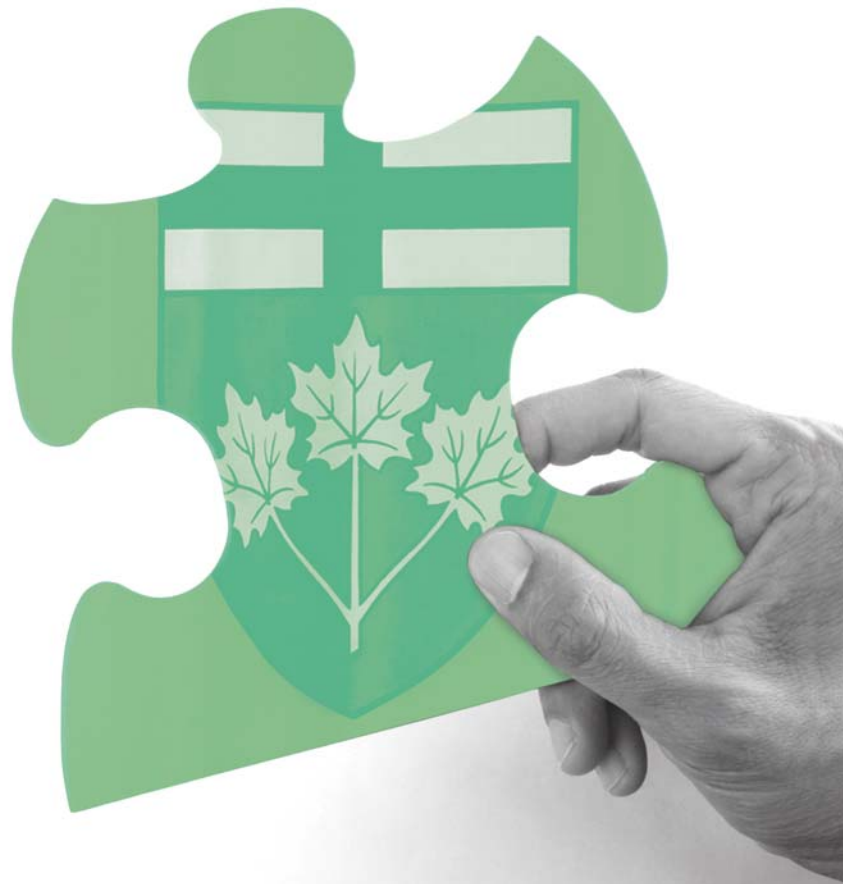




TORONTO  
BOARD OF TRADE



## VoteOntario2011:

Framework for a Stronger Toronto Region  
and a Prosperous Ontario

Founded in 1845, the Toronto Board of Trade is Canada's largest local chamber of commerce, representing 10,000 members and connecting more than 200,000 business professionals and influencers throughout the Toronto region. The Board of Trade advances the success of its members and the entire Toronto region by facilitating opportunities for knowledge sharing, networking, business development and city building.

Involvement with the Toronto Board of Trade delivers measurable professional and personal advantages for members. Equally important, the Board of Trade fuels the economic, social and cultural vitality of the entire Toronto region by fostering powerful collaborations among business, government, thought leaders and community builders. The Toronto Board of Trade plays a vital role in elevating the quality of life and global competitiveness of Canada's largest urban centre.

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## Leading the Debate

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The recent global recession has put a severe strain on the Province. Job losses were steep and consumers are rattled. Moreover, our recovery is advancing slowly – a clear indication we need to revamp our economic policies. Unless action is taken, Ontario risks years – or even decades – of sluggish, rather than robust, economic growth. How can we, as a province, accelerate our economic recovery? What investments and what policy changes must be made to enable Ontario’s long-term growth and success? In a time of limited resources, will our priorities be on maintaining our current programs or on building for the future?

In nine months, these questions will be put to Ontarians directly, as they go to the polls in the October 2011 provincial election. With the recession on voters’ minds, economic policy will be front and centre in the campaign.

Toronto is the economic heart of Ontario and, for more than 165 years, the Toronto Board of Trade has been committed to advocating for the economic, cultural and social success of the city, the region, and the province. The Toronto Board of Trade’s more than 10,000 members care deeply about both the region’s and the province’s prosperity. As the voice of the business community in Ontario’s economic heart, the Toronto Board of Trade’s members recognize that, without a growing Toronto region, Ontario cannot succeed.

Among many initiatives in recent years, the Toronto Board of Trade has successfully urged the reform of the Province’s corporate tax rates; been the leading champion of regional transportation planning and expansion, now underway through Metrolinx, the regional transit agency; and remains a tireless advocate for better economic cooperation between the GTA’s many municipalities.

Through *Toronto as a Global City: Scorecard on Prosperity*, our annual benchmarking study of 24 global city-regions, the Toronto Board of Trade has produced quantitative data

that pinpoints where the Toronto region leads and where it lags, leading informed public debate on the region’s competitiveness.

Last year, through our VoteToronto2010 campaign, the Toronto Board of Trade kept the business community’s priorities at the forefront of the 2010 municipal election. As a result, Toronto’s municipal candidates adopted a greater number of policy positions than in previous elections. In fact, it was the first election in memory in which all leading mayoral candidates presented voters costed platforms for their first operating budget in office. Ultimately, many mayoral candidate policies borrowed generously from the Toronto Board of Trade’s policy platform.

The Toronto Board of Trade has a similar objective for the upcoming provincial election. This document represents the launch of VoteOntario2011 – the Toronto Board of Trade’s sustained campaign to frame the major economic questions facing the Toronto region and the province and to lead the debate about, and solutions for, the Toronto region’s and Ontario’s future.

The VoteOntario2011 campaign will ask our members and the broader public to consider how they want to promote job creation and economic growth through a series of discussion papers. The campaign will culminate in the release of a full platform.

Elections provide us with an opportunity to push the boundaries of the status quo and unleash our capacity for growth and global competitiveness. Last year’s VoteToronto2010 platform document, *Pushing the Boundaries: Advancing Civic Leadership for Regional Prosperity*, helped put regional thinking and global competitiveness on the agenda. Through VoteOntario2011, the Toronto Board of Trade will continue to underline the Toronto region’s importance to Ontario’s success and the policy changes needed to unleash Ontario’s economic potential.

