



# QUÉBEC WELCOMES INVESTMENT SUMMARY

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### **Québec Welcomes Investment**

Report of the Task Force on Business Investment

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*“Wealth is not without its advantages, and the case to the contrary, although it has often been made, has never proved widely persuasive.”*

John Kenneth Galbraith

*The Affluent Society* (1958)



## COVERING LETTER AND SIGNATURES OF THE THREE MEMBERS OF THE TASK FORCE

*Madame the Minister of Finance,  
Minister for Government Services,  
Minister responsible for Government Administration  
and Chair of the Conseil du trésor,*

*On October 30, you announced the creation of the Task Force on Business Investment in Québec.*

### **Convince**

*You asked us to convince our fellow citizens of the importance of supporting productivity and business investment, to meet the demographic, economic, financial and environmental challenges our society now faces.*

*To this end, you mandated us to:*

- present the main observations regarding business investment performance in Québec compared to the other provinces and the best-performing countries;*
- identify, in the current Québec context, the most significant levers to foster economic growth;*
- submit proposals to the government on what actions and means should be taken to encourage, in particular, greater business investment to stimulate economic growth.*

### **A challenge**

*We hereby submit our report with our analyses and conclusions about business investment in Québec.*

*The very short time period we were given to carry out our mandate - four months - was in and of itself a challenge, given the scope of the topic. But we must practice what we preach: we set out to make this exercise a demonstration of Québec productivity!*

*To help us meet this challenge, we were fortunate to have the first-rate and eager cooperation of everyone we had time to meet with during our work, and we thought this merited mention. We were struck by their overwhelming enthusiasm about our economic future and by the insightfulness of their suggestions. We sincerely hope that this is reflected in our report.*

## **Thanks**

One of the best kept secrets of the Government of Québec is the exceptional quality of its senior public service.

The fact that we were able to meet the deadline is in large part because we benefited from the accomplished skill and dedication of your close collaborators from the Ministère des Finances-Brian Girard, Luc Monty, Bertrand Cayouette, Éric Ducharme and Marc Sirois, and their aides.

The support of Michel-Marie Bellemare, from the Ministère du Développement économique, de l'Innovation et de l'Exportation, and of Jean-Pierre Pellegrin, from the Ministère du Conseil exécutif, was also invaluable.

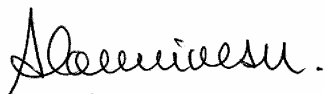
We are very grateful for this unique opportunity to be of service to our fellow citizens.

Yours truly,



Pierre Fortin

*Chair of the Task Force on Business Investment in Québec*



Andrée Corriveau

*Member of the Task Force on Business Investment in Québec*



Jean Boivin

*Member of the Task Force on Business Investment in Québec*

## SUMMARY

On October 30, 2007, the Minister of Finance announced the formation of the Task Force on Business Investment, created to “help the government identify ways to increase investment to sustain economic growth.”<sup>1</sup>

To fulfill its mandate, the Task Force focused its reflection and analyses on the four following questions about investment:

- Why do we want more?
- What is the current situation?
- What is holding us back?
- What should we do now?

The Task Force’s report has been developed around the answers to these four questions.

### □ Investment: why do we want more?

As a starting point, the Task Force supports the objective of increasing business investment because investment makes it possible to create more value per hour worked (to be more *productive*), and more value per hour worked universally increases income.

But while investing makes us more productive and greater productivity generates wealth, we need to take a step back and ask why it is important to build wealth.

### ■ Why is building wealth desirable?

The Task Force would like to stress the distinction between simply building wealth and the use that is made of that wealth. Building wealth means increasing opportunity. Building wealth can serve a variety of ends, such as reducing poverty, acquiring greater material comfort, having more free time and increasing the quantity and quality of services to the public. With regard to the latter, education, health and the environment are going to present major collective challenges in the coming decades, and we must be ready to tackle them.

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<sup>1</sup> Task Force on Business Investment Formed. Press release issued by the Office of the Minister of Finance, the Minister for Government Services, the Minister responsible for Government Services and the Chair of the Conseil du trésor, October 30 2007.

