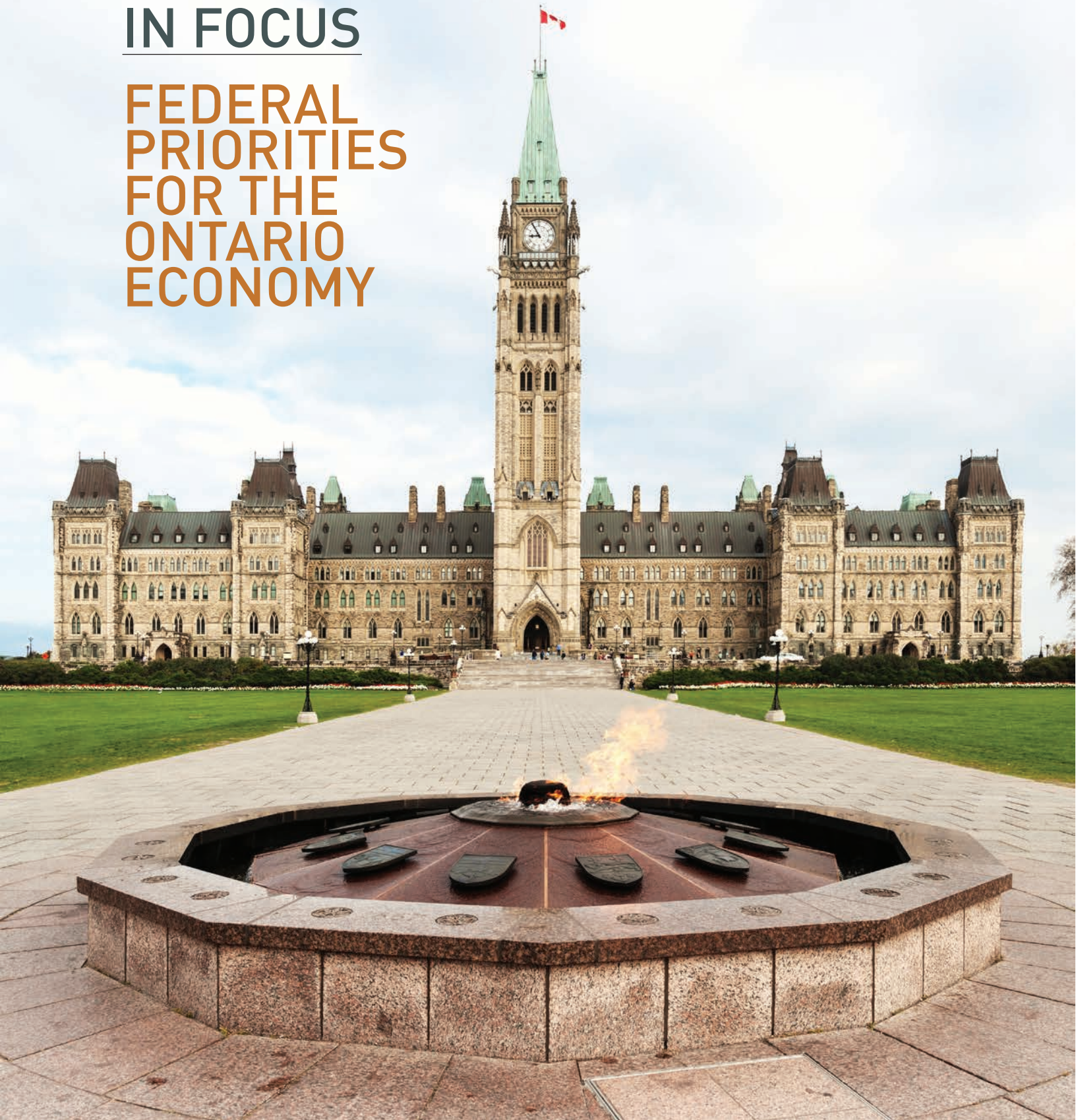




IN FOCUS

FEDERAL PRIORITIES FOR THE ONTARIO ECONOMY



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ABOUT THE ONTARIO CHAMBER OF COMMERCE

For more than a century, the Ontario Chamber of Commerce (OCC) has been the independent, non-partisan voice of Ontario business. Our mission is to support economic growth in Ontario by defending business priorities at Queen's Park on behalf of our network's diverse 60,000 members.

From innovative SMEs to established multi-national corporations and industry associations, the OCC is committed to working with our members to improve business competitiveness across all sectors. We represent local chambers of commerce and boards of trade in over 135 communities across Ontario, steering public policy conversations provincially and within local communities. Through our focused programs and services, we enable companies to grow at home and in export markets.

