2
TASK FORCE ON COMPETITIVENESS, PRODUCTIVITY AND ECONOMIC PROGRESS THIRD ANNUAL REPORT

The Planning and Economic Development Committee recommends the following:

1. **The recommendations contained in the following report, January 5, 2005, from the Commissioner of Planning and Development Services be adopted; and**

2. **The Regional Clerk forward a copy of this report to the Premier of Ontario and to the Minister of Industry and Trade.**

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council endorse the recommendations of the Task Force on Competitiveness, Productivity and Economic Progress as detailed in its Third Annual Report.

2. The Regional Clerk forward Regional Council's position to the Area Municipalities, MPP's and MP's for their endorsement.

2. PURPOSE

This report presents the recommendations of the Task Force on Competitiveness, Productivity and Economic Progress as detailed in its Third Annual Report. A copy of the Annual Report is attached as *Attachment 1*. It also recommends that Regional Council endorse the recommendations of the Task Force.

3. BACKGROUND

At the Planning and Economic Development Committee Meeting on December 1, 2004, James Milway, Executive Director of The Institute for Competitiveness and Prosperity, presented the recommendations of the Task Force. Staff was directed to prepare a report to Regional Council recommending endorsement of the Task Force's recommendations.

The Task Force on Competitiveness, Productivity and Economic progress is an independent task force announced in Ontario's April 2001 Speech from the Throne. Its mandate is to measure and monitor Ontario's productivity, competitiveness and economic progress compared to other provinces and the U.S. States and to report to the public on a regular basis.

The Institute for Competitiveness and Prosperity was created primarily to provide research expertise and administrative support to the Task Force. Institute staff work with Task Force members to report on Ontario's competitiveness to the public.

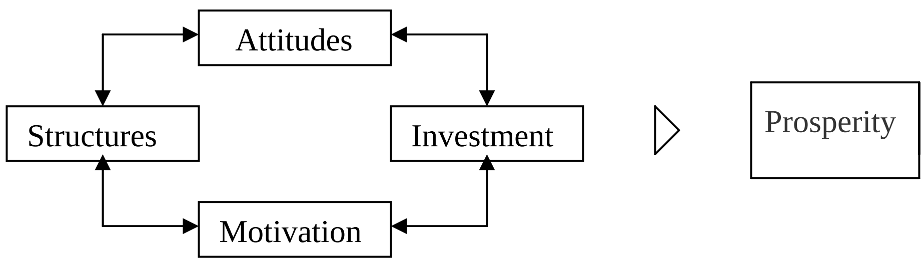
4. ANALYSIS AND OPTIONS

4.1 The Findings of the Task Force

The Task Force has identified a significant prosperity gap between Ontario and the peer group of leading U.S. States. In 2003, Ontario ranked 13th among 16 in its peer group in terms of GDP per capita. The prosperity gap is significant because to the extent that Ontarians are not realizing their full potential in the economy, individuals and families are less able to enjoy a high quality of life or invest in their own future; businesses are less able to invest in productivity enhancing capital; and governments are less able to fund social program and investments for future prosperity. The Task Force has determined that the prosperity gap is a result of the Province's lagging productivity.

In order to assess Ontario's capacity for innovation and upgrading, the Task Force has developed an AIMS framework which represents an integration of four factors that work together to drive economic progress.

- *Attitudes* towards innovation and risk taking.
- *Investments* in human and physical capital.
- *Motivations* that result from the level and mix of the tax burden.
- *Structures* of markets with a balance of specialized support and competitive pressure.



The Task Force has found that Ontarians have a positive attitude towards competitiveness and prosperity. However, despite this attitudinal strength, Ontario is under investing relative to its peer groups. Ontarians continue to under invest in human capital. They are less well educated than their U.S. counterparts and this translates to lower productivity. This under investment is observed in primary, secondary, college and university education. The gap widens with each advance in the level of education. The Task Force estimates that this under investment represents a lost potential to Ontarians of $907 per capita.

At the same time, Ontarians fail to realize the potential that the immigrants bring to close the deficit in human capital. They have not invested sufficiently in the process to ensure that immigrants are more readily integrated into the economy and therefore contribute to closing the prosperity gap.