Essentially, the reason we want a strong economy is to be able to stop talking about the economy and devote ourselves to all the activities that make life worthwhile: spending time with family and friends, engaging in sports, reading, studying, going out, travelling, going to shows, helping one another and volunteering.

### ■ **How has Québec built wealth up until now?**

The Task Group next observed that Québec is in the top 15% of the richest countries in the world, but that it has lost ground in the past 25 years, and that it is one of the poorest regions within industrialized countries. Today Québec ranks 55<sup>th</sup> among the 60 states in North America. Québec shares this ranking at the bottom of the North American scale with six other Canadian provinces - including Ontario - six provinces whose growth does not really benefit from the high price of hydrocarbons.

Nevertheless, Québec's wealth has grown faster than that of Ontario in the past 45 years. Its per capita income today is 92% of that of its neighbour.

A study of the factors behind this progress leads to two conclusions.

- On the one hand, Québec's success up until now is entirely attributable to two sources: the remarkable upsurge in its employment rate and increased trade with foreign countries.
- On the other hand, two other factors that were identified - the drop in annual hours worked per employee and the relative sluggishness of productivity in Québec - have had the opposite effect, slowing the convergence of per capita income in Québec with that of Ontario and other industrialized areas.

### ■ **Productivity: the only way to generate wealth**

However, the future will be different from the past. Demographic changes will soon radically change our economic environment.

In spite of efforts to continue to encourage citizens to be economically active, the percentage of the total population of Québec that will hold a job - our global employment rate - will inevitably drop, because an increasing proportion of Quebecers will be over 65.

Furthermore, foreign trade will continue to depend on the uncertainties of the international economic situation, which Québec has little control over. We can dream of winning the lottery, as Alberta did, but it would be foolhardy to count on it for our long-term economic growth.

It follows that, in the near future, our salaries, our per capita income and our standard of living will increase only if we are able to do much more with the limited number of workers we will have. If there are fewer of us working and we want to continue to reduce the number of hours we spend working every year - which is entirely legitimate - the only way to generate wealth and avoid losing ground among nations is for each of us to create more wealth during each hour spent working, in other words, to be more *productive*.

To do this, we need to invest more, because investment is one of the main ways to increase productivity. Investment creates technological advances. It is accompanied by the training and education of workers. It brings about beneficial reorganizations of the way work is done and it helps disseminate new ideas throughout the economy.

### ❑ Investment: what is the current situation?

At the beginning of its observations, the Task Force made two distinctions.

- The first distinction involves remembering that investment performs three functions: replacing depreciated equipment (88% in 2006), equipping new workers (5% in 2006) and increasing the quantity of productive capital available for each worker (7% in 2006). It is primarily this last function that is the most instrumental in progress and that must be evaluated.
- The second distinction concerns types of investment. Basically, there are two types of investment: those made in structures-plants, - buildings and civil engineering structures - and those made in production equipment - industrial equipment, transportation equipment and information and communication equipment. Of the two, investment in production equipment is by far the greater driver of productivity.

On the world, continental and Canadian scenes, Québec does not rank very high in terms of business investment in production equipment (investment per dollar of domestic income). Québec ranks low in the OECD classification, behind the United States and the other Canadian provinces. Québec has managed to increase its accumulated level of equipment per worker (the third function, the one that counts most) more quickly than Ontario in the past 25 years. But we have not finished catching up; it takes time, and we have marked time for the past 10 years. Furthermore, Ontario is no longer the critical benchmark that it once was.

## ■ Five distinct factual dimensions

The Task Force identified five specific factual dimensions, all of which are very important for business investment in Québec.

- The first is investment in information and communication technology.

The Task Force has shown that the central explanation for the lag in Québec - and Canada - in investment in production equipment is our under - investment in communication and information technologies. In other categories of equipment - industrial equipment, transportation equipment, etc. - the investment of Québec businesses per dollar of domestic income compares favourably to that of the United States.

- The second dimension concerns business investment in research and development (R&D).

In this area, Québec ranks fairly well internationally. Québec's R&D tax credits have yielded positive results, although R&D investment remains concentrated in certain sectors.

- The third dimension is that of investment by foreign multinationals.