The OCC provides exclusive support, networking opportunities, and access to innovative insight and analysis for our members. Through our export programs, we have approved over 1,300 applications, and companies have reported results of over \$250 million in export sales.

The OCC is Ontario's business advocate.

ACKNOWLEDGMENTS

The OCC owes a debt of gratitude to the members of its Policy Committee for contributing their expertise to all of the OCC's policy initiatives, and this project in particular. Please note that the opinions expressed in this report are not necessarily the opinions of individual members of the Policy Committee

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A LETTER FROM THE PRESIDENT & CEO

The 2015 federal election arrives just as the Ontario economy is beginning to turn the corner. The province has added 67,000 jobs since this time last year. Ontario leads all its sub-national North American counterparts in attracting foreign capital investment. Many experts expect Ontario to lead Canada in GDP growth in 2015.

Yet challenges remain. Our businesses face increasingly fierce global competition for investment, markets, and talent. Sectors of traditional strength are still recovering from the economic downturn. A series of concurrent public policy initiatives threaten to weaken our competitiveness and the investment climate.

At a time when the Ontario economy is still recovering, the business community is looking to our elected officials to articulate a vision for Canada and Ontario's economic future. This federal election is an opportunity for Canada's federal political parties to do just that.

This paper identifies a series of principles that should guide the next federal government's economic strategy for Ontario. The paper goes on to outline several policy commitments that Ontario businesses expect to see in each of the major federal parties' platforms.

Throughout this paper, we underscore a central principle: in all intergovernmental relations, cooperation and policy harmonization should be paramount. Too often, businesses have seen important policy decisions get sidetracked or completely derailed by partisan bickering. If Ontarians are to emerge stronger from the economic downturn, we need our governments to maintain co-operative and collaborative relationships, as well as a laser-like focus on the economy.

Following the release of this paper, the Ontario Chamber of Commerce will evaluate the federal party platforms based on how responsive they are to the principles and policies we have outlined here. A full report will be released shortly before Election Day this October.

We look forward to furthering the dialogue between Ontario businesses and our federal political representatives.

A handwritten signature in black ink that reads "Allan O'dette". The signature is written in a cursive, flowing style.

Allan O'Dette, President & CEO
Ontario Chamber of Commerce

GUIDING PRINCIPLE

Federal policy should aim to fix the fiscal framework to enable greater re-investment of the wealth generated in Ontario into its workforce and productive capacity.

Ontario businesses and residents are poorly served by the federal government's unprincipled allocation formulae in areas of major federal spending. As a result of systemic inequities, Ontarians contribute between \$9.1 and \$12.5 billion more into the federation than what we get back in terms of services (Granofsky and Zon, 2014).

Fiscal federalism has failed to keep pace with the 21st century macroeconomic realities of the country (Ibid). The federal spend to promote economic growth and development across the country should be allocated on a principled basis.

THE POLICIES

Reform Canada's Broken EI system. Canada's Employment Insurance (EI) system bases its entitlements on 58 regions of residence. The regional differentiation in the system creates significant discrepancies between Canadians' access to, length of, and size of benefits (Radmilovic, 2011). As a result of the program's current design, Ontario employers and employees end up subsidizing industries and workers in other provinces. Between 2000 and 2011, Ontarians contributed over \$20 billion more to the EI program than they received. The regional discrepancies in the EI system place a disproportionate burden on Ontario employers and employees and require urgent federal action.

Distribute economic development funds on a principled basis. Ontario does not receive a proportional allocation of federal economic development funding. As of 2012, the Federal Economic Development Agency for Southern Ontario's (FedDev Ontario) budget was \$17.61 on a per capita basis, compared to the \$37.16 per capita budget of Canada Economic Development for Quebec Regions (Hjartarson et al., 2012). Distributing economic development funds on a principled basis would help ensure businesses and communities in every province and region are provided with comparable federal supports.

GUIDING PRINCIPLE

In all intergovernmental relations, cooperation and policy harmonization should be paramount.

As Canadian provinces increasingly step into areas of traditional federal responsibility (retirement savings and environmental regulation, for example), the country's regulatory landscape becomes more fragmented. Intergovernmental squabbling has at times exacerbated this fragmentation, to the detriment of Canada's investment climate.

The federal government—through its actions and its approach to intergovernmental relations—should promote policy harmonization across the country.