## The 2011 Election's Background: Emerging from the Global Recession

The global recession hit Ontario particularly hard: as it set in, Ontario officially became a “have-not” province in our confederation. Much of Ontario’s economy, especially our manufacturing and forestry sectors, is dependent on exports and trade. In 2009, world trade went into decline, with Ontario’s primary export market – the United States – suffering a particularly deep recession. Approximately 250,000 jobs were lost as a result.<sup>1</sup>

Government revenues were also hit: Ontario lost more in corporate tax revenues between 2007-08 and 2009-10 than any other Canadian province.<sup>2</sup> Compounding this financial hit, Ontario was the world’s only sub-national government to help bail out the auto industry, which was threatened with collapse. As a result, the budget deficit in 2009-10 was \$19.3-billion and is forecast to be \$18.7-billion in 2010-11. Provincial debt, consequently, will continue to climb.

The news isn’t all bad: the Ontario economy is growing again. The strength of the recovery has been mixed – stronger than expected at the outset and then slower than expected since at least mid-2010. The Toronto region has been a critical driver in this recovery: TD Economics suggests that, without the robust recovery in the Toronto region, the economic recovery in Ontario – and Canada as a whole – would be seen as “very weak.”<sup>3</sup>

In spite of the recovery, the recession’s effects are still being felt. As of October 2010, approximately 76 per cent of the jobs lost during the recession have been recovered.<sup>4</sup> But thousands of Ontarians still find themselves out of work. And many of those with jobs are finding it harder to pay their monthly bills. The unemployment rate in Ontario remains above the national average and the unemployment rate in the city of Toronto is above the rate for Ontario as a whole.<sup>5</sup>

## Two Key Challenges to Recovery and Growth

In our recent annual survey, the Toronto Board of Trade’s members identified the economy, job creation and regional transportation infrastructure as their top priorities. Based on these results, the Toronto Board of Trade’s members see two issues at the heart of the 2011 election: **the strength of the economy** and **investment in our infrastructure**.

**The strength of the economy** rests on our ability to adapt to the new realities of 2011. The global economy is changing and Ontario’s economy needs to change with it. In an age when education, technology and innovation are the keys to high-value jobs, is Ontario making the transition to the knowledge economy fast enough? Are the fundamentals in place to ensure that long-term economic growth and job creation can occur?

Our ability to **invest in our infrastructure** is threatened by large-scale fiscal pressures. The Province faces a substantial deficit for years to come, but there is an even larger infrastructure deficit that needs to be addressed. Without a plan to manage our debt and better deliver on our priorities, critical infrastructure like regional transportation projects will not get built. This puts jobs and economic growth at risk.

## The Toronto Region: Key to Ontario’s Success

The Toronto region is the economic heart of Ontario and, in turn, of Canada. Just as a healthy heart is essential for pumping blood to the rest of the body, a healthy Toronto region is critical in flowing growth and prosperity to the rest of Ontario.

Throughout this campaign, we’ll be referring to the “Toronto region,” by which we mean the tight-knit economic area that extends beyond both Toronto itself and the Greater Toronto Area. For instance, Hamilton falls outside the GTA, but inside the authority of Metrolinx – and is still an important and integrated part of the local economy. The same could be said for the rest of the Golden Horseshoe, particularly with the 2015 Pan Am Games on the horizon. For these reasons, we’re not using a rigid definition of the Toronto region.

<sup>1</sup> Ministry of Finance, *Progress Report 2010* (October 15, 2010), <[www.ontario.ca/en/initiatives/Progress\\_Report\\_2010/ONT05\\_038219](http://www.ontario.ca/en/initiatives/Progress_Report_2010/ONT05_038219)>.

<sup>2</sup> Ministry of Finance, *2010 Ontario Economic Outlook and Fiscal Review* (November 2010), [www.fin.gov.on.ca/en/budget/fallstatement/2010/chapter3.html](http://www.fin.gov.on.ca/en/budget/fallstatement/2010/chapter3.html)

<sup>3</sup> TD Economics, *Toronto’s Economic Recovery Leaving Many Behind* (October 22, 2010).

<sup>4</sup> Ministry of Finance, *Progress Report 2010* (October 15, 2010), <[www.ontario.ca/en/initiatives/Progress\\_Report\\_2010/ONT05\\_038219](http://www.ontario.ca/en/initiatives/Progress_Report_2010/ONT05_038219)>.

<sup>5</sup> See, for example, Statistics Canada, Labour Force Survey (January 7, 2011).

It's abundantly clear that when the Toronto region succeeds, Ontario succeeds. The Toronto Census Metropolitan Area<sup>6</sup> alone accounts for over 40 per cent of Ontario's population, almost half of the province's labour force<sup>7</sup>, about 50 per cent of Ontario's GDP<sup>8</sup>, as well as being the home of 47 per cent of Ontario's small-and medium-sized businesses and 40 per cent of corporate head offices for the entire country<sup>9</sup>.

The region's success is important to all of Ontario's residents because Toronto's prosperity is needed to fund programs throughout the province, from Ottawa to Thunder Bay.<sup>10</sup> In the same way that policies and programs designed to develop Northern Ontario, for example, have important benefits to the province, so do policies and programs targeted toward the Toronto region.

As we recover from the global recession, the economy will figure prominently in this election. The Toronto Board of Trade believes that, to emerge stronger, requires a thorough consideration of how to position the Toronto region and the Ontario economies for future growth opportunities. No party can explain how it intends to foster province-wide job creation and economic growth without outlining their plans for the Toronto region.

## VoteOntario2011 Themes

The Toronto Board of Trade's members believe that the 2011 provincial election must focus on two co-related economic themes:

1. **Jobs: Promoting Growth in the Toronto Region and the Province**
2. **Infrastructure: Unleashing Ontario's Ability to Grow**

In this document, we'll walk through a preliminary outline and exploration of these two themes.

This is the opening of our conversation, not the conclusion. This document is a framework to spark dialogue, and not, itself, a plan. It's a launching point for creative thinking and vigorous discussion – and this will lead us to our final policy platform.

Further discussion papers, containing leading research and evidence-based argument will be released over the coming months, elaborating on the Toronto Board of Trade's recommendations on critical issues.