In Québec, as elsewhere, multinational companies - whether Québec - based, Canadian or foreign - have much better performance than average in terms of productivity, salaries paid, research and technological and organizational innovation.

Foreign multinationals are much less present in Québec than elsewhere in Canada, representing 13% of jobs here, compared to 20% or more in the other provinces. They are nevertheless the source of 40% of business investment in equipment in Québec, and close to 50% in the service sector, where they perform particularly well. Their contribution to investment is even higher here than those of foreign multinationals in the rest of Canada.

The takeover of local businesses by foreign multinationals raises many concerns, some of them legitimate. The question is obviously a sensitive one, and it is important that rules be established and followed.

- The fourth dimension is the distribution of investment among the different industrial sectors.

The commercial services sector is the area that has seen the fastest growth in Québec and elsewhere in the past 30 years. It employs 53% of Québec workers, compared to 43% in 1976. During this time, manufacturing has dropped to 14% of total employment, from 23% 30 years ago.

However, our service sector - in Québec as in Ontario - lags significantly in productive capital and in productivity per worker compared to the United States. In spite of recent progress, the gap with the United States continues to widen. This is very important, because the Canadian productivity lag in the service sector is the main area in which Canada is unable to recreate American productivity at home.

Finally, in Québec, business investment per dollar of income is at its highest in finance, culture and transportation. These sectors are followed by mining, energy and forestry and agriculture, and then by the manufacturing and professional services sectors. In terms of absolute investment, manufacturing, finance and culture are the leaders.

- The final dimension we looked at was the distribution of investment among the regions of Québec.

Employment growth has been very strong during the past 20 years in resource regions such as in the Bas-Saint-Laurent and the Saguenay–Lac-Saint-Jean. Global demand for natural resources is strong and should remain so in the coming decades, which augurs well for regions that rely on mining, energy and even eventually forestry.

Gaspésie lost large paper mills in Chandler and New Richmond and its mine in Murdochville, but it is in the process of recovery, particularly through the development of wind energy and seafood products.

The outlook for Abitibi-Témiscamingue is favourable because of its mining sector.

A few cities, such as Drummondville, Québec City and Rivière-du-Loup, have shown very solid economic performance recently.

However, the relative sluggishness of growth in productivity in the resource regions, as well as in Metropolitan Montréal, remains a concern.

## □ Investment: what is holding us back?

To answer this third question, the Task Force identified the deterrents to business investment, addressing both the factors that reduce expected performance and those that increase the cost of investment.

- A company's return on investment depends on its level of employment and its capacity to produce more per hour of use of its human and equipment resources.
- The cost of investment reflects the cost of acquisition of capital goods, the cost and availability of loan capital and the cost of taxation.

## ■ How do we increase return on investment?

The income that a company derives from a new piece of equipment is determined by the *productivity* of this equipment, that is, the production that the equipment can provide per hour of operation, and by the selling price of this production.

The more abundant and skilled labour is, the higher equipment productivity is. Current labour shortages are constraining factors, but could be addressed in part through more qualified immigrants, immigrant entrepreneurs and immigrant investors.

However, pure productivity, in other words our capacity to produce more with the same amount of work and capital, is the basis of economic growth.

- At least 60% of the difference in prosperity observed across the country and at different times is explained by differences in pure productivity.
- Increases in pure productivity increase our standard of living without more work, more capital or more natural resources and, as a result, without harming the environment.

There are five ways an economy can produce more without increasing the amount of work and capital:

- by imitating the technologies developed by others;
- by getting directly involved in the process of technological and organization innovation;
- by having employees that are more skilled;
- through a business environment that encourages good decisions;
- by being able to count on a solid public infrastructure.

The Task Force analyzed each of these.

- **Technological imitation**

Technological imitation is an important avenue for increasing productivity. A large part of this progress ensues from *versatile technologies* like electricity and computer chips. Access to these technologies is necessarily through the acquisition of production equipment.

For two decades, investment in information and communications technologies has been a very important driver of the dissemination of technology and productivity growth in all industrial sectors, particularly in the service sector. In fact, Québec and Canada's productivity lag behind the U.S. is mainly associated with lower investment in information and communication technologies and slower productivity growth in the service sector.

