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Study finds Ontario is falling behind

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The Progressive Conservatives spent eight years chipping away at tax rates in Ontario in the firm conviction that this was the path to prosperity. It turns out they got it wrong -- partly, at least -- and we are the poorer for it.

The evidence comes in the form of a compelling new report from an obscure body, the Ontario Task Force on Competitiveness, Productivity and Economic Progress. The group was set up in 2001 to monitor how Ontario is doing compared to other provinces and some U.S. states. In its densely argued second annual report, the task force concludes that Ontario's standard of living is lower in relation to its peers because companies, governments and individuals alike have been investing too little for the future.

The task force, under chairman Roger Martin, says Ontario has a "prosperity gap" of $4,118 compared to the median of the 16 provinces and states included in the study. Now, this is not the sort of fact that will have people crowding around at the office Christmas party, but it's deadly important. If that gap were overcome, the average Ontario household would gain about $6,600 in annual after-tax income, and governments at Queen's Park and in Ottawa would be able to collect an additional $17-billion in revenue without raising tax rates.

The primary source of the prosperity gap is Ontario's lagging productivity, which embraces things such as investment in machinery and software as well as educational achievement. The record is not good.

Spending in the province is becoming far too weighted toward immediate consumption -- health care and social services -- rather than toward investment in the future. Individuals underinvest in education, which deprives the work force of skilled graduates and limits overall earnings in the province. In Massachusetts, for example, 47 per cent of high-school graduates are in university five years later, compared with 28 per cent in Ontario.

At the same time, the Conservative government slowed its own investment so much that peer U.S. states are now spending about 10 per cent more in public-sector investment after years of trailing Ontario. One example: Ontario spends about half as much per capita and per student at the undergraduate level as the

U.S. states.

And finally, corporations have not responded to ever-lower taxes in Ontario by making productivity-enhancing capital investments. Ontario's capital spending has always trailed that in the United States, but the gap has widened in recent years.

Tory tax policy would seem to be central to all this. Personal and corporate rates were certainly slashed, but at the same time, for example, postsecondary education became horribly expensive. As well, the government cut back its own investments to keep high-profile areas such as the health-care system going.

Private-sector investment is more complicated, but even here there is evidence Ernie Eves made some wrong choices. Mr. Martin, who is dean of the Rotman School of Management at the University of Toronto, believes the Tories were on the right track with lowering corporate tax rates to U.S. levels (although he was "mortified" by the electricity price cap). He suggests, however, that they should have paid more attention to capital taxes rather than income taxes.

So okay, it's all history now. A new Liberal government has frozen corporate taxes and, faced with a deficit, is struggling with how to balance consumption -- the provision of services -- and investment while keeping the business climate competitive.

Much of the burden for figuring this out falls on Economic Development Minister Joe Cordiano. He says investments in education must come before further tax cuts. He has to, of course. "Where's our fiscal room to manoeuvre?" he says. "We don't have any."

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