These papers will form the backbone of VoteOntario2011. During that time, the Toronto Board of Trade will lead extensive non-partisan debates on the opportunities and the challenges ahead for the Toronto region and for Ontario. Our sustained campaign will serve to ignite public dialogue and to bring concrete proposals to the table.

VoteOntario2011 builds on the success of VoteToronto2010 to make future economic growth a key election issue. It is up to all of us – businesses, labour and residents – to make the most of our vote and to ensure that politicians commit to act on our economic priorities.

In 2011, let's not settle for easy answers. Long-term solutions to the Toronto region's and to Ontario's challenges require political courage and ongoing commitment. Together, let's find the path to a stronger Toronto region and a more prosperous Ontario.

<sup>6</sup> The Toronto Census Metropolitan Area (CMA) is a geographic area used by Statistics Canada as a proxy for the Toronto region. The Toronto CMA's boundaries are close, but not identical, to the area commonly referred to as the Greater Toronto Area.

<sup>7</sup> Statistics Canada, *2006 Community Profiles*.

<sup>8</sup> City of Toronto, *Economic Model 2010, Estimates*.

<sup>9</sup> OECD, *Territorial Reviews: Toronto, Canada* (April 2010).

<sup>10</sup> Ronald D. Kneebone, *Following the Money: Federal and Provincial Budget Balances with Canada's Major Cities*, C.D. Howe Institute (June 2007).

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## Jobs: Promoting Growth in the Toronto Region and the Province

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Both Ontario and the Toronto region seek to foster prosperous industries, increase real incomes and create more high-quality jobs. Achieving these goals for Ontario as a whole requires a successful economic development strategy for the Toronto region. Ultimately, it is the private sector that must lead the Toronto region's economic expansion. But governments also have a role to play in implementing pro-competitive economic policies and in working with the private sector to advance the necessary strategies for success in the global marketplace.

Through regional economic coordination and cluster-based economic development, the Toronto region's global competitors are demonstrating stronger economic performance. Government action, in collaboration with the private sector, is needed to implement these same regional economic development strategies in the Toronto region. Otherwise, the Toronto region will continue to fall behind its global competitors and Ontario's economic growth will remain weak.

The benefits of greater regional economic coordination will be evident in the form of less bureaucracy, fewer regulatory hurdles to clear and better infrastructure to support business operations. What's more, a region that stands together is a more potent player on the world stage. A cluster-based approach to economic development will focus on strengthening the Toronto region's existing assets, networks and relationships. It will make the overall Toronto region economy more dynamic and innovative, generating higher incomes, greater exports and more jobs.

Underpinning these regionally-focused practices needs to be an enabling business environment that supports economic growth. Various factors – such as the availability of capital to finance business growth and expansion, competitive corporate tax rates, ease of access to suppliers and markets and the quality of education institutions – impact the cost of doing business in the Toronto region.

### Global Competitiveness Needs Regional Thinking

Commerce operates on a regional basis: politicians see municipal boundaries, but businesses don't. Fragmented governance can make it challenging for business to flow efficiently – presenting different regulations in different jurisdictions, tangling operations in red tape and letting political gridlock hold up critical projects. This slows growth and hinders job creation.

Leading global centres – the Toronto region's global competitors – are recognizing that they form single economic units. They compete with other global centres, not with themselves. These urban centres are knitting themselves together in a variety of ways, from formal regional governments (as in Stuttgart) to informal regional caucuses (as in Chicago and Denver), where the region's political leaders can discuss common concerns like transportation infrastructure and investment promotion. The benefits from this regional approach include stronger investment attraction, an easier business operating environment, linked infrastructure systems and well-planned communities.

Regional collaboration doesn't always require new layers of government. What it does require is political will. Just how formal or informal economic cooperation in the Toronto region should be is a question that's ripe for debate. But the value and importance of regional coordination is beyond dispute.

One specific mechanism that a growing number of jurisdictions, such as Montreal, Paris and London, are pursuing is a regional Investment Promotion Agency, or IPA. Investment Promotion Agencies coordinate the task of marketing and promoting a region, providing potential domestic and foreign investors with a single point of contact for gathering critical information about the region and its opportunities. Generally, IPAs have yielded very strong results for their regions, particularly when this region has focused its investment attraction efforts on its existing business strengths – an effective economic development strategy outlined below.

While economic cooperation and development should, ideally, be a municipally-driven initiative, the Province must help to facilitate this regional cooperation, just as it did with transportation infrastructure planning through the creation of Metrolinx.

### Cluster Strategies: Focusing on Our Strengths

Every economic unit, such as the Toronto region, or Ontario as a whole, can claim a number of industry sectors as particular strengths. For instance, the Open Ontario Plan, announced in the 2010 Speech from the Throne, seeks to create jobs and strengthen the economy by focusing on Ontario's strengths in clean-water technology, higher education and resource extraction in northwestern Ontario.

Looking specifically at the Toronto region, a number of globally significant industry sectors are already present, including:

- **Financial Services:** Toronto is the third-largest financial services centre in North America<sup>11</sup> and the TSX is the seventh-largest stock exchange in the world;
- **Digital Media:** Toronto is the third-largest centre for film and television in North America;<sup>12</sup>
- **High-Tech:** Toronto is the third-largest information and communications technology centre in North America;<sup>13</sup>

- **Clean Tech:** the TSX is the leading stock exchange for clean tech companies;<sup>14</sup>
- **Life Sciences:** Toronto is the third-largest pharmaceutical and biotechnology centre in North America;<sup>15</sup> and
- **Food Processing:** Toronto is the second-largest food processing centre in North America.<sup>16</sup>

Currently, economic development strategies in the Toronto region are focusing on some of these industry clusters. But these strategies tend to operate in isolation from regional economic development initiatives and the Toronto region does not currently have an explicit cluster-based approach to economic development for the entire region.

The result is that the Toronto region is falling behind its global competitors in economic performance and fares particularly poorly on the key determinants of future prosperity: GDP growth and productivity growth.

The table on the following page shows the Toronto region's performance in the 2010 *Scorecard on Prosperity*. While Toronto ranked a competitive 4th overall, the region came only 11th out of 24 global city-regions on economic performance (column 3 from the left). Under capital attractiveness (the right-most column), a further indication of economic performance and growth potential, the Toronto region finished 19th out of 24 global urban centres. In contrast, Boston – which pursued a successful cluster-based strategy for growth – tops the 2010 *Scorecard on Prosperity's* economic rankings.

