

Striking similarities: Attitudes and Ontario's prosperity gap

The Institute for Competitiveness & Prosperity
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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 & Economic Progress.

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.

The mandate of the Task Force, announced in the April 2001 Speech from the Throne, 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.

It is the aspiration of the Task Force to have a significant influence in increasing Ontario's competitiveness, productivity and capacity for innovation. The Task Force believes this 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 to stimulate businesses, governments and educational institutions to take action.

The Task Force's First Annual Report to the people of Ontario, *Closing the prosperity gap*, was published in the fall of 2002. The Second Annual Report will be published in the fall of 2003.

Comments on this working paper are welcome and should be directed to the Institute for Competitiveness & Prosperity (see inside back cover for contact information).

The Institute for Competitiveness & Prosperity is funded by the Government of Ontario through the Ministry of Enterprise, Opportunity & Innovation.



Striking similarities:
Attitudes and Ontario's
prosperity gap

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Foreword and Acknowledgements

Striking similarities: Attitudes and Ontario's prosperity gap



I am pleased to present the fourth working paper of the Institute for Competitiveness & Prosperity in support of the Task Force on Competitiveness, Prosperity & Economic Progress.

The Institute and the Task Force have developed an integrated framework to help guide research and thinking about our capacity for innovation and upgrading. This framework, AIMS, consists of four factors – *attitudes* towards competitiveness, growth, creativity, and global excellence, *investments* in physical and human capital for productivity and competitiveness, *motivations* for hiring, working, and upgrading, and the market and institutional *structures* that encourage innovation and upgrading. Together these four factors drive our prosperity growth.

This working paper explores the impact of the attitudes towards competitiveness, innovation, risk-taking and business held by Ontarians and their counterparts in our peer group of US states. We engaged the Ontario research firm, The Strategic Counsel, to survey attitudes among the general public, the business community, and business leaders in these areas.

The results are surprising. Like others, we expected significant differences in attitudes. Our hypothesis was that Ontarians have a less favourable set of attitudes supporting foundations for prosperity and growth. In fact, we were struck by the similarities between Ontarians and people living and working in the peer group states. There are no discernable differences in how we view the role of businesses and their leaders, risk-taking and security, the factors that drive economic success, competition, and other related areas. While there are some small differences between the public and business people, these groups share similar attitudes across borders. In general, we found no significant attitudinal differences that explain the prosperity gap.

Nevertheless, we did observe a few significant and important differences. Ontario's public and business community tend less to see the benefits of a university education – at the level of both bachelor and graduate degrees. We see the economic benefits of immigration more than our peer group counterparts. These are both important themes developed in our previous work and continue to be areas of interest. We also found that Ontarians are more prepared to celebrate success of our local businesses – a bit of a surprise.

The results are helpful as we work to unravel the mystery of our prosperity gap. We can conclude that, within AIMS, our attitudes are not the major factor. Our previous work has pointed to challenges in the other factors – investments, motivations and structures – and we shall continue to explore for improvement opportunities in these areas.

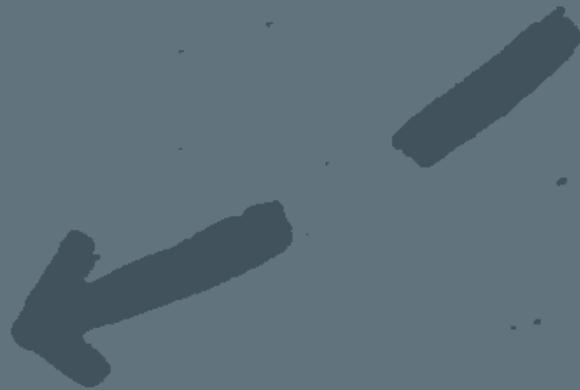
We gratefully acknowledge funding support from the Ontario Ministry of Enterprise Opportunity & Innovation and collaborative support from the Institute for Strategy and Competitiveness, Harvard Business School.

As with all the results of our research into Ontario's competitiveness, productivity, and economic progress we welcome discussion and would be pleased to share our more detailed findings.

Roger L. Martin, *Chairman*

Institute for Competitiveness & Prosperity

Executive Summary



Striking similarities: Attitudes and Ontario's prosperity gap

Ontario's prosperity gap with its peer group of US states is worrisome. While our economy is one of the strongest in the world, we lag the US states that are most similar to Ontario. Our concern is that, while drawing on the same physical, human, and natural resources, we are less successful in adding value to create prosperity for us and our children. Our research has found that we are working just as hard as those in our peer group – as defined by the percentage of our adult population choosing to work and in the hours worked per worker. Instead, the source of our prosperity gap is in productivity. What makes this concern worrisome is that the prosperity gap has been growing – slowly, but steadily – over the past two decades.

This growing inability to create economic value means lost opportunity in our living standards. People in all walks of life and in all economic strata would benefit from closing the prosperity gap. Our publicly funded health and education systems would be more affordable. Our social safety net could be strengthened.

In previous working papers and in support of the Task Force on Competitiveness, Productivity, & Economic Progress, we have developed an integrated framework for identifying opportunities and challenges in strengthening prosperity. AIMS – attitudes, investments, motivations, and structures – builds capacity for innovation and upgrading, which in turn drive productivity and prosperity. More specifically, our attitudes that lead to high aspirations, self-confidence, the desire to succeed, the entrepreneurial spirit and creativity are important drivers of economic success. Investments in physical and human capital create the foundation for productivity growth and innovation. Motivations to work, hire, and

invest for the future are affected by tax rates and regulations. Finally, healthy market and institutional structures provide an important environment in which decisions are made and implemented.

We have conducted research and reported findings for each of these four factors. This working paper takes a deeper look at attitudes, reporting on the results of research conducted by the Ontario-based research firm, The Strategic Counsel. It explores, for the first time, differences and similarities in the attitudes of Ontario's public, business community, and business leadership against their counterparts in the peer group of US states.

This research indicates that attitudinal differences between the public and business in Ontario and the peer states are not significant roadblocks to closing the prosperity gap. The Institute is conducting further work to solve the ongoing prosperity gap mystery.

This is based on three conclusions from our work:

- Remarkable similarities in most of the attitudes in Ontario and the peer group provide no explanation for the prosperity gap
- One important difference, our attitudes towards post-secondary education, is likely contributing to the prosperity gap
- The Institute is conducting further analysis to delve further to explain the gap and how to tackle it.

Striking similarities

Ontario's and peer group's attitudes towards business and prosperity are remarkably similar

Survey results suggest that, across numerous dimensions, attitudes among the general population and business people in Ontario and the peer group are very similar. In contrast to the likely prevailing view, we differ very little from our counterparts in how we view business and business leaders, risk and success, and competition and competitiveness.

Ontarians view business and business leaders in much the same way as do people in peer group states. We hypothesized that a contributing factor to the prosperity gap was a set of less favourable attitudes among Ontarians towards business and its role in economic progress. In fact we found that:

- the esteem in which we hold business owners and leaders is much the same as in the peer group
- our favourable attitudes towards business and its contribution to prosperity coincide
- our ratings of entrepreneurship match
- views of the role of government in helping business generally agree.

Ontarians and peers have similar attitudes towards risk and success. To the extent that Ontarians are more risk averse and less positive towards innovation, this would be an impediment to our competitiveness and prosperity. We conclude, however, that our attitudes in this area do not pose a barrier to closing the prosperity gap. We found no differences in the attitudes in these areas:

- both groups share similar views on risk-taking and innovation
- both groups concur on the importance and the causes of success.

Attitudes towards competition and factors of competitiveness are similar in Ontario and the peer group.

One of the key themes in our investigations has been how Ontarians differ in their attitudes towards competition in general and in what are the key factors for competitiveness. Survey results indicate no differences between Ontario and its peer group:

- General public attitudes towards the concept of competition agree
- Business people in Ontario and the peer group welcome competition
- What's important for competitiveness is the same among Ontario and peer group business people
- Willingness to take action to achieve higher standard of living is similar.

Important differences

Some attitudinal differences affect our prosperity

The survey identified significant differences in attitudes in three areas, post-secondary education, the economic benefits of immigration and the importance of celebrating success.

Ontarians' attitudes towards post-secondary education may be a hindrance.

In our previous work, we identified significant differences in investments and behaviours related to post-secondary education. Ontarians invest less in post-secondary education, are less likely to have university degrees, particularly graduate degrees, and are more likely to choose a college diploma program than a university program upon high school graduation. The survey identified a significant difference in the advice respondents in the public and business community would give to young persons on the level of education they should attain. Ontarians are more likely to recommend a college diploma as the highest

level of education to receive; their counterparts in the peer group are more likely to recommend a bachelor's or graduate degree.

Given the importance of post-secondary education, particularly at higher degree levels, to personal economic success and overall productivity, these attitudinal differences matter. The result is that Ontario is forgoing potential for increasing GDP per capita and overall prosperity gains.

Attitudes towards the economic benefits of immigration are more positive in Ontario.

Our previous work has identified the potential economic benefit to Ontario of immigrants through their higher levels of educational attainment. In contrast, immigrants to the US lower the average educational attainment. Attitudes, as measured in the survey, reflect this reality – Ontarians are much more likely to perceive an economic benefit from immigrants.

Ontarians attach greater importance to celebrating success. The survey indicated that Ontarians are more likely to take pride in local companies' success and attach greater importance to celebrating business success. This finding was contrary to our expectation before carrying out the survey.

Continuing the search

Refining the search for opportunities to close the prosperity gap

If attitudes do not differ markedly between Ontario and the peer group, then how do we explain the prosperity gap? The survey findings indicate that other factors in AIMS are more likely barriers to innovation and upgrading.

Our market and governance **structures** may not be providing the critical context for our capacity to innovate and upgrade. While our attitudes are consistent with aspirations for

world-class productivity and prosperity, our clusters of traded industries may not be as vibrant as in the peer group. And there is already evidence that fiscal and governance structures are not supportive of urban productivity – the key source of our prosperity gap.

Motivations as evidenced by our relatively high marginal effective tax rates continue to be a challenge to closing the prosperity gap.

Investments in physical capital may be constrained more by structures and motivations than by attitudes as we initially thought. But the research does indicate a strong connection between our different attitudes towards post-secondary education and our investment patterns in human capital that explain part of the prosperity gap.

The Institute looks forward to discussing the findings from this working paper with Ontario stakeholders in our prosperity.

Attitudinal differences are not roadblocks to closing the prosperity gap

Ontario has a significant prosperity gap with its peer group states in North America. In its search for factors behind this gap, the Institute explored attitudes as the potential source of the gap through extensive surveys of the public, the business community, and business leaders on both sides of the border. Perhaps surprisingly, we found many more similarities than differences in attitudes, though some important differences emerged. Confirmation of the lack of differences lays to rest some popular myths to explain our lower productivity and intensifies the search for other explanations.

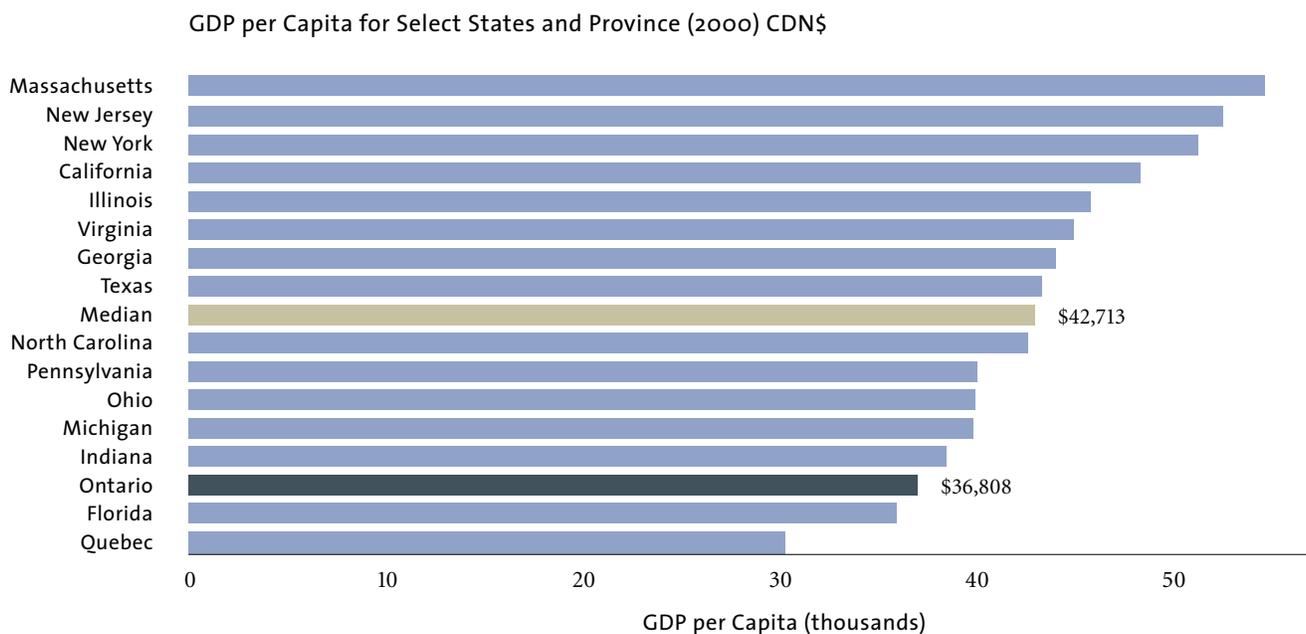
Ontario's prosperity gap continues to be worrisome

Ontario's economy is one of the strongest in the world. Outside North America, Ontario has

the highest GDP per capita of all comparable regions, with populations over 6 million or at least half Ontario's size. This gives Ontario a strong competitive foundation for future growth.

But when looking inside North America, Ontario ranks 14th out of 16 peer jurisdictions. In fact, against the peer group in 2000, our GDP per capita is higher than only two jurisdictions – Florida and Quebec (Exhibit 1). Relative to the median, Ontario's GDP is 13.8 percent lower, or \$5,905. In other words, Ontario draws on essentially the same natural, capital, and human resources as the peer states and yet adds significantly less value to them in economic output.

Exhibit 1: Ontario ranks 14th of 16 in its peer group



Source: Statistics Canada; CANSIM II; US Department of Commerce, BEA (June 2002); OECD PPP indices; Institute for Competitiveness & Prosperity analysis

Our relatively poor prosperity ranking is worrisome not only because the gap is large, but also because it has slowly and steadily continued to widen over the past two decades. In 1980, for example, Ontario stood in 11th place among the peer group of jurisdictions with a prosperity gap of \$841.

