government intends to consult its partners on a proposal aimed from now on at automatically indexing the minimum wage to the average industrial wage.

Facilitate access to the labour market

Policy directions

- *Offer efficient employment services*
- *Eliminate obstacles to entry to the labour market*
- *Foster ongoing worker adaptation*
- *Assist individuals at risk of prolonged exclusion*
- *Adapt to the changing structure of the labour market*
- *Facilitate the reconciliation of family responsibilities and work*
- *Maintain an environment that encourages integration into the labour market*

5.3 Develop and consolidate the social economy

At present, the production of various goods and services of **social utility** cannot be assumed by either the public or private sectors. There are obvious financial and organizational limitations to the assumption by the government of certain activities.

Home care services for individuals whose autonomy is impaired, child care, the social integration of the mentally ill or ex-inmates, the recovery and recycling of waste matter, to mention but a few, are examples of services that the government alone cannot fully provide.

Create jobs and satisfy social needs by supporting the development of the social economy

The community and cooperative sectors in Québec have developed remarkable expertise in numerous fields. Through such expertise, and with a minimum of support, it is possible to establish non-profit organizations and cooperatives that are capable of developing and structuring services that satisfy hitherto unsatisfied social needs, improve the quality of life, and create durable, quality jobs.

A consensus on the development of the social economy at the Summit Conference on the Economy and Employment

These are the premises underlying the concept of the social economy on which a consensus was reached at the Summit Conference on the Economy and Employment in 1996. At that time the Summit Conference agreed to support 24 job-creation projects in a wide range of fields, ranging from home care services to forest development, not to mention agriculture, social housing, perinatal care, cultural activities and the recycling of certain wastes. These projects are serving as an experimental framework for the social economy in Québec.

CHALLENGES

While the experimentation under way neither covers the entire scope of the social economy—far from it—nor exhausts the entire development potential in this sector, it nonetheless provides valuable information and offers certain perspectives concerning those niches with the highest job-creation potential.

The experimentation also makes it possible to better pinpoint the tools needed to foster the development and assist the establishment of enterprises in this sector and the challenges raised by the consolidation of the social economy. A major shift must be undertaken by government departments and agencies and by cooperatives and non-profit organizations that are transforming themselves into enterprises in the social economy.

The key issue is the development of a genuine, viable economic sector made up of numerous enterprises concerned with the social profitability of their initiatives and job creation. The partners assembled at the Summit Conference agreed to pool their efforts to this end and to make the social economy a full-fledged sector of the Québec economy.

POLICY DIRECTIONS

➤ *Continue to support existing initiatives*

The government has already launched a number of initiatives and measures pertaining to the social economy:

- implementation of a financial exemption program for home care services;
- the plan of action concerning the development of early childhood centres;
- an amendment to the *Act respecting assistance for the development of cooperatives* to enable the SDI to grant loan guarantees to non-profit organizations;
- an amendment to the *Act respecting assistance for the development of cooperatives* to allow the establishment of solidarity cooperatives;
- support for collective entrepreneurship;
- the establishment of the Community Housing Fund.

The government intends to pursue this support. The realization of the job-creation potential of the social economy depends unquestionably on the active commitment of all of the government departments and agencies concerned. However, the government alone cannot give the desired impetus to this sector, which will require the support of partners in the union movement and the financial and commercial sectors.

➤ *Consolidate the entrepreneurial shift*

The government has clearly opted to assign to enterprises in the social economy the production of new goods and services. **The notion of enterprise is essential to this shift.**

The government will support the entrepreneurial approach and the expansion of the social economy first and foremost because they contribute specifically to the creation of stable jobs with a social purpose.

Nonetheless, many community agencies will not be able and will not want to convert into enterprises in the social economy, mainly because of the nature of their activities. Under the circumstances, it is essential for the government to continue to support independent community action.

➤ ***Furnish the tools necessary for the development throughout Québec of the social economy***

The government has already put in place a number of tools that are essential for the expansion of the social economy. While the developmental nature of these new tools is acknowledged, it may be necessary during implementation to adapt them or develop more appropriate ones when needed.

Develop and consolidate the social economy

Policy directions

- *Continue to support existing initiatives*
- *Consolidate the entrepreneurial shift*
- *Furnish the tools necessary for the development throughout Québec of the social economy*

5.4 Support local and regional initiatives

Québec's overall development is indissociable from the sustainable development of each of its regions. An economically strong Québec necessarily depends on the development of all of its regions.