Cluster-based approaches to economic development are a proven way to promote economic growth, including increased job creation, productivity, innovation, income and exports. These strategies have also been found to attract greater capital and investment to the region.

<sup>11</sup> Toronto Financial Services Alliance, Toronto: *Financial Services Capital of Canada*.

<sup>12</sup> Invest Toronto, <<http://www.investtoronto.ca/Business-Toronto/Business-Environment/Economic-Overview.aspx>>.

<sup>13</sup> Toronto Region Research Alliance, <[www.trra.ca/en/sectors/ITSecurity.asp](http://www.trra.ca/en/sectors/ITSecurity.asp)>.

<sup>14</sup> Toronto Financial Services Alliance, *Toronto: Financial Services Capital of Canada*.

<sup>15</sup> Toronto Region Research Alliance, <[www.trra.ca/en/sectors/BioLifeSciences.asp](http://www.trra.ca/en/sectors/BioLifeSciences.asp)>.

<sup>16</sup> City of Toronto, Economic Development, Tourism & Culture Division, *2010 Toronto Food Sector Update* (December 2010).



Overall		Liveability		Economy		Capital Attractiveness	
Rank	Metro Area	Rank	Metro Area	Rank	Metro Area	Rank	Metro Area
1	Boston	1	Barcelona	1	Boston	1	Boston
2	Dallas	2	Toronto	2	San Francisco	2	Hong Kong
3	Barcelona	3	Paris	3	Seattle	3	San Francisco
4	Toronto	4	Madrid	4	Hong Kong	4	Paris
5	Calgary	5	Calgary	5	Dallas	5	Milan
6	San Francisco	6	Dallas	6	New York	6	Dallas
7	Paris	7	Vancouver	7	Calgary	7	Chicago
8	Madrid	8	London	8	Sydney	8	Los Angeles
9	Seattle	9	Montreal	9	Los Angeles	9	New York
10	Hong Kong	10	Sydney	10	Paris	10	Barcelona
11	Sydney	11	Halifax	11	Toronto	11	Madrid
12	Vancouver	12	Chicago	12	Madrid	12	Berlin
13	New York	13	Shanghai	13	Oslo	13	Stockholm
14	London	14	Boston	14	Milan	14	Seattle
15	Montreal	15	Seattle	15	Barcelona	15	Tokyo
16	Chicago	16	Hong Kong	16	Tokyo	16	Oslo
17	Los Angeles	17	New York	17	Chicago	17	Shanghai
18	Tokyo	18	San Francisco	18	Vancouver	18	Sydney
19	Shanghai	19	Los Angeles	19	Stockholm	19	Toronto
20	Halifax	20	Tokyo	20	Montreal	20	London
21	Stockholm	21	Stockholm	21	Shanghai	21	Montreal
22	Oslo	22	Berlin	22	London	22	Vancouver
23	Milan	23	Oslo	23	Halifax	23	Calgary
24	Berlin	24	Milan	24	Berlin	24	Halifax

To be clear, a cluster-based growth strategy is not about picking winners. It is about strengthening existing assets, networks and relationships to grow the targeted industries and to, in turn, grow the economy as a whole. The private sector's involvement and leadership is crucial to the success of cluster-based strategies. These leading industries tend to promote innovation and commercialization, which attracts greater capital (to fund business growth and expansion) and investment to the region. Their success has a halo effect that boosts individual firms, and spreads prosperity across the region:

- Industries that serve these economic clusters grow along with their success [which leads to](#)
- More capital becomes available to fund the growth of additional industries [which leads to](#)
- Greater government revenues are generated, which can be re-invested in education and other programs to ensure everyone benefits from this economic growth.

For instance, Toronto's financial-services sector – whose stability is lauded as one of the reasons Canada weathered the recession so well – proved to be an excellent sector for a cluster strategy. In fact, it can be seen as an example we need to reproduce for other industry clusters in the Toronto region. Last year, the Toronto Financial Services Working Group unveiled a plan to make the Toronto region one of the world's leading financial centres.<sup>17</sup>

One of its first initiatives was launching the Global Risk Institute in Financial Services in September 2010, with support from all three levels of government and the private sector. This global centre of excellence will continue to raise the Toronto region's profile as a global financial centre, with a clear area of global expertise.

Through the gradual implementation of this financial services cluster strategy, the sector is growing in prominence and international recognition, which in turn is attracting greater investment and economic activity for Toronto region companies in other industries.

<sup>17</sup> The Boston Consulting Group, *Partnership and Action: Mobilizing Toronto's Financial Sector for Global Advantage* (2009).

## A Business Environment that Enables Economic Growth

A regionally-focused, cluster-based approach to economic development though is still not enough to ensure robust economic growth. These strategies must be underpinned by a pro-competitive business environment that enables economic growth.

Through the *Scorecard on Prosperity*, the Toronto Board of Trade has shown that there are many factors – including economic, social and environmental ones – that go into making a great global city-region. Many non-economic factors also impact the cost of doing business, since they influence how attractive the region is to investors. Nor can we overlook local factors, like world-class culture and schools, that can inspire key individuals to relocate here. As such, government policy (or, in some cases, the absence of government regulation) has an important role to play in giving the region a competitive advantage.

### What do expanding and relocating businesses look for in a region?

- **The overall cost of doing business:**  
Are tax rates competitive? Is real estate reasonable?
- **Infrastructure:** Is transportation affordable and reliable? Are electricity, water and wastewater adequately and affordably provisioned?
- **Government:** How much regulation is there? And what are the associated costs?
- **Trade:** Is there easy access to markets and suppliers?
- **Human factors:** Is skilled labour available? What is the cost of labour, and associated benefits (including health care)? What is the quality of educational institutions? Are crime rates low? Is there access to arts, culture & recreation?
- **Risk factors:** What are the risks posed by cultural differences? Is the currency stable? Are political upheavals frequent? Are natural disasters a risk?

Source: Cushman & Wakefield Business Consulting

Looking strictly at the economic factors, the Toronto region continues to be a cost-competitive jurisdiction, with average business costs that are about four per cent cheaper than the average costs of the four largest US cities (New York, Los Angeles, Chicago and Dallas).<sup>18</sup> As the business environment factors outlined below reflect, though, there is still much that must be done – or needs to be maintained at the very least – to make the Toronto region’s business environment one that enables private sector-led economic growth and spurs the recovery from the recession.