The prosperity gap matters to Ontarians: \$5,905 in GDP per capita translates into a yearly difference in after-tax disposable income of just over \$10,000 per family. If the gap were eliminated, the economic well-being of Ontarians would be enhanced. Families could enjoy the additional income in many different ways, based upon 2000 Statistics Canada data on household expenditure.¹ For example, among mortgage holders the average mortgage payment (\$11,475) could almost be covered entirely. Among tenants, average rent payments of \$7,531 could be offset, or renters could choose to own. In addition, purchasing a car (\$12,163) would be easier. And many more could make significant increases to RRSP contributions (\$3,474). Further, the provincial and federal governments would also benefit, collecting approximately \$24 billion annually, from Ontario taxpayers. This additional tax revenue would enable the two levels of government to address funding issues in health care, education, and social services.

So what should Ontario do to close the gap? The mandate of the Institute for Competitiveness & Prosperity is to understand why Ontario continues to trail the level of economic prosperity in the peer group and to contribute to initiatives to identify and propose actions for removing the barriers to closing the gap. In a series of working papers and in its research for the Task Force on Competitiveness, Productivity & Economic Progress, the Institute has explored in depth the components of the gap and highlighted opportunities to increase GDP per capita in

this province. This working paper, *Striking similarities: Attitudes and Ontario's prosperity gap*, pushes further to determine how Ontarians' attitudes affect productivity and prosperity.

Ontario has opportunities for innovation and upgrading

In Working Paper 1, *A View of Ontario: Ontario's Clusters of Innovation*, we reviewed the link between productivity and competitiveness and economic prosperity. We concluded there that innovation and upgrading are the paths to increasing productivity and, in turn, increasing Ontario's GDP per capita.

In Working Paper 2, *Measuring Ontario's Prosperity: Developing an Economic Indicator System*, we proposed an approach to measuring prosperity, concluding that GDP per capita was most suitable for purposes of tracking changes between jurisdictions and over time. We identified the impact of each of the four elements – demographic profile, utilization, intensity, and productivity – on GDP per capita. On each of the first three elements, Ontario ranks well against the peer group. We concluded then that lower productivity accounts for most of the prosperity gap.

We also proposed the integrated AIMS – attitudes, investments, motivations and structures – framework to identify the measures that impede our economic performance. This framework captures the ability of individuals, firms and industries to drive the province's capacity for innovation and upgrading.

In work for the Task Force on Competitiveness, Productivity & Economic Progress in its First Annual Report, *Closing the prosperity gap*, the Task Force concluded that cultivating a creative environment in which attitudes, investments, motivations and structures can interact will strengthen Ontario's prosperity.

¹ Statistics Canada, "Spending Patterns in Canada 2000," Catalogue no. 62-202-XIE; mortgages and rent adjusted to reflect Ontario costs.

AIMS drives innovation and upgrading
 AIMS represents an integrated set of four factors (Exhibit 2):

- **Attitudes** towards competitiveness, growth, creativity and global excellence
- **Investments** in physical and human capital
- **Motivations** for hiring, working and upgrading as a result of tax policies and government policies and programs
- **Structures** of markets and institutions that encourage and assist upgrading and innovation.

Although each is important in its own right, the four components of AIMS interact with one another at the individual, firm and industry/cluster levels to drive an economy's capacity for innovation and upgrading. That capacity in turn drives growth in GDP per capita. For example, attitudes that lead business leaders to

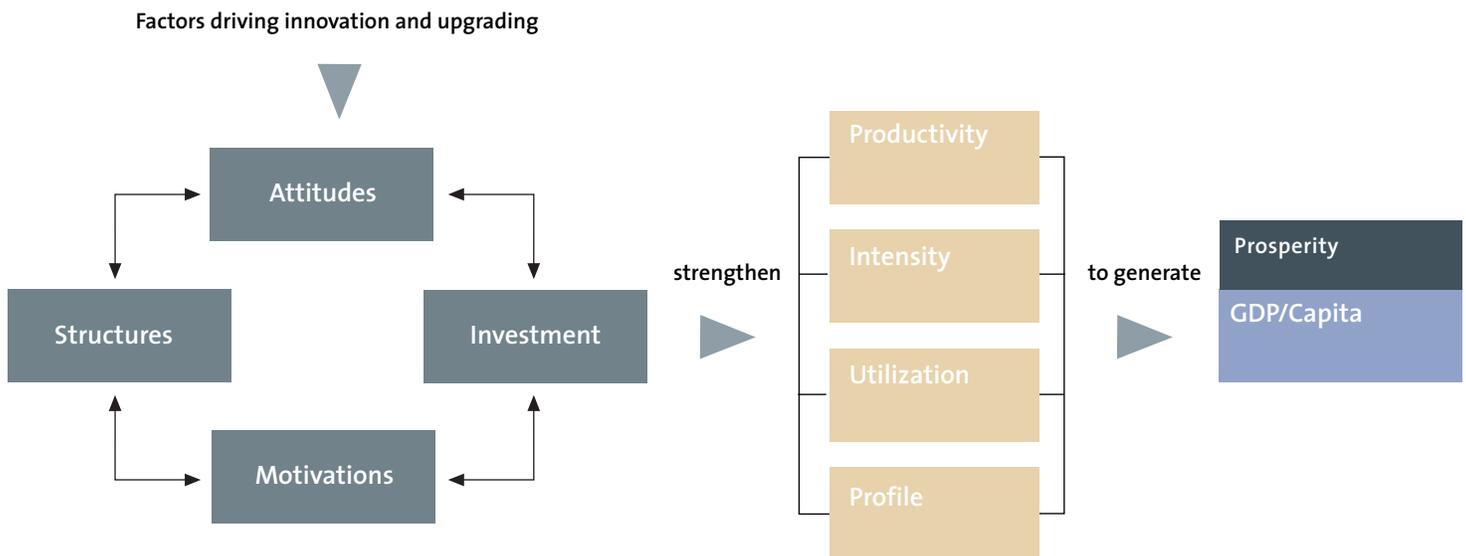
aspire to global leadership will stimulate investments in assets such as plant and equipment and research and development. The magnitude of investment will be affected by the level of marginal effective tax rates with lower rates motivating higher investment. This interaction takes place within the context of market and motivational structures. Vibrant clusters of traded industries, for example, combined with attitudes and motivations will stimulate investments by firms. Together these factors interact to drive innovation and upgrading. We discuss each factor in more detail below.

Success is influenced by attitudes
 Attitudes embrace "the loftiness of aspirations, the self confidence and desire to succeed, the entrepreneurial spirit and the willingness to embrace creativity."² Work completed for the Institute by Richard Florida and Meric Gertler

demonstrates that Ontario benefits from the "creative class." Florida's work suggests that that this group of people is now the main factor affecting a region's economic prosperity. This group gravitates to cities that are diverse, open to people of different backgrounds and orientations and embrace vibrant artistic communities. On the index Florida created to measure the impact of the creative class, cities that score well all have vibrant knowledge-based economies. Ontario cities fare well on this index with the creative class necessary to compete with the regions at the top of our peer group. The Institute hypothesized that Ontarian's lower aspirations and attitudes towards entrepreneurial activity and competition fall short of its peers and account for much of the prosperity gap. This hypothesis drove the research behind this working paper.

² Task Force on Competitiveness, Prosperity & Economic Progress, First Annual Report, *Closing the prosperity gap*, November 2002, pp 30-31.

Exhibit 2: AIMS builds capacity for innovation and upgrading



Looking for differences: The methodological approach to the attitudinal surveys

Research Design. This study of attitudes was designed to identify any points of significant difference in attitude towards business and competition between Ontario and the 11 peer states (Georgia, Indiana, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Virginia). The sample was designed to allow for statistical grouping of US states by region and by various levels of prosperity. For efficient sample design, consistent with state populations, three states were excluded – Florida because its prosperity is below Ontario's, California because its large population would overwhelm the sample and Texas because of its large population and its dissimilarity to Ontario.

To ensure that each of the 11 states was represented according to the contribution of its population, results from the general population and the business community samples were weighted where appropriate.

Given that business leaders tend to be geographically dispersed and that the sample for these in both the United States and Ontario is too small for analysis by region or prosperity level, the business leader sample is composed simply of those in executive positions in the United States and Ontario.

The surveys. The data in this report are based on responses to telephone surveys completed in both Ontario and the United States. The telephone surveys were completed between June 18 and August 7, 2003.

Samples were drawn and interviews were conducted among **three** populations in each of the 11 US states and Ontario:

- *General population:* A random sample of adults in households in Ontario and the 11 states included in this study.
- *Business community:* Primarily middle managers and owners from businesses within traded clusters.⁴ Only members of the business community in the 11 states or Ontario were included in this sample.
- *Business leaders:* This sample is limited to those executives (Vice-President and above) who work in one of the 2,000 top companies in Ontario or one of the 5,000 top companies in the United States.

A separate questionnaire was developed for each of these samples.

The samples and the attendant margins of error are described in the following table:

POPULATION	ONTARIO SAMPLE (Confidence Interval, percentage points, 19 times out of 20)	U.S. SAMPLE (Confidence Interval, percentage points, 19 times out of 20)
General population	n=500 (±4.5)	n=800 (±3.5)
Business community	n=250 (±6.2)	n=625 (±3.9)
Business leaders	n=100 (±10.3)	n=250 (±6.4)

To investigate attitudinal differences between northern and southern Ontario, a special over-sample of the public and business community was conducted in northern Ontario. For highlights see *Northern and southern Ontarians think differently about business and education*.

Analysis. The analysis was conducted primarily to identify what influence, if any, attitudinal differences have on the variance in per capita GDP across Ontario and the 11 US jurisdictions included in this analysis. The survey data were analyzed principally by comparing results among samples in each jurisdiction with other samples and jurisdictions. Additional statistical analyses were conducted to identify any other differences in the data that were unclear in the first comparisons.

⁴ As defined by Harvard Business School's Institute for Strategy and Competitiveness. See our Working Paper 1, *A View of Ontario: Ontario's Clusters of Innovation*, April 2002.

Investments in physical and human capital support innovation and upgrading

Ontario trails the peer group in the investment arena. The evidence is clear that education drives personal income and overall productivity. On the positive side, Ontario has a strong primary and secondary system, with achievement and completion rates exceeding the peer group, despite flat investments. But there is a real cause for concern at the post-secondary level where Ontarians' educational attainment levels fall short of those of its peers. Compared to the United States, many more students in Ontario achieve only a community college education rather than graduating with university degrees. At the university level, the US invests about twice as much per student and as a percentage of GDP as Ontario.

As with education, Ontarians do not keep pace with their peer group in investing in physical capital. Ontarians continue to invest 14 percent less in machinery and equipment (M&E), despite the research that links the relationship between this investment and growth in output per worker, or productivity.

Motivations to work, hire and invest for the future are hindered by high marginal tax rates

In previous work, the Institute engaged Jack Mintz, an international tax expert, to investigate the marginal effective tax rates (METR) in Ontario and its peer group. Economists and tax analysts agree that tax rates are significant factors motivating investment and work decisions. Marginal effective tax rate analysis focuses on the marginal tax rate and captures the full range of taxes affecting the cost of doing business.³ His work revealed that the METR in Ontario is nine percent higher than that of its peers. One result is that Ontarians' motivations to work more hours, to invest in upgrading their skills to increase productivity and to invest in upgrading machinery and equipment to remain competitive are lower

than in the peer group and, understandably, reinforce the investment gap.

Healthy market structures are required for innovation and upgrading

In Ontario, there are some critical fiscal and governance structures that run counter to increasing productivity. Working Paper 3, *Missing Opportunities: Ontario's urban prosperity gap*, revealed that Ontario is not achieving its economic potential and that improvements need to be made, especially in our urban areas. We also identified barriers to closing the prosperity gap from Canada's fiscal framework and from weaknesses in governance structures.

The Canadian fiscal framework is less advantageous for Ontario and its cities than the regime in peer states. Lack of true representation by population in the provincial or federal legislature means that urban voters are under-represented in the public policy setting process. Finally, the governance structures at the municipal level limit prosperity growth because they lack the complete set of taxing and spending capabilities.

Thus far, the AIMS framework has enabled us to propose recommendations for Ontarians and it has helped to map our research agenda. Our work to date indicates that there is no single weakness, but rather a number of contributing factors that have led to Ontario's prosperity gap. Our search for the key to closing the gap led us to explore Ontarians' attitudes to point us to potential initiatives to increase productivity and prosperity.

Attitudes are not the roadblock to closing the prosperity gap

The First Annual Report, *Closing the prosperity gap*, argued that "attitudes that encourage competitiveness and global excellence are a critical platform for action." In the report, the Task Force directed the Institute for Competitiveness & Prosperity to investigate

how attitudes contribute to the prosperity gap in Ontario to understand the key challenges that Ontarians must address to work towards eliminating the GDP per capita gap. To do this, the Institute conducted an extensive in depth research project on the extent to which attitudes affect Ontario's capacity for innovation and upgrading in attempt to identify opportunities to close the prosperity gap.

The Institute engaged The Strategic Counsel to survey and measure the attitudes of the general public, the business community in traded clusters and business leaders on business, competition and innovation. (See *Looking for differences: The methodological approach to the attitudinal surveys*.)

Overall, the attitudes research indicates that differences between the public and the business community in Ontario and the peer states are not significant roadblocks to closing the prosperity gap. Further work is required to solve the ongoing prosperity gap mystery.

In Working Paper 4, *Striking similarities: Attitudes and Ontario's prosperity gap*, we share the results of our exploration:

- Remarkable similarities in most of their attitudes in Ontario and the peer states provide no explanation for the prosperity gap
- One important difference, our attitudes towards post-secondary education, is likely contributing to the prosperity gap
- The Institute will conduct further research to delve further to explain the gap and how to tackle it.

³ On the labour side, it includes such taxes as personal income taxes, payroll taxes whether paid by employees or employers. On the capital side, it captures corporate income taxes, capital taxes on materials inputs, and other taxes. Subsidies for health care, education, research & development, infrastructure and others are netted out against either capital or labour as appropriate. See pp. 36-7 in the Task Force's First Annual Report, *Closing the prosperity gap*.