A strategy centred on a veritable partnership between the government, the regions and local communities

In its strategy, the government is reaffirming that economic development and job creation occur first and foremost “in the field” in each Québec community. It also acknowledges that local and regional communities are distinct entities, each with its own characteristics and vitality, which need to be encouraged and supported. The strengthening of the autonomy of local and regional communities as regards their development priorities and objectives centres by and large on the establishment of a veritable association and a veritable partnership between the government and local and regional communities.

POLICY DIRECTIONS

Two key, highly complementary policy directions are guiding the government's strategy pertaining to local and regional communities:

- mobilize local and regional communities around the government's economic development strategy;
- adapt the economic development strategy to local and regional conditions.

➤ Mobilize local and regional communities around the government's economic development strategy

A partnership to mobilize local and regional communities

The pooling of local and regional energies and resources appears to be an essential condition to optimize the impact in all regions of the government's economic development strategy. The local and regional development support policy offers partnership tools that can assure the mobilization of local and regional communities around the policy directions and objectives pursued by the economic development strategy.

In local communities, the management agreement between the government, the regional county municipality (or its equivalent in the absence of an RCM) and the board of directors of the local development centre is the essential partnership tool through which various stakeholders can reach agreement to ensure the development of local entrepreneurship in all its forms.

Moreover, having local communities assume responsibility for the objectives of the government's economic development strategy, including in particular job creation, means that it will be possible to foster collaboration between all local stakeholders and thus speed up the matching of local development centres and local employment centres.

At the regional level, regional development centres will be called upon to play a broader role in organizing initiatives focusing on the economic development of the regions, notably through the general development agreement, through specific agreements, and in its role as an advisor to the government.

➤ ***Adapt to the economic development strategy to local and regional conditions***

The government recognizes that local and regional communities have an active, decisive role to play in implementing the economic development strategy.

Adapt the economic strategy to the needs of the regions and local communities

The adaptation of the economic development strategy to the specific needs of each local and regional community is the key to its success. The partnership tools proposed in the local and regional development support policy are the ideal means of ensuring that the government's priorities and initiatives are properly matched with those of local and regional communities.

Mention should be made in this respect of the importance of matching and adapting to regional needs government policies, programs and initiatives pertaining to technological innovation, marketing and exporting. If they are to develop, SMBs in all regions must be able to rely on policies, programs and services fully adapted to their conditions and needs.

■ ***Develop local and regional entrepreneurship***

There is every reason to consider the start-up of new businesses as an important lever to boost investment in all regions and thus encourage the renewal of Québec's industrial structure and job creation. This is of the utmost concern to local and regional communities.

Support entrepreneurship, especially among young people

The government intends to encourage entrepreneurship through concerted efforts at all levels in order to provide entrepreneurs with the appropriate assistance and support at different stages in the realization of their projects. It also intends to draw to the attention of local development centres specific expectations concerning the new entrepreneurial forces in Québec: **young people and the unemployed**,

growing numbers of whom are prepared to create their own jobs; **women**, who are more frequently becoming the owners of businesses; and **members of the cultural communities**, who display a strong entrepreneurial culture.

The government also wants to rely on new types of enterprises engendered by collective entrepreneurship and the social economy.

Support entrepreneurship in rural areas

A number of rural areas are facing the critical collapse of their communities. It is essential to consolidate and diversify the development of businesses in these territories. Among other things, consideration should be given to attaching greater importance to the upcoming generation and supporting development projects that increase the added value of farm, forest, fisheries and mining products.

■ *Complete the reorganization of economic and employment support services*

Pursue the adaptation of economic and employment services

The local and regional development support plan includes measures aimed at simplifying and adapting front-line economic and employment services, through the establishment of local development centres and local employment centres. The government will emphasize a respectful **client-based approach**.

In the process of reorganizing its initiatives throughout its territory, the government also intends to meet the challenge of providing public services that increasingly are planned and managed in the regions. It will ensure that these services are better adapted to the needs of regional communities.

