

For Immediate Release
January 28, 2005

Institute urges Canadians to realize Canada's prosperity potential

Davos, Switzerland – Canadians have built one of the world's most prosperous economies, but we are still not realizing our full prosperity potential. To do this, individuals, businesses, and governments must work together to increase our investments for future prosperity and to strengthen market structures that stimulate innovation and upgrading.

This is the key conclusion in the special report, *Realizing Canada's prosperity potential*, presented by Ontario's Institute for Competitiveness & Prosperity at the 2005 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. They have also achieved an enviable balance between prosperity and its equitable sharing among Canadians. Roger Martin, Dean of the Joseph L. Rotman School of Management at the University of Toronto, observed that: "We continue to take pride in our achievements in creating one of the world's most successful economies."

In fact, the only country with a sizable population that outperforms us is the United States. Our GDP per capita trails the United States by \$7,200 (Canadian) - a 16 percent prosperity gap. The Institute found that Canada's prosperity gap with the US widened from \$6,000 thousand per capita in 2002 to \$7,200 in 2003. This gap translates into an unrealized potential of \$15,000 after tax disposable income for the average Canadian family and \$90 billion in lost tax revenues for federal and provincial governments. "Realizing our full economic potential would have great benefits for Canadians," said Martin. "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. And, without raising tax rates, governments would have added revenues that would make a significant contribution to health care and other costs."

The Institute is confident that Canada can close the prosperity gap and realize its full economic potential. The key to this is higher productivity - the increased capability of Canadians to add more value to the country's physical, human, and capital resources. The report concludes that more investment is an important element in raising productivity. For businesses, it means making larger investments in machinery, equipment, and software; for governments, it means striking the right balance between spending on current consumption, such as health care and social services, and investing for future prosperity, such as infrastructure and education; for individuals, it means investing more in themselves, such as in higher educational achievement.

The Institute also observes, however, that Canada's market structures provide inadequate specialized support and competitive pressure to firms and individuals. Canada's industries are not benefiting from the kind of specialized support - such as university/industry collaboration and specialized research and training - that creates world-class advantage for companies and workers. Nor does Canada have the structures that fuel the intense competitive pressure that comes from strong firm rivalry and sophisticated and demanding customers. Without this pressure to succeed, Canada's firms and industries will not strive to be counted among the best in the world.

The Institute is concerned that, while Canada has the potential for economic growth, its situation could deteriorate if we do not act now. Martin said, "We need to avoid a vicious downward economic spiral of under investment, reduced productivity, reduced capacity to invest, further reduced productivity, and the resultant restriction in our standard of living. Instead, we can create a virtuous circle by investing more and strengthening structures to increase productivity and prosperity."

"We've identified some challenges facing us – but we haven't come across significant roadblocks to matching the performance of the United States," said Martin. "Our work shows that Canadians recognize the importance of global competitiveness, innovation, risk taking, and other factors so necessary for achieving prosperity."

To build on these positive attitudes, the Institute recommends an action plan that encourages businesses, governments, and individuals to work together over the next few years to realize Canada's prosperity potential for generations to come.

This special report was supported by funding from Magna International Inc., Microsoft Canada, and the Joseph L. Rotman School of Management at the University of Toronto. The Canadian release will occur on February 2 at the Microsoft Canada Heroes of Innovation Media Event in Toronto. This event features the accomplishments of IT professionals who have helped make their companies more competitive by leveraging technology.

The complete report can be downloaded directly from:
<http://www.competeprosper.ca/public/dav05.pdf>

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

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. Visit the Institute's Web site www.competeprosper.ca for more information.