Striking similarities



Ontarios' and peer group's attitudes towards business and prosperity are remarkably similar

Overall, the survey results suggest that, across numerous dimensions, attitudes among the general population and members of the business community in Ontario and the United States are very similar. The absence of differences with the US peer states is an important finding. The prevailing view among Ontarians is that attitudinal differences in areas like global competitiveness, innovation and risk-taking are pervasive, thereby limiting our capacity for innovation and upgrading. In fact, we found significant similarities in key areas that relate to innovation and upgrading and to competitiveness.

- Ontarians view business and business leaders in much the same way as the public in peer group states
- Ontarians have similar attitudes towards risk and success as their peers
- Ontarians' attitudes towards competition and factors of competitiveness are similar to those in the peer group
- Ontarians willingness to take action to achieve a higher standard of living does not vary from peer group respondents.

We discuss these similarities in turn.

Ontarians view business and business leaders in much the same way as do those in peer group states

A key question for study was whether the general public and the business community in Ontario hold different attitudes towards business and their leaders as in the peer group states. If Ontarians held less favourable views, we hypothesized, that would indicate a lower interest in business and less consensus on its value in prosperity creation. We explored the following types of questions:

- In what esteem do we hold business owners and leaders relative to other roles in society?
- Do people attribute an important role to businesses in creating prosperity and success in the province or state?
- Are there differences in attitudes between the public and the business community on these attitudes?

The research results indicate no significant differences between Ontario and the peer group – neither in the public nor in the business community. Nor did we observe a significant fracture of opinions between the public and the business leaders.

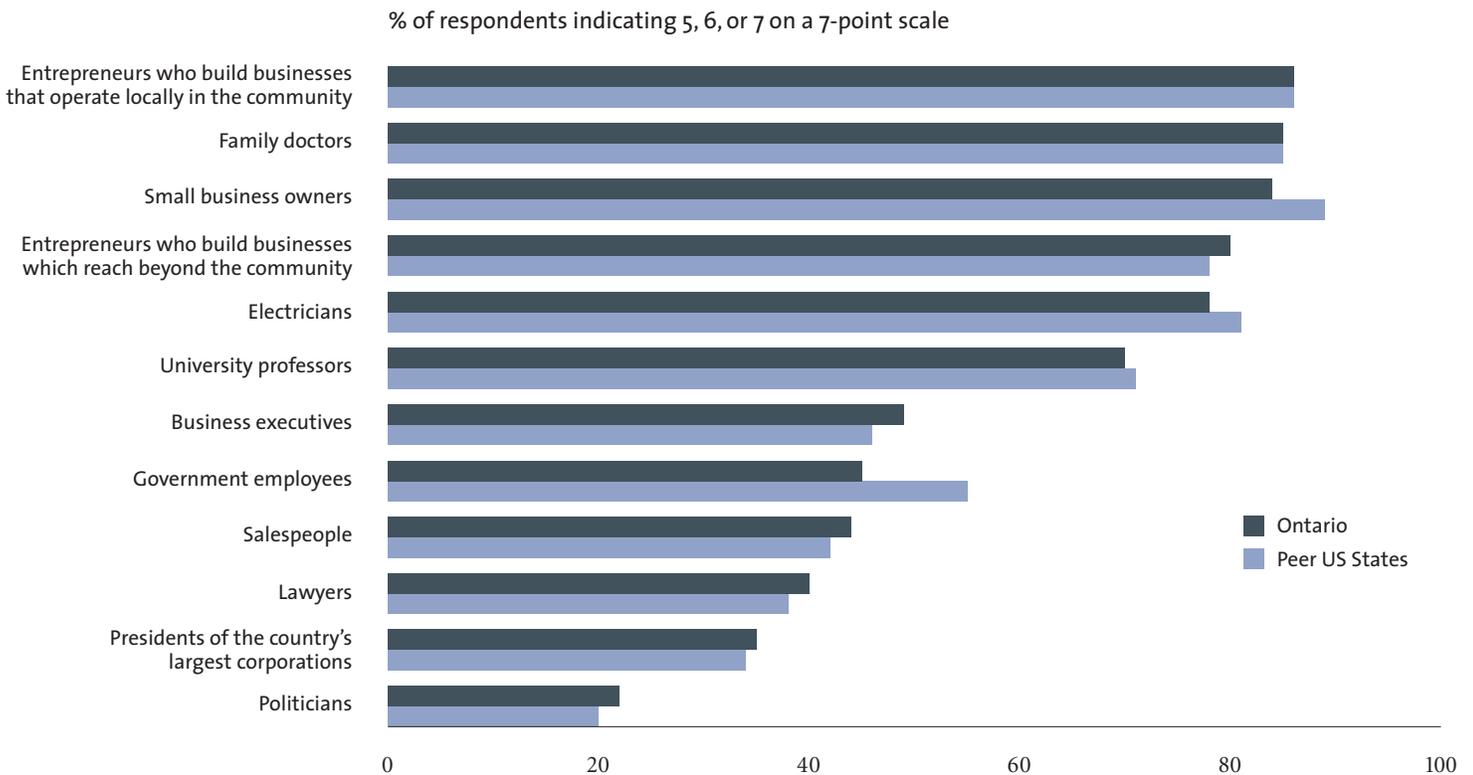
Esteem for business owners and leaders is alike on both sides of the border

To measure how Ontarians view key players related to business and competitiveness, we asked general public respondents the impression they held of various roles in society. We included a variety of occupations in this question to determine where various business roles would score. Responses indicate a very similar outlook on the roles of these key players (Exhibit 3).

We note however some differences in attitudes held by employees and owners and entrepreneurs (See *How owners and entrepreneurs differ from employees on both sides of the border.*)

In rating the impression of each of the 12 different occupations, Ontarians and Americans have very similar opinions and agree almost exactly on the rankings. On both sides of the border, small business owners and entrepreneurs are held in relatively high regard – about the same as family doctors. And both groups hold leaders of larger businesses in low regard, most likely reflecting the current big-business scandals in the US and Canada. What is striking is the consistency in ratings and ranking of the occupational groups. Both Ontarians and peer group Americans hold statistically identical attitudes towards business people in their community and country.

Exhibit 3: The general public in Ontario and in peer states views various roles the same way



Q. For each of the following roles in society, can you please tell me how favourable or unfavourable your impression of them is? You can respond by giving me a number between one and seven, in which seven means that you have a very favourable impression and one means that your impression is not at all favourable.

How owners and entrepreneurs differ from employees on both sides of the border

Results from the surveys suggest that differences may be primarily in attitude. Entrepreneurs, as expected, are more likely to be comfortable taking risks and making personal sacrifices to achieve success. They are also more positive towards business than employees.

Owners and entrepreneurs are less risk averse.

Findings suggest that one of the key things that differentiate entrepreneurs from employees is their ability to deal with risk. Entrepreneurs, it seems, are overwhelmingly at ease about taking risks. They are much less likely to say that the fear of failing has stopped them from trying new things. And, in both the US and Ontario, about 80 percent of entrepreneurs describe themselves as a type of person who takes risks to be successful versus 65 percent of employees.

Employees generally report being risk takers as well, though not with the same intensity as entrepreneurs. For example, employees, by a substantial margin, prefer lower-paying jobs that offer little risk of layoffs over higher paying jobs with less job security. In comparison, entrepreneurs tend to waver between choosing the money and the security. Ontario employees are also less likely to agree that businesses should continuously be trying to do new things, even at the risk of failure.

Attitudes towards success differ. Another key difference is the willingness of entrepreneurs and owners to make significant sacrifices to be successful. About two-thirds of entrepreneurs on both sides of the border believe that personal sacrifice is necessary for success, compared with just over half of employees.

Other attitudinal differences between employees and entrepreneurs are country specific. Ontario entrepreneurs, for example, are more likely than their employees to report that they are generally self-reliant. In contrast, American entrepreneurs and employees are equally likely to report that they rely mainly on themselves.

A greater proportion of Ontario entrepreneurs, though, tend to believe that success comes from within oneself in comparison to employees. Fewer entrepreneurs believe that family background and education are the key ingredients in creating personal success. They are more likely to believe, rather, that it is desire, drive and determination that create success. American entrepreneurs and employees did not differ on these points.

Owners and entrepreneurs have a more favourable view of the role of the business community in the economy. Not surprisingly, entrepreneurs generally feel more strongly than employees that the business community is the most important contributor to their region's prosperity. A lower proportion of entrepreneurs than employees believes government should play a leading role in the state or province's economic development.

The role of government, however, is viewed very differently on either side of the border. Employers and employees in the United States are both less likely than employers in Ontario to agree on the importance of a leading government role in the economic development of their state/province. Interestingly, in the United States, but not in Canada, entrepreneurs are more likely to think that the public does not value the role of the business community.

Attitudes towards business and its contribution to prosperity coincide

We find that the general public and the business community value businesses and business people in the same way. In responding to a series of statements, the public and business community indicated generally positive attitudes towards business (Exhibit 4).

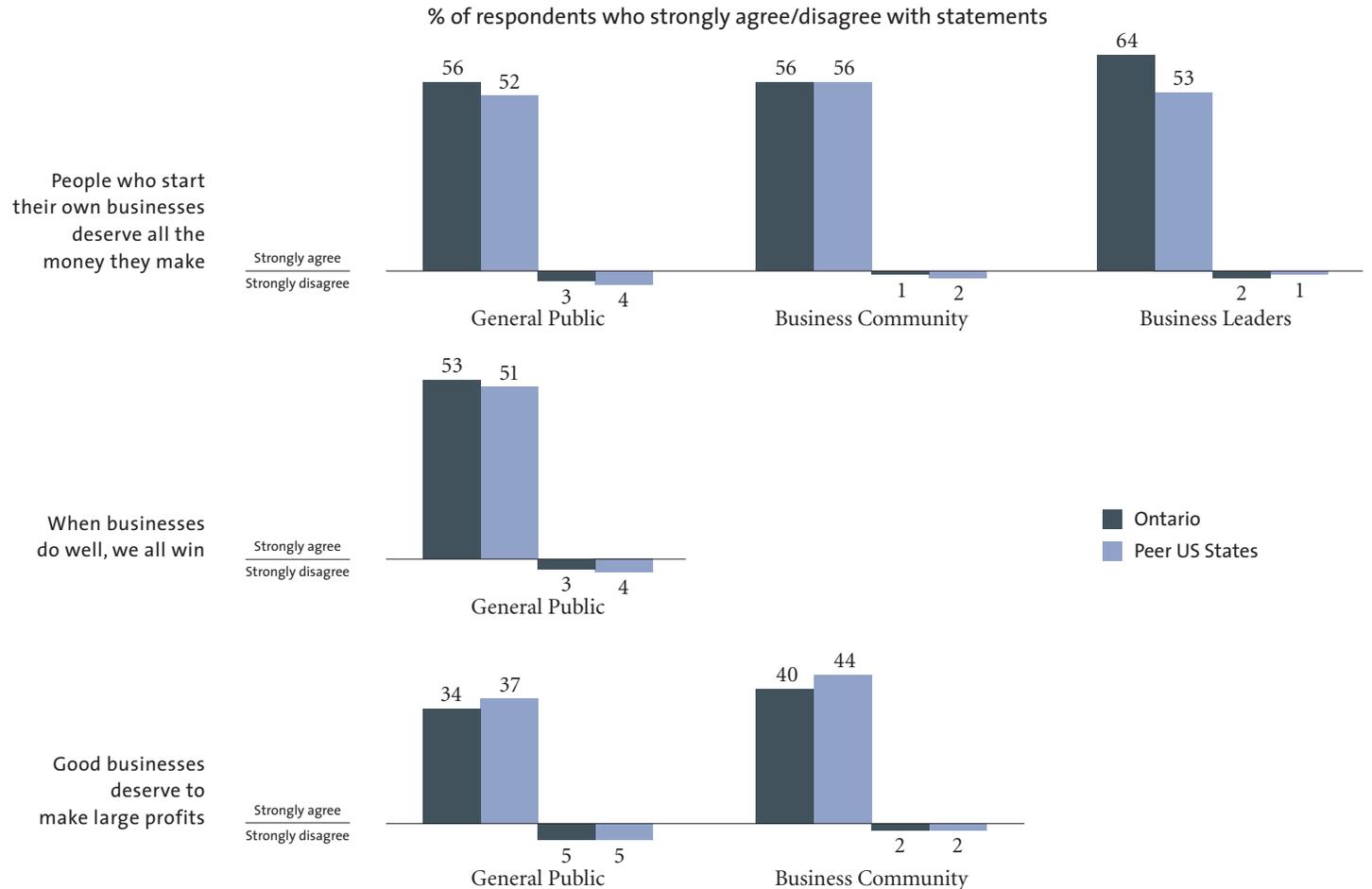
Nearly 70 percent of general public respondents in Ontario and the peer group agree that the business community is an important contributor to prosperity and success of Ontario or their state. Another 25 percent are prepared to attribute a somewhat important contribution by business to prosperity (Exhibit 5).

In summary, attitudes towards businesses and their contribution to a region’s prosperity are shared equally in Ontario and the largest, most prosperous US states.