One option for the Government of Québec is to extend the capital tax credit to investments in information and communication technologies, currently limited to manufacturing and processing equipment in forestry and manufacturing, without discriminating against the service sector.

But before taking this direction, we have to understand why Canadian and Québec companies find it less profitable to invest in information and communication technologies than American companies.

- **Involvement in the technological and organizational innovation process**

A second way for companies to improve the performance of their production process is to get directly involved in technological and organizational innovation. This means developing and acting on ideas about the types of products to create, the production process and how work is organized.

An important aspect of companies getting directly involved in developing new ideas is research and development. There is a close connection between companies' R&D and growth in productivity and per capita income.

This is not surprising. R&D turns companies into technological sponges. With business R&D investment at 1.5% of GDP, Québec ranks quite high in R&D activity internationally. Keeping the current R&D tax system is therefore a good idea. We also have to continue to encourage knowledge transfer among university and college scientific milieus, government labs and industrial research milieus.

But innovation within companies is far from a purely technological phenomenon: it is also a social phenomenon.

Recent studies have determined that organizational research is a major source of productivity growth. This includes changes to business models, management practices, how work is organized, sources and forms of financing, strategic alliances and the nature and degree of outsourcing.

All of these forms of change closely tie employees, customers and suppliers to the company's progress. In other words, investment in equipment leads to greater productivity, but productivity can also increase through many other sources than investment in equipment. The economy is the daughter of sociology and culture, not only of technology.

- **The quality of human capital**

A third key factor in business productivity is the quality of human capital.

Education is the main source of quality of human capital. Québec has made great strides in education in the past 60 years. Its educational revolution was meteoric. Its effect on the rate of employment and salary levels was enormous.

Investment in human capital must continue through continuing education and on-the-job training. The capacity for organizational innovation and productivity growth depend on it.

Several major challenges remain. We have to stop young people from dropping out of school, make acquiring basic skills an absolute priority, promote science and technology, promote the development of entrepreneurship and groom the next generation in companies, increase the number of university graduates and emphasize continuing education of employees.

- **The business environment**

The fourth driver of business productivity is the quality of the "business environment."

Essentially, the business environment must force companies to be competitive and open to the world. The most competitive economies and sectors are generally those that innovate more. If a company is a horse, competition is the crop that makes it gallop.

### ***Competition***

For business to perform, monopolies and exclusive spheres of interest cannot be allowed to exist. Of course, market regulation is required in many situations. But in many other cases, the sole effect of regulation is to offer excessive state protection to a preferred group over the competition. The consequences are twofold: higher prices for customers and less motivation to innovate.

Several recent studies have confirmed that regulation that restricts the entry of new businesses into markets has a negative effect on productivity. It was also observed that the cost of complying with regulation is much higher for small businesses than for large companies and is higher in Québec than in any other Canadian provinces.

We must continue efforts to reduce obstacles to competition in the Québec economy and to limit regulation to the necessary minimum.

### ***Opening doors to the world***

Another way to increase competition among businesses is to encourage openness to foreign markets.

Globalization has many benefits for Québec. It puts a maximum of competitive pressure on businesses and forces them to excel internationally. The Canada-U.S. Free Trade Agreement had extremely positive, verifiable effects on the volume of our exports to the United States, on the average size of our businesses, on the dissemination of technology and, as a result, on the productivity of our economy.

Globalization has not been a major factor in increasing disparities in Canada and Québec. It nevertheless hit certain groups of workers hard, in particular through mass lay-offs and the softwood lumber dispute. We have to seize the greatest benefit we can from globalization, but ensure that the process is civilized and compensate those who suffer as a result of it.

The Government of Québec must continue to facilitate interprovincial and international trade and direct investment by Québec multinationals abroad and foreign multinationals in Québec.

#### ▪ **Solid public infrastructure**

Finally, a solid public infrastructure (roads, energy, public transportation, the environment, schools, hospitals, etc.) is also essential to a strong business environment.

For the past 20 years, governments have under-invested in infrastructure. They have, however, started to redress the situation, particularly in Québec, with an energy strategy and an infrastructure plan announced in 2006 and 2007.

