MEI Ideas for a More Prosperous Society

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BOOSTING INCOME MOBILITY THROUGH ECONOMIC LIBERTY IN QUEBEC

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HIGHLIGHTS

People's ability to climb the income ladder over time is the mark of a dynamic society. Through personal effort, individuals must be able to climb up the ladder and improve their lot. In economically freer nations, individuals have fewer obstacles preventing their ascent, and with lower taxation, they reap greater rewards for their efforts. In this Paper, we examine various key concepts that help explain what enables individuals to ameliorate their positions, using recent data and studies that offer a clear picture of the situation in Quebec.

Chapter 1 – Economic Freedom in Quebec and the Rest of Canada

- Economic freedom is the ability of individuals to make their own economic decisions without government interference. It emphasizes voluntary exchange and autonomy in the marketplace.
- Alberta ranks as the most economically free province, followed by Manitoba and Ontario, while Quebec ranks as the least free province. Historically, Quebec has consistently been one of the least economically free provinces.
- Total government spending in Quebec as a percentage of GDP in 2022 was nearly 10 percentage points higher than in Ontario, 14 percentage points higher than in British Columbia, and nearly double that of Alberta.
- The tax burden in Quebec was 38.9% of GDP in 2022, the highest tax burden in all of Canada. The higher tax burden on Quebecers reduces the amount of money available to individuals to spend or invest as they please.
- Over 35% of Quebec's workforce is unionized, compared to roughly 29% in British Columbia, and below 25% in Ontario and Alberta. Quebec's high level of unionization negatively impacts its economic freedom, limiting employers' ability to adjust their workforce to market conditions, among other restrictions.
- If certain other important components of economic freedom (like occupational licensing, housing regulations, interprovincial trade barriers, and industry-level regulations) could be included, Quebec's score of 2.67, already bad, would actually worsen.

Chapter 2 – Income Mobility—What Is It and How Much Is There in Quebec?

- Absolute mobility refers to whether a person experiences improvements in living standards with respect to a given reference point, such as the level of income of one's parents.
- Relative mobility indicates whether an individual attains a higher social rank, which is to say, how much a person rises on the income ladder.
- When large segments of the population feel that the economic system allows them, in principle, to rise to the top, social cohesion is improved.
- Improvements in *absolute* income mobility tend to generate long-run improvements in *relative* mobility because the former implies the presence of economic growth, which matters far more for people at the bottom of the income ladder.
- Canada has long exhibited high levels of income mobility. However, this conceals large regional differences, notably Quebec's relatively poor performance.
- Before the tax man intervenes, Quebec is seen to have the second-highest social mobility of all Canadian provinces, trailing only Alberta. When family income is taxed, this dynamic is reversed, pushing Quebec back down to the middle of the pack and undoing a great deal of its social mobility.

Chapter 3 – The Connection Between Economic Freedom and Income Mobility

- The absence of disincentives or barriers that impede efforts at upward mobility among lower income groups will increase both relative and absolute income mobility.
- High tax burdens may discourage people from working, thus preventing the acquisition

of on-the-job experience that would allow them to climb the ladder.

- The sum of the direct and indirect effects of economic freedom—especially the property rights and regulation components—far outweighed the effects of inequality.
- If Quebec had been as economically free as Alberta, it would have reversed the decline in income mobility it experienced from 1982 to 2018.
- Government spending in the form of transfers to individuals had no effect on the ability to exit poverty permanently.
- In economically free environments, the persistence of income status through inheritance at birth is massively eroded.

Chapter 4 – Public Policy Recommendations for Better Income Mobility in Quebec

- **Recommendation 1:** Set up an expenditure review committee with the aim of drastically reducing public spending, in particular by downsizing the public sector.
- **Recommendation 2:** Reduce taxes significantly, especially payroll taxes for employers, and the corporate income tax.
- **Recommendation 3:** Initiate a process to make zoning more flexible, to allow greater population density and more versatile use of land.
- **Recommendation 4:** Reduce occupational licensing significantly and replace it with voluntary/optional certification.
- **Recommendation 5:** Eliminate barriers to interprovincial trade to match Alberta, which has only around 1/6 as many barriers as Quebec.

Quebec ranks poorly in terms of economic freedom, coming last among Canadian provinces. The current fiscal and regulatory environment hampers individuals' ability to climb the economic ladder, as high taxes and rigid regulations erode both the incentives and the opportunities necessary for economic advancement. Political decision-makers must ensure that a regulatory framework is put in place to encourage income mobility among the less well-off members of society.

INTRODUCTION

The possibility of doing better than previous generations is a defining characteristic of modern Western societies, and Quebec is no exception to this. People's ability to climb the income ladder over time is the mark of a dynamic society, and social mobility (both across and within generations) is one of the clearest indicators that a society is prospering and creating opportunities for all. Conveniently for us, income mobility serves as a very good indicator of social mobility.

Through personal effort, individuals must be able to climb up the ladder and improve their lot. Without this social elevator, those at the bottom of the income scale are forced to live their entire lives there, without any real opportunity for improvement. If working hard, developing skills, and innovating are not perceived as generating upward motion on the income ladder, a society will likely face greater socio-political instability.[1] Thus, a good set of economic policies will promote effort, entrepreneurship, and innovation as ways to move up.

This largely explains the link between a country's income mobility and its level of economic freedom.[2] Economic freedom measures the degree of government involvement in economic affairs via taxation, regulation, and barriers to entrepreneurship and trade. In economically freer nations, individuals have fewer obstacles preventing their ascent, and with lower taxation, they reap greater rewards for their efforts toward this goal.

This link is not surprising, and it manifests in various ways. Consider, for example, the level of taxation imposed by the current government of Quebec. The more of their income that is confiscated by government, the less they have available to employ toward improving their lot. In concrete terms, when tax pressure is high in a given area, the level of entrepreneurship is lower than it would be if it were lower.[3]

In this Research Paper, we examine various key concepts that help explain what enables individuals to ameliorate their positions, using recent data and studies that offer a clear picture of the situation in Quebec.

In economically freer nations, individuals have fewer obstacles preventing their ascent, and with lower taxation, they reap greater rewards for their efforts.

Because there is no generalized income mobility without economic freedom, in Chapter 1 we look at economic freedom and its different indicators, comparing Quebec with other Canadian provinces. In Chapter 2, we study both inter- and intragenerational social mobility in Quebec and compare it against the other Canadian provinces. We also examine in more detail how Quebec has performed historically in terms of social mobility in general, and income mobility in particular. In Chapter 3, we analyze the links between these two interrelated concepts. Finally, in Chapter 4 we formulate specific public policy recommendations to enable Quebecers to benefit from greater economic freedom, and thereby enjoy greater social and income mobility.

1. Finis Welch, "In Defense of Inequality," *American Economic Review*, Vol. 89, No. 2, May 1999, pp. 15–16.

2. Justin Callais and Vincent Geloso, "Wealth Generation: How to boost income mobility in the UK," *Institute of Economic Affairs*, March 2024, IEA Discussion Paper No. 122, pp. 10–25.

3. Emmanuelle B. Faubert, "Encouraging Entrepreneurship: Billions of Dollars of Subsidies or Tax Cuts?," Research Paper, MEI, September 2023, pp. 10–14.

CHAPTER 1

Economic Freedom in Quebec and the Rest of Canada

The degree of economic freedom is a central determinant in the income mobility of a population. To properly grasp what this means, however, we must first define "economic freedom." The term has been bandied about frequently by pundits, columnists, and politicians—sometimes positively, sometimes negatively, but rarely with any clear definition.

To provide this definition, we must first understand that the foundations of economic freedom are personal choice, voluntary exchange, freedom to compete, and the protection of personal and property rights.[4] Institutions and policies that secure these foundations produce economic freedom. To "provide an infrastructure for voluntary exchange, and protect individuals and their property from aggressors seeking to use violence, coercion, and fraud to seize things that do not belong to them," governments must secure property rights and avoid excessive taxation, including indirect taxation via inflation.[5] Government must also "refrain from actions that interfere with personal choice, voluntary exchange, and the freedom to enter and compete in labor and product markets" via international trade barriers, regulatory hurdles, and excessive taxation that discourage effort.[6]

Economic freedom is compromised when, for instance, governments impose excessive regulations or barriers to entry, or take actions that favour certain businesses and companies over others. Such measures limit the freedom to compete while also limiting the ability for some to freely exchange the goods and services they produce with consumers. This extends to barriers such as trade tariffs that keep foreign goods and services (as well as capital) out of the country. It is also compromised when governments can confiscate property from individuals or limit, beyond what is "reasonable," the uses of private property.[7] If such violations occur, effort and investment (especially those that pay off far in the future) are greatly discouraged.[8]

We can therefore define economic freedom as the ability of individuals to make their own economic decisions, including choices about work, production, investment, and consumption, without government interference. It emphasizes voluntary exchange and autonomy in the marketplace, allowing people to freely pursue their economic interests.

The foundations of economic freedom are personal choice, voluntary exchange, freedom to compete, and the protection of personal and property rights.

All these factors that make up economic freedom have repercussions on people's income mobility, and therefore on their ability to improve their standard of living. Income mobility varies from country to country, and from province to province in Canada, depending on the different public policies in place, and the extent to which these restrict or allow economic freedom.

Economic Freedom: Quebec vs. the Rest of Canada

Until the 1990s, economists tended to use "natural experiments" such as Hong Kong versus China, North Korea versus South Korea, and Taiwan versus

4. Gwartney and Lawson, "The concept and measurement of economic freedom," *European Journal of Political Economy*, Vol. 3, No. 3, September 2003, p. 406.

5. *Idem*.

6. *Ibid*., p. 407.

7. Without going into too much detail, the "reasonable" is defined as the limits of markets that economists frequently emphasize, such as externalities and public goods, which are dubbed "market failures." The former can be illustrated by problems of pollution, while the latter by services such as national defense. The nature, degree, and remedies to market failures are heavily debated propositions in economics. (See notably Glenn Furton and Adam Martin, "Beyond market failure and government failure," *Public Choice*, Vol. 178, No. 1, October 2018, pp. 197-216; and Alain Marciano, "Why Market Failures Are Not a Problem: James Buchanan on Market Imperfections, Voluntary Cooperation, and Externalities," *History of Political Economy*, Vol. 45, No. 2, May 2013, pp. 223-254.) We will sidestep this debate, as the Quebec government's involvement in the economy is so extensive that it falls outside the usual range of discussions among economists, making the debate irrelevant in this context.

8. Mancur Olson, "Dictatorship, Democracy, and Development," *American Political Science Review*, Vol. 87, No. 3, September 1993, p. 572.

China to document the importance of economic freedom to development.[9] The comparative evidence was strong, but lacking an actual measure, it was hard to generalize from such extreme cases.[10] Fortunately, thanks to efforts that began in the 1980s and 1990s, there are now multiple indices that measure economic freedom.[11]

The most famous of these is the Fraser Institute's Economic Freedom of the World (EFW) index that covers many countries since 1970 (with recent extensions further back to 1950).[12] It has five components, reflecting the above definition: 1) legal structure and security of property rights, 2) sound money, 3) freedom to trade internationally, 4) freedom from regulation, and 5) size of government.[13] The scores go from 0 (least free) to 10 (most free). In this index's most recent edition, Canada is the 10th most economically free country in the world.[14]

However, this does not mean that economic freedom is distributed evenly across the country. Provincial governments adopt different public policies and set different tax levels, resulting in different levels of economic freedom. Fortunately, the Fraser Institute produces another index, the Economic Freedom of North America (EFNA) index, that has measured economic freedom in all sub-districts of Canada, the United States, and Mexico since 1980. In Canada, Alberta ranks as the most economically free province, followed by Manitoba and Ontario, while Quebec ranks as the least free province (see Figure 1-1). Historically, Quebec has consistently been one of the least economically free provinces, and this is especially true over the past 20 years.[15]

The EFNA index measures three variables: government spending, taxation, and labour market regulation.[16] We will start by delving into each of these three components. We will then explore how this index might actually understate Quebec's low level of economic freedom.

Government Spending

To assess government spending, the EFNA examines the proportion of government consumption in relation to total economic activity within a province. Other important areas measured include general government consumption expenditures, which track government spending as a percentage of GDP. For this metric, lower values suggest greater economic freedom. The ranking also takes into account government transfers and subsidies, which measure the extent of income redistribution by the government.[17]

All these factors that make up economic freedom have repercussions on people's income mobility, and therefore on their ability to improve their standard of living.

Quebec has extremely high levels of government spending,[18] which contributes to its ranking as the least economically free province in Canada. Furthermore, Quebec ranks as having the highest public government spending as a percentage of GDP[19] (see Figure 1-2). Total government spending in Quebec as a percentage of GDP in 2022 was nearly 10 percentage points higher than in Ontario, 14 percentage points higher than in British Columbia, and nearly double that of Alberta.[20] This high level of government spending corresponds to a larger government presence in

9. Milton Friedman, "The Hong Kong Experiment," Hoover Institution, July 30, 1998; Robert A. Lawson, "Economic Freedom," Econlib, Encyclopedia, consulted July 12, 2024.

10. Vincent Geloso and Gregory W. Caskey, "Economic freedom in economic history," in Niclas Berggren (ed.), *Handbook of Research on Economic Freedom*, Edward Elgar Publishing, 2024, pp. 59-72.

11. James D. Gwartney and Robert A. Lawson, "The creation of the Economic Freedom of the World index," in Niclas Berggren (ed.), *Handbook of Research on Economic Freedom*, Edward Elgar Publishing, 2024, pp. 16-30.

12. For the extension to 1950, see Ryan H. Murphy, "Economic freedom, 1950-2020," in Niclas Berggren (ed.), *Handbook of Research on Economic Freedom*, Edward Elgar Publishing, 2024, pp. 47-58.

13. James Gwartney *et al.*, *Economic Freedom of the World* – 2023 Annual Report, Fraser Institute, 2023, p. 8.

14. *Idem.* p. 8.

15. Fraser Institute, North America Dataset – 1981 to 2023, consulted June 25, 2024.

16. Dean Stansel *et al.*, *Economic Freedom of North America* – 2023 Annual Report, Fraser Institute, 2023, p. v.

17. *Idem.* pp. 15-20.

