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Ontario's productivity and prosperity gap with other advanced economies persisted through the last decade

Looking back over the past decade, the Task Force on Competitiveness, Productivity and Economic Progress concludes that Ontario has achieved more in the public policy arena than in the business sector. Looking ahead, the Task Force urges businesses and individuals to act relentlessly to spur innovation and productivity to achieve the 2020 Prosperity Agenda.

Toronto – Over the past ten years, poor productivity and lagging innovation have persisted in the Ontario economy. As a result, the average Ontarian has lower living standards than counterparts in other advanced economies. Yet there is more reason for optimism than a decade ago, as our provincial and federal governments have improved the policy environment for advancing prosperity. The challenge in the decade ahead will be for business leaders to take advantage of this and invest more in innovation. This is the key conclusion of the Tenth Annual Report, *Prospects for Ontario's prosperity: A look back and a look ahead*, released today by the Task Force on Competitiveness, Productivity and Economic Progress.

In its Report, the Task Force reaffirms that Ontario's economy is one of the world's most successful when compared to similar regions outside North America. Ontario's Gross Domestic Product (GDP) per capita ranks 6th among a peer group of 13 prosperous international regions.[†] But among a set of 16 similar North American jurisdictions,[‡] Ontario continues to trail. The Task Force reports that Ontario's GDP per capita – a measure of the value created by workers and firms in Ontario from the human, physical, and natural resources in the province – lagged the median of the 16 North American jurisdictions by \$7,700 or 14.2 percent in 2010, up from the 2009 gap of \$7,100 in constant dollars (2010). This gap represents lost prosperity, which negatively affects Ontarians at all income levels.

Roger Martin, Dean of the Joseph L. Rotman School of Management and Chairman of the Task Force observed: "We have a powerful set of economic assets in Ontario – a talented and diverse workforce, a tradition of building great physical assets and infrastructure, and a rich endowment of natural resources. But, the gap in GDP per capita shows that Ontario could do so much better." The prosperity gap is the result of our being laggards in innovation and productivity. While the province leads most other regions around the world in competitiveness and prosperity, this is largely because Ontarians work more, not because they are more innovative and productive – or work smarter.

The Report commends the federal and provincial governments for improving the economic environment to close the prosperity gap. The Ontario government has helped turn around flagging investment in post secondary education. Along with the federal government, it has moved the tax system for business investment from being one of the world's worst to one that is better than most. The province has worked

[†] Baden-Württemberg (Germany), Bayern (Germany), Cataluña (Spain), Hessen (Germany), Kanto (Japan), Kinki (Japan), Lombardia (Italy), New South Wales (Australia), Nordrhein-Westfalen (Germany), Rhône-Alpes (France), South East (UK), Vlaams-Gewest (Belgium)

[‡] California, Florida, Georgia, Illinois, Indiana, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Ontario, Pennsylvania, Quebec, Texas, Virginia

closely with the federal government to expand international trade and has avoided the worrisome trend toward protectionism that we have seen elsewhere, particularly in the United States.

But businesses need to step up their investments in technology – from R&D to patents to adapting existing technology to their businesses. As Martin noted, “our business leaders and individuals understand the need for innovation, but they still need to take action. They must relentlessly pursue improved products, services, and processes and step up investments in innovation.”

Actions to achieve the 2020 Prosperity Agenda

Work effort and productivity: Encourage productivity and innovation to enable Ontario to become a prosperity leader in 2020

- Be determined to close prosperity gap by becoming a leader in innovation and productivity

Human capital: Make Ontario a leading centre for talent and skill

- Continue investments in educating people for Ontario’s competitiveness
- Lower marginal effective tax rates for low-income Ontarians
- Consider wage insurance for assisting older displaced workers

Investment: Encourage businesses, governments, and individuals to step up to the challenge of investing in our innovative capabilities

- Increase business investment in R&D and technology
- Pursue breakthrough tax policy innovations
- Consider a carbon tax

Support and pressure: Gear public policy toward more specialized support and higher competitive pressure for innovation

- Strengthen government strategies to enhance innovation
- Continue to encourage federal efforts to expand international free trade agreements and ensure we have the physical and social infrastructure to enable these agreements
- Explore policy options to improve venture capital structures
- Review policies and programs on incentives to attract businesses to Ontario
- Keep the friendly pressure on our US neighbours to resist protectionist impulses

The complete report can be downloaded directly from:

http://www.competeprosper.ca/download.php?file=ICAP_AR10_FINAL.pdf

For more information contact James Milway, Executive Director of the Institute for Competitiveness & Prosperity at 416-920-1921 ext. 222 or visit www.competeprosper.ca

The creation of the Task **Force Competitiveness, Productivity and Economic Progress** was announced in Ontario’s 2001 Speech from the Throne. Roger L. Martin, Dean of the Joseph L. Rotman School of Management at the University of Toronto, is the Chairman. Its mandate is to measure and monitor Ontario’s competitiveness, productivity, and economic progress compared to other provinces and US states, and to report to the public on a regular basis.

The Institute for Competitiveness & Prosperity is an independent not-for-profit organization established in 2001 to serve as the research arm of Ontario’s Task Force on Competitiveness, Productivity and Economic Progress. The Institute and the Task Force are supported through the Ministry of Economic Development and Innovation.