## ■ How do we reduce the cost of investment?

While a number of factors can limit return on investment, others can increase the cost of investment and intensify the deterrent effect. The Task Force identified three sorts of costs:

- the acquisition cost of buildings;
- the cost and availability of loan capital;
- the cost of taxation.

### ■ The acquisition cost of buildings

The first type of cost to monitor is the acquisition cost of buildings and structures. We need an effective construction industry for this sort of investment to be affordable.

The industry is skilled in Québec, but there is always room for improvement. Building in Québec involves risks, as was shown in certain cases from the recent past. It is time to bring partners in the construction industry together to develop methods to reduce conflicts, shortages and schedule and budget overruns on Québec construction sites, where activity is bound to increase in the near future.

### ■ The cost and availability of loan capital

The second type of cost to watch is the cost of loan capital for investment. The Task Force looked at four factors: the availability of savings, openness to international investment, the availability of venture capital and government financial aid.

#### *The availability of savings*

While we do not save enough to finance the investment expenditures of Québec businesses, they can borrow outside of the province. But the more businesses are required to do so, the more their investments enrich foreigners rather than Quebecers.

This is why it is important for Quebecers to save. Unfortunately, our personal savings has declined in the past 25 years. So we have to step up efforts to encourage Quebecers to save, including by taxing consumption, if the tax burden is to be restructured.

At the same time, the Government of Québec must continue to limit its borrowing. By absorbing a smaller portion of national savings, it leaves more for businesses to invest in the economy.

### ***Openness to international investment***

A standard method of circumventing a shortage in national savings to finance business investment is direct foreign investment, that is, investment by businesses outside of Québec.

Only 13% of employment in Québec is under foreign control. But it has been shown clearly that multinationals - this applies also to Québec multinationals - **have much better performance than the average local business in terms of productivity, salaries paid, research and technological and organizational innovation.** As we pointed out, in spite of their small numbers, foreign multinationals are the source of 40% to 50% of investment in equipment among Québec businesses, including in the service sector.

Recent takeovers in Québec have raised fears, some of them legitimate. We must establish simple and transparent rules regarding takeovers of local business by foreign multinationals.

Given the performance of foreign multinationals, we must continue to welcome them to Québec. Québec has major assets for attracting direct foreign investment, including its easy access to the American market and the quality of its labour force. We must protect these assets, correct any deficiencies and develop new strengths.

This means making preserving access to the American market a major priority; working hard to develop labour, stabilizing the R&D tax system, moving up the date to eliminate the capital tax, avoiding new taxes on payroll expenditures and promoting the emergence of new, specialized or technological industrial niches.

It is not clear that Québec is effectively communicating its policies and advantages internationally. This is why the Task Force recommends studying and clarifying the functions of the many departments and agencies involved in seeking out foreign investment, and, if possible, reducing their numbers. Québec's international voice must be clear, simple, unified, competent, convincing, competitive and well coordinated.

### ***The availability of venture capital***

The third cost factor to consider is the availability of venture capital.

In 2003, the Brunet report pointed to the predominant place of the public sector in the venture capital industry in Québec, the absence of foreign capital and the difficulties regions experience. It recommended corrective action that has started to produce results. But progress has been slow and concerns have recently been raised about a shortage of funds in the start-up phase of projects.

What seems to be required is to support the Québec venture capital industry's reorganization efforts, to help identify niches of excellence in the regions (around the ACCORD project) and to carefully monitor the evolution of the availability of venture capital during the start-up phase of projects.

### ***Government financial aid***

The fourth factor to monitor in financing investment is government financial aid, the main agent of which is Investissement Québec.

This public company does great work, but the Task Force feels that it is too concentrated in the manufacturing sector (82%). This narrow sectoral focus is inscribed in the government programs that Investissement Québec is required to apply.

Without downplaying difficulties in the manufacturing sector, the Task Force believes that we have to end the anachronistic discrimination against the service sector and treat all sectors equally.

In addition to Investissement Québec, many departments and organizations are involved in aid to investment. The time is right for a careful study of the overall logic of this abundance of involvement and to clarify the objectives and functions of each body.