### Capital:

Ready access to capital to fund businesses from start-up to initial public offering is a strong driver of a productive and innovative economy. However, Ontario has an ever-decreasing amount of seed/venture capital (VC) available for businesses – only approximately 40 per cent of what was available even just a few years ago.<sup>19</sup>

There are many reasons for this current lack of available capital. Among them, beyond the decline in capital resulting from the global financial crisis, is the Ontario government’s decision to remove the generous tax incentives associated with retail VC programs, which in 2003 brought in up to two-thirds of total funding available for Canadian start-up companies.<sup>20</sup> At the same time, government and private-sector capital is not moving in as quickly as was hoped. Also, institutional investors have been largely absent from this stage of financing. The net result is a dramatic decrease in the amount of VC available for early and mid-stage companies.

In the absence of available capital, many promising and innovative companies based in the Toronto region have been unable to continue operations, selling out to larger (and often foreign) purchasers, or needing to re-locate their operations to competing jurisdictions (such as Quebec, British Columbia or the United States) that offer the capital they need.

<sup>18</sup> KPMG, *Competitive Alternatives: KPMG’s Guide to International Business Location* (2010).

<sup>19</sup> Industry Canada, various *Venture Capital Monitor* reports, based on data from Thomson Reuters.

<sup>20</sup> *Ibid.*

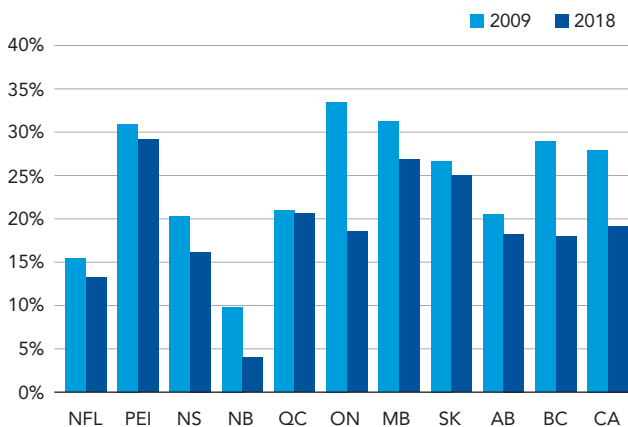
In such an environment, it is increasingly difficult to foster the high-growth and world-leading companies that will drive Ontario’s job creation. As an illustration, one need only imagine the impact to Ontario’s economy had BlackBerry-maker Research In Motion – which came of age at a time when VC funds were more readily available – been forced to re-locate its operations outside Ontario in order to grow the company.

**Taxes:**

In the 2009 Ontario Budget, a comprehensive tax reform package was introduced, which included cuts in personal and corporate income taxes as well as the introduction of the HST. The full effects of this reform began to take effect in January 2010 and will be fully realized by 2014.

Based on the full implementation of this tax reform, Ontario will go from having one of the highest marginal effective tax rates (METR) on capital in Canada in 2009 to having one of the lowest in 2018. The tax reform package also ensures that Ontario businesses are in a more competitive position relative to their global competitors, as they will no longer be paying sales taxes on their business inputs, which inflates the price of final goods.

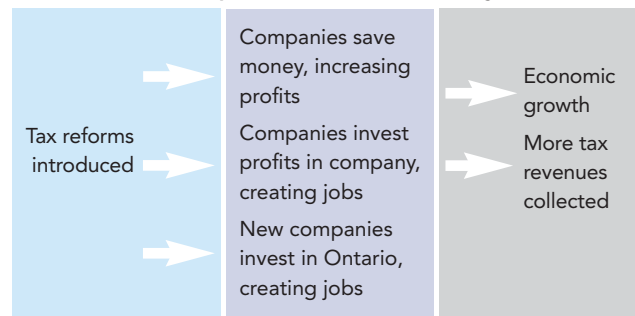
**METR on Capital Across Canada**



Source: Jack Mintz, University of Calgary School of Public Policy

According to Dr. Jack Mintz, Palmer Chair in Public Policy at the University of Calgary, the economic impact of this tax reform will be immense: by 2020, the combined effect of these reforms are expected to result in a \$47-billion increase in capital investment by Ontario companies, an almost 10 per cent increase in the incomes of Ontarians and almost 600,000 new jobs.<sup>21</sup> These reforms will also save Ontario companies significant annual regulatory costs by cutting red tape – savings that can be invested in growing their companies and creating jobs.

**How Tax Reform Improves Ontario’s Economy**



Given these beneficial economic impacts, it is important to the Toronto region’s and Ontario’s global competitiveness that these tax reforms are maintained or enhanced.

**Trade:**

Ontario is a trade-dependent economy. Like the rest of Canada, much of Ontario’s economy is accounted for by imports and exports – both of which are critical to the competitiveness and innovation of our companies. Our preferred access to the US market, gained in the North American Free Trade Agreement, has been a compelling selling feature for the past 15 years. The recent recession, though, has highlighted the reality that Ontario companies need to forge greater ties with other markets.

<sup>21</sup> Jack Mintz, “Ontario’s Bold Move to Create Jobs and Growth,” University of Calgary School of Public Policy Briefing Paper (2010).

Presently, negotiations on trade and investment agreements are underway with both the European Union and India, markets to which the US does not have preferential access. Given the diversity of the Toronto region's population, preferred access to these large foreign markets could offer significant economic opportunities to our skilled newcomers. If these agreements are successfully negotiated, they would represent another competitive advantage for both the region and Ontario. Some voices are calling for greater focus and reliance on Ontario's economy and companies. It needs to be remembered that expanded international trade is a positive economic force for Ontario generally, increasing our economic growth, our global competitiveness and our capacity for innovation.

#### **Energy:**

The cost of energy is a major business-competitiveness issue. Ontario enjoys a reliable electricity network with prices that are competitive with most of our neighbours. That said, energy prices are on the rise around the world. Ontarians will be seeing significant increases in their energy bills as well: an almost 100 per cent increase is expected over the next 20 years.<sup>22</sup>

Our energy supply mix is changing with the phasing-out of coal and the increasing use of green energy. This raises some uncertainty about the adequacy of our supply in coming years. At the same time, the age of much of our energy infrastructure is beginning to show, with two black-outs in downtown Toronto within three months in 2010. Major investments in upgrading our energy infrastructure – including adding capacity and/or redundancies in transmission and distribution into downtown Toronto – are needed, adding to this cost pressure.

