

Canada-U.S. prosperity gap grows wider

Ontarians now \$6,000 off the mark

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Canada's prosperity is falling further behind that of the United States, and the high Canadian dollar could significantly exacerbate the gap, says a report to be released today.

Indicative of the problem is the situation in Ontario. The prosperity gap between that province and similar U.S. jurisdictions is about \$6,000, says the annual report from the Institute for Competitiveness and Prosperity.

In other words, the gross domestic product per capita in Ontario is \$6,000 lower than the median GDP per capita of 16 similar economies. That's up from \$5,500 last year.

That gap has been growing steadily each year for the past four years, the institute says, and is on course to continue its slow, steady erosion — unless the loonie stays above par with U.S. currency.

"Consistent with our past experience, the gap could widen even more significantly with a major economic discontinuity," the report states. "The recent rise in the Canadian dollar might be that discontinuity."

In the past, Roger Martin, the institute's chairman and dean of the University of Toronto's Rotman School of Management, has not let the currency figure prominently in his analysis of Canada's competitiveness, since it was only a minor factor in competitiveness until recently.

He was uneasy with the dollar at 62 cents (U.S.), because it meant that Canada was essentially "holding a sale on everything in the store, a 20-per-cent-off sale on everything in the country."

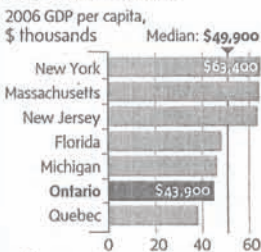
But the loonie's quick and unpredicted appreciation over the past couple of years has imposed steep adjustment costs on many Canadian companies, he says, and prices them out of the global competition game.

A Canadian dollar below par with the U.S. dollar would be a level that Canadian exporters and industry could handle, he said. It would force companies to be globally competitive, and bring out the best of Canadian business. But a currency that stays above parity for long is just too high. "The pain would be greater than optimal for Canada," Mr. Martin said.

While the currency has appreciated rapidly for five years, it's only over the past year or so

Mind the gap

Ontario has a significant prosperity gap with its North American peers.



THE GLOBE AND MAIL ■ SOURCE: INSTITUTE FOR COMPETITIVENESS & PROSPERITY

that companies have been shocked, he added. A currency in the 80-cent range was always in the realm of possibility, but few companies had contingency plans to deal with currency in the 90s, or above par.

"There's nothing to me about the Canadian economy that suggests to me that more than a buck is sustainable," he said in a telephone interview. "We have an exchange rate that is more suited for the resource sector." He figures that Canada's two-track economy will persist, and Alberta will remain a magnet for economic activity well into the future. But he refuses to believe that Ontario's prospects are dismal.

"Ontario is one of the most prosperous jurisdictions in the world, especially when compared with regions outside North America," his report says.

But at the same time, "it is fair to say that Ontario has one of the worst regimes for new business investment."

The province needs to cut corporate tax and harmonize its sales tax with the federal goods and services tax, he recommends.

Manufacturers also need to focus more on value-added production, using sharp strategies and edgy technology to produce things that the world is willing to pay a premium for, he added.

The prosperity gap between Ontario and the United States could well shrink if the United States falls into recession, Mr. Martin concedes. But he doubts that will happen.

The U.S. economy is incredibly resilient, he said, mainly because people there consistently work hard, and rarely rest on their laurels.