#### **▪ The cost of taxation**

In addition to the acquisition cost of structures and loan capital costs, the third factor that influences the cost of investing is taxation.

In Québec, past business investment is taxed primarily in two ways: corporate income tax (federal and provincial) and Québec's capital tax. If these taxes are too high, investment is less profitable and businesses will invest less. This is why we have to pay particular attention to these taxes.

Québec has chosen to have more public services than other places, so it must have higher taxes. But we must identify the least harmful ways of taxing.

To this end, the Task Force has identified three principles:

- We must tax consumption (GST, QST, specific taxes, user tariffs, etc.) rather than investment.
- We must avoid constantly changing the tax system.
- We must ensure that our corporate taxes are competitive internationally. If structural causes of our low rate of investment are difficult or impossible to eliminate, we may need to have lower corporate taxes than elsewhere.

To assess the tax burden on Québec businesses, it is helpful to calculate a synthetic rate, called the *effective tax rate on investment*, which summarizes the combined impact of taxes on the return on a new investment.

For example, if the before-tax return on an investment is 10%, an effective tax rate of 40% reduces it to 6%. This effective tax rate was 35% in Québec in 1998, it dropped to 24% in 2008, and it will drop to 19% in 2012, one year after the announced elimination of the capital tax. Québec's effective tax rate would then be around the median of OECD countries. It would be lower than tax rates in Ontario and British Columbia, but higher than tax rates in Alberta and the Atlantic Provinces.

The Task Force is convinced that Québec can and must do even more to encourage business investment.

### ***Eliminating the capital tax immediately***

The Task Force believes that Québec must eliminate its capital tax immediately. This tax is the most harmful to investment because, unlike corporate income tax, the amount paid is the same no matter what a company's financial situation. For reasons of efficiency and credibility, doing away with this tax is the first step we should take, and we should do so without delay.

#### **• *Reducing corporate income tax***

Québec's corporate tax is 11.4% in 2008, an increase of 2.5 points since 2006, and it will increase again to 11.9% in 2009. The federal corporate tax rate is 19.5% and will drop to 15% in 2012. The federal government has asked the provinces to reduce their rates to 10% by 2012, so that Canada can have the brand image of "the 15-10 country."

Should Québec heed the federal request? The Task Force thinks it should, because current studies agree that corporate income tax has a major negative impact on business investment.

Such a measure may raise a certain amount of reticence politically, because it is generally perceived as a gift to rich owners of companies to the detriment of the rest of society. This is both natural and misguided. When we tax corporate income, we take away money that would serve in part to raise salaries and to make investments that would increase productivity, and, again, increase salaries. Studies conducted with tens of thousands of companies indicate that almost 100% of any increase in business taxes is shouldered by employees.

Taxation in Québec must also support competition with other countries, because direct foreign investment is very sensitive to corporate income tax rates. Countries that insist on having a higher than average tax burden for businesses seriously risk being abandoned by international companies, even ultimately by local companies that are looking for greener pastures.

Finally, the Task Force believes it is much better for Québec to reduce its general corporate income tax rate to 10% as soon as possible, than to transform its current capital tax credit into a generalized investment tax credit.

This would involve transforming the capital tax credit currently offered to forestry and manufacturing companies for acquisitions of manufacturing and processing equipment into an investment tax credit that is generalized to all regions, all industrial sectors and all forms of tangible investment (including investments in information and communication technologies).

The Task Force's opposition to a generalized investment tax credit is based on three arguments.

- First, the history of the investment tax credit in the United States over the past 45 years has been astonishing. Since it came into being, it has been changed many times under the influence of lobby groups. This instability no doubt explains in large part why a link has never been identified between this credit and the level of business investment in the United States.
- Second, there are fairly solid studies that show that providers of investment goods take a large portion of the credit, hampering its effectiveness.
- Third, the tax credit applies purely to investments in tangible capital - so-called "tangible assets" - although it has been shown that a large part of increases in productivity has other sources, such as organizational change, scientific, traditional or artistic creativity, innovations in management, marketing and finance, training and on-the-job training. This is true of all sectors, but particularly of the service sector, where the productivity challenge is the greatest, if we compare the current situation in Québec and Canada with that of the United States.