The Toronto Board of Trade believes that a balance needs to be struck between security of supply, environmental concerns and price competitiveness. Keeping Ontario's electricity prices competitive in the context of environmental sustainability will be key to ensuring the economic health of the province.

#### **Health & Wellness:**

The physical health of our residents is an important factor in Ontario's economic health.

For years, Ontario's health-care system has been recognized as a competitive advantage for the province's businesses, reducing health-care benefit costs for companies, especially compared to competitors in the United States. (Nor can we overlook the immense impact of the life-sciences sector in its own right, as noted earlier.)

However, the cost of Ontario's health-care system is rapidly escalating, to the point that it is limiting the Province's ability to invest in other priorities. Health and wellness costs to businesses are rising at the same time: private health plans and employee absenteeism due to illness are driving costs up.

Finding ways to ease the increase of health-care expenditures – such as moving more care out of the hospital system – will help to ensure that Ontarians can continue to count on high-quality health-care to be there when they need it and that companies can continue to rely on this competitive advantage.

The private sector is increasingly recognizing that the physical health of their employees and the health of their bottom line are connected. Increasing focus on health promotion and other prevention activities are thus becoming increasingly important to making sure the region prospers.

#### **Human Capital:**

Ontario continues to attract talented people from all over the world and the vast majority of them settle in the Toronto region. In the future, the growth of Ontario's labour market will be largely dependent on continuing to attract skilled newcomers. Therefore, a focus on our human capital is essential to our future prosperity.

We must ensure that talented newcomers can realize all the personal opportunities that living in the Toronto region offers. In *Lifting All Boats: Promoting Social Cohesion and Economic Inclusion*, a discussion paper released as part of the VoteToronto2010 campaign, the Toronto Board of Trade explained that there is a strong link between social issues and economic development.

<sup>22</sup> Ontario Ministry of Energy, *Long-Term Energy Plan* (November 2010), pg. 58.

Our inability to effectively integrate talented newcomers into the Toronto region adversely impacts our economic growth, resulting in \$1.5 - \$2.25-billion in lost economic opportunities in the Toronto region alone each year. Our future prosperity is largely linked to our ability to improve in this area.

**Education:**

Education remains critically important for a variety of reasons, as a key factor in personal success and a determinant of the region's prosperity. Investments in education yield dividends in a variety of ways. Notably, the quality of our education plays an important role in attracting greater business investment.

**Infrastructure:**

As an economic powerhouse, Ontario's experience is clear: investing in infrastructure boosts productivity. Missing delivery deadlines because goods are stuck in traffic hurts a company's bottom line. Less visible pieces of infrastructure are equally important: for example, the cleanliness, reliability and capacity of our water and wastewater systems are key business considerations. As we'll explain in greater detail in the next section, addressing our infrastructure deficit and building to accommodate population growth will yield real returns through increased private investment, job creation and economic growth.

**When choosing which party to vote for, consider:**

- **How can municipalities in the Toronto region best cooperate to promote themselves and create a better place to do business?**
- **What government policies will create the most pro-competitive business environment to enable economic growth and job creation?**
- **How can we best use the talents of all residents to drive the Toronto region's and the province's prosperity?**

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## Infrastructure: Unleashing Ontario's Ability to Grow

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**Ontario is facing a crunch – and it's not just our budget deficit. The province faces a serious infrastructure deficit that's making it harder to do business here. Unless we meet this shortfall, Ontario's economy and job market won't grow.**

Infrastructure – especially our crowded transportation networks – bear directly on businesses' bottom lines. Crowded highways make it harder to move products and put hurdles between businesses and their suppliers. Moreover, it's hard to attract top talent to a region where it's difficult to reach the office in the morning. As the Toronto Board of Trade highlighted this past year, the Toronto region's 80-minute average commute is longer than even Los Angeles'.

Addressing these challenges, along with other provincial priorities, requires investment. However, the Province's fiscal situation – especially the combination of large deficits and rising costs – prevents us from investing where it's needed. Not only will this state of affairs keep our economy from growing, it will make it difficult to sustain the economy we already have. If we don't face these tough choices in 2011, Ontario's prosperity will be threatened in the years to come.

### Our Financial Context: The State of the Province's Finances

The Province's financial situation will loom large in the 2011 provincial election. From a 2007-2008 budget surplus of approximately \$1.7-billion, the Province faces a budget deficit of approximately \$19.3-billion in 2009-10. According to the 2010 Ontario Budget, this deficit will be halved in five years and eliminated in eight years.<sup>23</sup>

The Province's current fiscal situation means that, for a number of years to come, there will be limited funds available for policy priorities. Today, it's all the more important that government spending be as efficient as possible. Two areas in particular – health-care and personnel costs – account for the majority of the Provincial budget and present significant opportunities for efficiencies and savings.

Recent years have seen substantial investments in our health-care system. This spending trajectory is not sustainable. Health-care spending has increased from \$21.6-billion in 1999 to \$45.2-billion in 2009, growing at an annual average rate of 7.7 per cent.<sup>24</sup> As of 2009, health-care spending accounts for 46 per cent of Ontario's budget.<sup>25</sup>

TD Economics forecasts that, under a status quo scenario, health expenditures will keep rising at an annual rate of 6.5 per cent. At that rate, health-care spending will account for 80 per cent of Ontario's budget by 2030.<sup>26</sup> It's impossible to fund all of Ontario's other priorities – including education, infrastructure expansion and social assistance – with the remaining 20 per cent of the budget. Bending down the health-care expenditure curve is the only option.

