

## **Ontarians need shared determination to close prosperity gap**

### **Task Force on Competitiveness, Productivity and Economic Progress proposes aggressive agenda for increasing Ontario's prosperity**

**Toronto** - Ontarians need to shift their attitude from a collective complacency to a shared determination to close the prosperity gap the province has with other leading North American jurisdictions. With a provincial and a likely federal election in 2007, Ontarians will have the opportunity to discuss and debate the importance of the prosperity gap and ways to narrow it. The Task Force on Competitiveness, Productivity and Economic Progress in its Fifth Annual Report, *Agenda for our prosperity*, released today at the Canadian Business Outlook 2007 conference, proposes a prosperity agenda as a way of invigorating the debate.

Ontario's economy is one of the world's most successful; and most signs - low unemployment rates, solidly performing stock market, and a strong Canadian dollar - reinforce this. But it is not meeting its full potential. Two decades ago, Ontario's Gross Domestic Product (GDP) per capita ranked close to the median of the sixteen most populous North American jurisdictions\* consisting of 14 US states and Ontario and Quebec. It now stands second to last. Drawing on its five years of research, The Task Force is proposing an agenda to animate discussions among Ontarians, especially in the upcoming provincial and federal elections.

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 a continuing increase in our standard of living.

In *Agenda for our prosperity*, the Task Force reports that Ontario's GDP per capita is now \$6,100, or 12.4 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 \$8,400 in disposable, after tax income - every year. Governments would generate an additional \$26 billion in revenue, a significant amount when compared to annual spending of \$38 billion on health care and \$31 billion on education in the province." "And closing this gap is not an unrealistic aspiration. As recently as twenty years ago, we were in the upper half of our peer group," added Martin.

The agenda highlights required changes in Ontarians' attitudes, investment patterns, motivations to do business, and market and governance structures.

As Martin said, "We are calling for a shifting of our overall attitude from collective complacency to a shared determination to close the prosperity gap. If party platforms over the past few elections are any guide to public attitudes, it's clear that issues related to our competitiveness, productivity, and prosperity are not seen as centrally important to the public. We need to raise the volume on these issues."

Regarding investments, the Task Force continues to urge a shift from consuming today's resources to investing in future prosperity. Our business leaders need to increase their investment in machinery, equipment, and software, particularly information and communications technology (ICT). Our federal, provincial, and local governments have been increasing public spending on health care and social services at the expense of investments in education and infrastructure. We need to rebalance spending priorities. Individuals, especially the young, need to ensure they get as much education as possible. The Task Force praised the Ontario Government for its recent initiatives to increase investment in post secondary education and to require young people to keep learning in a classroom, apprenticeship, or workplace training program until at least age 18, instead of being allowed to drop out at age 16.

Motivations from our tax system need to be smarter. Canada and Ontario have among the highest tax rates on business investment in the world. A smarter tax system would motivate more business investment to increase the number of high paying jobs in the province. Among the Task Force's recommendations for the Ontario government are to eliminate its tax on capital immediately and not wait until 2012 as is currently planned; to convert the provincial sales tax to a value added tax like the GST; and to work with the federal government to attack features of the tax and social benefit clawback system that impose punitive effective tax rates on lower income individuals and families working to climb the economic ladder. As Martin observed, "many other governments understand that taxing business investment at high rates is just counter productive. Ontario and Canada are laggards in tax reform. We should aim to be innovators."

Finally, the Task Force makes recommendations to strengthen market and governance structures to enhance prosperity. "Our governments have done a good job in providing the basic support for a competitive economy - including decent infrastructure and good primary and secondary education. But they need to enhance areas of more specialized support, especially to improve the quality of venture capital financing innovative firms and to graduate more students with business degrees." The Task Force also calls for more beneficial regulation of industries and labour standards to encourage higher prosperity. It is also proposing increased focus on negotiating bilateral trade deals to enhance market potential for our industries as well as providing greater competitive pressure to increase innovation and productivity.

Regarding governance structures, the Task Force urges the federal and provincial governments to focus fiscal federalism discussions on how they can strengthen competitiveness and prosperity in all regions of Canada to "make the pie bigger rather than on how to divide the pie," as Martin described the recommendation in this area.

Specific recommendations are as follows:

## **Challenge 2020: Agenda for our prosperity**

### **Attitudes: From collective complacency to shared determination to close the gap**

- Recognize imperative for closing prosperity gap and commit to taking the extra steps

### **Investment: From consumption today to investment for tomorrow**

- Increase investment in machinery and equipment, particularly information and communications technology
- Encourage Ontario youth to invest in their educational attainment
- Increase investment in post secondary education
- Rebalance government spending away from consumption to investment

### **Motivations: From unwise taxation to smart taxation**

- Increase Capital Cost Allowances to match economic depreciation
- Eliminate the capital tax in Ontario
- Convert provincial sales tax to a value added tax
- Lower perversely high marginal tax rates for low income Canadians
- Assess radical new approaches to taxation

### **Structures: From general support to specialized support and competitive pressure**

- Continue to improve the quality of venture capital
- Increase business education
- Reduce regulation to increase competitive pressure
- Reduce counter-productive labour regulations
- Continue to pursue bi-lateral free trade agreements
- Rebalance fiscal federalism to encourage investment in have-not regions
- Introduce employer experience rating to EI

The complete report can be downloaded directly from:

<http://www.competeprosper.ca/task/ar2006.pdf>

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

### **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](http://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