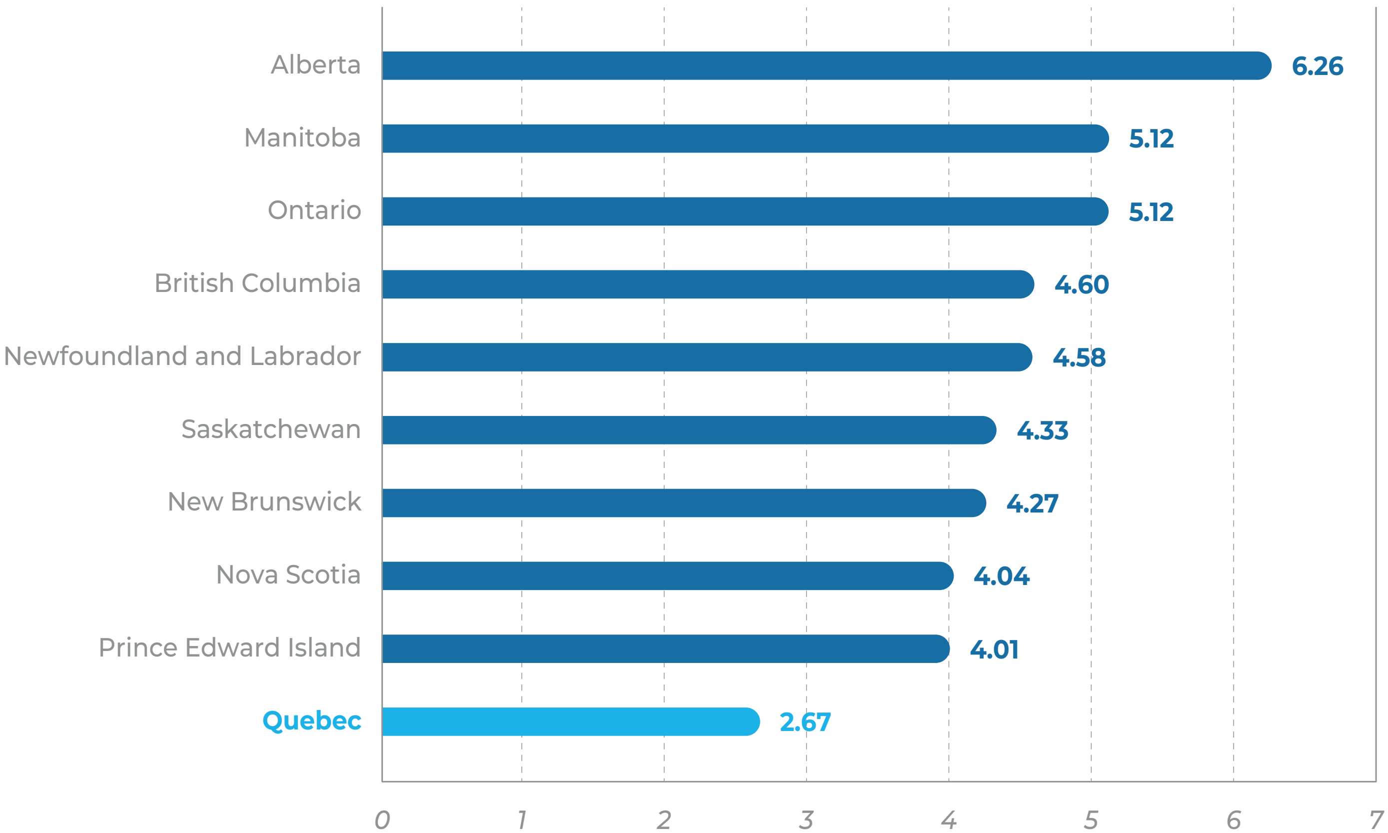
18. Which cumulate all levels of government spending.

19. Authors' calculations. Statistics Canada, Table 36-10-0450-01: Revenue, expenditure and budgetary balance - General governments, provincial and territorial economic accounts (x 1,000,000), November 8, 2023; Statistic Canada, Table 36-10-0222-01: Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000), November 8, 2023.

20. *Idem.*

Figure 1-1

Economic freedom score for Canadian provinces, 2021



Source: Dean Stansel *et al.*, *Economic Freedom of North America 2023*, Fraser Institute, 2023, p. 7.

Quebec, which reduces economic freedom. The more the government spends, the more taxes it needs to collect, meaning that individuals and businesses have less freedom to use their resources as they see fit.

Taxation

The EFNA examines personal and corporate income and payroll taxes as a percentage of total income. Lower tax burdens correspond to greater economic freedom. Additionally, the ranking considers the top marginal tax rate and the threshold at which it applies.[21]

The tax burden in Quebec was 38.9% of GDP in 2022, the highest tax burden in all of Canada[22] (see Figure 1-3). Between 1981 and 2022, Quebec always had a higher tax burden than the Rest of Canada, but the gap has widened, now standing at 6.1 percentage points.[23]

The higher tax burden on Quebecers reduces the amount of money available to individuals to spend or invest as they please. Among other things, this has a deleterious effect on business start-ups, as people have less capital to invest in such a venture. A higher tax burden thus reduces economic freedom, as the government decides

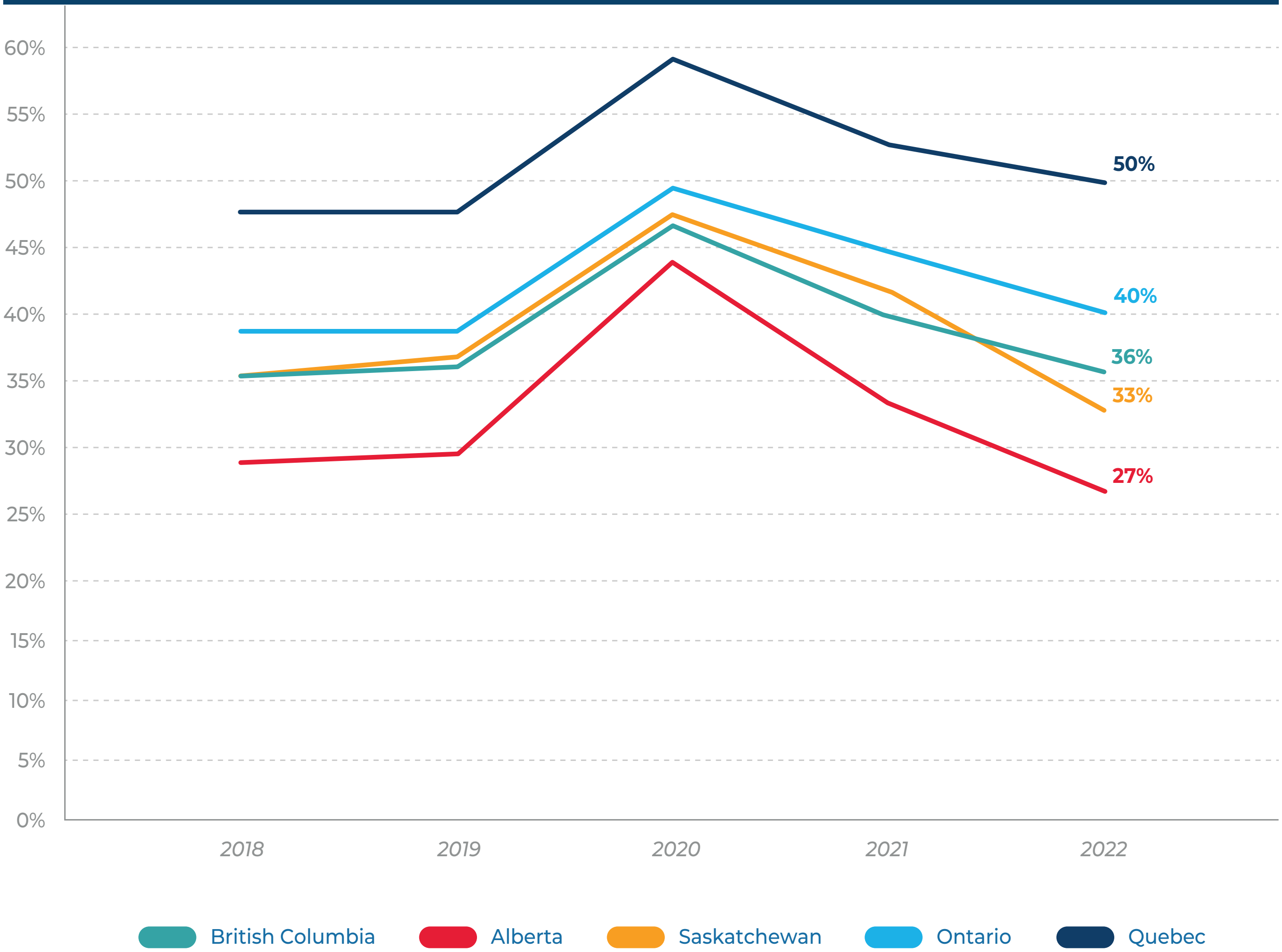
21. Dean Stansel *et al., op. cit.,* footnote 16, p. 34.

22. Tommy Gagné-Dubé *et al.*, *Bilan de la fiscalité au Québec - Édition 2024*, Chaire de de recherche en fiscalité et en finances publiques, Université de Sherbrooke, 2024, p. 26.

23. *Idem*, p. 26.

Figure 1-2

Total government spending, Canadian provinces, 2018 to 2022 (% of GDP)



Note: Expenditure by all levels of government (all public administrations).
Source: Authors' calculations. Statistics Canada, Table 36-10-0450-01: Revenue, expenditure and budgetary balance - General governments, provincial and territorial economic accounts (x 1,000,000), November 8, 2023; Statistics Canada, Table 36-10-0222-01: Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000), November 8, 2023.

how a substantial share of people's money is allocated.

Labour Market Regulation

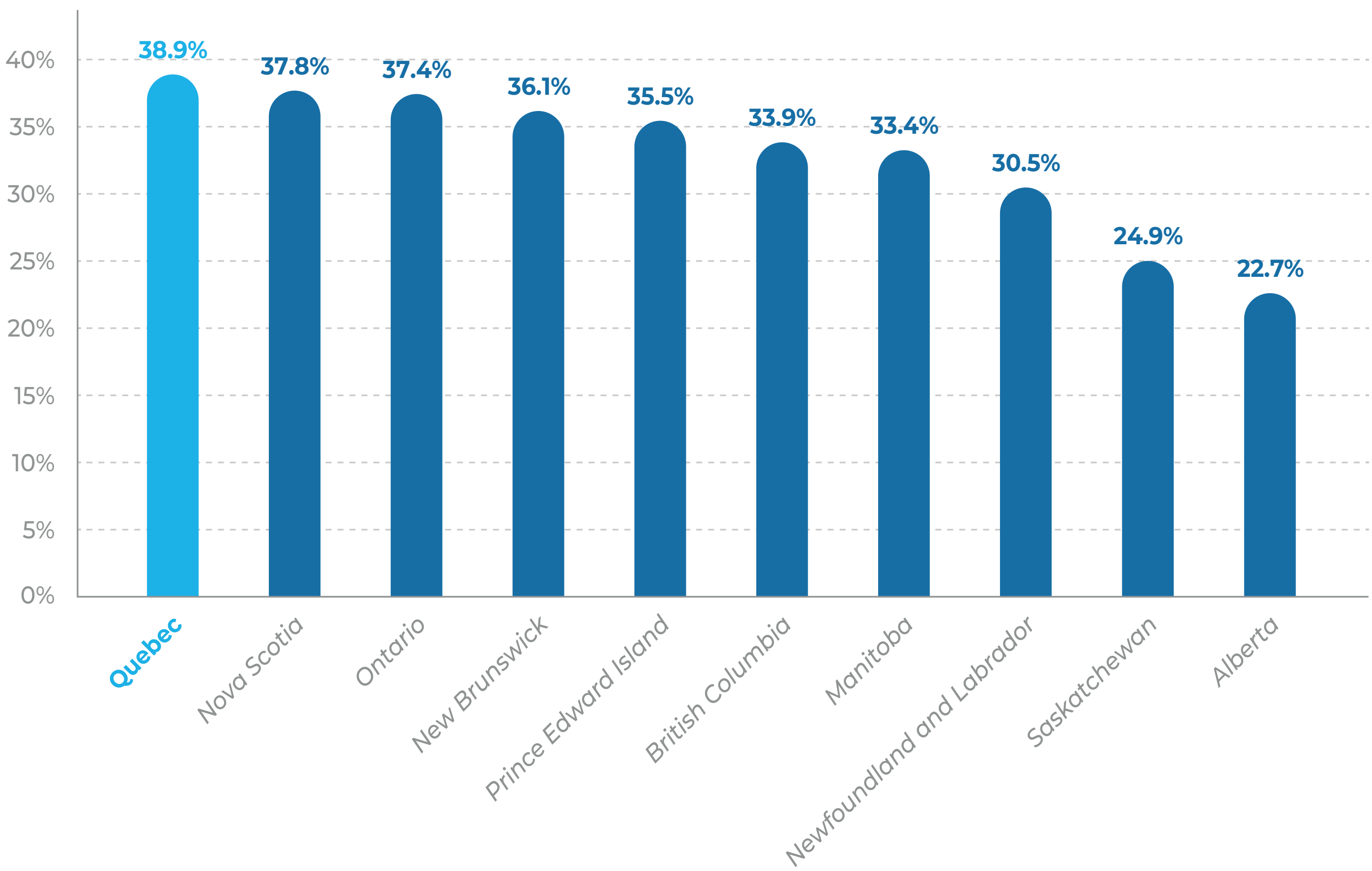
Labour market regulations restrict the freedom of employees and employers, reducing a province's economic freedom more broadly. Labour market regulations are measured through the existence and extent of minimum wage laws, specifically the statutory minimum wage as a percentage of average income.[24] The higher the proportion, the lower the level of economic freedom typically is.

Furthermore, the EFNA examines the proportion of the workforce employed by the government. Higher government employment indicates more government involvement in the labour market and thus less economic freedom. Of Canada's four big provinces, Quebec has the highest proportion of public employees compared to total employment

24. Dean Stansel *et al.*, *op. cit.*, endnote 16, pp. 18-20.

Figure 1-3

Tax burden, Canadian provinces, 2022 (% of GDP)



Source: Tommy Gagné-Dubé *et al.*, *Bilan de la fiscalité au Québec - Édition 2024*, Chaire de de recherche en fiscalité et en finances publiques, Université de Sherbrooke, 2024, p. 22.

levels.[25] Compared to Ontario, it is 3.4 percentage points higher.