Entrepreneurship ratings match

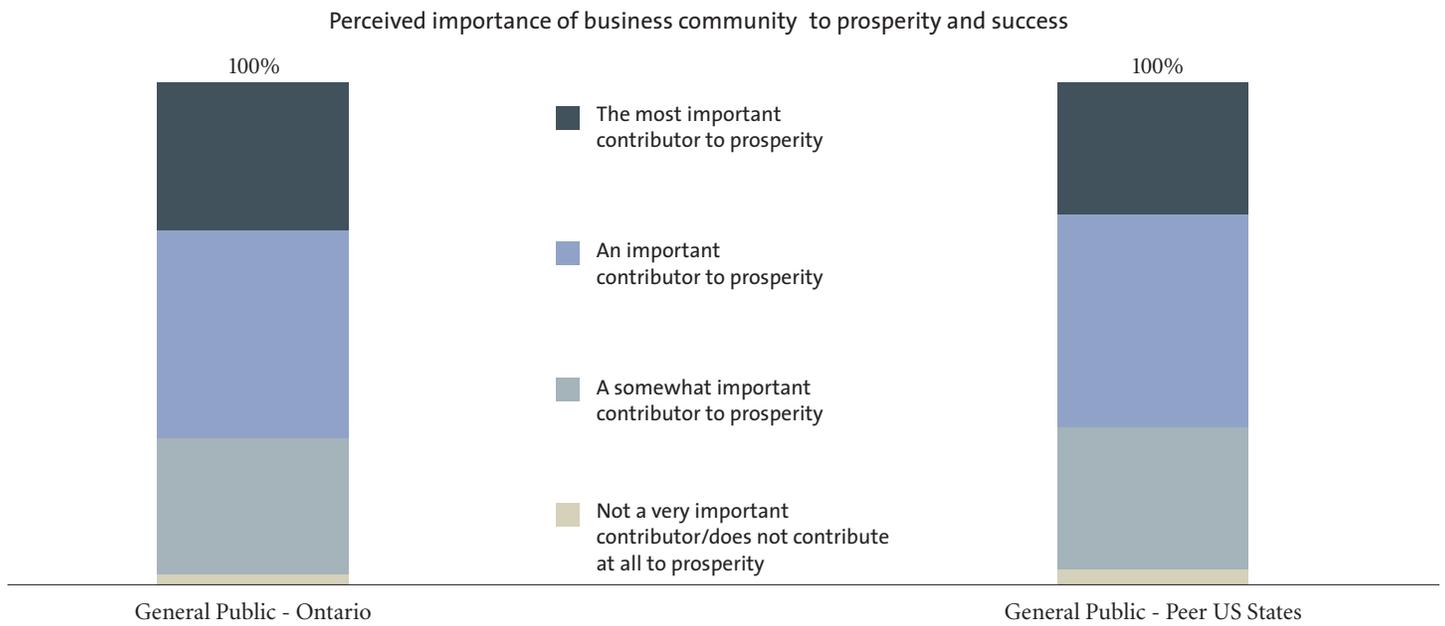
In the survey, we explored attitudes towards entrepreneurship and found that Ontarians and people in the peer group states have similar attitudes towards entrepreneurs. About 40 percent of the public and the business community report being interested in starting their own business (Exhibit 6). Interestingly, northern Ontarians report more favourable attitudes towards entrepreneurship. (See *Northern and southern Ontarians think differently about business and education.*)

Exhibit 4: Public and business people in Ontario and peer group view business favourably



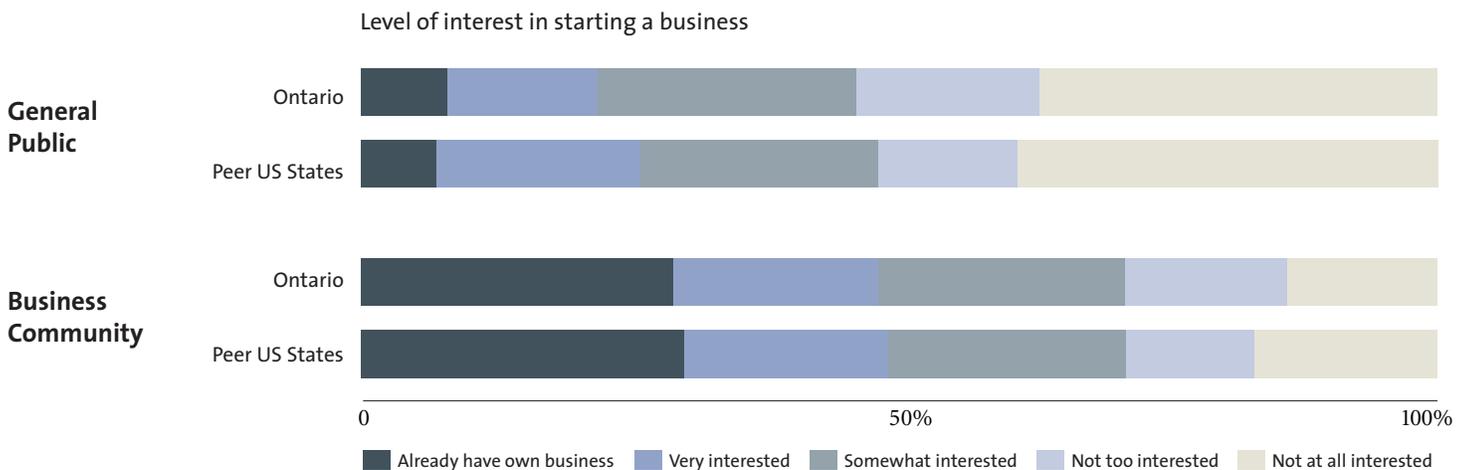
Q. For each of the following statements, please indicate how much you agree or disagree with each. That is, do you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree with each.

Exhibit 5: Agreement on the importance of the business community's contribution to prosperity is widespread



Q. To what extent do you feel that the business community contributes to the prosperity and success of Ontario/State? Would you say the business community is...
 Note: Non-responses not shown; categories re-percentage to total 100%

Exhibit 6: Interests in starting a business are alike



Q. How interested are you in starting your own business? Would you say that you are very interested, somewhat interested, not too interested, or not at all interested?

Northern and southern Ontarians think differently about business and education

As we found in the comparison of Ontario and US peers, attitudinal differences between northern and southern Ontario are minimal. However, we found attitudes towards entrepreneurship to be more positive in the north. We also found some differences in attitudes towards education.

Northerners have more positive attitudes towards entrepreneurship and government involvement in the economy. Members of the business community in the Ontario north are more likely than those in the south to believe that those who start their own businesses deserve all the money they make. Similarly, among the general population, northern Ontarians are more likely than southerners to feel that people who are self-employed are “successful.” Northerners are also more likely than southerners to believe that business is an important contributor to prosperity and that everyone does well when business does well.

Northern Ontarians appear more interested than others in starting their own businesses. The general population in the north of Ontario is significantly more likely than those in the south of the province to be “very” interested in starting their own business. Similarly, over half of the members of the business community in northern Ontario indicate that they are at least “some-what” interested in starting their own business, a significantly higher proportion than in either the south of the province or the peer states.

Contrary, perhaps, to the sentiments that appear to support entrepreneurship, members of the business community in the north are more likely to agree that governments “have an important

role in ensuring that businesses remain in business by stepping in to help businesses in trouble.” However, the general populations in the north and the south, tend to agree that governments have an important role in keeping business in business.

Business community members in northern Ontario are more willing to change their personal lives for work-related reasons. Members of the business community in northern Ontario are significantly more likely than those in the south or in the peer states to have moved more than 200 miles for a job. It is noteworthy also that northern business people appear to be more willing than those in the south to make sacrifices for work. While they are no more or less likely to agree that they are “prepared to do whatever it takes to be successful,” they appear to be more willing to “travel out of town at least once a week” or to “work three-out-of-four weekends.”

Northern and southern attitudes towards education diverge. Members of both the general population and the business community in the north appear to be less satisfied with the levels of education they have achieved than those in the south and the peer U.S. states included in this study. Perhaps it is not surprising, therefore, that the survey also reveals that while northerners are not any more or less likely than those in the south to have taken some upgrading in the past, they do appear to be more likely to have taken a program to upgrade their skills within the last year.

Given that they are less satisfied with the level of education they have achieved, we might expect those in the north to encourage others to higher educational achievements. However, results from the survey suggest the opposite; that is, members of the northern business community are more likely than those in the south of the province or in the peer states to report that they would encourage a young person to achieve a high school or college/ technical education and less likely to encourage a young person to complete an advanced degree. As the northern Ontario economy diversifies, including increased participation in the knowledge-based economy, advanced degrees will become a more significant factor in ensuring prosperity.

Finally, those in the business community in northern Ontario appear to take professional training of staff slightly more seriously than those in other jurisdictions; they are more likely to report that their company encourages and supports extra training or executive development.

Note: To identify differences between northern and southern Ontario, the Strategic Counsel over-sampled the business community and the general public in northern Ontario. Sample sizes of these two groups were 125 and 270, respectively. We thank the federal government through FedNor/Industry Canada and the Ontario Ministry of Northern Development and Mines for providing funding for the over-sampling of this survey.

Views of role of government vary

As part of our exploration into attitudes towards business we asked respondents about their perception of government's role in economic development.

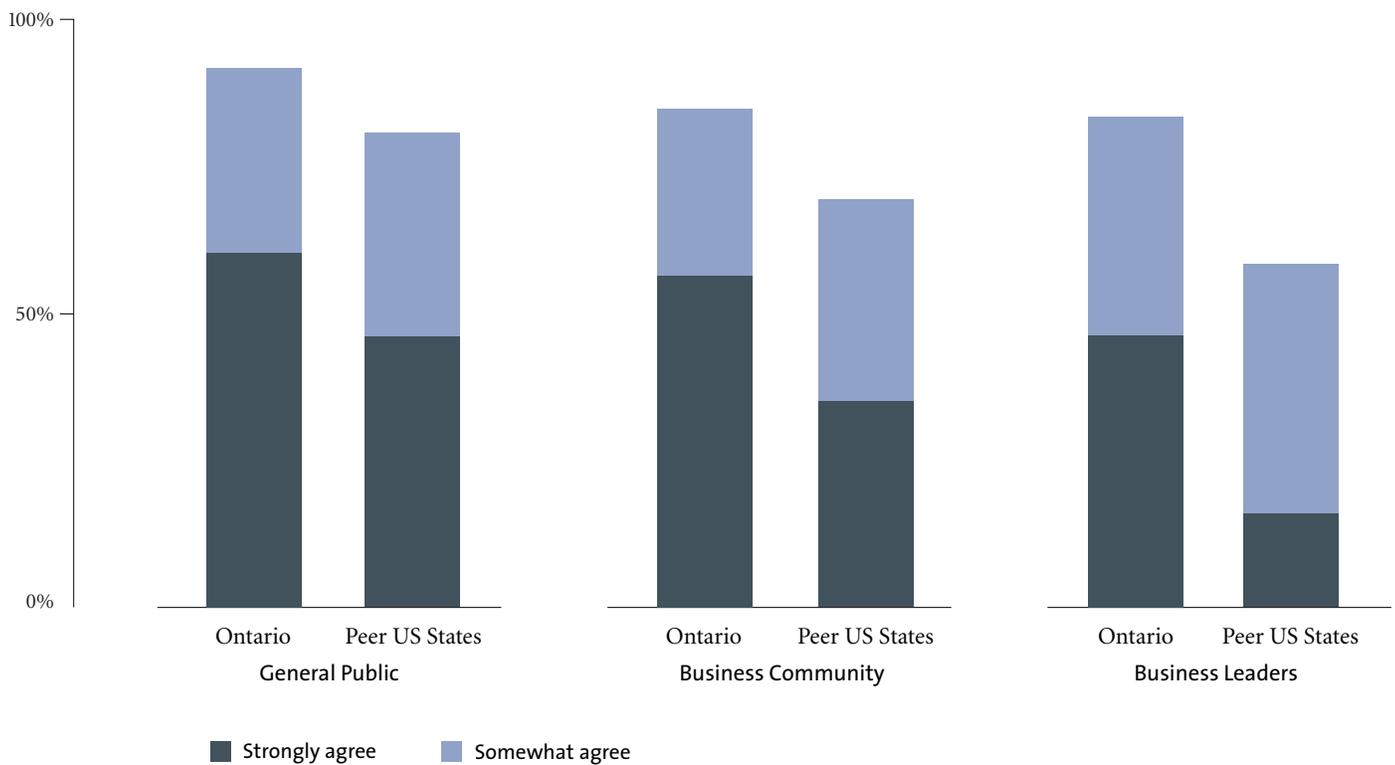
A majority of the public and business community agrees that "it is important for governments to play a leading role in the economic development" of Ontario or their state.

However, the level of agreement is significantly higher in Ontario than in the peer states (Exhibit 7).

We also observed that over half of the general public in Ontario and the US peer group and just under half of those in the two business communities agree that government has a role in assisting businesses that are in trouble.

Exhibit 7: Views on role of government in economic development diverge

% of respondents' agreeing on role of governments in economic development



Q. I'd like to read you a series of statements and have you tell me how much you agree or disagree with each one. For each one please tell me if you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree. It is important for governments to play a leading role in the economic development of Ontario/state.

Ontarians and peers have similar attitudes towards risk and success

We thought it was important to measure differing perspectives towards risk and security. To the extent that Ontarians were more risk averse and less positive towards innovation, this would be an impediment to our competitiveness and prosperity. We asked the following types of questions:

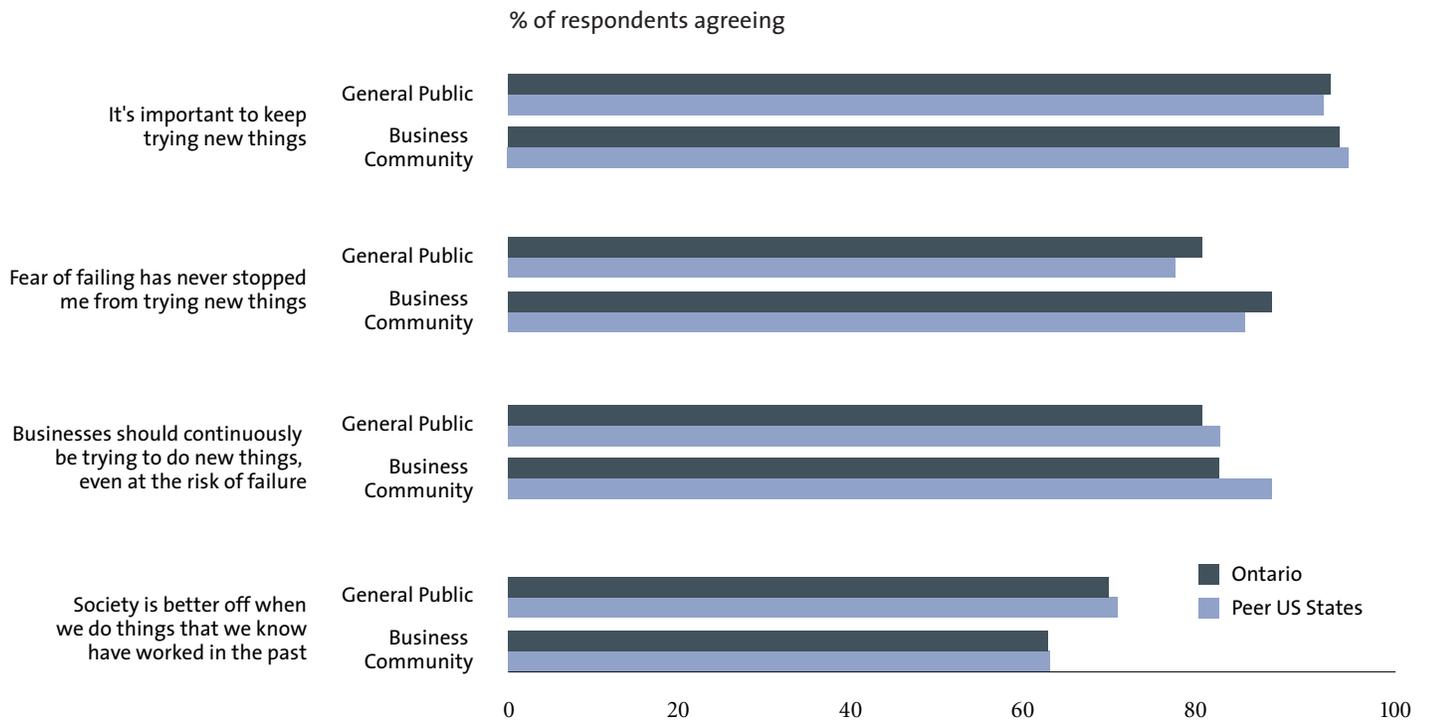
- Compared to people in our peer group, how do Ontarians trade off security against innovation and risk for potential gain?
- What are the differences in how we perceive success?