Support local and regional initiatives

Policy directions

- *Mobilize local and regional communities around the government's economic development strategy*
- *Adapt the economic development strategy to local and regional conditions*
 - *Develop local and regional entrepreneurship*
 - *Complete the reorganization of economic and employment support services*

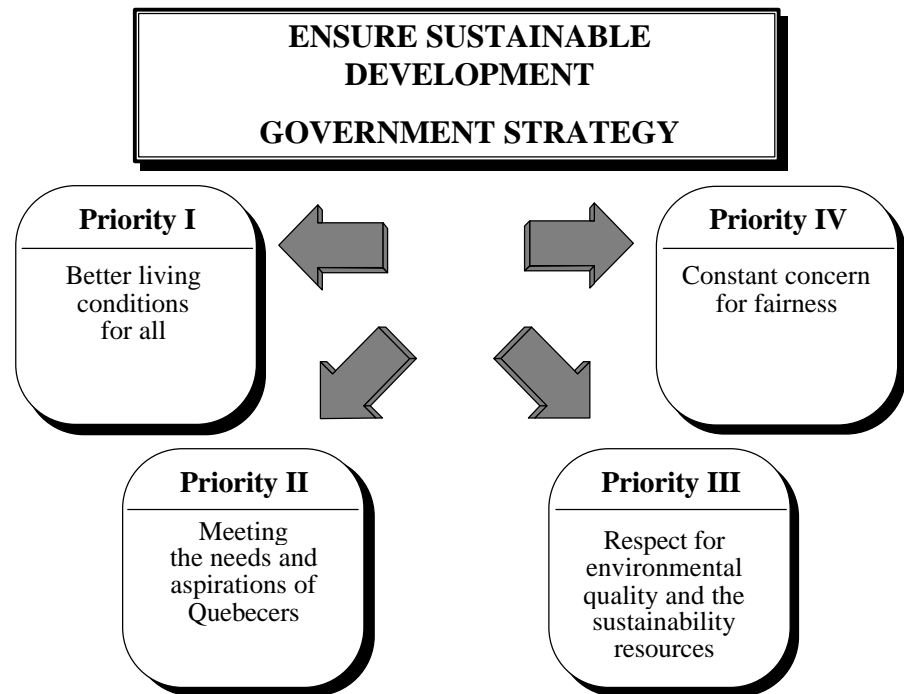
6 *Ensure Sustainable Development*

6. ENSURE SUSTAINABLE DEVELOPMENT

Sustainable development: meeting Quebecers' current needs without compromising the ability of future generations to meet their own needs

The government's strategy is in keeping with sustainable development. It is essential to leave future generations a quality environment and resources that can ensure their development in the same way that they have ensured the development of current generations. Therefore, the objective of the economic development strategy is to satisfy the present needs of Quebecers without compromising the ability of upcoming generations to meet their own needs. It is intended to improve our present quality of life while seeing that future generations are able to make their own choices.

Sustainable development is not limited to the growth of classic economic indicators. It concerns human needs as a whole from a temporal perspective. Ensuring sustainable development involves taking into account economic, social and environmental concerns, as well as the concept of fairness, not only with regard to individuals but with regard to society as a whole.



In pursuing such an approach, the challenge is to ensure that the actions of the government and of all Quebecers, interest groups and businesses target the balanced and simultaneous implementation of the following four policy directions:

- improve the living conditions of Quebecers;
- satisfy social needs and the personal aspirations of citizens;
- respect environmental quality and the sustainability of renewable resources;
- act with the utmost fairness.

These policy directions, which form the basis of sustainable development, can only be attained with the participation of all socio-economic stakeholders in Québec. They are in keeping with the government's efforts to achieve an innovative economy, in a more prosperous and fairer society developing in a healthy environment.

6.1 Improve the living conditions of Quebecers

Create jobs to improve living conditions

Basically, sustainable development requires that the material needs of Quebecers be satisfied and their living conditions improved.

For this purpose, the government's strategy focuses above all on job creation, which is the key to present and future prosperity.

By accelerating job creation and facilitating the generation of wealth, the government is striving to improve the standard of living of the people and thus enable them to meet their material needs through access to more resources.

6.2 Satisfy social needs and personal aspirations

Reconcile individual aspirations with social needs

Sustainable development also requires that social needs and personal aspirations be satisfied. Quebecers must be able to realize their full potential as individuals, while society must be able to offer quality public services that are accessible to all.

