

Ontarians need to overcome complacency and act now to achieve future prosperity potential

Task Force on Competitiveness, Productivity and Economic Progress urges Ontario Government and all Ontarians to move forward on the 2020 Prosperity Agenda

Toronto – As Ontario’s Government begins its new mandate, it has a great opportunity to redouble its efforts at tackling a Prosperity Agenda to reach Ontario’s economic potential by 2020. Ontario is one of the most prosperous and competitive jurisdictions in the world, especially among those outside North America. But we’re not living up to our full potential, and Ontarians need to shift their attitude from a collective complacency to a shared determination to achieve this potential. The Task Force on Competitiveness, Productivity and Economic Progress in its Sixth Annual Report, *Path to the 2020 Prosperity Agenda*, released today at the Canadian Business Outlook 2008 Conference, proposes the 2020 Prosperity Agenda as a way of invigorating the debate.

In new research released today, the Task Force confirmed 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 third among a peer group of 15 most populous and prosperous international regions.* But against a similar set of North American jurisdictions** Ontario continues to fall further behind. Two decades ago, Ontario stood close to the median of the 14 most populous US states and Ontario and Quebec. It now stands second to last. This gap represents lost prosperity, which negatively affects Ontarians at all income levels. In its Report last year, the Task Force set out an Agenda for achieving this potential by 2020. This year, the Task Force identifies the key first steps to put Ontario on the path to achieving this Agenda.

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 businesses, 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 *Path to the 2020 Prosperity Agenda*, the Task Force reports that Ontario’s GDP per capita is now \$6,000, or 12 percent, behind the median of the 16 jurisdictions, up from the 2005 gap of \$5,500 in constant dollars (2006). GDP measures the value created by workers and firms in Ontario from the human, physical, and natural resources in the province.

“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 Task Force concludes that Ontario’s competitiveness is important for the average Ontario family. Its research shows that, if we met our prosperity potential, families would gain \$8,600 in disposable, after tax income – every year. It also indicates that families across the income spectrum are affected by our unfulfilled prosperity potential. As Ontario’s prosperity gap widened through the 1990s, Ontario’s high- and middle-income families fell behind their US counterparts. Traditionally, lower

income Ontarians have out performed their counterparts – but this advantage is fading as we fall further behind the US peers in overall prosperity.

Governments in Ontario would also generate an additional \$27 billion in tax revenue, an amount that could fund important social and capital investments.

Lagging productivity continues to be the biggest barrier to closing the gap. The Task Force points out that productivity growth is more than improved efficiency. According to Martin, “more important, we need to create more value that customers want in our products and services. That requires innovation and upgrading – such as has occurred in the Ontario wine industry with the development of high value ice wine and its consumer acceptance around the world.”

“We were hoping that competitiveness and prosperity issues would be more important in the recent provincial election,” said Martin. “But, as the Government charts its course in its new mandate, we’re optimistic that it will take them up as important areas to address.”

The Task Force is proposing a wide range of initiatives to encourage and support innovation, but is placing special emphasis this year on tax changes as the Government prepares its first budget.

A priority is to build a smarter tax system to raise motivations for businesses to invest. Canada and Ontario have among the highest tax rates on business investment in the world. The Federal Government is taking dramatic action to give Canada an environment more conducive to business investment. Its recent economic statement puts in place significant reductions in corporate income tax rates. Ontario needs to follow suit. It also needs to speed up the demise of the capital tax, currently scheduled to end in 2010. “In the scheme of things, these are easy changes to make,” said Martin. “But the Province needs to take bold action in addressing a major weakness of our tax system and replace our provincial sales tax with a value added tax and then harmonize its collection with the Federal GST. Our research and the research of others show that this move would stimulate investment and create jobs better than any other tax reform.”

Tax changes would help lift Ontario’s anemic business investment in productivity- and wage-enhancing machinery, equipment, and software. But we also need initiatives to welcome more robust business competition and ways to ensure highly capable managers are leading the pace.

The Task Force continues to urge Ontarians to increase their investment in education. Its research in the area of poverty points to the importance of a high school diploma and other formal skills. At the post secondary level, the Task Force urges an examination of the balance between research and student experience in our universities. “We’ve built a solid research capability in Ontario’s universities,” said Martin. “But there’s evidence that the day-to-day experience of students may be suffering from crowded classrooms and unavailable professors. We need to understand the tradeoff better.”

In summary, Martin said, “We are calling for a shifting of our overall attitude from collective complacency to a shared determination to close the prosperity gap. Let’s take pride in what Ontarians have accomplished; but let’s acknowledge we could do better and put ourselves on a path to achieving our prosperity potential.”

Path to the 2020 Prosperity Agenda

Attitudes: Accept the challenge; overcome complacency

- Government, business, labour, and community leaders need to turn up the volume on the importance of prosperity and productivity and prosperity

Investment: Focus on people and technology

- Invest in focused and innovative ways to fight poverty
- Raise awareness among all Ontarians of the benefits of education
- Continue investments in post secondary education
- Assess the tradeoff between research and the student experience in our universities
- Step up business investments in information and communication technology

Motivations: Pursue smarter taxation

- Convert the provincial sales tax to a value added tax harmonized with the GST
- Remove the capital tax immediately
- Reduce corporate income tax rates
- Continue attacking high marginal tax rates for lower income Ontarians

Structures: Place a premium on creativity and innovation

- Focus venture capital efforts on quality, not quantity
- Continue to expand innovation policy to include building management capabilities
- Pursue the reduction of barriers to investment and trade

The complete report can be downloaded directly from:

http://www.competeprosper.ca/index.php/work/annual_reports/annual_report_6/

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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 14 international peer jurisdictions outside North America

- Baden-Württemberg (Germany)
- Bayern (Germany)
- Cataluña, (Spain)
- Comunidad de Madrid (Spain)
- Hessen (Germany)
- Kanto (Japan)
- Kinki (Japan)
- Lombardia (Italy)
- New South Wales (Australia)
- Nordrhein-Westfalen (Germany)
- Randstad (Netherlands)
- Rhône-Alpes (France)
- South East (UK)
- Viaamse-Gewest (Belgium)

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

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