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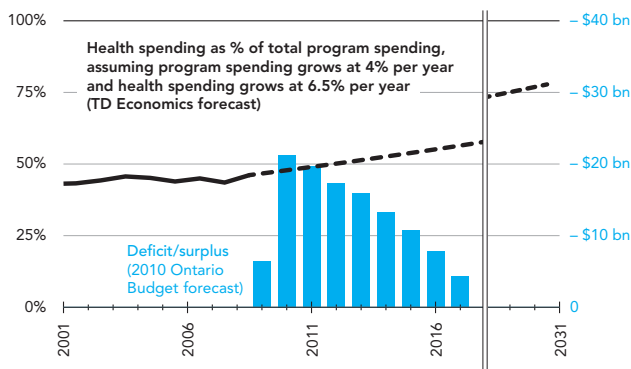
<sup>23</sup> Ministry of Finance, *2010 Ontario Budget Backgrounder: Ontario's Economic Outlook and Fiscal Plan*, <[www.fin.gov.on.ca/en/budget/ontariobudgets/2010/bk\\_fiscalplan.html](http://www.fin.gov.on.ca/en/budget/ontariobudgets/2010/bk_fiscalplan.html)

<sup>24</sup> Ontario Association of Community Care Access Centres, Ontario Hospital Association and Ontario Federation of Community Mental Health and Addiction Programs, *Ideas and Opportunities for Bending the Health Care Cost Curve: Advice for the Government of Ontario* (April 2010), pg. 3.

<sup>25</sup> TD Economics, *Charting a Path to Sustainable Health Care in Ontario: 10 Proposals to Restrain Cost Growth without Compromising Quality of Care* (May 27, 2010), pg. 6.

<sup>26</sup> *Ibid.*, pg. 6-7.

The graph below overlays the rising percentage of Ontario's budget accounted for by health spending with the Province's forecasted deficits to 2018. Even as the Province's fiscal capacity is strengthened by diminishing deficits, this additional fiscal capacity will be completely consumed – and even exceeded – by increased health-care spending, pre-empting investment in any other priorities.



There are many ways to bring down health costs. Better use of technology, like electronic health records, and broader adoption of best practices can reduce waste and inefficiency. In recent years, more and more health-care money has been spent treating conditions that require long-term care, such as diabetes and cancer. One per cent of the population accounts for 49 per cent of combined hospital and home care costs, with five per cent of the population accounting for 84 per cent of this spending.<sup>27</sup> As the incidence of chronic illness is expected to increase in future years, it's essential that we find ways to provide more patients with effective treatment outside a hospital system that's geared towards expensive critical care.

These numbers also highlight the need for more – and better – health promotion. The creation of a Ministry of Health Promotion in June 2005 marked a very positive advance. But even more action is needed to promote healthy living that forestalls the need for treatment in the first place.

Another area ripe for cost containment is Provincial labour. As with most governments, salaries and benefits are the single largest expenditure for the Ontario government. In some areas, labour costs account for upwards of 70 per cent to 80 per cent of spending.

Research suggests there is significant potential for savings in this area, as public sector employees generally enjoy wage and/or benefit premiums over private sector workers.<sup>28</sup> This is not meant to dismiss the very valuable work that is done by public sector employees. But, in seeking to reduce waste and achieve cost efficiencies to put Ontario on a fiscally sustainable path for the long-term, public sector employees need to be part of the solution.

#### Who Does What: Fixing the Provincial-Municipal Balance

The Province's budget deficit is just one of the deficits that need attention in the 2011 provincial election. The responsibilities of Ontario's municipalities and urban regions to deliver services like public transit and immigrant settlement services do not match their fiscal capabilities. Ontario's cities need significant investment in public infrastructure and assets, but property tax simply isn't a revenue source that can meet these growing demands.

<sup>27</sup> Ontario Association of Community Care Access Centres, Ontario Hospital Association and Ontario Federation of Community Mental Health and Addiction Programs, *Ideas and Opportunities for Bending the Health Care Cost Curve: Advice for the Government of Ontario* (April 2010), pg. 5.

<sup>28</sup> See, for example, Treasury Board of Canada Secretariat, *Expenditure Review of Federal Public Sector – Volume One – The Analytical Report and Recommendation* (November 2006), which finds that average salary in all levels of government increase by over 20 per cent between 1990 and 2003, whereas the private sector only experienced small real wage increases over this period; Canadian Chamber of Commerce, *Building a Twenty-First Century Workforce: A Business Strategy to Overcome Canada's Skills Crisis* (November 2008), which finds that generous public sector pensions are leading to early retirement ages among public sector employees and that these higher pension benefits affect both private sector competitiveness and the private sector's ability to attract and retain talent; and Richard E. Mueller, "Public- and Private-Sector Wage Differentials in Canada Revisited," *Industrial Relations: A Journal of Economy and Society*, Vol. 39, Issue 3 (July 2000), which calculates the public-sector wage premium using a variety of econometric techniques.

To be sure, this is a national issue as well as a provincial one. In November 2010, the Toronto Board of Trade joined with chambers of commerce and boards of trade in Canada’s largest urban centres to call for a national urban strategy, aimed at Canada’s largest urban centres, to address this fiscal imbalance on a national basis.<sup>29</sup>

Over the past decade and a half, Ontario’s provincial-municipal relationship and its fiscal framework have been transformed. In the late 1990s, the Local Services Realignment (LSR, or, as it was more commonly known, “downloading”) was introduced.<sup>30</sup> To overcome the effects of the LSR, the Province and municipalities launched a fiscal and service delivery review in 2006, with the aim of clarifying “who does what” and better matching delivery of programs and services with the fiscal means to provide them. A new, mutually agreed-upon framework was seen as a cost-effective way to proceed, since “[w]here shared roles and responsibilities are not carefully thought out and articulated, the results can include duplication, confusion about who is responsible for a service or accountable for results, and a regulatory burden that may be inappropriate or excessive. Resources that might be used to achieve better outcomes for people get diverted into less productive ends.”<sup>31</sup>

The result of this review was an agreement, announced in the fall of 2008, for the Province to incrementally upload many of the costs and responsibilities that were downloaded in the 1990s. (The uploading will take effect over the course of 10 years, with the majority of benefits back-ended). If the transition is fully implemented, the ultimate benefit to the municipalities should amount to approximately \$1.5-billion annually by 2018,<sup>32</sup> with almost one-third of it flowing to the City of Toronto alone.

When the uploading agreement was announced in 2008, it was made clear that infrastructure, particularly with respect to roads, bridges and public transit, still needed to be addressed.<sup>33</sup> With the onset of the global recession, these discussions have taken a back seat.