Lastly, the ranking tracks union density, which is the percentage of the workforce that is unionized. After Newfoundland and Labrador, a very small province, Quebec has the highest unionization rate (see Figure 1-4). While unionization is often viewed positively by many because of its wage-raising effects for its members, what must be understood is that unions increase wages above market levels, and thus cut employment.[26]

As such, only union members benefit from unionization. Moreover, unions discourage investment on the part of firms which means, indirectly, fewer job openings for workers. In the long run, compulsory collective bargaining with unions hurts the overall economy.[27]

Over 35% of Quebec's workforce is unionized, compared to roughly 29% in British Columbia, and below 25% in Ontario and Alberta. Quebec's high level of unionization negatively impacts its economic freedom. Unions reduce economic freedom by limiting employers' ability to adjust their

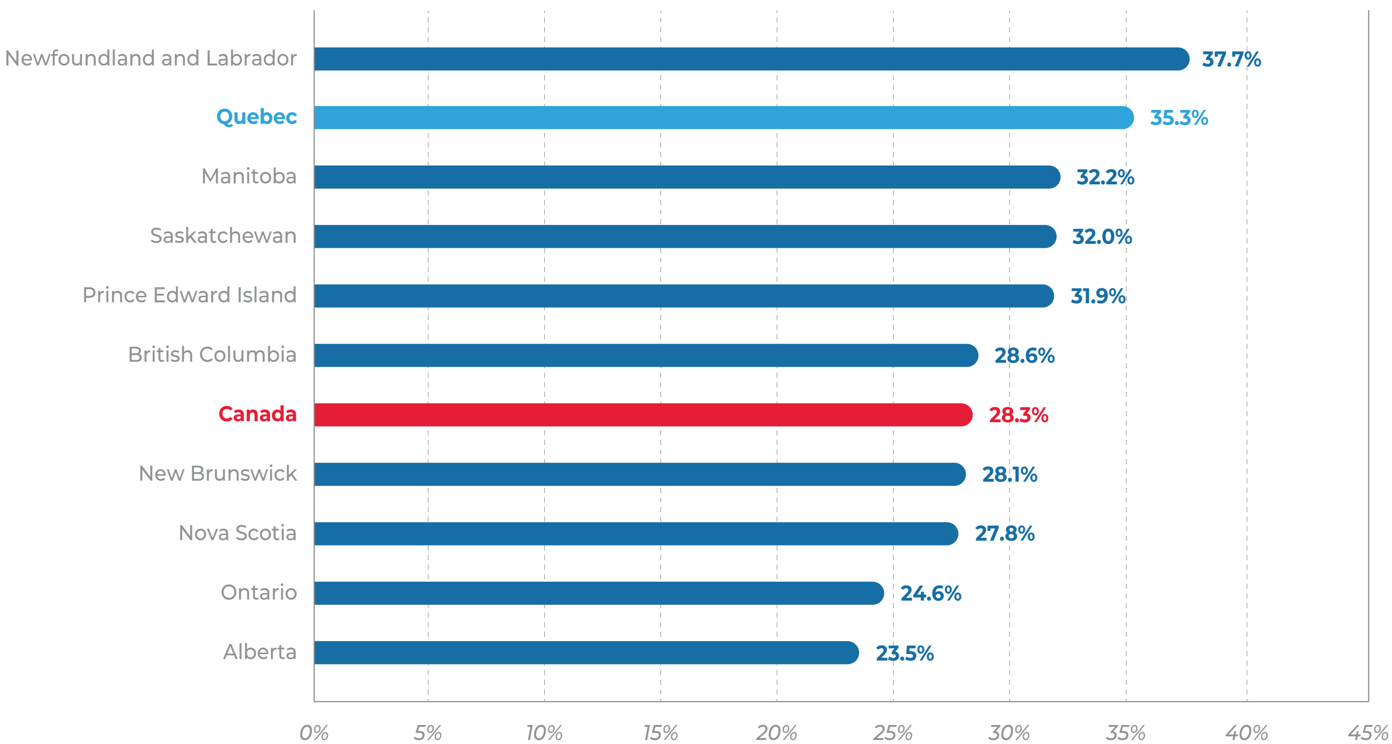
25. Authors' calculations. Statistics Canada, Table 14-10-0027-01: Employment by class of worker, annual (x 1,000), January 5, 2024.

26. W. Robert Reed, "How Right-To-Work Laws Affect Wages," *Journal of Labor Research*, Vol. 24, No. 4, Fall 2003, p. 715.

27. James T. Bennett and Bruce E. Kaufman, "What Do Unions Do? A Twenty-Year Perspective," *Journal of Labor Research*, Vol. 25, No. 3, Summer 2004, p. 340.

Figure 1-4

Unionization rate, Canadian provinces, 2023



Source: Statistics Canada, Table 14-10-0129-01: Union status by geography, January 5, 2024.

workforce to market conditions, among other restrictions.

Quebec's Level of Economic Freedom Is Even Lower

In order to generate a consistent indicator for multiple countries (EFW) and sub-national jurisdictions (EFNA), these reports had to rely on data that were identical in nature across all areas compared. They also had to be reliably reported over multiple years. This means that certain important components of economic freedom are ignored. For example, labour market restrictions in the form of occupational regulations,[28] subnational

Alberta ranks as the most economically free province, followed by Manitoba and Ontario, while Quebec ranks as the least free province.

variations in property rights protection,[29] and industry-level regulations[30] have to be ignored. However, if these could be included, Quebec's economic freedom score of 2.67, already bad, would actually worsen. The four main ones for which we can obtain data are 1) occupational licensing,

28. R. J. Cebula, J. Connaughton, and C. Swartz, "An empirical analysis of the impact of the three labor market freedom indices and occupational licensing on interstate living-cost differentials," *Journal of Private Enterprise*, Vol. 33, No. 3, October 2018, pp. 49-62.

29. Ryan H. Murphy, "The Quality of Legal Systems and Property Rights by State: A Ranking and Their Implications for Economic Freedom," *Journal of Regional Analysis & Policy*, Vol. 50, No. 1, April 2020, 29-45.

30. Marc T. Law and Patrick A. McLaughlin, "Industry Size and Regulation: Evidence from US States," *Public Choice*, Vol. 192, No. 1, February 2022, pp. 1-27.

2) housing regulations, 3) interprovincial trade barriers, and 4) industry-level restrictions.

Occupational Licensing

Although not included in the EFNA and EFW indicators, the prevalence of occupational licensing is also an important aspect of the labour market regulation that affects a province's economic freedom.[31] Occupational licensing is a regulatory requirement for individuals to obtain permission from a government authority to practise a particular profession. This process typically involves meeting specific educational, training, and testing requirements, ostensibly to ensure competency and public safety. However, more often than not, it is employed to restrict competition rather than protect the public.[32] In so doing, such requirements restrict the ability of individuals to acquire skills and earn a living from those skills, while also allowing incumbents to charge consumers higher prices.

There are two types of occupational licensing: licensed professions and compulsory skilled trades. Licensed professions include jobs which are overseen by regulatory bodies, while compulsory skilled trades are "skilled jobs that require those in the trade to have manual skills and special training."[33] There is significant variation between the provinces when it comes to levels of regulation in this regard, and Quebec has the highest number of regulated occupations and compulsory trades[34] (see Table 1-1).

The construction trades, which require mandatory certification, are a clear example of a barrier to integration into the job market for some people.[35] In Quebec, an untrained person who lacks official certification cannot install resilient flooring, for instance. This is a barrier to entry affecting the freedom to work. It thus hampers income mobility, affecting among other things the integration of immigrants into the job market, as many of them have worked in the field in their country of origin but lack the necessary certification to practise the trade in Quebec. In fact, Quebec has 25 trades requiring this type of certifications, the highest number in Canada and 18 more than in neighbouring Ontario.[36]

Housing Regulations

Another type of policy that is omitted from the EFNA and EFW reports is housing regulations. These regulations—which range from barriers to construction, land-use, types of housing, mandatory housing characteristics such as parking minimums—constitute restrictions on economic freedom. They are significant because housing makes up such a large share of consumers' expenditures. These regulations thus impose heavy burdens on the economy.[37]

Total government spending in Quebec as a percentage of GDP in 2022 was nearly 10 percentage points higher than in Ontario, and nearly double that of Alberta.

Unfortunately, there are few historical measures of housing regulations by province in Canada (or by state in the United States). Yet, the issue has grown sufficiently in importance that the Canada Mortgage and Housing Corporation (CMHC) felt the need, in 2023, to propose a number of indicators, including the time it takes to issue building permits and the level of municipal land regulations, which provide a clear provincial picture.

Quebec is among the worst provinces in this regard, just behind British Columbia. On an index where the heavily regulated Greater Toronto Area is set at 100, British Columbia scores 77, just ahead of Quebec at 73.5. For their part, Alberta (52.5), Manitoba (53), and Saskatchewan (53.5) are the

31. Justin Callais and Vincent Geloso, *Wealth Generation – How to boost income in the UK*, Institute of Economic Affairs, IEA Discussion Paper No. 122, March 2024, p. 12.

32. Morris M. Kleiner, "Occupational licensing," *Journal of Economic Perspectives*, Vol. 14, No. 4, Fall 2000, pp. 189-191; Morris M. Kleiner and Alan B. Krueger, "The Prevalence and Effects of Occupational Licensing," *British Journal of Industrial Relations*, Vol. 48, No. 4, December 2010, pp. 676-686.

33. Tingting Zhang, *The Regulation of Occupations and Labour Market Outcomes in Canada: Three Essays on the Relationship between Occupational Licensing, Earnings, and Internal Labour Mobility*, Centre for Industrial Relations and Human Resources, University of Toronto, November 2017, p. 22.

34. *Ibid*. pp. 22-23 and 158.

35. Gabriel Giguère, "Decompartmentalizing Construction Trades: How Much is Enough?" Viewpoint, MEI, March 2024, p. 1.

36. *Idem.*

37. Justin Callais and Vincent Geloso, *op. cit.*, footnote 32, pp. 27-28.

Table 1-1

Interprovincial ranking in regulated occupations, 2015				
	Number of regulated occupations	**Number of regulated professions**	**Number of compulsory trades**	**Ranking**
NL	49	40	2	**1**
PEI	55	44	6	**2**
NB	65	54	6	**3**
SK	67	53	6	**4**
BC	67	54	6	**5**
NS	69	53	9	**6**
MB	71	63	9	**7**
ON	80	63	9	**8**
AB	92	64	21	**9**
QC	98	61	29	**10**

Source: Tingting Zhang, *The Regulation of Occupations and Labour Market Outcomes in Canada: Three Essays on the Relationship between Occupational Licensing, Earnings, and Internal Labour Mobility*, Centre for Industrial Relations and Human Resources, University of Toronto, 2017, p. 158.

least regulated Canadian provinces according to this index[38] (see Figure 1-5).

Zoning rules imposed by municipalities on builders and landowners limit their economic freedom. For example, anyone wishing to open a retail business in a building that is zoned as residential will simply not be able to do so. A high regulatory index not only affects builders' and owners' economic freedom; it also increases the price of real estate in general, making it less accessible to younger individuals and thus restricting their opportunities to move to places where they can earn higher incomes.

Interprovincial Trade

Interprovincial trade barriers also reduce people's economic freedom. In Canada, such barriers result in a 7% increase in the costs of goods and services.[39] The Internal Trade Provincial Leadership Index ranks provinces and territories based on the number of existing barriers to interprovincial trade as quantified by explicit exceptions to the Canadian Free Trade Agreement (CFTA).

The higher tax burden on Quebecers reduces the amount of money available to individuals to spend or invest as they please.

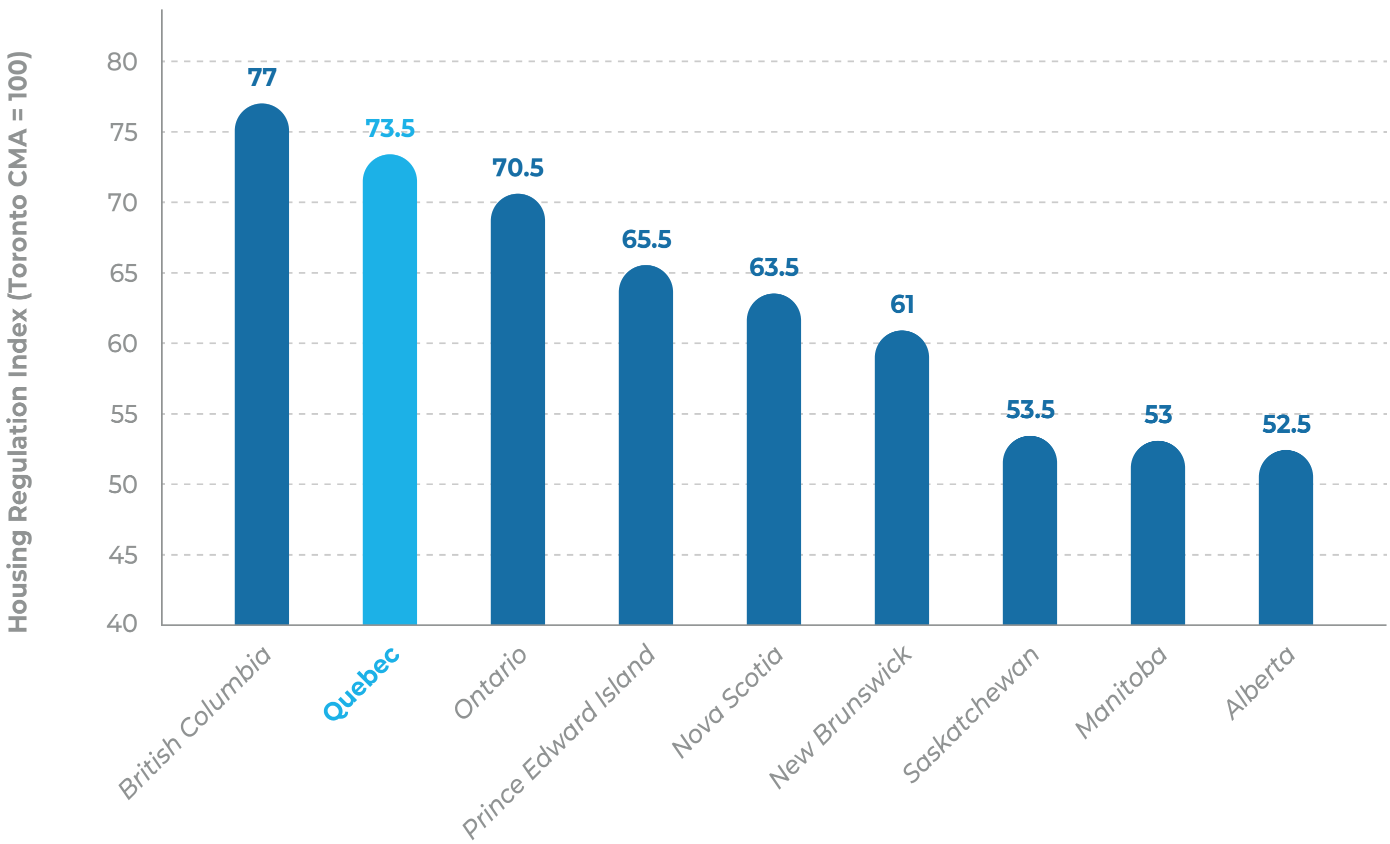
Quebec consistently ranks as the worst province in terms of such trade restrictions, with 35 of them, and it has not eliminated a single one since the CFTA came into effect in 2017. Comparable provinces such as Ontario and British Columbia only have 21 and 13 respectively, while Alberta only

38. The index here is a combination of the 2 CMHC indices. Authors' calculations. Canada Mortgage and Housing Corporation, "Approval delays linked with lower housing affordability," July 13, 2023.

39. Krystle Wittevrongel and Gabriel Giguère, "Internal Trade Provincial Leadership Index – 2023 Edition," Economic Note, MEI, November 2023, p. 1.