The government wanted to focus special attention on these two aspects in its economic development strategy.

6.3 Respect environmental quality and the sustainability of renewable resources

Ensuring sustainable development requires that special attention be paid to environmental considerations. From this perspective, environmental protection is intended to ensure that the environment can continue to meet individual needs, not only by providing the resources necessary for this purpose but also by disposing of the waste generated by human activity. Since this concern also relates to the needs of future generations, the strategy targets both environmental quality and the sustainability of resources.

Reconciling economic growth requirements with environmental concerns

In its proposed strategy, the government wanted to reconcile environmental concerns with the requirements of economic growth. It also wanted to ensure that businesses that must comply with the new environmental requirements would remain competitive. From the perspective of sustainable development, both environmental protection and growth objectives can be achieved. Furthermore, environmental protection and the development of natural resources may both provide direct support for economic growth.

- Several of the measures implemented by the government in recent months reflect its desire to reconcile economic growth with protection of the environment. This is the case of initiatives respecting the reduction of farm pollution, the rehabilitation of contaminated land and regulatory streamlining.

Several regulations, notably those that pertain to the environment, are currently being reviewed to eliminate irritants and cumbersome rules and to develop more flexible policy instruments. Regulations and other requirements must be clear, simple and fair. It is not a question of sacrificing the environment for the sake of economic development, but of clearly focusing government action on prevention, while preserving environmental assets and respecting the various social choices made by Quebecers.

- The government has adopted other approaches that also facilitate the reconciliation of objectives relating to environmental protection and economic development.

The government is pursuing efforts to streamline administrative and regulatory mechanisms in order to foster investment in projects that create jobs. Government priorities in this area are related notably to the reform of the environmental assessment system and the overhaul of the environmental approvals system, as well as to eliminating the overlapping of responsibilities between the Québec government and the federal government, clarifying the roles of the various

government stakeholders, and developing economic tools, self-monitoring mechanisms and environmental monitoring rules. These innovative approaches are designed to eliminate factors that curb job creation and to preserve environmental assets.

Concluding partnership agreements with the main social and economic stakeholders makes it possible to identify common objectives with respect to environmental quality and the sustainability of resources. Such agreements are especially important given that the conditions in which resources are developed increasingly constitutes a selling point for and even a requirement of international markets. When Québec products comply with foreign environmental standards, they are better received on foreign markets and offer more extensive growth prospects for businesses.

The economic development strategy gives priority to responsible management of natural resources and land in order to ensure that the use and development of these resources is environmentally friendly and preserves the natural capital for future generations.

- Respect for environmental quality and the sustainability of resources can in turn provide direct support for job creation. Efforts to protect the environment have major economic spin-offs, notably in terms of jobs and technological innovations. They contribute to the development of industry based on environmental protection and create expertise that can be exported.

In addition to providing support for the environment industry, the government intends to turn the mechanisms of the social economy to good account so that society as a whole may fully benefit from the growing environmental awareness of many groups and communities. An ever-growing segment of the population is aware of environmental issues and prepared to contribute directly and in concrete ways to efforts designed to improve the quality of the environment.

To ensure the success of certain investment projects in the realm of environmental protection and rehabilitation, the government will also rely on the development of cooperation agreements with municipalities. These agreements will target the achievement of environmental objectives, while fostering the implementation of projects that create jobs.

Québec's natural heritage is unique. The sustainable development of its land and abundant resources, notably wildlife resources, represents remarkable growth potential in addition to being a major factor in preserving biodiversity.

6.4 Act with the utmost fairness

Fairness is another aspect of sustainable development. The benefits of human activity must not be limited to a select group, since this would be to the detriment of society as a whole.

The economic development strategy must integrate this concept of collective fairness and, to that end, specific efforts must be made.

A zero deficit: the most effective way of ensuring fair treatment for all generations

- In managing public finances, the government must ensure that upcoming generations are treated fairly. It is unfair to increase the indebtedness of future generations in order to satisfy current needs, and thus directly compromise the ability of those generations to meet their own needs.

The budgetary deficit will be reduced to zero in 1999-2000. As of that date, therefore, we will stop transferring part of the financing of today's needs to future generations. Subsequently, the debt burden in the economy will gradually be reduced and thus lighten the load that will be placed on the shoulders of our descendants.

