

**For Immediate Release**

**July 9, 2004**

*Strengthening structures: Upgrading specialized support and competitive pressure*

*Ontarians' wages trail peer state workers by 23% in most competitive industries*

**Toronto** – Ontario workers' wages are 23 % lower than their counterparts' wages in US peer states in the industries that are the most important to Ontario's prosperity. That is the key conclusion of Working Paper 5 *Strengthening structures: Upgrading specialized support and competitive pressure* released today by the Institute for Competitiveness & Prosperity.

The Institute has assessed the impact of market structures on Ontario's competitiveness to help understand the causes of Ontario's \$4,118 per capita prosperity gap versus a peer group of US states. The gap refers to how much Ontario's Gross Domestic Product per person trails the median performance of a peer group comprising the largest US states and Quebec.

"Our previous work has shown that Ontario firms, individuals, and governments under invest for future prosperity," said Roger Martin, Chairman of the Institute and Dean of the Rotman School of Management at the University of Toronto. "In this Working Paper we analyzed how well the market structures that support our regional clusters of traded industries stimulate investment and innovation."

For the first time the Institute has been able to measure the effectiveness of Ontario's clusters of traded industries. "Our early research at the Institute showed that we have a good mix of industry clusters," said Martin. "Now we know that they are not as effective as the same clusters in the peer states. This results in the 23% lower average wages in clusters we identified. But the even more remarkable finding is that this gap is highest in the clusters where wage levels are highest. So at the leading edge of competitiveness we are significantly behind our peer group of US states."

Martin was referring to the Working Paper's findings that in lower wage clusters, such as furniture and textiles, Ontario's wages match or are close to results in peer states. But in higher wage clusters, such as financial services and information technology, Ontario's wages lag considerably - trailing peer states by 37% and 54% respectively. There is some good news in the research findings. In natural resource industries, Ontario's wages outperformed peer states by 20% and in local industries, such as retailing and personal services, Ontario's wages were only 11% behind.

The Working Paper shows that Ontario's market structures provide inadequate specialized support and competitive pressure to firms and individuals. Drawing on research conducted by the World Economic Forum and its own research, the Institute concludes that Ontario provides an adequate level of general support – in infrastructure and basic education to the economy. "But we find that our clusters and our economy are not benefiting from specialized support, such as university/industry collaboration and specialized research and training. It's this specialization that creates world-class advantage for companies and workers," said Martin. "Nor do we have the structures that create conditions of intense competitive pressure from firm rivalry and sophisticated

customers. Without this pressure to succeed our firms and industries will not be challenged to develop world beating strategies.”

Strong clusters matter. Through structures of specialized support and competitive intensity, regional clusters of competing companies and associated institutions innovate rapidly, diffuse knowledge quickly and sharpen global competitiveness. International examples of successful clusters include financial services in New York and London and the entertainment cluster in Hollywood. The automotive cluster in southern Ontario and the high tech clusters in Ottawa and Waterloo region are positive Ontario examples. The proximity of traded industries in clusters spurs the development of specialized support, such as focused university research or highly specialized worker skills, to support innovation and productivity. The other key structure that supports clusters is the pressure from highly sophisticated customers and capable competitors. “This combination of support and pressure drives firms in clusters to be more innovative and productive – that leads to higher wages and greater prosperity,” said Martin.

Following today’s release, the Institute is continuing its research work into the causes and possible remedies for the prosperity gap. The Task Force will publish results in its Third Annual Report to the people of Ontario this fall.

#### **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 Ministry of Economic Development and Trade. Working papers 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 and details can be found at [www.competeprosper.ca](http://www.competeprosper.ca). In its recent Budget the Ontario Government stated that the Task Force’s future research will include issues related to commercialization of research in Ontario.

The complete Working Paper can be downloaded directly from:  
<http://www.competeprosper.ca/public/wp05.pdf>

For more information contact James Milway, Executive Director of the Institute for Competitiveness and Prosperity at 416.920.1921 ext. 222.