#### How the Regional Infrastructure Deficit Affects You, Your Business and Your Community

- **Boom and bust infrastructure investment:**
  - under-investment during the 1990s as a cost-saving measure
  - average infrastructure investment of \$10-billion in recent years to compensate
- **Province’s infrastructure deficit estimated at more than \$100-billion<sup>34</sup>**
- **GTA’s infrastructure needs represent more than half of this deficit<sup>35</sup>**
- **Reduced corporate investment, job creation and productivity**
- **Lengthening commute times**
- **Reduced quality of life**

To avoid inefficient or wasteful spending – or worse for our long-term economic success, a lack of investment – it is critical that an agreement is reached regarding this final component of the fiscal framework. We need to regularly and predictably invest in infrastructure to support and enable our economic growth for today and for future generations.

<sup>29</sup> “A Call for a National Urban Strategy Targeted Toward Canada’s Largest Urban Centres,” available at: <[www.bot.com/Content/NavigationMenu/Policy/PolicyNews/National\\_Urban\\_Strategy\\_joint\\_statement\\_FINAL.pdf](http://www.bot.com/Content/NavigationMenu/Policy/PolicyNews/National_Urban_Strategy_joint_statement_FINAL.pdf)>.

<sup>30</sup> Ministry of Municipal Affairs and Housing, *Provincial-Municipal Fiscal and Service Delivery Review: Facing the Future Together* (Fall 2008), pg. 7.

<sup>31</sup> *Ibid.*, pg. 11.

<sup>32</sup> *Ibid.*, pg. 2.

<sup>33</sup> *Ibid.*, pg. 19-21.

<sup>34</sup> Ministry of Infrastructure, “10-year Infrastructure Plan”.

<sup>35</sup> TD Economics, *An Update to TD Economics’ 2002 Report on the Greater Toronto Area (GTA) Economy* (July 17, 2007).



## Transportation: Our Greatest Infrastructure Deficit

As the Toronto Board of Trade's 2010 *Scorecard on Prosperity* showed, with an 80-minute average round-trip, the Toronto region has the longest commute time of all the urban centres we ranked. The general consensus – from researchers and commuters alike – is that congestion is getting worse. Increasing congestion affects our economy, making it harder for the region to attract investment, for companies to attract top talent and for deliveries to meet their schedules.

Congestion impacts everyone in the Toronto region. It extends the time it takes people to get to and from work, keeping them from their friends and family. It makes it more expensive for businesses to operate in the Toronto region, reducing investment and job creation. It discourages new companies from investing in the Toronto region, further impacting economic growth and job creation. Cars idling in traffic add to our smog, having a negative impact on our health and adding to the demands on our health-care system. And it negatively impacts the quality of life in the Toronto region. To steer clear of these avoidable outcomes, the public and the parties need to support the realization of the long-term regional transportation vision for the Greater Toronto and Hamilton Area (GTHA).

The Province has started to move on this issue. In 2006, at the urging of the Toronto Board of Trade, among other parties, it established Metrolinx, a provincial agency tasked with improving mobility in the GTHA. In partnership with the GTHA municipalities, Metrolinx has developed a 25-year plan to build out the GTHA's transportation system.<sup>36</sup> If this plan came to fruition, it would dramatically improve congestion and gridlock in the GTHA, making it much easier to travel within and between the region's municipalities.

Construction is already underway on a number of the projects in the regional transportation plan, including the Spadina subway extension, the Union-Pearson Air Rail Link and York VIVA bus rapid transit.

Despite the progress already taking place, the regional transportation plan could be derailed by a lack of political commitment to the long-range vision and by a lack of funds.

Metrolinx's investment strategy – its plan for how to raise the still-unfunded \$40-billion of its \$50-billion capital plan, which must be delivered by June 1, 2013 – provides the clearest example of the gap between the need to achieve regional fiscal sustainability and the means to achieve it.

To keep the Toronto region from being crippled by congestion, the public and the provincial parties need to support the realization of this long-term transportation vision for the GTHA. In the 2011 provincial election, it's essential that provincial parties express their support for advancing a regional solution to the GTHA's gridlock and congestion.

### When choosing which party to vote for, consider:

- How can the fiscal capacity to invest in infrastructure be achieved in order to unleash Ontario's ability to grow?
- What is needed to move forward on a regional solution to the GTHA's gridlock and congestion?
- How can waste and inefficiencies be eliminated to balance the Provincial budget and ensure that both short-term and long-term priorities are funded?

### The Big Move's Big Impact

	Today	2031 (with status quo)	2031 (with The Big Move built)
Commute Time	82 minutes	109 minutes (or another 3 work-weeks in traffic a year)	77 minutes
Population	Over 6 million	8.6 million (approx. 75 per cent of total growth in Ontario)	8.6 million (approx. 75 per cent of total growth in Ontario)
Number of additional cars	N/A	At least 1 million	At least 1 million

Source: Metrolinx, *The Big Move*

<sup>36</sup> Metrolinx, *The Big Move* (November 2008).

## VoteOntario2011

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**In nine months' time, Ontarians will have the opportunity to shape the future of the Toronto region and of Ontario. As Ontario continues to recover from the global recession, the Toronto region's economy should be at the forefront of voters' minds and the parties' platforms. What's your vision for ensuring both the Toronto region's and Ontario's long-term prosperity? Which party is most likely to turn that vision into a reality?**

The Toronto Board of Trade is committed to elevating the global competitiveness of the Toronto region – Canada's largest urban centre – by fuelling its economic, social and cultural vitality. The Toronto Board of Trade is a longstanding advocate of fiscal sustainability and coordinated regional economic development – our over 10,000 members want Toronto's and Ontario's future to be a prosperous one.

This framework document focuses on ensuring the Toronto region and Ontario are best positioned for long-term success. It's not a landing point, but the continuation of a dialogue on increasing our global competitiveness and economic prosperity that the Toronto Board of Trade has been advancing for many years.

It is during elections that we – businesses, labour groups and residents – have the greatest opportunity to make our voices heard. Make the most of this chance by ensuring that politicians commit to acting on our economic priorities.

The Toronto Board of Trade will continue to reach out to members, candidates and the public to engage in the debate and formulate positions on specific issues. Before the election in October, the Toronto Board of Trade will compile these positions into our platform to help the public make informed decisions about our collective future.

In 2011, the Toronto Board of Trade encourages all Ontarians to consider our province's future. Make sure the tough questions are asked. Push for the changes we need to secure our future prosperity.

**And, most important of all: vote.**

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