- The economic development strategy must also focus special attention on groups that suffer particularly from poverty and social exclusion. Sustainable development cannot leave part of the population out in the cold. Therefore, the government is proposing various economic reintegration initiatives for people who have been excluded from or have not been able to find a place for themselves in the economy.

In more general terms, the economic development strategy must make it possible to reduce poverty, increase the number of people who contribute directly to generating wealth, and ensure that the future development of society is shared more fairly among all members of society.

Take local and regional characteristics into account

- The government must also ensure that all communities and regions are treated fairly. In implementing its economic development strategy, the government will invite regional and local representatives to take charge of development tools. In addition, the various initiatives retained under the strategy will be adapted, if necessary, to specific local and regional characteristics.

Each Québec region has its own specific features, and sustainable development requires that these features be carefully taken into account. The government is targeting development that benefits not only Québec as a whole but also each of its regions.

*Increase the involvement of
Native peoples in economic
development*

- Our duty to be fair also applies to relations with Native communities. Native peoples are beginning to express an interest in development, participating more fully in economic activity and shouldering new responsibilities, within cultures that in turn are evolving. They want to play a greater role in economic development and become full-fledged partners.

Native communities often live on land that is suited to the development of natural resources by conventional methods, such as hydroelectric projects, mining and logging, as well as by exploiting the tourism potential associated with these resources. Under the economic development strategy, the government will not only provide assistance to Native peoples for business development and job creation but also encourage them to take part in managing natural resources and the land. In addition, it will promote resource development initiatives proposed by Native peoples.

Ensure sustainable development

Policy directions

- *Improve the living conditions of Quebecers*
- *Satisfy social needs and personal aspirations*
- *Respect environmental quality and the sustainability of renewable resources*
- *Act with the utmost fairness*

1998-1999 budgetary measures

	Financial impact (in millions of dollars)
■ <i>Support for the development of Native peoples</i>	21.0 over 3 years
■ <i>Financial assistance for waterworks, sewer and water purification infrastructures</i>	180.0 over 5 years
■ <i>Improvements to the Agro-environmental Investment Assistance Program</i>	81.0 over 5 years
■ <i>Plan to improve tourism supply in natural environments</i>	7.1 over 2 years
■ <i>Restructuring of the Société de développement de la Baie James (SDBJ)</i>	
■ <i>Creation of the Institut de recherche et développement en agroenvironnement</i>	

7 *Conclusion*

7. CONCLUSION

Quebecers are well aware that they live in a democratic, fairly prosperous society. They are aware of the enormous progress made since the 1960s, particularly in the area of universal education and the creation of a business culture.

Moreover, they can applaud the success of companies such as Bombardier, SNC-Lavalin, Biochem-Pharma, Quebecor, DMR and Cascades. Mention should also be made of the contribution of numerous smaller companies such as Groupe Lacasse, IPL, and Groupe Laperrière et Verreault, and the achievements of numerous individuals in such varied fields as the arts and sciences, in all regions of Québec. They can also measure growth over the past 35 years in light of the goods and comfort that they now enjoy.

However, Quebecers can also see that a significant portion of the population is living in difficult conditions, where the uncertainty of the morrow leaves no room for promising projects. They also realize that the quality public services they receive and the social cohesiveness made possible by support given the least privileged members of society cannot be taken for granted.

The Québec government wishes to do everything possible to ensure that the Québec economy more adequately and durably satisfies the needs and aspirations of all Quebecers.

The government considers employment to be the best means, and the means desired by everyone capable of working, to satisfy the needs and help achieve the dreams of individual Quebecers. Collectively, only the use of the full potential of all human resources can ensure the prosperity and fairness to which everyone aspires.

The main challenge facing Québec is to ensure that the economy creates enough jobs.

How can we achieve this goal in a rapidly changing world where the most advanced nations, yesterday's models, are now experiencing a deterioration in the standard of living of part of their populations, usually because of acute unemployment?

The government believes that prosperity and job creation depend on positioning Québec as an innovative economy at the international level. Québec has everything it needs to advantageously make its presence felt.

To this end, the government is committed to creating an environment more favourable to businesses, notably with respect to taxation and economic regulation, and to fostering the development of the financial sector.

Through its new economic development strategy, the government is also committing itself to firmly, steadily supporting businesses, especially in areas such as specialized worker training, innovation, the penetration of external markets, and investment.