Again, we conclude that Ontarians’ attitudes towards risk-taking and success do not pose a barrier to closing the prosperity gap.

Attitudes towards risk-taking and innovation are undifferentiated

Responses indicate that the general public and the business community in Ontario look at risk in the same way (Exhibit 8).

Exhibit 8: Consensus exists on attitudes towards risk, fear of failure, and importance of trying new things



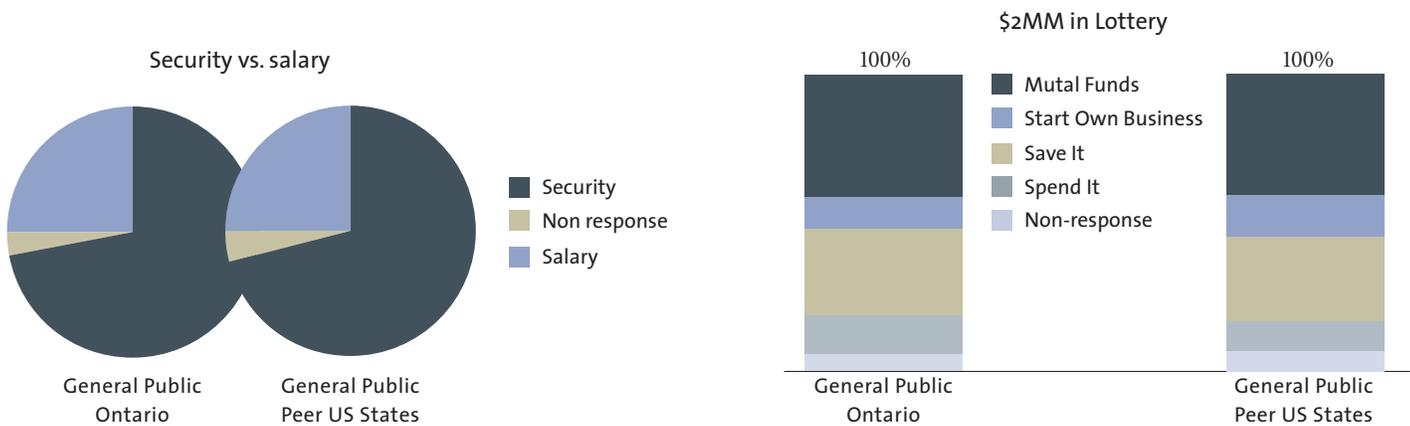
Q. For each of the following questions, please indicate how much you agree or disagree with each. That is, do you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree with each?

Most Ontarians agree that it is important to keep trying new things – in general and for businesses. Most report that fear of failure is not a deterrent to innovation. To be sure, a majority agree that it is generally better when we do things we know have worked in the

past, but the level of agreement is lower than on the importance of trying new things. Again, attitudes in these areas do not differ dramatically between the business community and the general public.

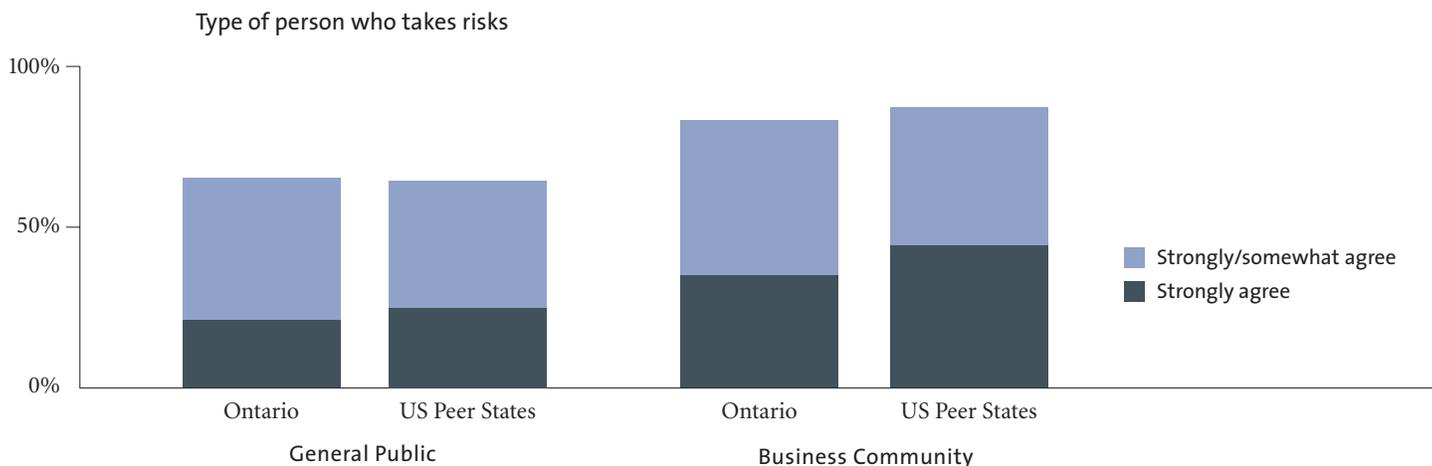
We also asked respondents how they would trade off job security against salary to assess attitudes towards risk. As well, we also asked how respondents would deal with significant lottery winnings. Responses indicate a greater desire in both groups for financial security (Exhibit 9).

Exhibit 9: Ontario and peer groups are more interested in security and stability than risk-taking



Q. If you were given a choice of two jobs, one that offered great long-term security but less money or one that offered a substantial salary, but some risk of losing your job if things did not work out, which job would you choose?

Q. If you won \$2 million in the lottery, which one of the following would you most likely do with the money?



Q. For the following statement, please indicate how much you agree or disagree. That is, do you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree or strongly disagree? I am the type of person who takes risks.

To the extent that over-valuing security might dampen risk-taking and innovation, the evidence indicates that Ontarians are no more risk averse than their peers and that this is not a barrier to closing Ontario's prosperity gap.

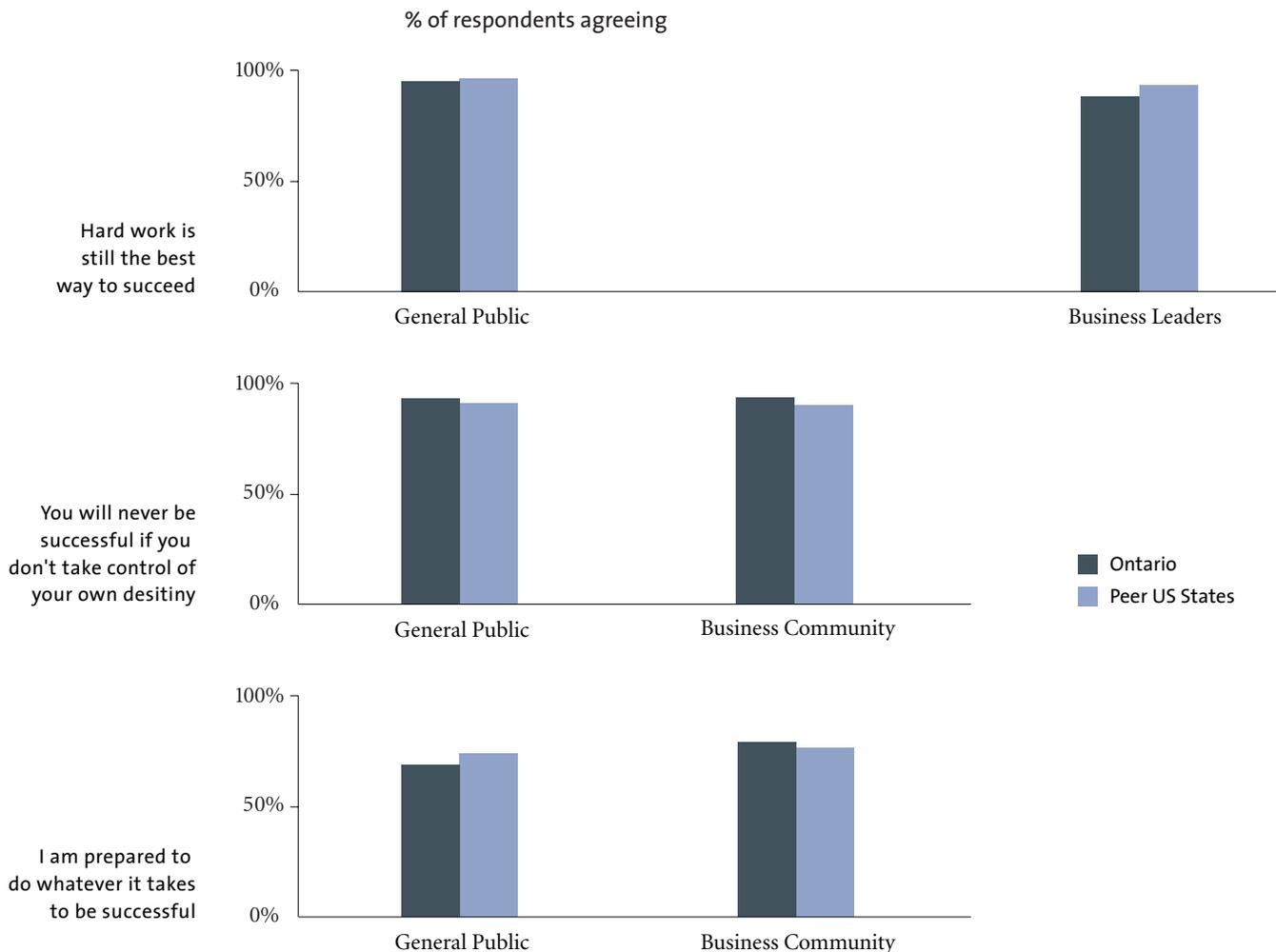
Attitudes towards the importance and the causes of success are comparable

The survey results indicate that both Ontarians and people in the peer group states

agree on the importance of taking control of their own destiny in order to be successful and in the importance of hard work to succeed. But being successful is not a value that trumps all others. Only a third of respondents in both countries strongly agree that they are prepared to do "whatever it takes" to be successful (Exhibit 10).

In previous working papers, we have discussed the importance of aspirations for competitiveness and prosperity. This research indicates no real difference between Ontarians and citizens in the peer group on this factor.

Exhibit 10: Views on importance and causes of success are comparable



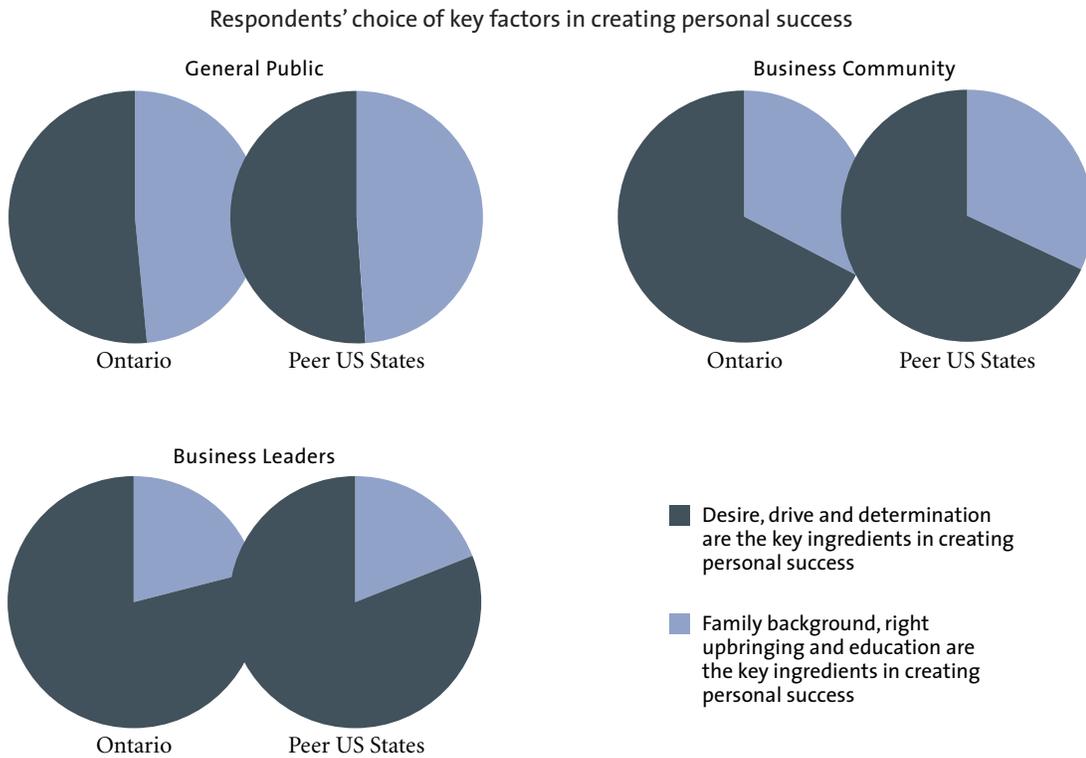
Q. For each of the following statements, please indicate how much you agree or disagree with each. That is, do you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree with each.

We tested the hypothesis that Ontarians perceived that achieving success is based on efforts of the individual or factors related to class and upbringing. Results indicate that, on both sides of the border, the general public is fairly evenly divided on this issue. About half see “desire, drive, and determination” as key to personal success, while half see “family background, the right upbringing and education” as the key. Within the business community, respondents in Ontario and the peer group select the former over the latter by a two-to-one margin (Exhibit 11).