Figure 1-5

Housing Regulation Index Provincial Ranking, 2023



Note: Newfoundland and Labrador is not included in the CMHC Index.
Source: Authors' calculations. Canada Mortgage and Housing Corporation, "Approval delays linked with lower housing affordability," July 13, 2023.

has 6 (see Figure 1-6). These numerous barriers to trade limit the economic freedom of Quebecers, both in terms of the goods they can consume, and in terms of their labour freedom.

Industry-Level Regulations

Finally, the EFNA focuses on labour market regulations, but omits a large array of other types of regulations that limit industrial activity and competition. Firms must complete federal or provincial/territorial articles of incorporation for corporate registration and changes in business status.[40] These impose regulatory compliance costs that can be needlessly onerous. To these must be added those costs that are created by the requirement to deduct retirement contributions, Employment Insurance premiums, and income taxes from employees' paycheques, and the preservation of records of employment.[41] A 2020 study by Industry Canada found that such regulatory

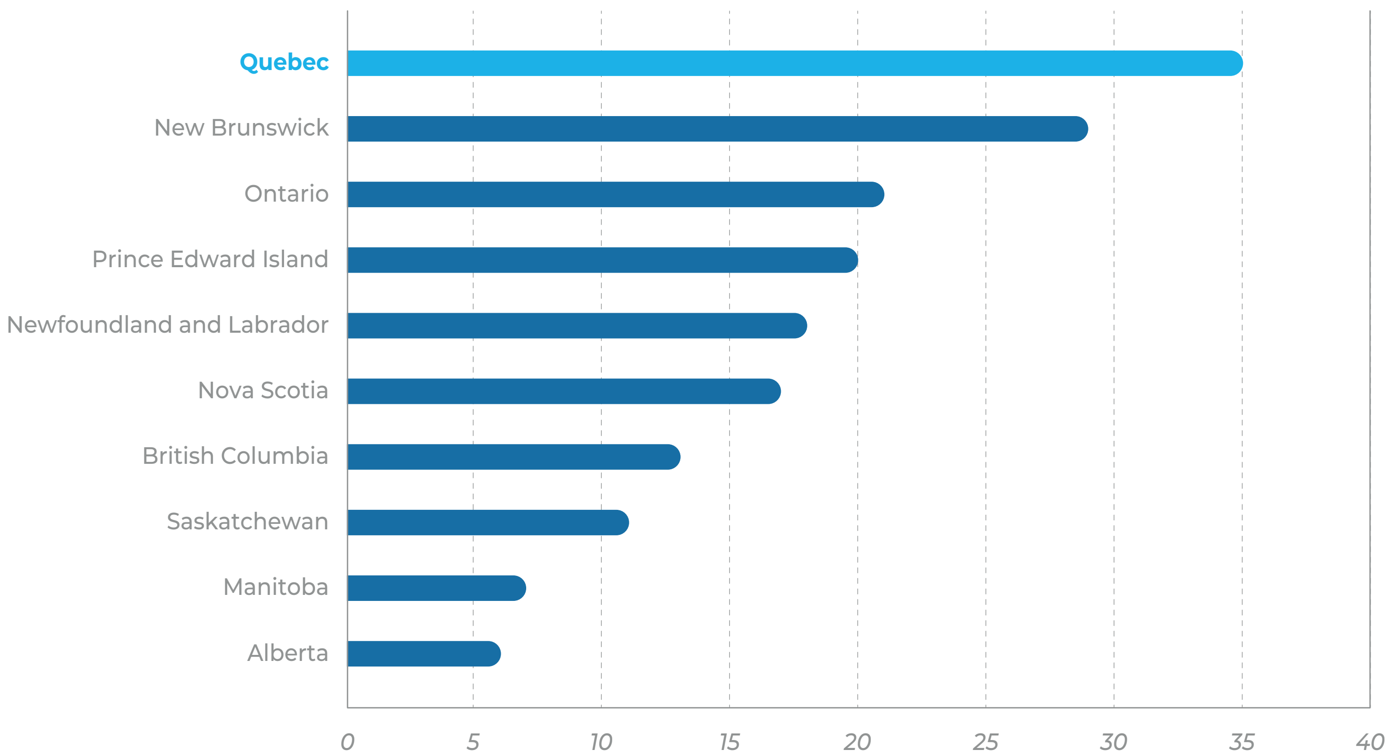
Certain important components of economic freedom are ignored. If these could be included, Quebec's economic freedom score of 2.67, already bad, would actually worsen.

40. Jiong Tu, *The Impact of Regulatory Compliance Costs on Business Performance,* Innovation, Science and Economic Development Canada, Small Business Branch, October 2020, p. 2.

41. *Idem.,* p. 2.

Figure 1-6

Total exceptions to the Canadian Free Trade Agreement, by province (2023)



Source: Krystle Wittevrongel and Gabriel Giguère, "Internal Trade Provincial Leadership Index – 2023 Edition," Economic Note, MEI, November 2023, p. 2.

costs depressed labour productivity in small businesses while limiting their ability to expand.[42] They are also known to restrict entry into established industries because they are more burdensome for new players than for incumbents.[43]

International organizations such as the World Bank have produced multiple indices of these regulatory compliance costs under the heading of "Ease of Doing Business."[44] These include the costs of registering a business, registering property, contract enforcement, tax compliance, and

Such requirements restrict the ability of individuals to acquire skills and earn a living from those skills, while also allowing incumbents to charge consumers higher prices.

various licenses.[45] Until very recently, there was no such index at the subnational level. Fortunately, thanks to researchers at Arizona State University, there is now such an index that mimics the World Bank's,[46] with 100 indicating the lowest level of regulatory compliance costs. The differences between the Canadian provinces are

42. *Idem.*, p. 19.

43. Simeon Djankov *et al.*, "The Regulation of Entry," *Quarterly Journal of Economics*, Vol. 117, No. 1, February 2002, p. 2.

44. World Bank Group, Ease of Doing Business rankings, consulted July 12, 2024; Simeon Djankov, "The Doing Business Project: How It Started: Correspondence," *Journal of Economic Perspectives*, Vol. 30, No. 1, Winter 2016, pp. 247-248.

45. World Bank Group, *Doing Business 2020: Economy Profile – Canada*, 2020, p. 19.

46. Centre for the Study of Economic Liberty, "Doing Business in North America," Arizona State University, 2021.

Table 1-2

Ease of doing business in Canada

Province	Score (out of 100)
Newfoundland and Labrador	58.98
British Columbia	58.68
Alberta	57.595
Manitoba	56.44
Nova Scotia	56.17
Quebec	**53.255**
Ontario	51.68
New Brunswick	50.74
Saskatchewan	44.09
Prince Edward Island	N/A

Source: Centre for the Study of Economic Liberty, "Doing Business in North America," Arizona State University, 2021.

not too large, with Quebec a middling performer (see Table 1-2).

A high regulatory index increases the price of real estate in general, making it less accessible to younger individuals and thus restricting their opportunities.

These compliance costs are only a small part of the total costs of regulations on economic activity. Regulations will often include terms like "prohibit," "may not," and "require" that affect the production costs of firms but are difficult to measure. Advances in text recognition software have allowed us to create measures of the degree of regulation by counting the frequency of such restrictive words in regulatory texts. The RegData project of the Mercatus Centre at George Mason University initially started this effort for American industries and states,[47] and it recently extended the project to Canadian provinces.[48] Table 1-3 shows the results, with Quebec having the second largest number of restrictions in Canada (surpassed only by Ontario).[49]

An Augmented Index of Economic Freedom

These missing components can only be added to the EFNA for recent years, and so it is impossible to augment and improve the index going too far back in time. However, we can do so for the year 2021 using these missing components. Following the same methodology as for the construction of the EFNA, we find that Quebec's economic freedom is overstated in the conventional index because of the missing components. In Figure 1-7,

47. Patrick A. McLaughlin and Oliver Sherouse, "RegData 2.2: A panel dataset on US federal regulations," *Public Choice*, Vol. 180, No. 1, July 2019, pp. 43-55.

48. Patrick A. McLaughlin, Scott Atherley, and Stephen Strosko, "RegData Canada: An Overview," Mercatus Centre, George Mason University, February 2019.

49. Mercatus Centre RegData Project, consulted July 12, 2024.

Table 1-3

Regulatory restrictions in Canadian provinces, 2020	
Province	**Total Restrictions**
Prince Edward Island	14,436
New Brunswick	19,396
Newfoundland and Labrador	19,908
Manitoba	25,015
Saskatchewan	28,371
Nova Scotia	34,152
Alberta	34,498
British Columbia	35,219
Quebec	**61,782**
Ontario	76,507

Source: Mercatus Centre RegData Project, consulted July 12, 2024.

the blue bars show the uncorrected EFNA, while the orange bars depict our corrected EFNA which includes the role of occupational licensing, housing regulations, interprovincial trade barriers, and industry-level regulatory restrictions.

Conclusion

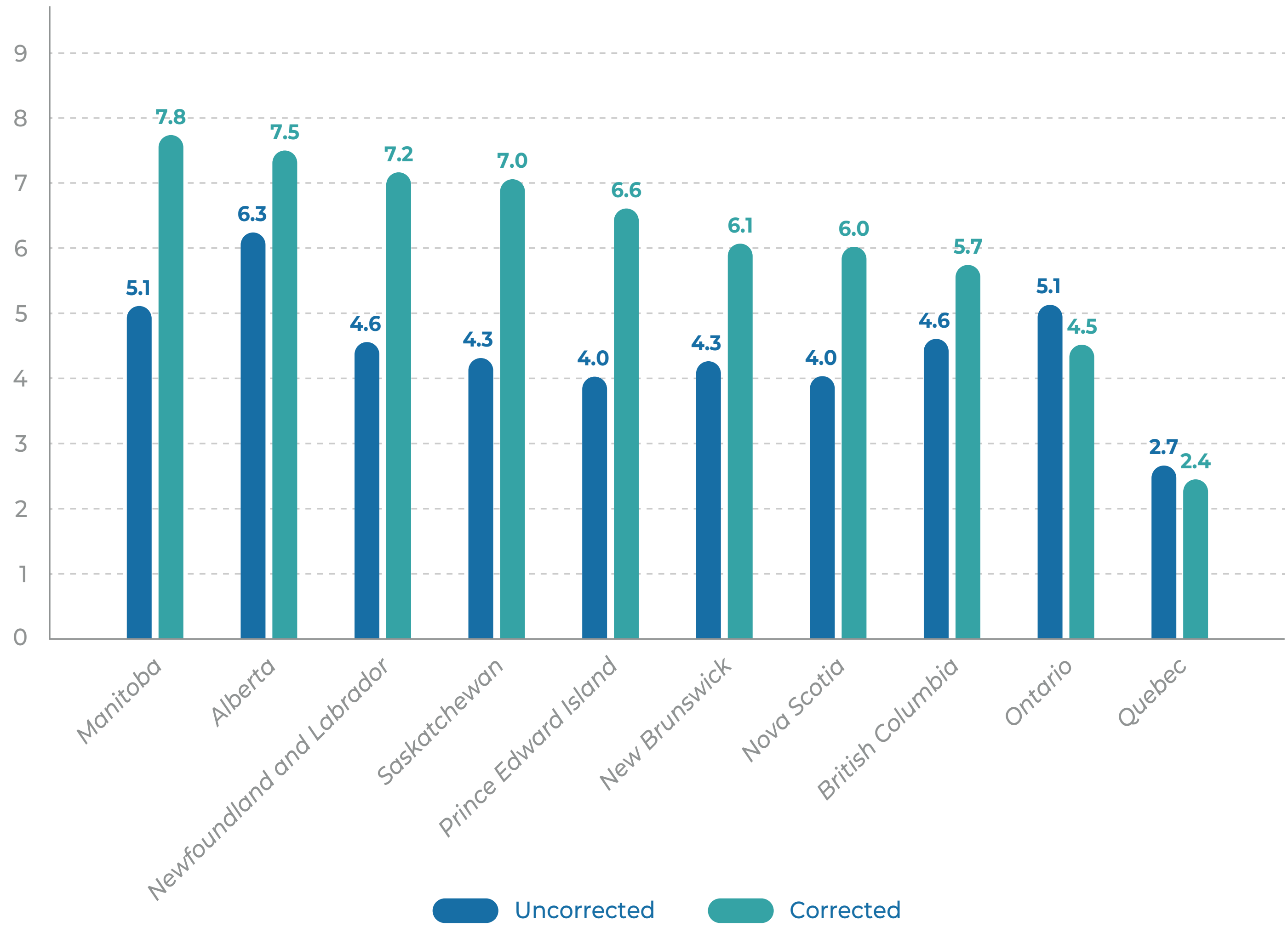
Analysis of the various indicators that make up economic freedom does not paint a very rosy picture of the situation in Quebec. Whether we are talking about the various indicators of the Economic Freedom of North America index, the number of occupational licenses, the heavy-handedness of residential construction regulations, or barriers to trade, Quebec is always the province that imposes the most or the next-to-most restrictions on economic freedom.

As we shall see in subsequent chapters of this Research Paper, this low level of economic freedom has very real consequences for Quebecers' economic opportunities, reducing their ability to change their living environment and improve their incomes. The Quebec government will have to review the rigidity of its regulatory framework and the weight of its tax burden in order to improve income mobility in the province, thus giving Quebecers a better chance of raising their standard of living.

Interprovincial trade barriers also reduce people's economic freedom. In Canada, such barriers result in a 7% increase in the costs of goods and services.

Figure 1-7

Economic Freedom for Canadian provinces, 2021, uncorrected (blue) and augmented for missing components (turquoise)



Source: Authors' calculations. See sources for Figures 1-5 and 1-6 and Tables 1-1 to 1-3, as well as Dean Stansel *et al.*, *Economic Freedom of North America 2023*, Fraser Institute, 2023.

CHAPTER 2

Income Mobility—What Is It and How Much Is There in Quebec?

In this paper, we focus on "income mobility" mainly in order to approximate the broader concept of "social mobility." The latter "refers to the movement of people up or down the social class hierarchy, either during the course of an individual's lifetime or compared to the social class in which she or he was born."[50] The use of "class" or "hierarchy" is meant to capture the idea of some form of social status, something a percentile position on the income ladder might not convey that well.

The problem is that measuring "classes" consistently and objectively is challenging and highly subjective. Income mobility measurements—while they are technically complicated—do not suffer from this problem. Most importantly, and to the best of our knowledge, there are no situations in which *improvements* in income mobility are associated with *declines* in social mobility. Improvement in one category generally goes hand-in-hand with improvement in the other. Since they never seem to move in opposite directions, we can safely consider "income mobility" a good approximation for "social mobility" (see Figure 2-1) and, as such, we will concentrate our attention upon it.

The Types of Income Mobility

There are two main types of income mobility measures that can be estimated across or within generations: 1) absolute mobility, and 2) relative mobility.[51] Absolute mobility refers to whether a person experiences improvements in living standards with respect to a given reference point. If this is across generations, the reference point may be the level of income of one's parents. In this case, absolute mobility occurs if one's income exceeds parental income at the same age.

