Institute for
COMPETITIVENESS & PROSPERITY

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Institute calls for greater investments to close Canada's prosperity gap

Davos, Switzerland -- Canada has 15 percent prosperity gap against the United States because Canadians invest to achieve a 15 percent shortfall. To close the gap, Canadian individuals, businesses, and governments must become partners in investing for tomorrow's prosperity.

This is the key conclusion in the special report, *Partnering for investment in Canada's prosperity*, presented by the Ontario Institute for Competitiveness & Prosperity at the 2004 Annual Meeting of the World Economic Forum in Davos, Switzerland.

The Institute concludes that Canadians have created one of the most successful economies in the world, second highest among countries with half of Canada's population or greater. However, our GDP per capita trails the United States by $6,300 (Canadian) - the 15 percent prosperity gap. Roger Martin, Dean of the Joseph L. Rotman School of Management at the University of Toronto, observed that: "It's great for Canada to do so well in the global setting, but closing the prosperity gap versus the US would translate into more than $10,000 per household in after-tax disposable income. For many families with a mortgage this added income could cover their mortgage costs; similarly, many tenants could cover their rental costs or consider buying a house. Tax revenues to all government in Canada would increase by $75 billion – a significant contribution to health care and other costs – without raising tax rates." Although the gap has narrowed in recent years, it still is much larger, in real dollars, than where it stood two decades ago – a worrisome result.

Productivity is the source of the prosperity gap. The Institute noted that Canadians are not creating as much value as we should from the country's endowment of human, physical, and natural resources.

"The report makes clear why we trail the US in productivity and prosperity," said Martin. "It's because we under-invest." He was referring to findings that:

- Canadian businesses invest about 12 percent less in machinery, equipment, and software, which are critical drivers of productivity and innovation
- Spending on education by all Canadians is much lower than in the US, especially in higher education; and students' aspirations for educational attainment are lower than in the US
- Governments at all levels in Canada have shifted more spending away from areas of investment, such as education and infrastructure, toward areas that consume current prosperity, such as health care and social services
- We under invest in processes to integrate immigrants into our economy, even though immigration gives Canada a skills advantage over the US
- Through governance and fiscal structures we are under investing in our cities.

The Institute's recommendations are aimed at escaping the under investment trap in capital, education, immigration, and cities. They emphasize how Canadian individuals, businesses, and governments can work together as partners in investing for prosperity.

The Institute's research also concludes that higher tax burdens, especially on capital investment, are an important factor in Canada's under investment. While analyses done in Ontario indicate Canada's tax burden has been declining, it has fallen even faster in the US. The Institute concludes that this has dampened capital investment and recommends exploring opportunities for tax reform.

This special report was supported by funding from Magna International Inc. and the Joseph L. Rotman School of Management at the University of Toronto.

The complete report can be downloaded directly from:
http://www.competeprosper.ca/public/dav04.pdf

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About the Institute
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 is supported through the Ontario Ministry of Economic Development & Trade. Reports published by the Institute are primarily intended to inform the work of the Task Force. In addition, they are designed to raise public awareness and stimulate debate on a range of issues related to competitiveness and prosperity.

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 http://www.CompeteProsper.ca for further information.

The aspiration of the Task Force is to have a significant influence in increasing Ontario's competitiveness, productivity and capacity for innovation. This, they believe, will help ensure continued success in the creation of good jobs, increased prosperity and a high quality of life for all Ontarians. The Task Force intends to seek breakthrough findings from their research and to propose significant innovations in public policy in order to stimulate businesses, governments and educational institutions to take action.