Attitudes towards competition and factors of competitiveness are similar in Ontario and the peer group

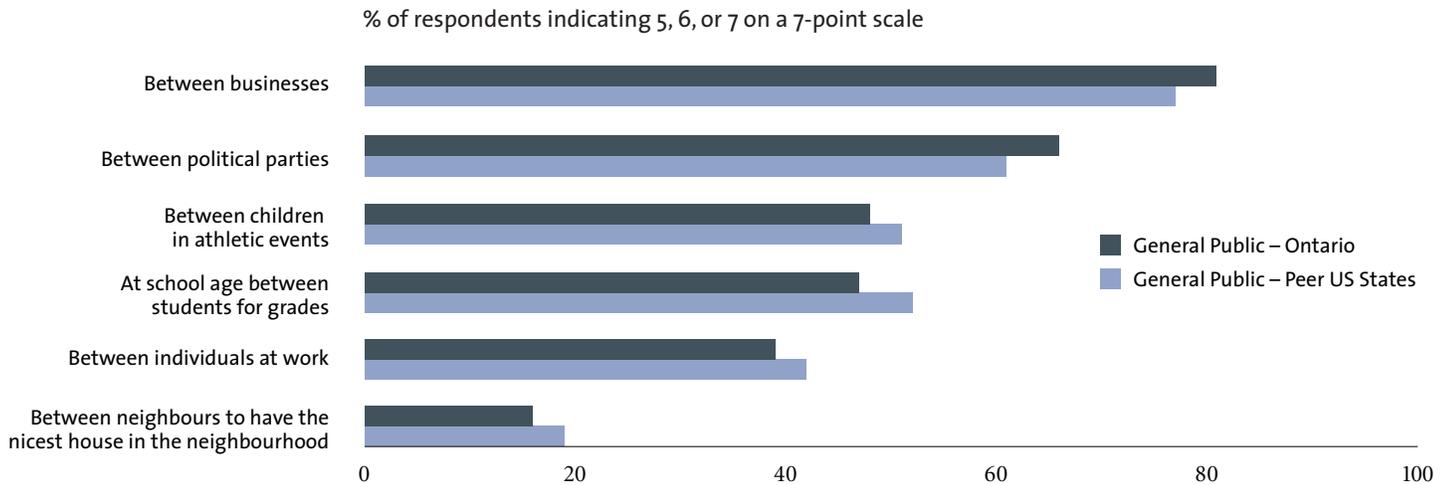
One of the key themes in our investigations into the prosperity gap has been how Ontarians differ in their attitudes towards competition in general and in the key factors for competitiveness.

Exhibit 11: Perceptions on causes of success between the general public and business people differ



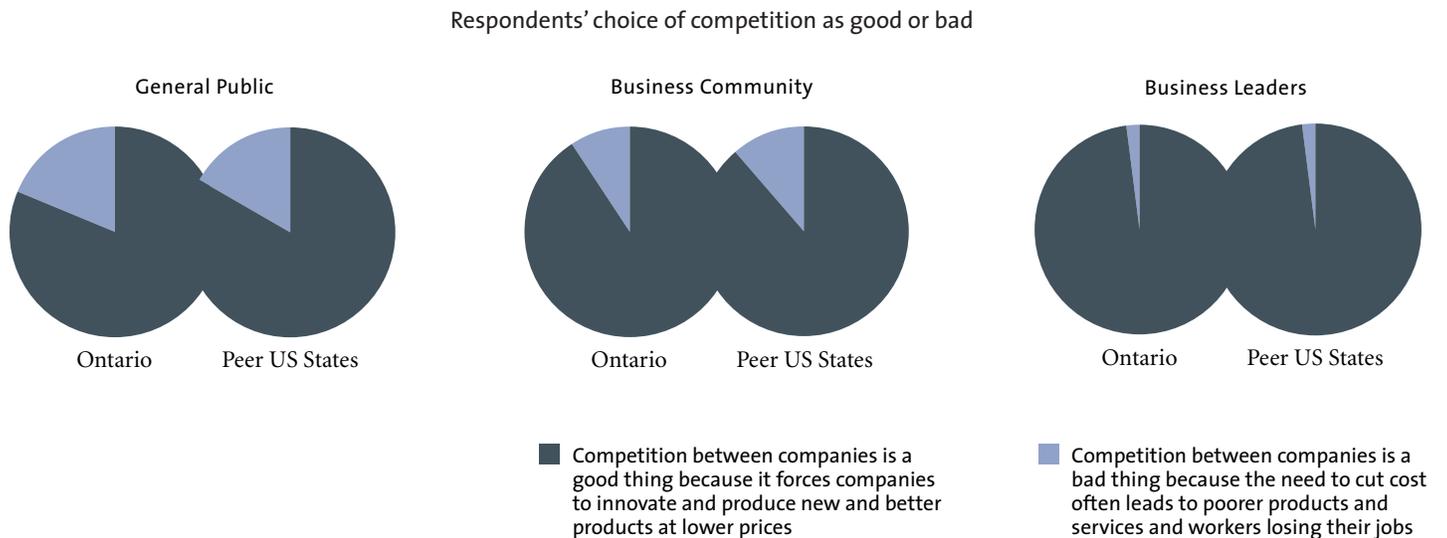
Q. I'm going to read you some statements and have you tell me which ones best reflect your own personal views. The first is ...

Exhibit 12: Public attitudes towards competition are similar in Ontario and peer states



Q. For each of the following situations about competition I am going to describe to you, can you please tell me whether you think competition, all things considered, in this situation is a good thing or a bad thing? You can do this by giving me a number from one to seven in which seven means the competition is a good thing and one means it is a bad thing.

Exhibit 13: Ontario's and the peer group's public and the business community see business competition as a "good thing"



Q. I'm going to read you some statements and have you tell me which ones best reflect your own personal views. The first is ...
 Note: Non-responses not shown; categories re-percentage to total 100%

The questionnaires attempted to get at the following kinds of issues:

- Is competition a good thing and how do attitudes differ about various kinds of personal and business competition?
- Do business people relish or avoid competition?
- What do members of the business community and business leadership see as the important factors for business competitiveness?

General public attitudes towards the concept of competition agree

To gain insight into differences in attitudes towards competition, we asked respondents about their opinions on competition in various settings. Very few differences in attitudes exist between the general public in Ontario and the peer group (Exhibit 12).

At the extreme, there is widespread disapproval of competition between neighbours to have the nicest house. And attitudes are mixed on whether competition is a good thing between students at school or children at athletic events and individuals at work. But respondents in Ontario and the peer group of US states have similar levels of agreement on competition between businesses and in the political arena as being a good thing.

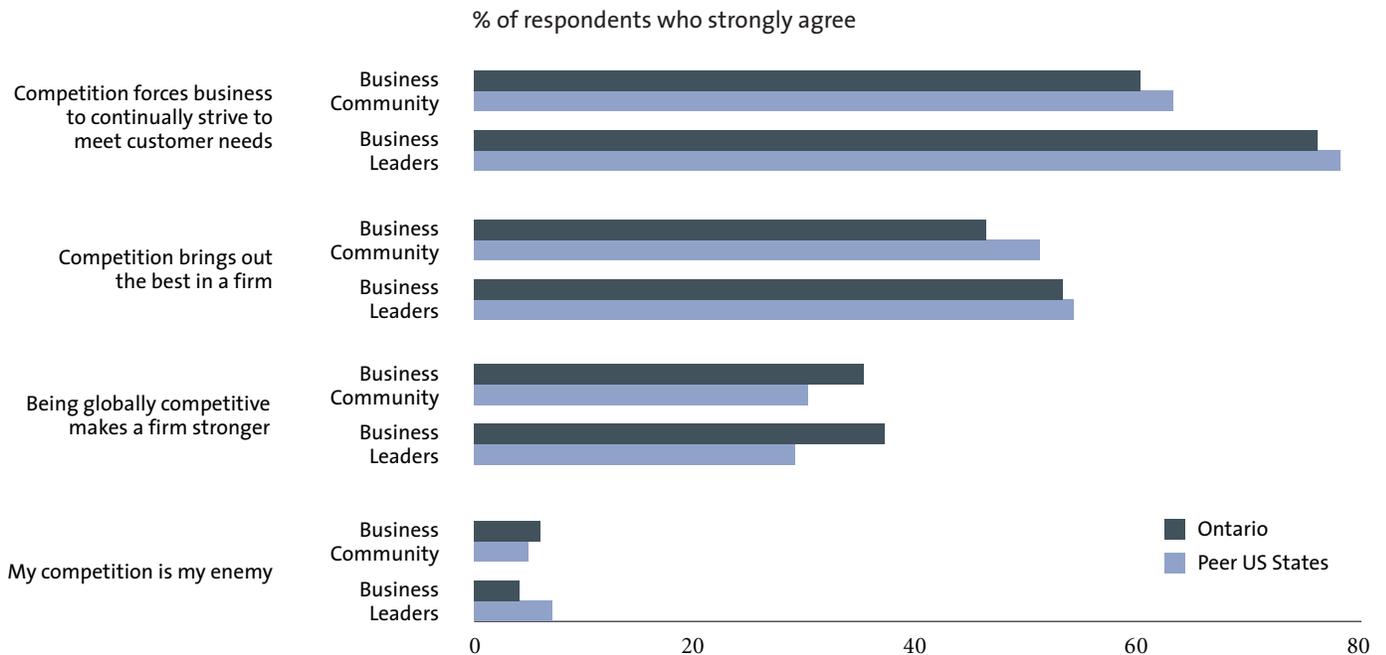
We explored competition between businesses, asking respondents to choose between the statements that business competition was generally a good thing or a bad thing (Exhibit 13).

The results indicate that Ontarians' attitudes towards the concept of competition are identical to those of people in the peer group and that this factor is unlikely to be a barrier to closing the prosperity gap.

Business people welcome competition

We tested the hypothesis that the Ontario business community and business leaders perceive competition differently than those in the peer group. We found that there is general agreement on both sides of the border that "competition brings out the best in a firm," that it forces businesses to meet customer needs better and that being globally competitive makes a firm stronger. However, in neither country does a majority of the business community or leadership agree that their competition is their "enemy" (Exhibit 14). And only about 10 percent of the general public in all jurisdictions strongly agreed that competition does more harm than good.

Exhibit 14: Business people perceive competition the same way



Q. I'd like to read you a series of statements and have you tell me how much you agree or disagree with each one. For each please tell me if you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree or strongly disagree.

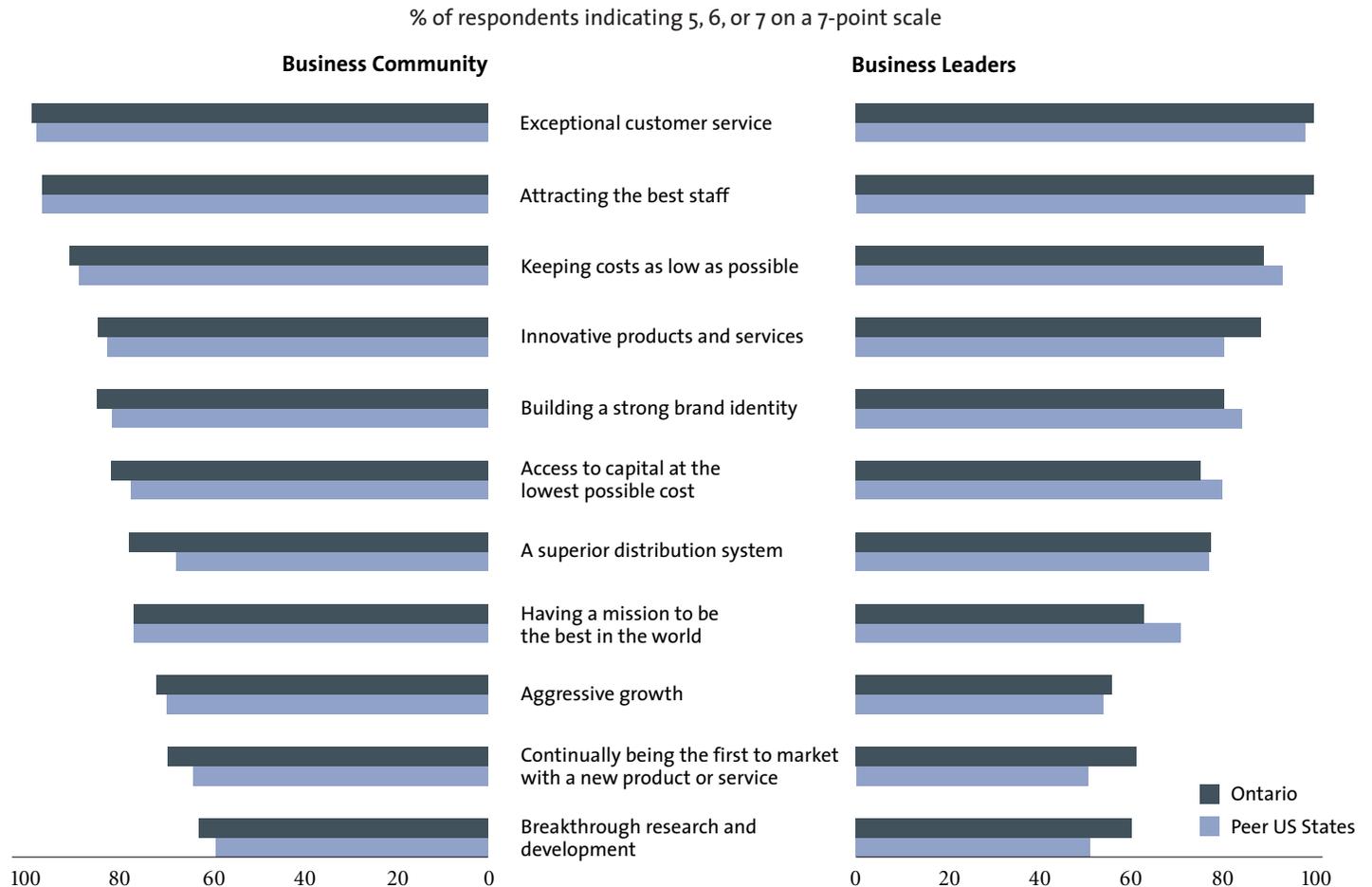
What’s important for competitiveness is the same among Ontario and peer group business people

Competitiveness is a multi-faceted concept and we thought it important to determine what differences, if any, exist between how business people see differences in the importance of various elements of what is required for a business to be competitive.