For example, if the income of a 40-year-old in 2024 (i.e., someone born in 1984) exceeds the income of his parents when they were 40 years old, that person experiences absolute income mobility. Within individual generations, the reference point will be a number of years ago. For example, our hypothetical 40-year-old individual from 2024 will be said to have experienced absolute mobility if he is richer than he was when he was 30 years old in 2014.

Absolute mobility refers to whether a person experiences improvements in living standards with respect to a given reference point.

The second type, known as relative mobility, indicates whether an individual attains a higher social rank when compared to his or her parents' starting point. In this case, what we care about is how much a person rose on the income ladder.

Figure 2-2 illustrates the distinction with absolute mobility using intergenerational comparisons. In this case, we imagine a person born in the poorest decile (i.e., the bottom 10%) of the population. If this person enjoys a 50% increase in income relative to his parents at the same age, he will experience relative mobility *if and only if* that increase is larger than the average increase in the population. If everyone else also enjoys a 50% increase relative to their parents, then he remains in the same decile as his parents. But if he enjoys a larger increase than everybody else, he exits the bottom decile and thus experiences both relative and absolute mobility. If, instead, we were looking at relative income mobility within a generation, we would simply compare a person's position on the income ladder at the start and end of a defined period (e.g., 5, 10, or 20 years).

Of the two concepts of income mobility, people tend to see "relative mobility" as more socially desirable. It is easy to see why, as greater mobility of this type—especially across generations—implies that socio-economic status is not transmitted

50. Ken Browne, *An Introduction to Sociology* (3rd ed.), Polity Press, 2005, p. 39.

51. Nathan Deutscher and Bhashkar Mazumder, "Measuring Intergenerational Income Mobility: A Synthesis of Approaches," *Journal of Economic Literature*, Vol. 61, No. 3, September 2023, pp. 988–1036; Robert Manduca *et al*., "Measuring Absolute Income Mobility: Lessons from North America and Europe," *American Economic Journal: Applied Economics*, Vol. 16, No. 2, April 2024, pp. 1–30; Raj Chetty *et al*., "The fading American dream: Trends in absolute income mobility since 1940," *Science*, Vol. 356, No. 6336, April 24, 2017, pp. 398–406; Raj Chetty *et al*., "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States," *Quarterly Journal of Economics*, Vol. 129, No. 4, September 14, 2014, pp. 1553–1623.

Figure 2-1

Income mobility as a subset of social mobility

from parents to children. Persistent income inequality can lead to social tensions and instability. When large segments of the population feel that the economic system allows them, in principle, to rise to the top, social cohesion is improved. It follows that reducing income persistence can promote social cohesion, as people are more likely to support and contribute to a system they perceive as fair and just.

When large segments of the population feel that the economic system allows them, in principle, to rise to the top, social cohesion is improved.

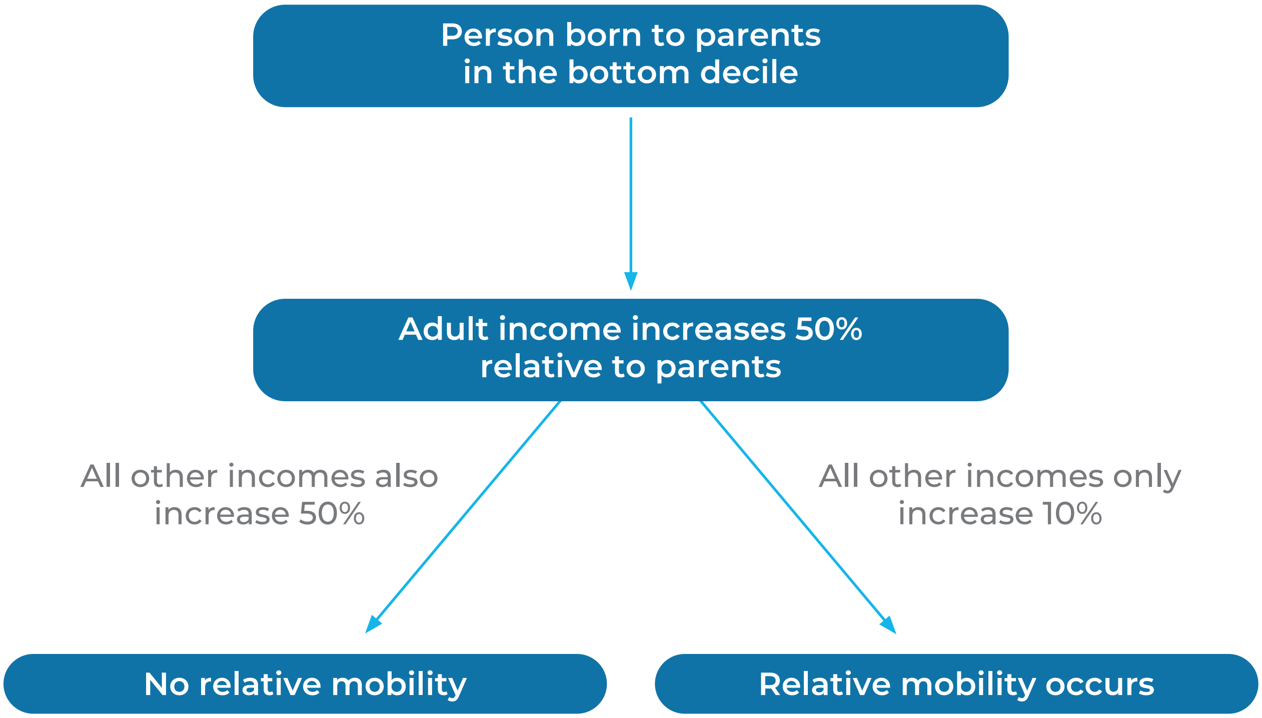
However, it is important not to treat the two concepts as independent. Improvements in *absolute* income mobility tend to generate long-run improvements in *relative* mobility.[52] The reason for this connection is that widespread absolute income mobility implies the presence of economic growth—something that matters far more for people at the bottom of the income ladder. As long as an extra dollar of income opens up more opportunities for people at the bottom than for people at the top, absolute income mobility *now* will fuel improvements in relative mobility *later*.

Two examples are useful here. First, consider the demand for educational services. As income increases, so does investment in education. However, the effect of rising income on the demand for education diminishes when income levels are

52. Justin Callais and Vincent Geloso, "Intergenerational income mobility and economic freedom," *Southern Economic Journal*, Vol. 89, No. 3, November 10, 2022, pp. 732–753.

Figure 2-2

Types of income mobility summarized



already high.[53] Therefore, lower-income households are likelier to increase their demand for education with economic growth. In the long run, this translates into greater *relative* income mobility.

Lower-income households are likelier to increase their demand for education with economic growth. In the long run, this translates into greater *relative* income mobility.

Second, consider the role of the degree of specialization in an economy. A common saying in economics is that the extent of specialization is limited by the market size, not just in terms of population, but also of the number of transactions.[54] Wealthier societies have more exchanges, allowing for greater specialization, which in turn creates more opportunities for upward mobility. Consequently, economic growth can unlock pathways for upward mobility previously inaccessible to the poor.

53. Economists say that the "income elasticity of education" falls with income. As such, a 1% increase in income for the poor might cause them to spend 2% more on education, in contrast with 0.5% more for the rich. For an empirical example, see Keiji Hashimoto and Julia A. Heath, "Income elasticities of educational expenditure by income class: The case of Japanese households," *Economics of Education Review*, Vol. 14, No. 1, March 1995, pp. 63–71; Justin Callais, Vincent Geloso, and Alicia Plemmons, "Economic Freedom and Intergenerational Educational Mobility," *Journal of Private Enterprise,* forthcoming.

54. James M. Buchanan and Yong J. Yoon, *The Return to Increasing Returns*, University of Michigan Press, March 1994; George J. Stigler, "The Division of Labor is Limited by the Extent of the Market," *Journal of Political Economy*, Vol. 59, No. 3, June 1951, pp. 185–193.

Table 2-1

Measures of relative income mobility in Canadian provinces since the 1960s		
Probability that a child from the bottom 20% of the parental income distribution remained in the bottom quintile in adulthood		
	1963–1966	**1982–1985**
Prince Edward Island	0.224	0.293
Alberta	0.259	0.317
British Columbia	0.263	0.32
Nova Scotia	0.266	0.322
Newfoundland & Labrador	0.272	0.328
Quebec	0.272	0.333
Ontario	0.274	0.317
New Brunswick	0.275	0.333
Saskatchewan	0.28	0.415
Manitoba	0.365	0.422
Correlation between the income rank of parents and their children in adulthood		
	1963–1966	1982–1985
Prince Edward Island	0.182	0.182
Alberta	0.157	0.211
British Columbia	0.156	0.22
Nova Scotia	0.21	0.234
Newfoundland & Labrador	0.218	0.215
Quebec	0.211	0.259
Ontario	0.183	0.231
New Brunswick	0.222	0.267
Saskatchewan	0.182	0.294
Manitoba	0.284	0.319

Note: We excluded the territories.
Source: Marie Connolly and Catherine Haeck, "Online Appendix for Intergenerational Income Mobility Trends in Canada," *Canadian Journal of Economics*, Vol. 57, No. 1, November 21, 2023, Figure 7, p. 20; Marie Connolly and Catherine Haeck, *Idem*., Figure A4, p. 5.

How Does Quebec Perform?

By global standards, Canada has long exhibited high levels of income mobility.[55] However, this general statement conceals large regional differences, notably Quebec's relatively poor performance going all the way back to Confederation.[56] This fact is confirmed by two major studies of *inter*generational income mobility, and by another using Statistics Canada's Longitudinal

55. There is some debate over Canada's relative performance, with some studies showing that it is a middling economy and others showing that it stands in the top tier: Luiza Antonie *et al*., "Intergenerational Mobility in a Mid-Atlantic Economy: Canada, 1871–1901," *Journal of Economic History*, Vol. 82, No. 4, January 2021, pp. 1003–1029; Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives*, Vol. 27, No. 3, Summer 2013, pp. 79–102; Ambar Narayan *et al*., *Fair Progress?: Economic Mobility Across Generations Around the World, Equity and Development*, Washington, DC, World Bank, 2018.

56. Luiza Antonie *et al*., *ibid*.

Table 2-2

Measures of relative income mobility in Canada for people born 1963 to 1970		
Probability that a child from the bottom 20% of the parental income distribution moved to the top or remained in the bottom quintile in adulthood		
	Rags to riches	**Born in bottom quintile, stayed in bottom quintile**
Newfoundland & Labrador	0.087	0.321
Prince Edward Island	0.077	0.278
Nova Scotia	0.071	0.350
New Brunswick	0.061	0.352
Quebec	0.091	0.290
Ontario	0.141	0.284
Manitoba	0.076	0.414
Saskatchewan	0.141	0.277
Alberta	0.185	0.259
British Columbia	0.120	0.298

Source: Miles Corak, "The Canadian Geography of Intergenerational Income Mobility," *Economic Journal*, Vol. 130, No. 631, May 29, 2019, pp. 2134–2174.

Administrative Database to look at *intra*generational income mobility.[57]

A particularly insightful study by Catherine Haeck and Marie Connolly from Université du Québec à Montréal analyzed tax data for individuals born between the early 1960s and mid-1980s.[58] They matched these individuals with their parents to evaluate the likelihood of them being in the bottom quintile (i.e., the bottom 20%) of the population in adulthood if their parents were also in the bottom quintile at the time of their birth. This is akin to studying relative mobility as it aims to determine whether individuals were trapped by their socioeconomic status at birth, or if they were able to climb into a higher income bracket, thus escaping their conditions at birth.

Their results, summarized in Table 2-1, suggest that Quebecers born to parents in the bottom quintile in 1963–66 had a 27.2% chance of staying in the bottom quintile up to the time they reached adulthood. For the 1982–85 birth cohort, that proportion had risen to 33.3%. However, it increased for all Canadian provinces such that Quebec remained in 6th place throughout the period considered by Haeck and Connolly.

Canada has long exhibited high levels of income mobility. However, this conceals large regional differences, notably Quebec's relatively poor performance.

In their supplementary results,[59] the authors confirm this by looking at another measure of relative mobility, specifically the correlation between the income rank of parents and that of their children in adulthood. A weak correlation here implies that it is hard to predict a person's income rank (e.g., being in the top 1%) using only their parents' income rank. The closer the number is to zero, the

57. Marie Connolly and Catherine Haeck, "Intergenerational income mobility trends in Canada," *Canadian Journal of Economics*, Vol. 57, No. 1, November 21, 2023, pp. 5–26; Miles Corak, "The Canadian Geography of Intergenerational Income Mobility," *Economic Journal*, Vol. 130, No. 631, May 29, 2019, pp. 2134–2174; Xuelin Zhang, Habib Saani, and Jackson Chung, *The evolution of income mobility in Canada: Evidence from the Longitudinal Administrative Databank, 1982 to 2012*, Statistics Canada, May 3, 2016.

58. Marie Connolly and Catherine Haeck, *ibid*.

59. Marie Connolly and Catherine Haeck, "Étude du lien entre la mobilité intergénérationnelle du revenu et le marché du logement au Canada," Groupe de recherche sur le capital humain, University of Quebec in Montreal, note 41.

Table 2-3

Measures of Intragenerational Income Mobility in Canada, 2016–2021

	Percent of tax filers with income rising 200% or more (absolute mobility)	Per capita dollar mobility (absolute mobility)	Percent of tax filers who moved up by more than three deciles (relative mobility)	Per capita decile mobility (relative mobility)
With Before-Tax Family Income				
British Columbia	41.6	1.141	23.1	2.051
Alberta	47	1.226	24.2	2.183
Saskatchewan	38.5	1.075	15.5	1.572
Manitoba	38.7	1.070	16.5	1.583
Ontario	39.1	1.089	20.5	1.878
Quebec	36.3	1.006	20.1	1.787
New Brunswick	30.0	0.877	12.5	1.372
Nova Scotia	33.1	0.948	14.4	1.495
Prince Edward Island	36	1.013	17.2	1.738
Newfoundland & Labrador	27.6	0.855	12.9	1.412
With After-Tax Family Income				
British Columbia	40.4	1.108	24.7	2.146
Alberta	45.3	1.183	25.5	2.258
Saskatchewan	37.6	1.053	17	1.655
Manitoba	37.1	1.035	17.6	1.633
Ontario	37.8	1.052	21.4	1.939
Quebec	34.3	0.961	20.2	1.797
New Brunswick	28	0.846	12.8	1.387
Nova Scotia	30.8	0.903	14.1	1.478
Prince Edward Island	33.3	0.963	16.7	1.752
Newfoundland & Labrador	25.9	0.82	13	1.414

Note: This source applies only to those tax filers in the lowest decile.
Source: Statistics Canada, Table: 11-10-0059-01, consulted on August 8, 2024.

greater the income mobility. The advantage of this measure is that it reflects income mobility over the entire ladder, considering not just people at the bottom, but also those near the bottom and in the middle.