A general reduction in corporate income tax, on the contrary, has the merit of applying to all sources of productivity growth that show up on the corporate balance sheet. This is why the Task Force believes that this is the best approach.

This negative view of a generalized investment tax credit obviously does not apply to a specific tax credit that target with a major economic or social objective, such as compensating regions for the costs of distance, offering one-time help to the forestry or manufacturing sector, promoting investment in protecting the environment, etc.

In these three examples, what is targeted is precisely tangible capital. A targeted investment tax credit offers flexibility. It is one among many intervention tools that governments must have to pursue particular major economic or social objectives.

## □ Investment: what do we do now?

To conclude its report, the Task Force has formulated the following 21 recommendations.

1. The Task Force recommends that the government completely eliminate the capital tax without delay.
2. The Task Force recommends that the government reduce the general corporate tax rate to 10% by 2012, rather than introduce a generalized tax credit on investment.
3. The Task Force recommends that the government stabilize the research and development tax system.
4. The Task Force recommends that the government avoid any additional increase in payroll taxes.
5. The Task Force recommends that the government put an end once and for all to the anachronistic discrimination in taxation and government programs against the service sector and treat all sectors equally.
6. The Task Force recommends that the government support the spirit of the Gagné Report by levelling the playing field for all regions while encouraging productivity through a general policy based on neutral criteria such as distance and encouraging investment.
7. The Task Force recommends that the government continue efforts already underway to reduce regulation.
8. The Task Force recommends that the government make it an absolute priority to preserve access to the American market for businesses, while continuing in its efforts to promote the mobility of workers and free trade between Québec, the rest of Canada and the rest of the world.
9. The Task Force recommends that the government recognize the remarkable contribution of Québec and foreign multinationals to investment in the province, continue to welcome foreign multinationals, but adopt clear rules about takeovers of local companies.
10. The Task Force recommends that the government review and clarify the objectives and functions of the various departments and agencies involved in seeking out foreign investment.

11. The Task Force recommends that the government subject companies more firmly to the discipline of competition.
12. The Task Force recommends that the government support restructuring efforts undertaken by the venture capital industry.
13. The Task Force recommends that the government review and clarify the objectives and functions of the various departments and agencies involved in financial aid to investment.
14. The Task Force recommends that the government encourage savings through various means, while avoiding increased income disparities.
15. The Task Force recommends that the government bring together partners in the construction industry to develop methods to reduce conflicts, shortages and schedule and cost overruns at Québec construction sites, particularly given the anticipated increase in construction activity.
16. The Task Force recommends that the government combat the phenomenon of young people dropping out of school (particularly boys) with greater conviction and that resources be made available at the high school level to help Québec catch up in the number of graduates it produces compared to the United States and Ontario.
17. The Task Force recommends that the government bring the number of university graduates to the U.S. level (32% of 25- to 44-year-olds).
18. The Task Force recommends that the government promote professional, scientific and technical training at the secondary and college level and continuous training of corporate employees, both staff and managers.
19. The Task Force recommends that the government continue to support knowledge transfer among university and college scientific milieus, government laboratories and industrial research milieus.
20. The Task Force recommends that the government offer concrete support to organizations that promote the development of entrepreneurship among young Quebecers and those that help outgoing managers groom the next generation.
21. The Task Force recommends that the government strengthen structures to receive immigrants, particularly qualified immigrants, immigrant entrepreneurs and immigrant investors.

## □ Conclusion

Québec's progress in recent decades is encouraging, but the Task Force is convinced that we must go farther without delay.

- On the one hand, faced with the challenges of Asia, demographics, public services (health, poverty, environment), time is at a premium. It is urgent that we accelerate our productivity and find the resources to face these three challenges.
- On the other hand, internationally, Québec needs to differentiate itself, in its own eyes and in the eyes of foreigners. The province is peripheral because of geography and the North American climate, but it has nonetheless achieved virtually the same productivity as central Canada. But Québec needs an additional push to achieve an American standard of living, which still exceeds ours by 30%.

We will not excel by remaining average, but by outdoing others.



