Ontarians are urged to invest more for future prosperity

Task Force on Competitiveness, Productivity and Economic Progress recommends shifting Ontarians' priorities toward investment and away from consumption to improve productivity and prosperity

Toronto – Ontarians need to rebalance our economic priorities and policies by investing more today if we want to achieve our full economic potential and prosperity in the future. That is the conclusion of *Rebalancing priorities for prosperity,* the Fourth Annual Report of the Task Force on Competitiveness, Productivity and Economic Progress in its Fourth Annual Report, released today at the MaRS Centre in Toronto.

Ontario has built one of the most successful economies in the world, but the Task Force's report demonstrates that Ontario has a widening prosperity gap with its peer group of North American jurisdictions. The key to closing this prosperity gap, the Task Force argues, is higher productivity – the increased capability of Ontarians to add more value to the physical, human, and capital resources in the province. But to achieve this Ontarians need to choose a different path than the one we're on – rebalancing priorities to increase investment for the future and decrease current consumption.

The Task Force, a group of industry and academic leaders, chaired by Roger Martin, Dean of the Rotman School of Management, was established in 2001 to stimulate business, governments, educational institutions, and individuals to increase the pace of innovation and competitiveness. That will ensure that our standard of living continues to rise.

In *Rebalancing priorities for prosperity*, the Task Force shows that Ontario's prosperity ranks 15th among a peer group of 16 North American jurisdictions* consisting of the 14 most populous US states, Quebec, and Ontario. Ontario slipped a rank from last year, as its economic growth lagged most of the peer states. Ontario's Gross Domestic Product (GDP) per capita is now $6,000, or 12.6 percent, behind the median of the 16 jurisdictions. GDP measures the value created by workers and firms in Ontario from the human, physical, and natural resources in the province.

"Closing this prosperity gap would have real benefits for Ontario families," said Martin. "On average, each family would gain $8,300 in disposable, after tax income – every year." "And closing this gap is not an unrealistic aspiration. As recently as fifteen years ago we were in the upper half of our peer group," added Martin.

Today, Ontario individuals, businesses, and governments are under investing in their future prosperity. By limiting our investment in post secondary education, Ontarians are under investing in themselves. More highly educated people are more productive and innovative – and earn higher wages. Relative to their US counterparts, businesses continue to under invest in machinery, equipment, and software, which are important contributors to higher productivity and higher wages. Governments are shifting their spending balance away from investment in infrastructure, and post secondary education toward consumption, mainly in health care and social services.

"The flawed logic that we have in place is that we can enjoy to the maximum the fruits of our prosperity today – and that prosperity will just continue without ongoing investment," said Martin. "Better logic concludes that investing today and forgoing some consumption of current prosperity will create even higher prosperity down the road."

The Task Force sees nothing fundamental that would block Ontario from closing the prosperity gap. Instead the report calls for the rebalancing of key priorities required to achieve greater productivity and prosperity. These include:

- Businesses need to invest more in physical and human capital. More modern machinery, equipment, and software will strengthen productivity for businesses and the economy as a whole. Managers and workers with more education and training will be more innovative.

- People have to invest more in themselves through more education, particularly at the post secondary level and through a commitment to life-long learning.

- Government spending needs to be re-oriented so that it invests more in future prosperity and consumes less of current prosperity. "Our governments have got their fiscal houses in order by attacking investment spending, such as higher education, more than current consumption spending, like health care and social services," said Martin. "If we return to a more balanced investment-consumption pattern, we will increase our prosperity and ultimately have greater ability to fund our important social programs."

- Governments need to shift taxation to encouraging firms to invest in productivity-enhancing capital instead of discouraging business investment. Canada and Ontario are currently among the highest in the taxation of business investment.

- Governments also need to reduce the effective tax rate paid by the working poor. The combination of increased income tax rates and the loss of social benefits through clawbacks means that a single earner family of four faces an effective marginal tax rate of 60 percent as income passes $31,000. Smarter taxation would motivate individuals and businesses to work and invest more.

- Fiscal federalism needs to be fixed by shifting to a system that encourages investment for higher long-term prosperity potential in all regions and away from the current system that emphasizes the narrowing of current regional income disparities. We have a built a self-perpetuating system of regional transfers that limits investment. Ontarians transfer four times as much per capita to the rest of Canada as residents in the peer states transfer to the rest of the United States. By making fiscal federalism more effective, Ontario will be able to invest more in our own future prosperity.

- Innovation policies need to change course to build more pressure for the demand for innovation to balance the current emphasis on supporting the supply of innovation. As

Martin explained, "Currently, too much of federal and provincial innovation policy is aimed at support mechanisms, like R&D spending and tax incentives. But we haven't balanced this with policies that build pressure for innovation from capable business managers, demanding customers, and competitive rivals. A better balance would result in more commercialization of our research efforts into innovative products and services."

- Venture financing needs to focus more on achieving higher quality investment and less on the quantity of capital. Public policy emphasizes creating the supply of risk capital and then funneling it into organizations that have neither the incentives nor the capability to help Ontario succeed in commercialization and innovation. A more balanced public policy would increase commercialization of our R&D and lead to a more innovation-based economy.

Through its recommendations the Task Force is encouraging businesses, governments, and individuals to work together over the next few years to realize Ontario's prosperity potential for generations to come.

The complete report can be downloaded directly from:
http://www.competeprosper.ca/task/ar2005.pdf

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About the Task Force
The creation of the Task Force on Competitiveness, Productivity and Economic Progress was announced in Ontario's April 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. The mandate of the Task Force 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. Members of the Task Force were announced on October 17, 2001. See www.CompeteProsper.ca for further information.

About the Institute for Competitiveness & Prosperity
The Institute 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 Trade.

* Ontario's 15 peer jurisdictions (14 US states and Quebec)

- California
- Florida
- Georgia
- Illinois
- Indiana
- Massachusetts
- Michigan
- New Jersey
- New York
- North Carolina
- Ohio
- Pennsylvania
- Quebec
- Texas
- Virginia