This pattern is confirmed by a separate study from Miles Corak, who adds an important nuance by breaking the results down based on census divisions rather than by province.[60] He finds that for people born from 1963 to 1970, the highest mobility areas of Canada were in Alberta, British Columbia, and southwestern Ontario.[61] Unlike Haeck and Connolly, he provides estimates of both absolute and relative mobility.

60. Miles Corak, "The Canadian Geography of Intergenerational Income Mobility," *Economic Journal*, Vol. 130, No. 631, May 29, 2019, pp. 2134–2174.

61. *Ibid*, p. 2157

In this respect, as can be seen in Table 2-2, he finds that children born in the poorest provinces of Canada in the 1960s enjoyed the greatest relative income mobility. This corresponds with the fact that the poorest provinces also saw faster economic growth than the richest ones from 1945 to 2000.[62] Particularly telling is the measure called "Rags to Riches," which depicts the share of people born in the bottom quintile who rose to the top quintile in adulthood. Quebec remains a middling performer.

The final set of evidence regarding income mobility is not intergenerational. It is provided by Statistics Canada's Longitudinal Administrative Database.[63] The Database tracks individuals over long time periods using income tax data (through the T1 tax return) taken from a sample of 20% of filers. Using this dataset, Statistics Canada formed cohorts of individuals in recurring 5-year intervals starting from 1982 (e.g., 1982–1987, 1983–1988, etc.), and 1-year intervals (e.g., 1982–1983, 1983–1984, etc.). This provides a collection of longitudinal income mobility measures, aggregated at the provincial level, that can shed light on both relative and absolute income mobility.

There are four measures we can use: (1) the share of the population that experienced income increases greater than a certain proportion (50% for the 1-year windows and 200% for the 5-year windows); (2) the average number of income-decile changes experienced (a measure of relative mobility); (3) the proportion of large decile jumps (defined as upward jumps of more than three deciles); and (4) the per capita dollar mobility.[64] Each of these measures can also be computed using either market income or after-tax income.

In Table 2-3, we show these four measures of intragenerational mobility for people who started in the bottom decile of the income distribution in the period from 2016 to 2021 (the most recent). The pattern is similar to what Haeck and Connolly, and Corak, found with regard to intergenerational income mobility: Quebec is a middling performer, and it lags behind many of the most populous provinces. Moreover, we are using 2016–2021 here, a window that is exceptionally good for Quebec.

Before the tax man intervenes, Quebec is seen to be a middling performer. However, among the four most populous provinces, with the biggest economies, Quebec lags behind. Quebec households in the bottom income decile thus have the lowest income mobility among the big four provinces, even before the government takes its share.

Quebec households in the bottom income decile have the lowest income mobility among the big four provinces, even before the government takes its share.

When family income is taxed, this dynamic remains much the same. Quebec is still last among the large provinces in Canada. We will look at the impact of economic freedom on social mobility more closely in Chapter 3.

62. Vincent Geloso, "The Historical Evolution of Canadian Living Standards," In *Oxford Research Encyclopedia of Economics and Finance,* June 20, 2022; Vincent Geloso, "Economic History of French Canadians," In *Handbook of Cliometrics,* Cham: Springer International Publishing, May 23, 2024, pp. 285–312; Vincent Geloso, Vadim Kufenko and Klaus Prettner, "Demographic Change and Regional Convergence in Canada," *Economics Bulletin*, Vol. 36, No. 4, 2016, pp. 1904–1910.

63. Statistics Canada, Table 11-10-0059-01: Five Year Income Mobility, November 10, 2023. Statistics Canada, Table 11-10-0061-01: One-Year Income Mobility, November 10, 2023.

64. Per capita dollar mobility is defined as the average of the absolute change of income (in natural logarithm) between the first and the last year of each period.

CHAPTER 3

The Connection Between Economic Freedom and Income Mobility

There is a common belief that income mobility is primarily determined by one's socio-economic background. This belief is based on the idea that wealthier families can more easily invest in their children's education and other resources. Consequently, it is often presumed that taxing the wealthy and redistributing the funds to poorer families would be an effective way to equalize opportunities.[65] However, Nobel laureate Gary Becker argues that this mechanism is not inevitable.[66] He suggests that economic freedom can sever this connection, and he challenges the notion that socio-economic origins dictate income mobility.

Economic freedom can disrupt the persistence of social status via two different pathways. These are illustrated in Figure 3-1. Also included in Figure 3-1 is the usual pathway that people believe exists as a form of fatality: that high inequality now means lower income mobility in the future. The first path, the direct route, is the easiest to comprehend. It represents the absence of either disincentives or barriers that impede efforts at upward mobility among lower income groups. This direct pathway will increase both relative and absolute income mobility.

For instance, occupational licensing may impose onerous barriers by restricting access to professions that would normally permit increases in income. Another example is land-use regulations that make cities less accessible by raising the price of housing. As cities are well-known hubs of economic opportunity, these regulations represent a direct impediment to opportunities that would enhance people's standard of living.[67]

High tax burdens may also discourage people from working, thus preventing the acquisition of on-the-job experience that would allow them to climb the ladder. External education and skills-acquisition may be disincentivized as well. It is important to understand that the diplomas handed out to individuals after graduation represent a signal to prospective employers, one that affords a significant reduction in the cost of assessing a potential employee's skills. This means that a person who fails to complete every last course of a particular training program will be able to enjoy very little, if any, of the extra income that the program was meant to secure.[68]

The absence of disincentives or barriers that impede efforts at upward mobility among lower income groups will increase both relative and absolute income mobility.

Additionally, the expected returns from education may vary greatly,[69] and this exacerbates a major effect of taxation on income mobility. For a person who is indifferent to risk, high taxes will only reduce the level of schooling undertaken. However, the effect is much greater for the risk-averse person, i.e., someone who fears the variability in returns and cares less about the expected returns. Taxes amplify this by reducing the after-tax return on human capital investments.[70]

65. Miles Corak, "Income inequality, equality of opportunity, and intergenerational mobility," *Journal of Economic Perspectives*, Vol. 27, No. 3, Summer 2013, pp. 79–102; Oded Galor and Joseph Zeira, "Income distribution and macroeconomics," *Review of Economic Studies*, Vol. 60, No. 1, July 1992, pp. 35–52.

66. Gary Becker, "Relation Between Schooling of Parents and Children," In Gary Becker, Julio Elias, Casey Mulligan and Kevin Murphy, *The Economic Approach: Unpublished Writings of Gary S. Becker*. University of Chicago Press, 2023, p. 86.

67. Jonathan Rothwell and Douglas Massey, "Geographic effects on intergenerational income mobility," *Economic Geography*, Vol. 91, No. 1, January 2015, pp. 83–106; Orsetta Causa and Jacob Pichelmann, *Should I stay or should I go? Housing and residential mobility across OECD countries* (No. 1626), OECD Publishing, October 2020

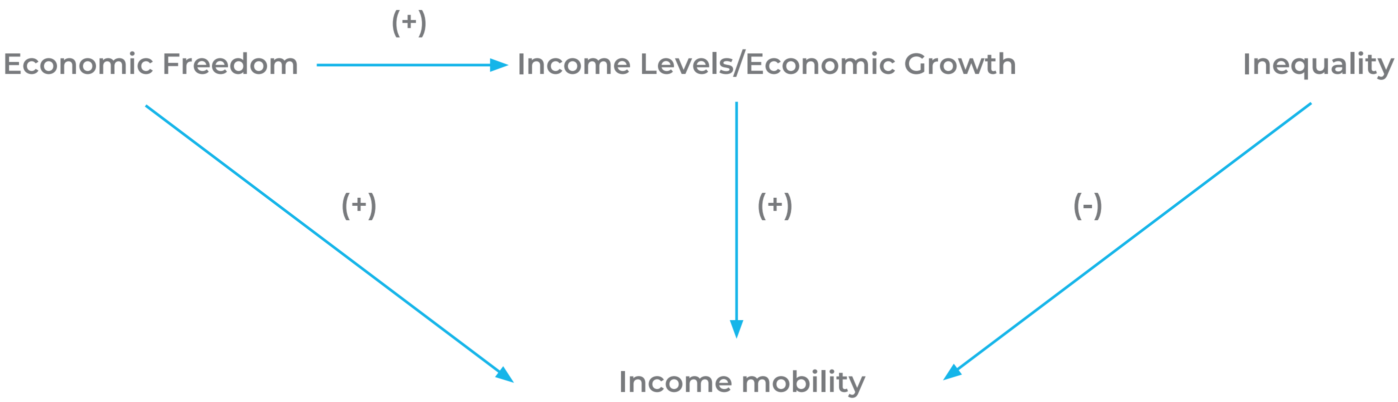
68. David A. Jaeger and Marianne E. Page, "Degrees matter: New evidence on sheepskin effects in the returns to education," *The review of economics and statistics*, November 1996, pp. 733–740.

69. Dan Anderberg and Fredrik Andersson, "Investments in human capital, wage uncertainty, and public policy," *Journal of Public Economics*, Vol. 87, No. 7–8, 2003, pp. 1521–1537.

70. Ibid, Kenneth Judd, "Taxes, uncertainty, and human capital," *American Economic Review*, Vol. 88, No. 2, 1998, pp. 289–292

Figure 3-1

The Effect of Economic Freedom on Income Mobility



Source: Stylized from Justin Callais and Vincent Geloso, "Intergenerational income mobility and economic freedom," *Southern Economic Journal*, Vol. 89, No. 3, November 2022, pp. 732–753.

The combination of increased risk with decreased net returns due to taxation can lead to underinvestment in education, particularly for those more averse to risk. If, as evidence suggests, people at the bottom of the income ladder are more risk-averse, taxation would consequently entrench them in their current socio-economic status.[71]

All of these constitute examples of the direct pathway from economic freedom to income mobility. However, there is also an indirect pathway mediated by economic growth. The first leg of this alternate route is well known to economists. In 2022, Robert Lawson conducted a review of some 1,300 empirical scientific articles on economic freedom. Regarding topics related to economic development, such as income levels, income growth, investment and entrepreneurship, he found that the vast majority of studies demonstrate positive effects for economic freedom (see Table 3-1).[72]

If economic freedom makes nations richer, then it follows that it increases *absolute* mobility. This is obvious to everyone. Some may nonetheless be tempted to dismiss this as irrelevant to *relative* mobility, but this would require an unrealistic and flawed assumption, namely that an additional dollar of income provides the same opportunities to both rich and poor.

High tax burdens may discourage people from working, thus preventing the acquisition of on-the-job experience that would allow them to climb the ladder.

For example, consider the demand for educational services. If the it increases with income, then higher income levels will result in more investment in education. However, it is also known that increases in incomes that are *already high* have smaller effects on the demand for education. In other words, a 1% increase in income at the bottom of the ladder has a much larger effect on the demand for education than the same 1% increase at the top of the income ladder.[73] This is why Becker argued against the fatalistic perspective.

71. Johannes Haushofer and Ernst Fehr, "On the psychology of poverty," *Science*, Vol. 344, No. 6186, May 2014, pp. 862–867.

72. This has been echoed in recent works: Robert Lawson, Vincent Miozzi and Meg Tuszynski, "Economic freedom and growth, income, investment, and inequality: A quantitative summary of the literature," *Southern Economic Journal*, Vol. 90, No. 4, January 2024, 1099–1135.

73. Keiji Hashimoto and Julia A. Heath, "Income elasticities of educational expenditure by income class: The case of Japanese households," *Economics of education review*, Vol. 14, No. 1, 1995, pp. 63–71

Table 3-1

Summary of Empirical Literature on the Effect of Economic Freedom for Development			
	Positive	**Neutral**	**Negative**
Entrepreneurship	62.9%	34.3%	2.9%
Income Growth	66.3%	32.6%	1.1%
Income Level	72.5%	27.5%	0.0%
Investments	58.5%	38.5%	3.1%

Source: Robert Lawson, "Economic Freedom in the Literature: What Is It Good (Bad) For?," *Economic Freedom of the World: 2022 Annual Report*, Fraser Institute, 2024, pp. 187–19.

If we can increase *absolute* living standards for everyone, we will likely generate a much larger set of new opportunities for the poor than we do for the rich.

Moreover, richer societies tend to generate greater specialization. This is what a new wave of economic research calls "economic complexity," because of the greater number of intricate trade links between economic agents.[74] That specialization means that there are more types of opportunities that people can seize.

For the sake of illustration, imagine an agricultural society with a small manufacturing sector that produces only one type of good. In this economy, people seeking better opportunities can only attempt to move from low-pay agriculture to higher-pay manufacture of a single good. There is a single path. For those unable, for one reason or another, to make this move (e.g., not being strong enough to work in manufacturing), there is no path. However, as more and more sectors are created, more and more options emerge that may be better suited for individuals excluded from the previously existing paths, thus leading to greater opportunities for economic mobility.

The Empirical Evidence

The direct and indirect effects of economic freedom on both absolute and relative mobility have recently been subjected to a bevvy of empirical studies confirming that economic freedom is indeed quite potent in promoting income mobility.

In a recent study, two researchers, one of whom is an author of this paper, used a dataset of more than 100 countries that provided estimates of relative intergenerational income mobility for people born in the 1980s.[75] They argued that the sum of the direct and indirect effects of economic freedom—especially the property rights and regulation components—far outweighed the effects of inequality.

The sum of the direct and indirect effects of economic freedom—especially the property rights and regulation components—far outweighed the effects of inequality.

They found that an additional point on the index of economic freedom (which was scaled from 0 to 10) caused a 15.9% to 21.5% increase in relative income mobility via the indirect pathway alone. When the direct pathway was added, they determined the cumulative effect of that extra point to be between 21.7% and 27.5%. Their work echoes

74. César A. Hidalgo and Ricardo Hausmann, "The building blocks of economic complexity," *Proceedings of the national academy of sciences*, Vol. 106, No. 26, June 2009, pp. 10570–10575.

75. Justin Callais and Vincent Geloso, "Intergenerational income mobility and economic freedom," *Southern Economic Journal*, Vol. 89, No. 3, November 2022, pp. 732–753.

earlier studies that had been forced to rely on a smaller number of countries.[76]

Similar findings have been made within the United States. Using both absolute income mobility and relative income mobility across generations (of people born from 1978 to 1983, relative to their parents), three researchers, including one of the authors of this paper, found that people who grew up in the economically freest areas of the United States enjoyed more income mobility than people who grew up in the least free areas.[77] It is also worth noting that, just as in the international study, they found the effects of inequality outweighed by those of economic freedom.