The government is also confirming its determination to build a caring economy focusing on shared values. Its initiatives in this respect will give top priority to making quality basic education available to one and all and to the fight against exclusion from the labour market, which, for different reasons, affects far too many people. Moreover, the government has decided to gear its initiatives overall to sustainable development in order to avoid jeopardizing the potential well-being of future generations.

To enable Québec to achieve its goals of prosperity and fairness, it is essential that the public sector provide services more efficiently. This is necessary to ensure that a complete range of high-quality services are available and to avoid imposing an excessive tax burden on individuals and businesses in relation to the situation elsewhere in Canada and the rest of the world.

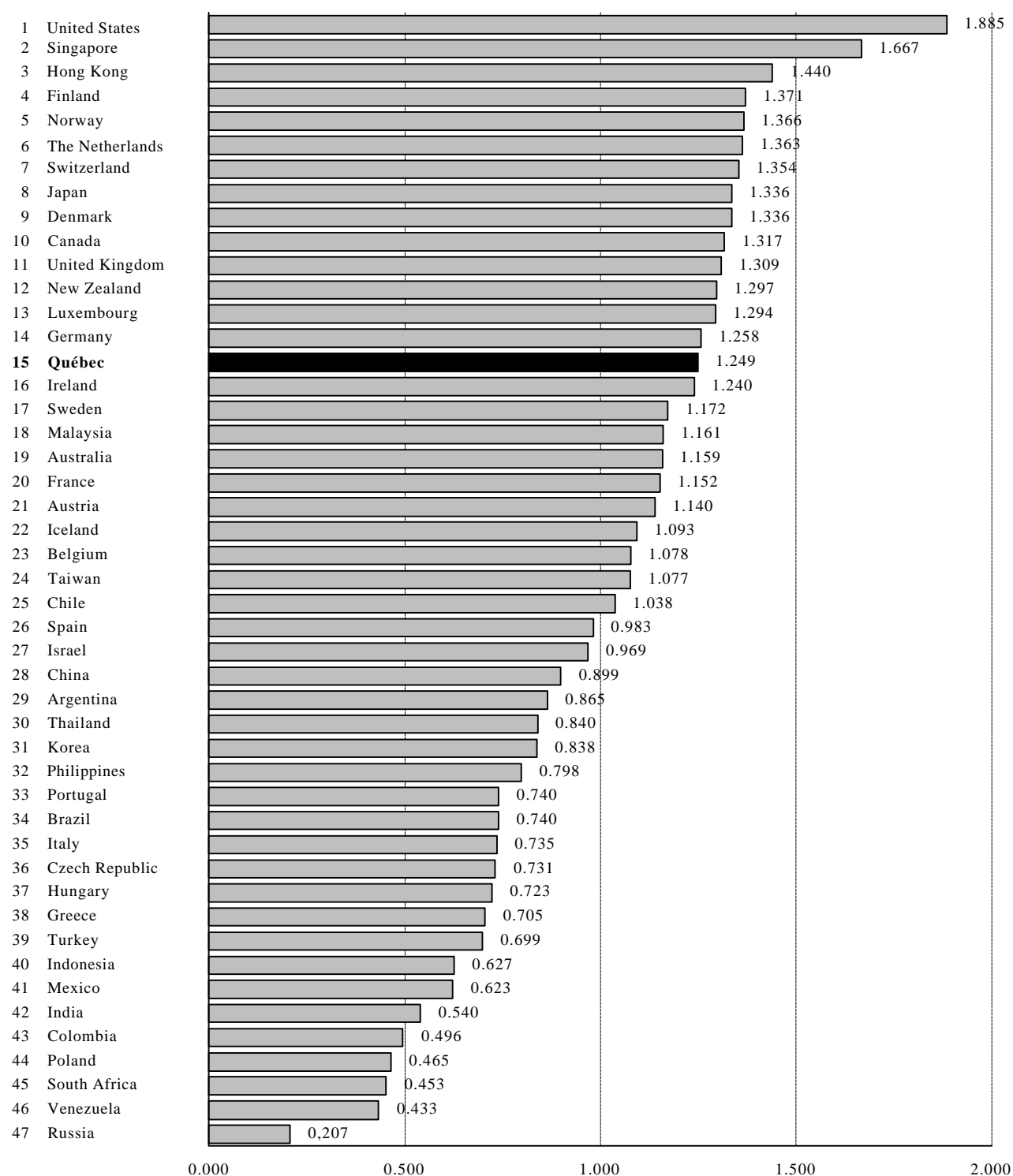
The Québec government has adopted a strategy geared to Quebecers' aspirations. Until the deficit has been eliminated, the government has reduced means with which to implement this strategy. However, it is convinced that the key to the strategy's success is, above all, the extensive involvement of all of its socio-economic partners.