We asked respondents in the business community and business leadership to rate the importance of various elements of competitiveness. Responses indicate more importance being placed on the shorter-term, day-to-day aspects of competitiveness – areas such as customer service, staff, and costs. Factors related to longer-term, more visionary factors such as speed to market, aggressive growth, and break-

through research and development are seen as least important. In the middle, are factors related to brand equity, aspiring to being the best in the world, and innovation. Of note, we found few differences between the business community and business leadership and between Ontario and the peer group (Exhibit 15).

Exhibit 15: Consensus exists on the important factors for business competitiveness



Q. For the following, can you please tell me how important you consider each to be for keeping a business competitive? Most business leaders would agree that all of them are important, but I am interested in which you feel are particularly important when leaders have to make major business decisions that will influence the competitiveness of the company. You can respond by giving me a number between one and seven, in which seven means you consider it very important and one means that you consider it very unimportant. .

To get at this issue another way, we asked business leaders which was more important for a company – to be innovative in the products it introduces or to operate more efficiently. Twice as many Ontario business leaders chose operational efficiency over product innovation (62 percent to 31 percent). Their US colleagues chose operational efficiency more often (71 percent to 23 percent). Many business observers and advisors urge a longer term, more strategic vision for business people and these results indicate that this advice is not resonating among Ontario's business people. But there is the same lack of resonance among US business leaders. Therefore, it is not possible to conclude that business people's perspectives on competition are a part of an attitudinal difference that causes the prosperity gap.

Willingness to take action to achieve higher standard of living is similar

To investigate whether Ontarians had similar attitudes towards making personal sacrifices to achieve a higher standard of living, respondents in the general public were asked a series of questions on their willingness to travel, work extra hours or move their family. Respondents in Ontario and the peer group indicate similar willingness to work late nights or weekends, to travel out of town, or to move their family to achieve a higher standard of living. Compared to peer group respondents, Ontarians indicate a similar willingness to move outside or within the country. There is no difference in the percentage of respondents who have actually moved at least 200 miles for job-related reasons (Exhibit 16).

Interestingly, the survey results support the popular notion that men are from Mars and women from Venus. (See *Men's and women's attitudes split on business and lifestyle issues.*)

The similarities in attitude across the border are striking. Nevertheless, we identified some attitudinal differences that affect our prosperity.

Exhibit 16: Ontarians' willingness to take action to achieve a higher standard of living does not vary from peer group respondents

	ONTARIO		PEER US STATES	
	General Public (n=500) %	Business Community (n=250) %	General Public (n=800) %	Business Community (n=675) %
Yes, would travel at least occasionally	92	98	90	97
Travel out of town at least once a week	71	81	67	77
No, would not travel even occasionally	8	2	10	3
Yes, would work late at least occasionally	92	99	92	99
Work late three out of five nights a week	56	68	61	76
No, would not work late even occasionally	7	1	8	1
Yes, would work weekends at least occasionally	84	91	86	92
Work three out of four weekends	43	41	47	52
No, would not work weekends even occasionally	15	9	13	8
Yes, would move family to another city, province/state or country	72	78	77	79
No, would not move family anywhere	26	22	22	20
Have moved at least 200 miles for job-related reasons	30	39	30	36
Have not moved 200 miles for job related reasons	70	61	70	64

Men's and women's attitudes split on business and lifestyle issues

In our surveys, we found some important differences between the sexes.

Women are more risk averse. The approach taken in running a business is likely to vary somewhat between men and women. Men report being much more comfortable taking risks than women. Half of business community men in both the U.S. and Ontario say, with confidence, that they are “the type of person who takes risks to be successful.” Only a third of business community women in the peer group states and a fifth in Ontario agree with this statement. These trends between the sexes also hold true for the general public.

Not surprisingly, the differing risk profiles between the sexes affect the type of business decisions that are made by each. In both countries, women, in line with their more conservative stance, report that they are much less likely than men to think businesses should be trying to do new things at the risk of failure. Their attitudes towards risk may also explain why fewer women than men report interest in starting their own businesses.

Men view competition more favourably. Men, generally, tend to view competition more favourably than women. On both sides of the border, businessmen are more likely to believe that global competition makes for a stronger firm. Among the public, men in both countries are also more likely to see competition between businesses as a good thing.

However, the differences between sexes regarding competition are particularly strong in the United States. Whereas in Ontario women and men sometimes see eye to eye on issues relating to competition, American men consistently view competition as more beneficial than women. American men in the business community, for instance, are more likely than their female counterparts to agree that competition forces businesses to continually strive to meet customer needs. They are also more likely to agree that competition brings out the best in a firm. Among the general public, American women consistently view competition less favourably, regardless of whether it is between people at work, children in athletics, political parties or between businesses. Such differences were not as apparent in Ontario.

Women see a larger role for government in business. Women in both countries are consistently more likely than the men to think that government can play a leading role in the economic development of their region, and in helping out businesses in trouble.

Important to note, though, is that the role of government in a region's economic development and in helping businesses in trouble, is perceived quite differently across the border. Ontario women are the most positive towards government involvement, followed by Ontario men. While significantly more positive than American men, American women are still less likely to see a role for government than either men or women in Ontario.

Work/life balance means different things to men and women. The attitude towards balancing work with other personal priorities is also different between men and women. Women report being just as willing to work occasional long hours and weekends and to go on the occasional business trip as men in order to achieve a higher standard of living. However, they are not as prepared to change their personal lives significantly to earn more money. They are much less likely to be willing to travel out of town on a weekly basis, work late three out of five nights a week or work three weekends a month. They are also less likely to have moved for job-related reasons. In both Ontario and the US peer states, it is men, rather than women, who are more likely to feel that they need to make significant personal sacrifices in order to be successful.

Important differences



Ontarians' attitudes towards post-secondary education affect our prosperity

The survey identified two significant differences – in post-secondary education and the economic benefits of immigration – between attitudes held by Ontarians and the peer group. In addition, there are differences in some less significant areas, including attitudes towards work and the importance of celebrating Ontario's business success. In this section we discuss three sets of differences:

- Ontarians' attitudes towards post-secondary education may be a hindrance
- Ontarians perceive more of an economic benefit from immigration than peers
- Ontarians celebrate success more than peers.

Ontarians' attitudes towards post-secondary education are a hindrance

In Working Paper 3 and in the Task Force's first annual report, we identified some significant differences in investments and behaviours related to post-secondary education that act as a drag on our potential for closing the prosperity gap:

- Peer group stakeholders – governments, residents, and corporations – significantly out-invest Ontarians on post-secondary education, particularly in four-year degree-granting institutions
- Residents of peer group states are more likely to have a university degree, particularly a graduate degree
- Ontario high school students are more likely to choose a college diploma program versus the peer group and less likely to choose a university degree program
- Earnings and productivity are higher for people with a university degree than a college diploma; the gap widens at higher levels of university degree attained

As we assess the survey results, we see the importance of attitudes in these behaviours.

Aspirations towards level of attainment required are lower in Ontario

We asked members in the general public and the business community what advice they would give to a young person about the level of education they should achieve. Fully, one-third of the Ontario public and business community would advise them to get a college or technical diploma, while only one in ten in the US would agree. Nearly five times as many, 49 percent, in the US business community would advise a university bachelor's degree and three times as many, 33 percent, a professional or graduate degree. In the US general public, the ratios were about four to one for both levels of education. A smaller proportion of Ontarians in the general public and in the business community would advise a university undergraduate or graduate degree (Exhibit 17).

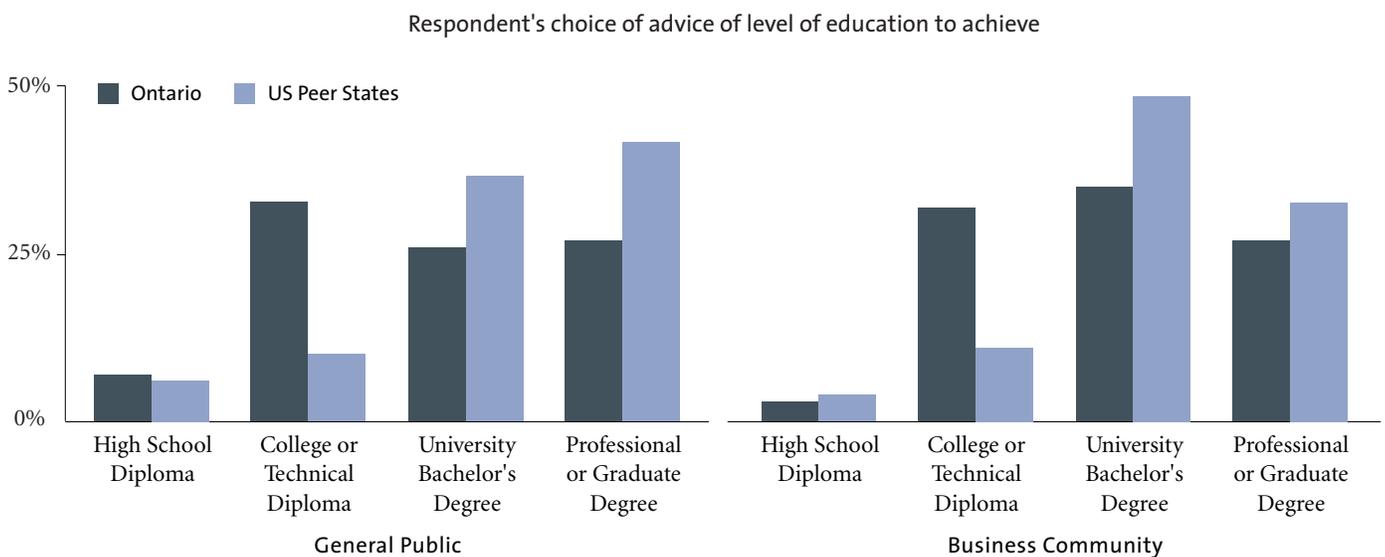
In the survey, immigrants to Ontario and the US place more value on advanced education than do native born residents.

Given the importance of post-secondary education, particularly at higher degree levels, these differences in attitudes indicate a significant challenge for Ontario. In Working Paper 3, we estimated that \$1,480 or 21 percent, of Ontario's urban prosperity gap was attributable to our lower level of educational attainment.

Other attitudes towards post-secondary education are similar

Ontarians have similar attitudes as peers towards formal education programs for career advancing skills upgrading. About half of the general public, on both sides of the border, report enrolling in such a program. A higher

Exhibit 17: Ontarians place less value than peers on university education



Q. If you had to give advice to a young person about the level of education they should have, which one of the following would you advise them to achieve?

percentage of the business community – and more so in Ontario than in the peer group – have enrolled in formal education programs to upgrade skills with a view to advancing their careers outside the workplace. Clearly, Ontarians do not differ from their peer group on the role of education in work-related skills upgrading.

Ontarians also have a similar level of satisfaction on their own level of educational attainment. In Ontario, 84 percent of the general public is somewhat or very satisfied with their own level of education versus 90 percent in the peer group. Within the business community, 92 percent of Ontarians versus 94 percent in the peer group report being satisfied with their own level of education.

In summary then, in some areas of attitudes towards post-secondary education, Ontarians and the peer group have similar perspectives. But the survey findings, in the context of the economic advantages from university education for both individuals and the economy as a whole, suggest some significant differences in the value we place on university education for our young people. Ontarians need to discuss the implications and debate the appropriateness of our current post-secondary educational strategy.

The economic benefits from immigration are more highly regarded in Ontario

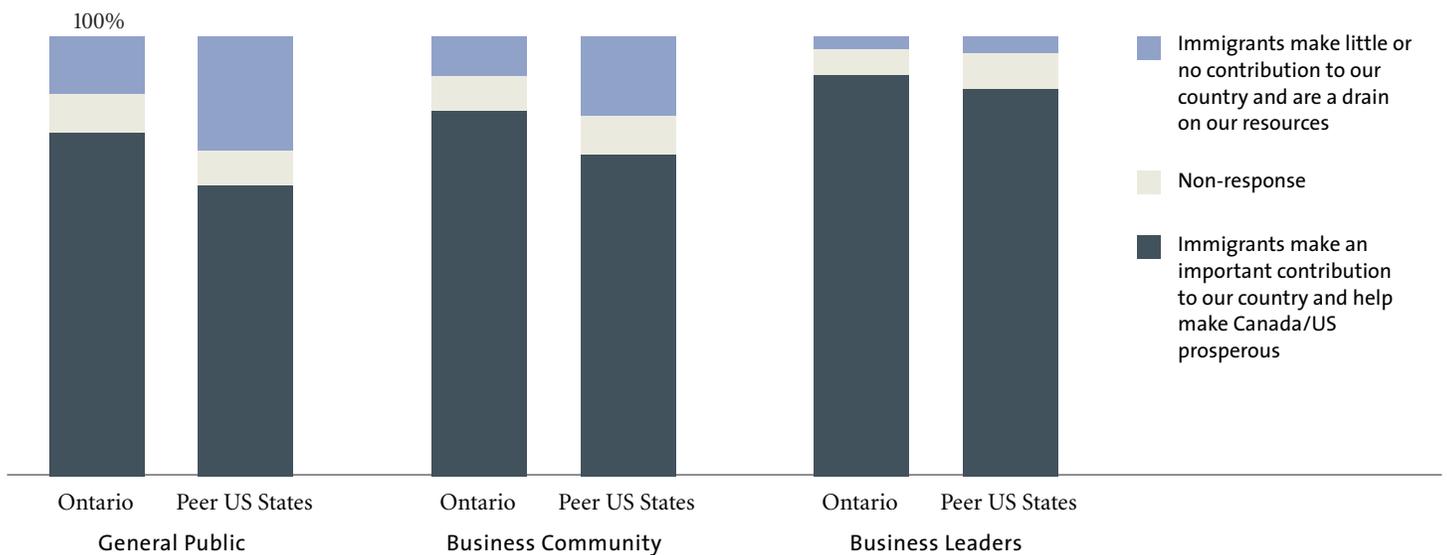
In Working Paper 3, we discussed the economic benefit of immigration accruing to Ontario as a result of their higher educational attainment than in the general population. In con-

trast, immigrants to the US lower the average of educational attainment. Attitudes, as measured in this survey, indicate that Ontarians are much more likely to see an economic benefit from immigration (Exhibit 18).

These results probably under-state the differences in US attitudes towards immigration, as the states of Florida, Texas, and California – high immigrant reception areas – were not included in the survey.