While highly suggestive, these studies do have some limitations due to their reliance on intergenerational income mobility.[78] Among these is their dependence on cross-sections at given points in time, which limit assessment of the effect of economic freedom on the evolution of income mobility. However, studies that rely on intragenerational income mobility can circumvent this issue (along with many others) because there exist many within-country estimates of income mobility that span decades. Fortunately for the purpose of policy proposals specific to Canada, the three main studies on this topic all rely on Canadian data.

The first of the three was conducted by two researchers, one of whom is an author of this paper.[79] Using the Statistics Canada data on income mobility discussed in Chapter 2, they were able to assess the effect of economic freedom on income mobility (both relative and absolute) for people in the poorest 10% of each province between 1982 and 2018. They found that for individuals in the lowest income deciles, economic freedom boosted income mobility significantly.

The effect on relative income mobility—measured by the number of deciles a person moved up—was particularly telling. They found that an extra point on the economic freedom index caused an increase in income mobility of 0.08.[80] To illustrate the relevance of this effect, they showed that if Quebec had been as economically free as Alberta, it would have reversed the decline in income mobility it experienced from 1982 to 2018.[81]

The second study, entitled "Poverty Spells and Economic Freedom,"[82] conducted by the same researchers, concentrates on the income mobility of people already in poverty, i.e., starting at the very bottom of the income ladder. They analyzed the effect of economic freedom on the duration of periods of poverty, on the ability to exit from it, on the risk of entering it and on its degree of inescapability.[83]

If Quebec had been as economically free as Alberta, it would have reversed the decline in income mobility it experienced from 1982 to 2018.

They found that one extra point of economic freedom reduced the length of poverty spells by an average of 1.6 weeks, the rate of extreme poverty resistance (i.e., 8+ years in poverty) by 0.48 percentage points, and the rate of entry into poverty by 0.15 percentage points. The exit rate, for its part, was increased by 1.45 percentage points.[84] This more focused result is consistent with other findings. Interestingly, they also found that government spending in the form of transfers to individuals had no effect on the ability to exit poverty permanently, while higher taxation did have an effect.[85] This means that, on net, taxation and redistribution schemes did more harm than good.

76. Christopher J. Boudreaux, "Jumping off of the Great Gatsby curve: how institutions facilitate entrepreneurship and intergenerational mobility," *Journal of Institutional Economics*, Vol. 10, No. 2, 2014, pp. 231–255; John A. Bishop, Liu Haiyong and Juan Gabriel Rodríguez, "Cross-Country Intergenerational Status Mobility: Is there a Great Gatsby Curve?," *Research on Economic Inequality* 22, 2014, pp. 237–249.

77. Justin Callais, Vincent Geloso and Alicia Plemmons, *Intergenerational Mobility, Social Capital, and Economic Freedom*. Working Paper, Archbridge Institute, October 2023.

78. For a greater discussion, see Justin Callais and Vincent Geloso, *Wealth Generation: How to Boost Income Mobility in the UK,* Institute for Economic Affairs, February 2024, pp. 18–19.

79. James Dean and Vincent Geloso, "Economic freedom improves income mobility: evidence from Canadian provinces, 1982–2018," *Journal of Institutional Economics*, Vol. 18, No. 5, November 2021, pp. 807–826.

80. *Ibid*., p. 820.

81. *Ibid*., pp. 815 and 823.

82. James Dean and Vincent Geloso, "Poverty spells and economic freedom: Canadian evidence," *Journal of Economic Behavior & Organization*, Vol. 224, August 2024, pp. 282–296.

83. This study was summarized in a recent publication from the MEI: James Dean and Vincent Geloso, *Economic Freedom Reduces Poverty: The Canadian Experience*, Economic Note, MEI, May 2024.

84. *Ibid*. p. 3.

85. James Dean and Vincent Geloso, *op. cit*., footnote 80, pp. 287 and 292.

The third study, conducted by four researchers, including one of the authors of this paper, is the most conclusive of the three.[86] Unlike the others that examined associations alone without addressing causality, this study leverages the unique pro-market reforms enacted by the government of Alberta over the period from 1992 to 2006.[87] These reforms, which included fiscal austerity, business deregulation, tax cuts and the privatization of crown corporations, represented significant increases in economic freedom.[88]

Using the intragenerational income mobility data discussed in the previous chapter, the authors compared Alberta with other provinces that did not implement such extensive reforms. This allowed estimates of what Alberta's income mobility figures might have looked like without the reforms, which, in turn, allowed estimation of the effects of reforms.

They found that, across all income mobility statistics, the reforms either had positive effects or no effects at all. For income mobility over five-year periods, the results were wholly positive, and the percentage of people from the bottom decile of the population who experienced jumps of more than 3 deciles in the income distribution increased by somewhere between 7.6 and 12 percentage points.[89] The proportion of people who enjoyed income gains of more than 200% over five years increased by somewhere between 5.6 and 11.9 percentage points. These results were robust to a variety of validity checks.[90]

There are also multiple studies that concentrate on the specific sub-components of economic freedom. For example, a team of researchers from West Virginia University were able to test whether occupational licensing—which maps to the freedom from regulation aspect of economic freedom—reduced income mobility. More precisely, they focused on the licensing of low and middle-income jobs, i.e., not doctors and lawyers. They found that a doubling in occupational licensing from 1993 to 2012 reduced upward absolute income mobility by between 1.6% and 6.25%.[91]

The most recent work by other researchers, including one of the authors of this paper, expanded these results and tested them in competition with the effects of large external shocks to the economy in the form of industrial automation that eliminated job opportunities for people at the bottom of the income ladder. They found that occupational licensing reduced income mobility quite significantly, and by larger proportions than determined by the team from West Virginia University. More importantly, they found that areas with less regulation were far less affected by the rise of industrial automation, implying that less regulated markets were better able to adjust to external shock.[92]

Government spending in the form of transfers to individuals had no effect on the ability to exit poverty permanently.

There also exists evidence that indirectly confirms the role of economic freedom in promoting income mobility. Housing regulations are well known to increase the cost of housing in cities,[93] and cities are well known for promoting income mobility. Increasing the cost of housing via regulation thus reduces income mobility.[94] If this connection holds, a rise of land-use regulations in Canadian and American cities since the 1980s should be tied to falling income mobility. As the rise of land-use regulations and the fall in income

86. Justin T. Callais, Vincent Geloso, Alicia Plemmons and Chandler S. Reilly, *Income Mobility, Austerity and Liberalization: Evidence from Alberta's Reforms in the 1990s*, Working Paper, George Mason University Department of Economics, 2024. Note: An older version of this paper did not include Reilly.

87. This study was also summarized in a recent publication from the MEI: Justin Callais, Vincent Geloso and Alicia Plemmons, *Pro-Market Reforms Promote Income Mobility: The Case of Alberta*, Economic Note, MEI, 2024.

88. *Ibid*., p. 2.

89. *Ibid*., p. 4.

90. *Idem*.

91. Brian Meehan, Edward Timmons, Andrew Meehan and Ilya Kukaev, "The effects of growth in occupational licensing on intergenerational mobility," *Economics Bulletin,* Vol. 39, No. 2, June 2019, pp. 1516–1528.

92. Vincent Geloso, Alicia Plemmons and Pradyot Sharma, *Income Mobility, Automation and Occupational Licensing*, Working Paper, George Mason University Department of Economics, July 2024.

93. For a discussion see Vincent Geloso and Gabriel Giguère, *How Regulation Made Montreal Unaffordable,* Viewpoint, MEI, July 2024.

94. Douglas Sutherland, *Modernising state-level regulation and policies to boost mobility in the United States* (No. 1628), OECD Publishing, November 2020; Kevin Erdmann, Salim Furth and Emily Hamilton, "The Link Between Local Zoning Policy and Housing Affordability in America's Cities," *Mercatus Policy Brief*, March 2019. See also Benjamin Stutts, *Essays in Urban Economics*, PhD Thesis, Southern Methodist University; Rothwell and Massey, *op cit*., footnote 67.

mobility are both well-documented facts, this militates in favour of the connection between (low) economic freedom and (low) income mobility.[95]

In economically free environments, the persistence of income status through inheritance at birth is massively eroded.

What emerges overall is that economic freedom is a powerful determinant of income mobility. In economically free environments, the persistence of income status through inheritance at birth is massively eroded.

95. Scott Beyer, *Market Urbanism: A Vision for Free Market Cities*, Market Urbanism Reports, 2021; Alain Bertaud, *Order without Design: How Markets Shape Cities*, MIT Press, 2018; Raj Chetty, Nathaniel Hendren, Patrick Kline and Emmanuel Saez, "Where is the land of opportunity? The geography of intergenerational mobility in the United States," *Quarterly Journal of Economics*, Vol. 129, No. 4, September 2014, pp. 1553–1623; Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca and Jimmy Narang, "The fading American dream: Trends in absolute income mobility since 1940," *Science*, Vol. 356, No. 6336, April 2017, pp. 398–406.

CHAPTER 4

Public Policy Recommendations for Better Income Mobility in Quebec

Given Quebec's suboptimal income mobility, which can be largely explained by the province's lower levels of economic freedom,[96] public policy changes are required to foster a more economically mobile society. The aim of this chapter is to formulate several of these recommendations with the goal of improving the income mobility of Quebecers by increasing economic freedom.

Recommendation 1: Set up an expenditure review committee with the aim of drastically reducing public spending, in particular by downsizing the public sector.

Firstly, levels of government spending are much higher in Quebec than in the other major provinces. With spending accounting for 50% of the size of the Quebec economy (see Figure 1-2), governments need to cut back. It should be noted that a great deal of this spending is unrelated to "social policies" (i.e., measures to redistribute), but is devoted, rather, to measures such as industrial subsidies[97] and the provision of public services that could more efficiently be left to private actors. To achieve this, the Quebec government must set up an expenditure review committee with the aim of drastically reducing public spending.

Despite the government's stated intention to set up an expenditure management strategy,[98] as recommended by the MEI,[99] there is no guarantee that such an initiative will be sufficiently ambitious in its review. An effective review committee will need to comb through every government program that draws heavily on Quebec's public finances. It will also have to review every position in Quebec's public sector to ensure that each one is indeed necessary.

Given that Quebec's public sector workforce has grown by 72,806 employees[100] since the Legault government took office in 2018, this is an essential step in the spending review. Public sector employee compensation accounts for a large share of government spending. In the Quebec government's 2024-2025 budget, remuneration expenditures alone account for $60.2 billion, or 48.4% of program spending.[101]

An effective review committee will need to comb through every government program that draws heavily on Quebec's public finances.

The spending review will have to adopt a determined approach, like that realized by the former Harper government at the federal level. That initiative saved five billion dollars annually, particularly in operations, which represented 6.9% of departmental spending.[102] If applied to Quebec based on 2024-2025 budget expenditures,[103] this level of savings from the various departments would achieve a $10.2 billion reduction in recurring spending for the province.

Jean Chrétien's downsizing of the public service, which consisted of a thorough review of the state's expenditures and mission, should also be looked at closely by the Quebec government.[104]

96. Justin Callais and Vincent Geloso, *op. cit.*, footnote 2, pp. 15–16.

97. Statistics Canada, Table: 10-10-0017-01 - Canadian government finance statistics for the provincial and territorial governments (x 1,000,000), consulted on August 15, 2024.

98. Government of Quebec, "Expenditure Budget 2024-2025, Press Releases," March 2024, p. 3.

99. Gabriel Giguère and Renaud Brossard, "Budgetary Balance: Quebec Must Stay the Course," Viewpoint, MEI March 2024, p. 2.

100. Authors' Calculation. Government of Quebec, *Expenditure Budget 2024-2025 – Expenditure Management Strategy – Additionnal Information*, p. A-16; Government of Quebec, *Expenditure Budget 2023-2022 – Expenditure Management Strategy – Additionnal Information*, p. 122.

101. Government of Quebec, *Expenditure Budget 2024-2025 – Expenditure Management Strategy – Additionnal Information*, *op. cit.*, footnote 100, p. B-35.

102. Government of Canada, *Economic Action Plan 2012 – Jobs Growth and Long-Term Prosperity*, March 19, 2012, p. 213; Gabriel Giguère and Renaud Brossard, *op. cit.*. footnote 99.

103. Authors' calculation. 147,815(M$)*0.069 = 10,199(M$); *Government of Quebec, Budget 2024-2025 – Priorities Health and Education – Budget Plan*, March 2024, p. G.51.

104. Gabriel Giguère, "Bloat in the Federal Public Service: Justin Trudeau Ranks Last Among Canadian Prime Ministers Over the Past 40 Years," Economic Note, MEI, January 2024, p. 2; Jason Clemens *et al.*, *End of the Chrétien Consensus*, Fraser Institute, March 2017, p. 1.

The most significant cutbacks took place over the period from 1994 to 1999 when his government reduced the federal workforce by 17.4%, or 42,768 jobs.[105] Applying this same proportion to Quebec's civil service—which represents a small proportion of all Quebec public-sector employees—would bring about a reduction of 13,651 positions.[106]

Subsidies to industry are another area worth examining. In 2023-24, the total expenditures of the Ministry of Economy, Innovation and Energy amounted to $4.2 billion, while corporate tax revenues reached $11.4 billion.[107] This spending figure is significantly understated, as much of industrial policy operates through other channels, e.g., the Ministry of Municipal Affairs, Investissement Québec, the Ministry of Agriculture, and the Ministry of Employment and Social Solidarity. According to Statistics Canada, Quebec government subsidies totaled $7.5 billion[108] in 2022 (the latest year available at the time of writing). Industrial subsidies of this kind have a long and consistent track record of producing poor returns. They belong on the chopping block.[109]

Recommendation 2: Reduce taxes significantly, especially payroll taxes for employers, and the corporate income tax.

In Quebec, the government's high level of spending is accompanied by a heavy tax burden on the population. With a fiscal burden corresponding to 38.9% of GDP, it is the highest in Canada.[110] To remedy this unfortunate fiscal situation, the Quebec government will have to reduce payroll taxes[111] (Quebec Pension Plan and Quebec Parental Insurance Plan, to name a few) which account for a high proportion of the pressure on Quebec taxpayers. These takings represent 6.4%[112] of Quebec's total GDP, and 16.4% of the province's total tax burden.[113]

Employers also have to pay a significant portion of these payroll taxes, far greater than that paid by their workers.[114] This is especially true in Quebec, where employers are subject to seven different payroll taxes, the highest number in Canada.[115]

In Quebec, the government's high level of spending is accompanied by a heavy tax burden on the population. With a fiscal burden corresponding to 38.9% of GDP, it is the highest in Canada.

These taxes are punitive. They not only limit raises in the wages employers pay to their employees and create large gaps between the employer's cost and the employee's remuneration, but also remove the employee's incentive to provide the work that corresponds to the employer's cost. Out of all the provinces, Quebec's employers have the highest payroll tax rate in Canada at 13.3% of a $50,000 salary. This is 4.2 percentage points higher than in New Brunswick, Saskatchewan and Alberta[116] (see Figure 4-1), and hits hard for both Quebec employers and their employees.