Ontario also under invests in machinery, equipment and software. Every year, businesses fail to keep pace with their U.S. counterparts by about 10% in their capital investment as a percentage of GDP. This under investment means that workers are not supported by the most innovative processes. The Task Force estimates that this under investment costs Ontarians $808 per capita in lost GDP.

Research indicates that this under investments is a result of de-motivating tax burdens and inadequate market and regulatory structures. Businesses are not benefiting from specialized support resources such as industry/university collaboration and specialized research and training. Neither are they benefiting from the competitive pressure to innovate that comes from capable rivals and sophisticated customers.

4.2 Recommendations of the Task Force

The Task Force concludes that if actions are not taken to close the prosperity gap, Ontario's economic environment may get caught in a vicious circle that could spiral downwards from the current economic condition. Ontario needs to avoid the situation when stakeholders continue to under invest and productivity suffers further. If this persists, Ontario would fall further behind the peer U.S. States, be unable to afford the investments and fall further behind, until businesses, individuals, and governments would be forced to make tough choices that would noticeably restrict their standard of living.

It is suggested that all stakeholders have a role to play in realizing Ontario's prosperity potential. A set of recommendations have been proposed that will help Ontario achieve a virtuous circle of competitiveness and prosperity.

4.2.1 Recommendations for Governments

Governments in Ontario have roles in all elements of the AIMS framework in closing the prosperity gap. Their most important role is in the area of structures. The Task Force encourages governments to enhance specialized support for firms and individuals so that they are in turn encouraged to upgrade their businesses, to innovate and to strengthen structures of competitive pressure.

The recommendations for governments are:

- Engage Ontarians in an ongoing dialogue about competitiveness.
- Increase commitment to investments.
- Invest in upgrading Ontarians' capabilities.
- Reduce taxes that hinder motivations to invest in machinery, equipment and software.
- Strengthen structures of competitive pressure.
- Ensure policies are driven by facts.

4.2.2 Recommendations for Businesses

The role of business in closing the prosperity gap is primarily in the area of investments and structures. Business groups are encouraged to play a key role in implementing the following recommendations:

- Increase investments for productivity and innovative capacity.

- Raise investment in human capital.
- Collaborate to strengthen structures of specialized support locally.
- Seek out the most sophisticated customers.

4.2.3 Recommendations for Individuals

Individuals can strengthen the Province's innovativeness and competitiveness through their investments and their role as customers. The recommendations for individuals are:

- Invest more in education.
- Enhance competitive pressure by being more demanding and sophisticated customers.

4.3 Implications for Economic Strategy

The recommendations of the Task Force are consistent with the Strategic Directions and Actions proposed in the Draft Economic Strategy. During the Strategy consultation process, stakeholders have identified Workforce and Business Support as two of the issues that should be addressed by the Region in order to sustain its competitive position. The Draft Strategy recommends that in order to sustain and build on the current level of prosperity, the Region should embark on strategic regional scale initiatives that will encourage and cultivate a creative environment based on the AIMS framework developed by the Task Force on Competitiveness, Productivity and Economic Progress. Two of the Strategic Directions, i.e. Sustain a High Quality Workforce and Strengthen Entrepreneurship and Industry Clusters, and the associated Actions proposed are steps towards achieving the same objectives as identified by the Task Force.

4.4 Relationship to *Vision 2026*

Implementing the recommendations of the Task Force will contribute towards achieving the Vibrant Economy goal of *Vision 2026*.

5. FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

6. LOCAL MUNICIPAL IMPACT

Local municipalities have a role to play in implementing the recommendations for governments as proposed by the Task Force on Competitiveness, Productivity and Economic Progress. Increasing productivity and closing the prosperity gap will bring economic benefit to all the local municipalities and the Region as a whole.

7. CONCLUSION

It is recommended that Regional Council endorse the recommendations of the Task Force to increase productivity and close the prosperity gap in order to improve the standard of living for families and individuals.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the Agenda for the January 5, 2005 Committee meeting.)