Exhibit 18: Ontarians agree that immigration makes an important contribution to prosperity

Respondents' choice about contribution of immigration



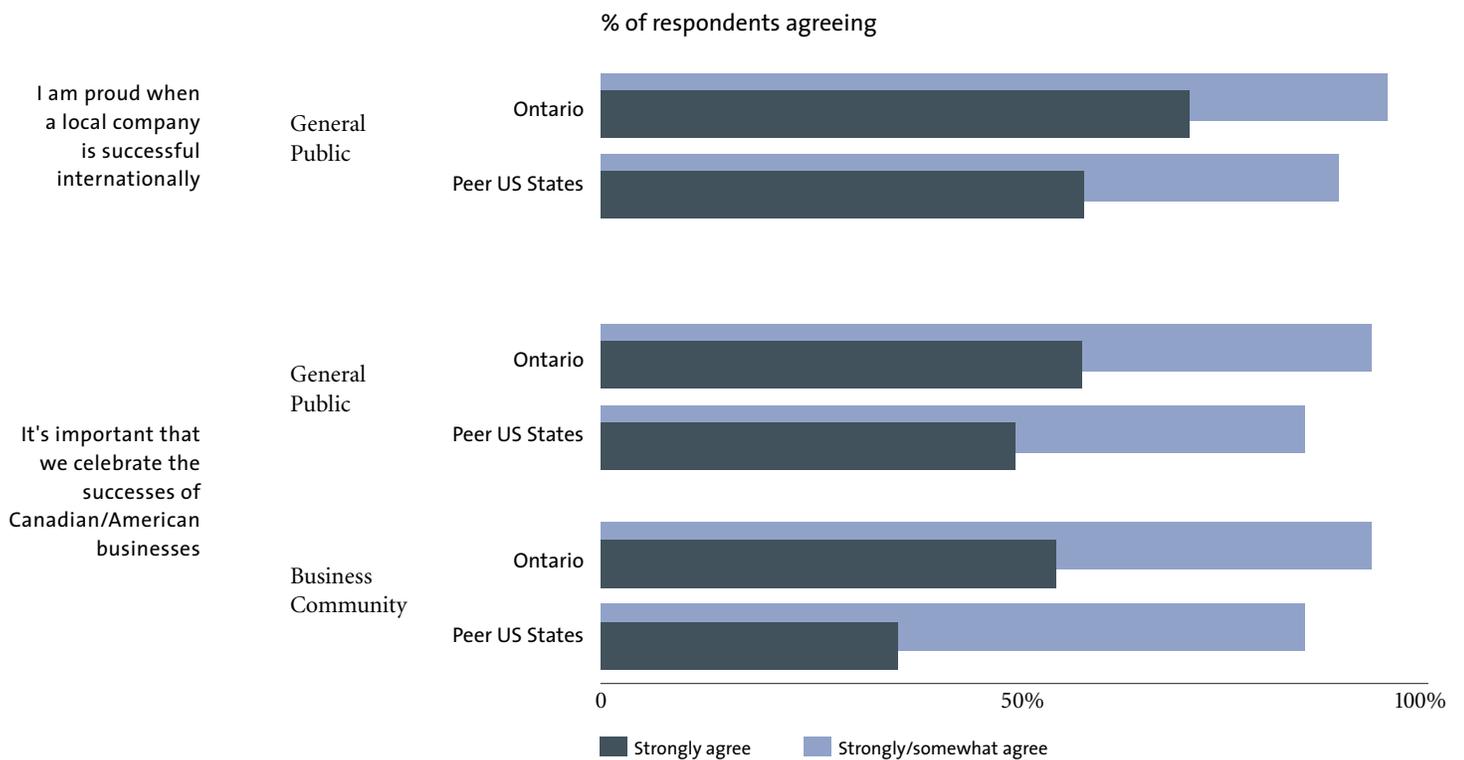
Q. I'm going to read you some statements and have you tell me which ones best reflect your own personal views. There has been some discussion about the role of immigrants in (Canada/US). Some people say that immigrants make an important contribution to our country and help make (Canada/US) prosperous. Other people say that immigrants make little or no contribution to our country and are a drain on our resources.

Ontarians attach greater importance to celebrating success than peers

An important part of attitudes and aspirations is the propensity to celebrate business success. We asked respondents about their pride in local companies doing well and whether they agreed that it is important to celebrate the successes of Canadian or American businesses. Surprisingly, Ontarians indicate a higher likelihood of taking pride in local companies' success and attach greater importance to celebrating business success (Exhibit 19). Contrary to what many may think, this shows that Ontarians do not shun others' success; rather, they embrace it.

Overall, then we see that a few differences in attitudes between Ontarians and their US peers can be limiting our capacity for innovation and upgrading. But these differences do not go far enough in explaining the prosperity gap – an answer we continue to seek.

Exhibit 19: Ontarians take pride in local business success and believe in celebrating success



Q. For each of the following statements, please indicate how much you agree or disagree with each. That is, do you strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, or strongly disagree with each?

The Institute is conducting further work in the search for opportunities to close the prosperity gap

If the research indicates that attitudes do not differ markedly between Ontarians and their counterparts in the peer group states, then how do we explain the prosperity gap? In this final chapter, we examine the other elements of the AIMS framework to determine how our understanding of these factors and their interaction might change as a result of the attitudinal research findings.

Our market and governance *structures* may not be providing the critical context for our capacity to innovate and upgrade. While our attitudes are consistent with aspirations for world-class productivity and prosperity, our clusters of traded industries may not be as vibrant as in the peer group. And there is already evidence that fiscal and governance structures are not supportive of urban prosperity – the key source of our prosperity gap.

Motivations, as evidenced by our relatively high marginal effective tax rates, continue to be a challenge to closing the prosperity gap.

Investments in physical capital may be constrained more by structures and motivations than by attitudes as we initially thought. But the research does indicate a strong connection between our different attitudes towards post-secondary education and our investment patterns in human capital that explain part of the prosperity gap.

We discuss structures, motivations, and investments in light of the findings in attitudes in turn.

Structures may limit capacity to innovate and upgrade

We discuss two types of structures – clusters of traded industries and fiscal and governance structures.

Clusters of traded industries in Ontario may be underperforming

In Working Paper 1, *A View of Ontario: Ontario's Clusters of Innovation*, we analyzed Ontario's clusters of traded industries concluding that a higher share of Ontario's employment was in clusters of trade industries than in the peer group of jurisdictions. In subsequent working papers and the Task Force's First Annual Report, we showed how the mix of clusters represents an advantage for the province and its city regions. What's becoming clearer is that the quality of our clusters may not be contributing to Ontario's productivity and prosperity as much as they could.

Successful clusters⁴ are the result of four factors – two that create pressure for local firms to innovate and upgrade and two that provide the necessary support:

- Pressure for innovation and upgrading comes from sophisticated and demanding customers whose demand conditions spur local firms to improve and anticipate the nature of demand elsewhere in the world
- Pressure is also provided by a context for firm rivalry and strategy that features vigorous local rivalry, causing local competitors to seek unique and better ways to meet customer demands

⁴ Michael Porter, *The Competitive Advantage of Nations*, The Free Press 1990

- Support for innovation and upgrading comes from an abundant local supply of factor conditions, including natural, human, and capital resources. Increasingly advanced factors, such as highly skilled labour and sophisticated research infrastructure, are important advantages.
- Support is also enhanced by the presence of abundant and high-quality related and supporting industries, such as suppliers with whom firms in the cluster can work to upgrade their product or service.

Work done by Michael Porter's Harvard-based Institute for Strategy and Competitiveness indicates that the main differentiator between successful and unsuccessful clusters is the "context for firm rivalry and strategy." The most vibrant clusters are the ones that have greater competitive intensity. At the other extreme, the factor that had the least impact on a cluster's vibrancy was "factor conditions." Nearly all clusters are in place because of factor conditions; but success will not be guaranteed by strong input factors. As Porter has said on many occasions, it is how companies compete not where or in what industry.⁵

As one thinks about the interplay between competitive intensity and attitudes, it becomes clearer how attitudes may be similar but because they are held in different structural environments, the results are radically different. An example from the sports world illustrates the point. A young person growing up in Georgia may be a talented hockey player and have healthy attitudes about winning and team play along with personal aspirations to play in the National Hockey League. He and his parents may have invested in the best available equipment and his desire may motivate him to practise and train intensely. Nevertheless, an equally talented young person in Ontario with the same healthy attitudes, the right level of

investment in equipment, and the same motivation to train and practise has a better chance of getting to the NHL. Why? From his earliest days of playing he will be exposed to tougher competition, more advanced equipment, more opportunities to gain ice time to play and practise, better-organized leagues, and a system that develops the more talented players. Coaching is better in Ontario. While both boys are playing the same game and are highly competitive in their respective leagues, the intensity of the competition they each face is quite different. That's why many young hockey players from the United States and Europe come to play in Ontario Hockey League as a way to hone their skills and "prove" themselves for the NHL.

Some observers conclude that, despite free trade agreements, some of Canada's leading industries, such as financial services, telecommunications, and transportation, continue to be overly protected from international competition. Greater openness to foreign competition would strengthen some of Ontario's important clusters of traded industries.

To verify the hypothesis that our prosperity gap may be partly the result of less competitive clusters, the Institute will need to step up its efforts at comparing leading Ontario clusters with counterparts in US peer states. We are currently testing out the methodology developed by the Institute for Strategy and Competitiveness and expect to assess several of Ontario's leading clusters in the coming year.

Other structural elements hamper prosperity gains

As Working Paper 3 showed, Ontario's urban prosperity is negatively affected by structures related to Canada's federal fiscal framework and certain aspects of governance structures at all three levels of government.⁶ Canada's fiscal framework transfers resources from Ontario

cities to other parts of the country at about double the rate experienced in peer states. Our political governance structures provide inadequate representation to metro regions – where the prosperity gap exists.

Motivations are lowered by tax rates

In the Task Force's First Annual Report, we commissioned international tax expert Jack Mintz to calculate Ontario's marginal effective tax rates on the cost of doing business relative to five of the peer states.⁷ The cost of doing business approach identifies the effective tax cost related to the marginal dollar invested in labour and in capital. This marginal cost adds to the required return from an investment in labour or capital. Mintz's work showed that Ontario's marginal effective tax rates were significantly higher than the rates in the five peer states.

Ontario's disadvantage was more pronounced in taxes on capital than on labour. Ontario's marginal effective tax rate on labour was 13 percent higher than the lowest of the five states (and 7 percent higher than the median of the five), but its tax rate on capital was 94 percent higher than the lowest of the five states and 82 percent higher than the median. As we have seen in previous work done by the Institute, Ontario does not have a labour supply disadvantage relative to the peer group. The three factors related to labour supply – demographic profile, labour utilization, and work intensity – combine to create an almost immeasurably small disadvantage in GDP per capita. The whole gap is due to a productivity disadvantage, which in part stems from under-investment in machinery and equipment.

⁵ See for example, "Clusters of Innovation: Regional Foundations of US Competitiveness," available through the Institute for Strategy and Competitiveness website www.isc.hbs.edu

⁶ Institute for Competitiveness & Prosperity, *Missing opportunities: Ontario's urban prosperity gap*.

⁷ *Closing the prosperity gap*, p. 35

Investments are lower in Ontario than in peer group

Two major classes of investment build capacity for innovation and upgrading: investments in physical capital and in human capital.

Investments in physical capital are lower

An ongoing hypothesis behind the attitudes research discussed in this Working Paper was that Ontario businesses were not investing to the same extent as their US peer group because attitudinally they did not see the importance of being globally competitive. With a less developed sense of the importance of global competition, business leaders would be satisfied with lower productivity enhancing investments. Instead, the research indicates that differences in attitudes are not likely contributing to the under-investment in machinery and equipment relative to the peer group.

If attitudes don't explain this under-investment, then what might? We are left with two alternative explanations that relate to structures and motivations. These explanations are not mutually exclusive.

- First, as we discussed above, our *structure* of markets may not adequately foster the development of healthy and vibrant clusters of traded industries. That is, our businesses invest to the level necessitated by the rivalry in their market, but it is a lower level of investment than in the peer states.
- Second, *motivations* to invest in machinery and equipment may be reduced because of relatively high marginal effective tax rates on capital that our businesses face.

In its recent paper, *Why are Americans More Productive than Canadians?* the Centre for the Study of Living Standards concluded that Canada's under-investment in capital might be responsible for more than a quarter of our productivity disadvantage versus the U.S. The Institute is currently analyzing the impact of lower capital investment on labour productivity in Ontario and will provide an estimate of how much of our prosperity gap is attributable to lower capital investment

Investments in human capital are lower in Ontario than peer states

The attitudes survey did indicate a significant difference in attitudes between Ontarians and people in the peer group of states. Ontarians place less value on university education – both undergraduate and graduate than do our counterparts in the peer states. This attitudinal difference may be a cause of the lower investment we make in post-secondary education relative to our peer group as was discussed in the Task Force's First Annual Report.⁸ Instead, the attitudinal difference may be an effect of Ontario's under investment. In either event, it can be safely concluded that Ontarians' attitudes towards and investments in post-secondary education are part of a mutually reinforcing logic that explains part of our prosperity gap. Our lower educational attainment accounts for \$1,480 per capita in lower productivity or 21 percent of our urban productivity disadvantage relative to our peer group. In rural Ontario this educational under-achievement reduces per capita GDP or prosperity by \$207 versus our peer group.⁹

In Working Paper 4, the Institute set out to measure the importance of attitudes in unraveling the prosperity gap mystery. The research indicates that except in a small number of important areas, attitudinal differences do not explain the gap. However, the findings give some indication to inform our current research agenda and other sources of investigation.

We look forward to discussing these research findings and our ongoing research and analysis in other areas with stakeholders in Ontario's economic progress.

⁸ *Closing the prosperity gap*, p. 33

⁹ *Missing opportunities: Ontario's urban prosperity gap*, pp. 20 – 21.

Previous publications

Institute for Competitiveness & Prosperity:

Working Paper 1 – *A View of Ontario: Ontario's Clusters of Innovation*, April 2002

Working Paper 2 – *Measuring Ontario's Prosperity: Developing an Economic Indicator System*, August 2002

Working Paper 3 – *Missing opportunities: Ontario's urban prosperity gap*, June 2003

Task Force on Competitiveness, Productivity & Economic Progress, First Annual Report – *Closing the prosperity gap*, November 2002

Should you wish to obtain a copy of one of our previous publications, please contact the Institute for Competitiveness & Prosperity directly or visit www.competeprosper.ca.

How to contact us

To learn more about the Institute and the Task Force please visit us at:
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