Focus on Jobs, which is being tabled at the same time as the 1998-1999 Budget, contains a number of measures arising from the policy directions proposed. Three plans of action are being published simultaneously: *Corporate Taxation Reform*, *Action Plan to Promote the Development of the Financial Sector*, and *Increasing Private Investment*. In the coming months, other papers will be published and consultations will be organized on them to enable Quebecers to collectively ascertain objectives, priorities and the appropriate means of ensuring that Québec develops an innovative economy that creates jobs.

Appendices

APPENDIX A

INDEX OF INTERNATIONAL COMPETITIVENESS



Sources: The World Competitiveness Yearbook 1997 and Bureau de la statistique du Québec.

APPENDIX B

SHARE OF THE INDUSTRIAL SECTORS IN OUTPUT AND EMPLOYMENT, 1966 AND 1996

(as a percentage)

<u>Industrial sector</u>	<u>Share of output</u>		<u>Share of employment</u>	
	1966	1996	1966	1996
Agriculture	2.4	1.3	5.2	2.4
Forests	1.2	0.5	1.5	0.7
Fishing and trapping	0.0	0.0	0.1	0.1
Mines	2.7	0.8	1.4	0.4
Manufacturing industries	29.2	23.0	27.8	18.0
Construction	7.2	5.0	7.2	4.2
Transportation, communications and other public services	11.9	11.6	8.5	7.0
Wholesale and retail trade	12.1	11.3	15.6	17.2
Finance, insurance and real estate	11.0	13.9	4.1	6.0
Public administration and defence	5.2	6.3	5.5	6.5
Services	17.1	26.2	23.1	37.6
Total	100.0	100.0	100.0	100.0

Sources: Statistics Canada, *Labour Force Survey* and Bureau de la statistique du Québec, *Comptes économiques des revenus et des dépenses du Québec*.

APPENDIX C

MANUFACTURING OUTPUT BY SECTOR, QUÉBEC, 1996

	\$M ¹	As a %
Total manufacturing industries	25 845	100.0
Food	2 296	8.9
Beverages	659	2.5
Plastics products	562	2.2
Leather and allied products	116	0.5
Primary textiles and textile products	923	3.6
Clothing	1 222	4.7
Timber	1 352	5.2
Furniture and home furnishings	515	2.0
Paper and allied products	2 869	11.1
Printing, publishing and allied products	1 147	4.4
Primary metals	2 715	10.5
Metallic products	1 400	5.4
Machinery	699	2.7
Transportation equipment	2 886	11.2
Electrical and electronic products	2 440	9.4
Non-metallic mineral products	578	2.2
Refined petroleum products	141	0.5
Chemical products	1 951	7.5
Other manufacturing industries ²	1 374	5.3

1 In 1986 dollars.

2 Including tobacco products and rubber products.

Source: Statistics Canada, *Provincial Gross Domestic Product by Industry 1984-1996*.

APPENDIX D

ELASTICITY OF EMPLOYMENT IN RELATION TO OUTPUT

	1982-1992	1992-1997
Québec	0.51	0.48
Canada	0.55	0.53
United States	0.54	0.60
Germany	0.24	-0.69
France	0.10	-0.03
Italy	0.09	-0.71
Spain	0.26	0.06
The Netherlands	0.54	0.58
Belgium	0.18	-0.17
Austria	0.24	-0.09
Finland	-0.54	-0.03
Portugal	0.29	-0.09
Ireland	-0.01	0.45

Sources: OECD, Smith Barney, Salomon Brothers and Statistics Canada.

Note: The elasticity of employment in relation to output is defined as the ratio of growth in employment to growth in output. An elasticity of 0.50 indicates average annual growth in employment of 0.5% when the increase in output is 1.0%.