Payroll taxes are also known to be regressive as they affect poorer people more than the rich.[117] This means that the poorest employees are hardest hit—making it harder for them to escape their socio-economic position and climb the ladder over time.

105. Authors' calculation. (203,476–246,244)/246,244 = –17,4%; *Ibid.*, p. 5.

106. The civil service includes all public servants working within ministries or agencies, while the category of public sector employees is broader and includes professions such as teachers and nurses. Authors' calculation. 78,456*0.174 = 13,651; Government of Quebec, *Expenditure Budget 2024-2025, op. cit.*, footnote 100, p. A-16.

107. Government of Quebec, *Budget 2024-2025 – Priorities: Health and Education*, March 2024, pp. A.20 and G.51.

108. Statistic Canada, Table: 10-10-0017-01 - Canadian government finance statistics for the provincial and territorial governments (x 1,000,000), *op. cit.* footnote 97.

109. For a useful, but short, summary of the literature, see Bryan Cheang, "What can industrial policy do? Evidence from Singapore," *Review of Austrian Economics*, Vol. 37, No. 1, July 2022, pp. 1–34.

110. Tommy Gagné-Dubé *et al.*, *op. cit.*, footnote 22, pp. 26–27.

111. These taxes affect both corporation and their employees; Yanick Labrie, "What Effect Do Payroll Taxes Have on Workers?," Viewpoint, MEI, November 2014.

112. Tommy Gagné-Dubé *et al.*, *op. cit.*, footnote 22, p. 8.

113. Authors' calculation. (6.4/38.9)*100 = 16.4% of the total fiscal pressure.

114. Pouya Ebrahimi and François Vaillancourt, *The Effect of Corporate Income and Payroll Taxes on the Wages of Canadian Workers*, Fraser Institute, 2016, p. 4; Canadian Federation of Independent Business (CFIB), "The weight of payroll taxes," September 2023, p. 6.

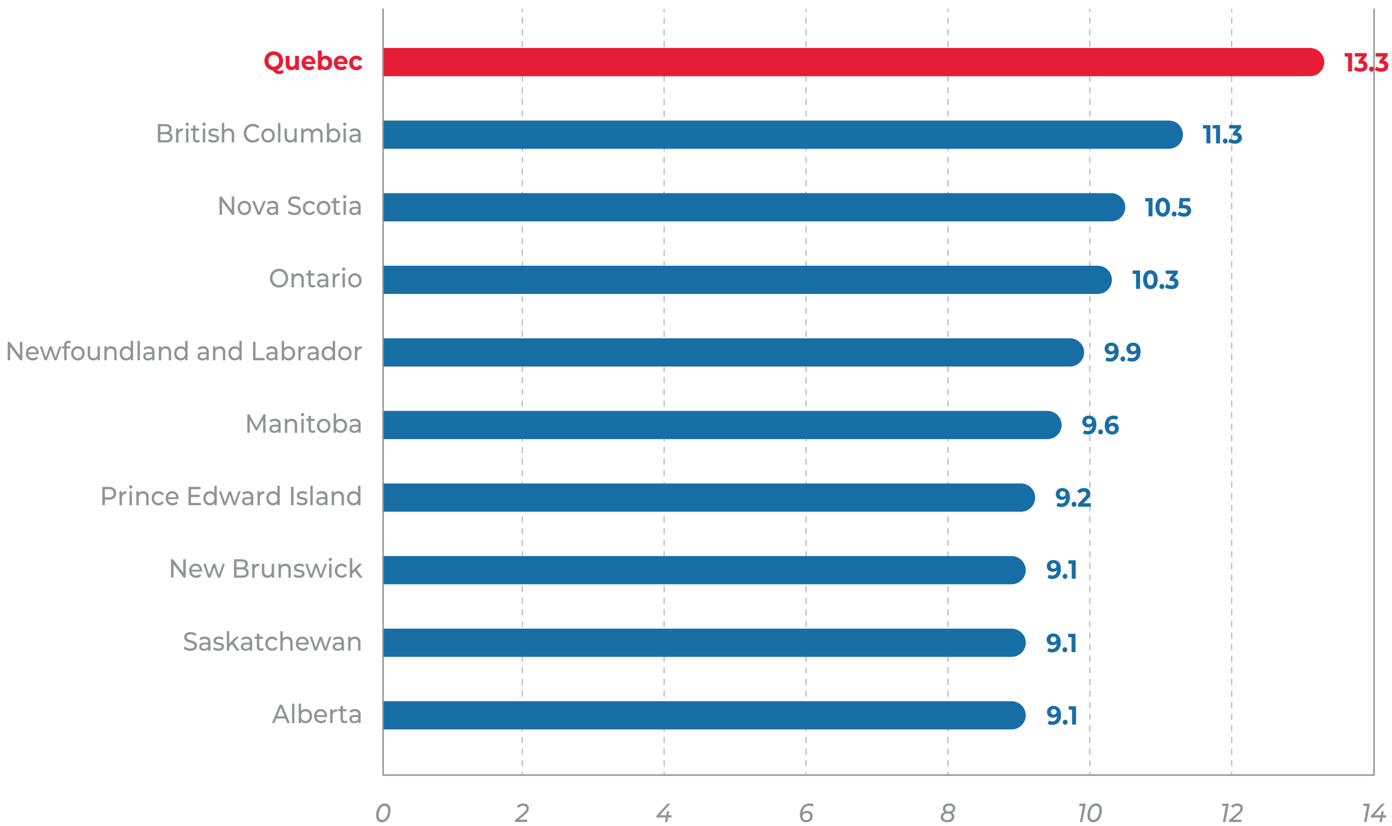
115. *Idem*.

116. *Ibid.*, p. 3.

117. Rodney Haddow, "Are Canadian Provincial Tax Systems Becoming More Regressive? If So, in What Respects and Why?," *Canadian Public Policy*, Vol. 44, No. 1, March 2018, pp. 25–40; Andrew Heisz, and Brian Murphy, "The role of taxes and transfers in reducing income inequality," in *Income Inequality: The Canadian Story*, Chapter 5, Institute for Research on Public Policy, 2016, pp. 435–77.

Figure 4-1

Payroll Tax rates for Canadian provinces (for a $50,000 salary, August 2023)



Source: Canadian Federation of Independent Business (CFIB), "The weight of payroll taxes," September 2023, p. 3.

Having more taxes to pay reduces the gains of a firm while also limiting its capacity to offer higher wages to attract workers. According to one study, the annual growth rate of wages is 0.5 percentage points lower in Quebec for every one percentage point increase in payroll tax.[118] This type of tax thus entails a potential loss of salary for Quebec employees.

Added to this is the corporate income tax, which also ends up affecting workers. Indeed, some studies have shown that a rise in corporate income tax is transferred in large part to the employees, and that for every dollar in corporate income taxes, employees' wages are reduced between 30 and 67 cents.[119] Including other losses of income (such as income on properties or valuation of small businesses), the lower bound rises well above 50 cents.

The effect of these two types of taxes is ultimately to lower the ability of Quebec workers to increase their wages, and to reduce the competitiveness of Quebec companies.[120]

118. Pouya Ebrahimi and François Vaillancourt, *op. cit.*, footnote 114, p. 7.

119. Michel Devereux *et al.*, "Do State Corporate Income Taxes Reduce Wages?," Federal Reserve Bank of Kansas, 2009, p. 87; Juan Carlos Suárez Serrato and Owen Zidar, "Who benefits from state corporate tax cuts? A local labor markets approach with heterogeneous firms," *American Economic Review*, Vol. 106, Nos 9, p. 2582.

120. Pouya Ebrahimi and François Vaillancourt, *op. cit.*, footnote 114, pp. 3–6.

Recommendation 3: Initiate a process to make zoning more flexible, to allow greater population density and more versatile use of land.

There is a stark need for the Quebec government and municipalities to explore housing regulation reforms that can help increase the economic freedom of Quebecers. With the exception of British Columbia, Quebec is currently the province with the highest housing regulation index (see Figure 1-5). Based on Canada Mortgage and Housing Corporation (CMHC) data, the MEI constructed a regulatory index combining delays in approval of new construction with the land use regulation index.[121] It seems clear that reform of zoning regulations and increases in the efficiency of municipal bureaucracy in issuing permits are both essential in the case of Quebec.

Beyond decreasing household mobility, housing regulation may also result in the misallocation of labour. Housing shortages and high housing prices may mean workers are unable to live in the cities where their skills are most needed, and where they would earn better salaries.

With the exception of British Columbia, Quebec is currently the province with the highest housing regulation index.

Housing regulation often takes the form of zoning, and specifically R1 zoning (which designates land for single-family detached homes) which severely limits supply and density capacity. Density regulation is especially problematic, since it limits the number of individuals who may be able to live in a given area as well as the types of homes developers are able to build. Zoning also tends to raise the price of housing units considerably.[122] This is why the Quebec government must facilitate zoning changes for agricultural lands to increase the supply of housing. For example, if all the land zoned as agricultural in the City of Laval were used to build housing, over 70,000 additional units could be constructed.[123]

In Quebec, but more specifically in Greater Montreal, housing affordability has eroded over the decades. Between 1970 and the mid-2000s, house prices were around three times the median wage. Today, this same ratio has more than doubled to 6.18.[124] Since regulations directly affect property prices, it is necessary to reduce them in order to increase supply and facilitate a return to affordability.[125] These regulations also affect the less well-off, who are not (yet) homeowners, and for whom home ownership appears increasingly out of reach.[126] A reduction in the regulation of land use is an important step toward restoring affordability.

Recommendation 4: Reduce occupational licensing significantly and replace it with voluntary/optional certification.

The Quebec government must also address the issue of occupational licensing, which designates the obligation to get government-approved certification in order to practise a profession. Out of all the provinces, Quebec has the highest number of these types of certifications.[127] This makes it more difficult for those without such certification to access certain jobs, even if they possess the expertise and skills to do the job, and therefore hinders social mobility in the province. In practice, this creates a kind of monopoly, with the profession's association setting the entry requirements. This creates a clear incentive to be overly strict in order to maintain a scarcity of supply in the profession, thus driving up the price.

The dramatic difference in the number of licensed occupations within Canada creates an unequal playing field between the provinces, where individuals may be required to seek additional qualifications in order to work in their given industry if they move within the country. Far from merely restricting access to professional careers such as engineering and medicine, this can be especially problematic for careers in the trades, where these

121. Vincent Geloso, "How Regulation Made Montreal Unaffordable," Viewpoint, MEI, July 2024, p. 2.

122. Sandford Ikeda and Emily Hamilton, *How Land-Use Regulation Undermines Affordable Housing*, Mercatus Center, November 4, 2015, p. 9.

123. Gabriel Giguère, "Agricultural Zoning Reform Would Improve Housing Affordability in Quebec," Viewpoint, MEI, August 2024, p. 2.

124. Vincent Geloso, *op. cit.*, footnote 121, p. 2.

125. Justin Callais and Vincent Geloso, *op. cit.*, footnote 2, p. 28.

126. *Idem.*

127. Krystle Wittevrongel and Gabriel Giguère, *op. cit.*, footnote 39, p. 2.

additional qualifications appear redundant given the overlapping skillset that is often needed. One example is the fine-grained distinction that Quebec maintains between a painter and a plasterer, despite the fact both jobs refer to the covering of surfaces within a house.[128]

An alternative would be to drastically reduce the number of occupational licences in line with other provinces, allowing for individuals to be competitive across the country.[129] As a starting point towards deregulation, Quebec should consider shifting the burden of licensing in favour of optional certification, which maintains a particular level of training requirement, but may include levels aimed towards a reasonable minimum standard and that are easier to achieve.

The dramatic difference in the number of licensed occupations within Canada creates an unequal playing field between the provinces.

Recommendation 5: Eliminate barriers to interprovincial trade to match Alberta, which has only around 1/6 as many barriers as Quebec.

Interprovincial trade is an issue that all Canadian provincial governments should address. Following the implementation of the Canadian Free Trade Agreement (CFTA) in 2017[130], a movement towards reduction of trade barriers seemed to be underway, but there's been a total lack of concrety action by the Quebec government since that time.[131] Reducing interprovincial trade barriers as much as possible has to be part of what makes for a freer economy.

More fundamentally, barriers to interprovincial trade reduce economic productivity; a complete opening to trade by all provinces would increase GDP per capita by several thousand dollars.[132] In other words, the elimination of trade barriers between Quebec and other provinces would raise the standard of living both of Quebecers and of Canadians in other provinces.

128. Gabriel Giguère, *op. cit.*, footnote 104, p. 3.

129. *Idem*.

130. Canadian Free Trade Agreement (CFTA), Resolving regulatory barriers, consulted August 8, 2024.

131. Krystle Wittevrongel and Gabriel Giguère, *op. cit.*, footnote 39, p. 2.

132. Ryan Manucha and Trevor Tombe, "Liberalizing International Trade through mutual recognition," MacDonald Laurier Institute, September 2022, p. 5.

CONCLUSION

Income mobility is a close indicator of social mobility, and it is clearly influenced by economic freedom. Quebec is no exception to this phenomenon, so economic freedom has a significant impact on its population's possibilities for improving their lives.

Chapter 1 showed that Quebec ranks poorly in terms of economic freedom, coming last among Canadian provinces, as well as in North America as a whole. Over the past 30 years, Quebec has consistently ranked last, due in part to its high levels of taxation and fiscal pressure.

Political decision-makers must ensure that a regulatory framework is put in place to encourage income mobility among the less well-off members of society.

The current fiscal and regulatory environment hampers individuals' ability to climb the economic ladder, as high taxes and rigid regulations erode both the incentives and the opportunities necessary for economic advancement. Government spending in Quebec, which represents half the size of the economy, is another factor to be reviewed by public decision-makers. The panoply of rules affecting individual freedom, such as housing regulations, occupational licensing and so on, also has a detrimental effect on the population's ability to improve their lot.

As seen in Chapters 2 and 3, this low level of economic freedom also affects the social mobility of the Quebec population. While Quebec enjoys good income mobility before government taxation compared to the other Canadian provinces, that mobility declines significantly when the taxman comes to collect the taxes.

As demonstrated in Chapter 4, the promotion of income mobility among the population requires public policy changes. First, the size of the government in proportion to the economy must be reduced, this by reducing the number of civil servants and, more generally, public sector employees in Quebec. Reducing both the corporate tax rate and payroll taxes will also make Quebec more competitive, while simultaneously leaving more in the pockets of employees, who will see their salaries increased by these tax cuts. By streamlining regulations and reducing the bureaucratic hurdles that currently stifle economic activity, the province can improve affordability in key areas such as housing and employment. This would enable more Quebecers to take advantage of opportunities for economic growth and better their financial situations.

Political decision-makers must ensure that a regulatory framework is put in place to encourage income mobility among the less well-off members of society. Favouring economic freedom, something Quebec politicians have failed to do for the past 40 years, is the approach to consider first. After all, Quebecers have the right to expect the government not to reduce or obstruct their opportunities to improve their lives.

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