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Ontario's prosperity gap is a productivity gap; the productivity gap is an innovation gap. We need more innovation today for our long-term prosperity

As we recover from the economic downturn, the Task Force on Competitiveness, Productivity and Economic Progress urges all Ontarians to step up our innovation capabilities to achieve our long-term Prosperity Agenda

Toronto – As the economy slowly recovers from the recession, we need to do what is necessary to achieve a solid recovery in the short term and to begin repairing our provincial fiscal situation. But our long-term challenge remains – raising our productivity, which is synonymous with improving our innovation capabilities and performance. Robust innovation results can be achieved through more key business investments and by the right government policies and strategies for innovation. This is the key conclusion of the Ninth Annual Report, *Today's innovation, tomorrow's prosperity*, 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 seventh 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 – trailed the median of the 16 North American jurisdictions by \$6,900 or 13.5 percent in 2009, up from the 2008 gap of \$5,900 in constant dollars (2009). This gap represents lost prosperity, which negatively affects Ontarians at all income levels.

The Report identifies its lower productivity as the key challenge for Ontario in closing this prosperity gap. "Ontarians are among the leaders in developed economies in work effort, hours worked per person, but we are laggards in creating economic value per hour worked," said Roger Martin, Chairman of the Task Force. "This comes from a poor innovation record. For a variety of reasons, we are not leading the world in creating innovative products, services, and processes in our businesses and workplaces."

The Report concludes that businesses need to step up their investments in technology – from R&D to patents to adapting existing technology to their businesses. Equally important is the ongoing need to develop stronger management capabilities in our businesses. The research shows that Ontario's management capabilities are among the world's best, but there is still room for improvement. The Task Force recommends that governments improve their innovation policies by shifting their efforts from new-to-the-world inventions to relevant-to-the market innovations. As Martin observed, "Our public

† 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

policies are skewed toward creating science-driven inventions that are very important to our society, but we shouldn't assume that much of this will lead to products and services that will respond to consumer needs and improve Ontario's innovation capabilities." The Report shows how important business-led innovation in product design, service improvements, and processes have propelled our most successful companies to global leadership.

The Task Force applauds recent provincial tax policy changes, including the introduction of the HST, as an important initiative that will stimulate business investment. It is also encouraged by the current trade negotiations with the European Union and recommends that more trade deals be negotiated with China and other emerging economies.

The 2020 Prosperity Agenda

Attitudes: Encourage innovation and competition to win in an ever competitive world

- Remain determined to close the prosperity gap

Investments: Invest in the human and physical capital critical for recovery

- Continue investing in people for Ontario's competitiveness
- Increase business investment in innovation and information and communication technology
- Review usefulness of provincial policies and programs on incentives to attract business investments

Motivations: Ensure tax changes remain in place

- Build on changes in Ontario's sales and corporate tax structures
- Ensure special tax treatment for Labour Sponsored Investment Funds is ended
- Consider a carbon tax as a better way to address carbon emissions and encourage appropriate green technology

Structures: Drive innovation through strengthened commitment to trade and resistance to protectionism

- Balance our public innovation strategies between science and business
- Continue to encourage federal efforts to expand international free trade agreements
- Step up efforts to increase trade with China and other developing economies
- Keep the friendly pressure on our US neighbours to resist protectionist sentiment

The complete report can be downloaded directly from:

http://www.competeprosper.ca/download.php?file=ICP_AR9_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

About the Task Force on Competitiveness, Productivity and Economic Progress

The creation of the Task Force 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.

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.