THE POLICIES

Avoid further regulatory fragmentation by demonstrating leadership on key regulatory files. An absence of federal leadership on a number of key policy files has provided provinces with a mandate to wade into what have traditionally been areas of federal jurisdiction. This provincial activism has created regulatory fragmentation in areas like pension reform and environmental regulation. Regulatory fragmentation weakens the Ontario business climate and raises the cost of doing business for those companies who operate in more than one Canadian jurisdiction. When possible, the federal government should pursue pan-Canadian solutions to major public policy challenges in an effort to prevent further regulatory discrepancies.

Provide businesses with accurate labour market data.

Reliable labour market information provides governments with critical data about the supply of available skills as well as employers' skills needs. Reliable data also provides employers with a valuable snapshot of occupational supply and demand. Unfortunately, Ontario is currently operating in a data vacuum as a result of insufficient, inconsistent, and unreliable labour market information. The federal government, in partnership with the province, should collect and aggregate standardized labour market information. The U.K. Commission's Employer Skills Survey is a model worth replicating: the survey has given the U.K. government access to reliable, timely, and valuable insight into employers' skills needs. The key to its reliability is its reach: the first survey in 2011 gathered answers from more than 91,000 businesses. In addition, the federal government should reinstate the mandatory long-form census. The switch to a voluntary household survey has resulted in the loss of comparable, longitudinal, long-form data which seriously impairs our ability to track labour market changes and measure the effectiveness of our economic policies.

GUIDING PRINCIPLE

Federal policy should seek to make Canada and Ontario a global destination of choice for foreign investment.

Ontario suffers from a \$60 billion infrastructure gap, its share of economic immigrants to Canada has declined steeply over the past decade, and its productivity gap vis-à-vis the United States is widening (Association of Municipalities of Ontario, 2012; Ministry of Finance, 2014). All these factors combine to weaken the business climate.

Given the contribution Ontario's economy makes to the broader Canadian economy, the federal government has a vested interest in the province's economic fortunes, and should act correspondingly.

THE POLICIES

Allocate infrastructure funds on a per capita basis.

Ontario's estimated \$60 billion infrastructure funding gap is delaying economic recovery in all parts of the province. Approximately half of that gap is accounted for by road and bridge assets, the repair of which is particularly costly for rural and northern communities (ROMA, 2015). Meanwhile, congestion in the Greater Toronto Hamilton Area—exacerbated by infrastructure underfunding—costs the region \$6 billion in lost productivity every year (Metrolinx, 2008). While the Government of Ontario is investing \$130 billion in infrastructure over the next 10 years, the federal government has committed a paltry \$2.72 billion over that same period through the New Building Canada Fund, and just over \$3.874 billion in federal gas tax funding for Ontario municipalities from 2014 to 2019. The federal government should allocate New Building Canada Funds on a per capita basis. This would see Ontario receive an additional \$1 billion in federal infrastructure funds every year. This increase would boost productivity and would have a substantial impact on employment.

Ensure that the immigration system does not unduly limit employers' access to the international talent they need. As highlighted in a recent Canadian Chamber of Commerce report, more than any other factor, Canada's future competitiveness will depend on employers' ability to find workers with the skills they need (2015). Worryingly, 28 percent of Ontario employers are unable to fill a job opening because they cannot find someone with the right skills (Ontario Chamber of Commerce, 2014). The federal government should strive to create the most responsive, efficient and effective immigration system in the world in order to enable businesses to get the talent they need faster. Two key actions are required: first, the federal government should revisit the rules around the Labour Market Impact Assessment mechanism of the Temporary Foreign Worker program. The current rules create costs, delays, and red tape for Canadian businesses. Second, the federal government needs to ensure that employers are aware of the opportunity provided by the new Express Entry System. Employer uptake of the system is critical to its success (Citizenship and Immigration Canada, 2015).

GUIDING PRINCIPLE

Federal policy should champion Ontario's competitive advantages.

Ontario maintains a competitive advantage over our international competitors in several key sectors. The province is rich in natural resources, our financial services sector is among the largest in North America, and our agri-food sector is primed for explosive growth as global food demand is set to double over the next 30 years. Meanwhile, the manufacturing industry has the potential to rebound—provided that Ontario can remain competitive globally.

The federal government should align resources behind—and build on—Ontario's competitive advantages.

THE POLICIES

Improve the manufacturing sector's connections to Canada and the world. Manufacturing is a key driver of Ontario's economy, especially that of southwestern Ontario. The sector directly employs 800,000 Ontarians and generates \$3.50 in economic spinoffs for every \$1 in manufacturing output (CME, 2013). The sector is also a key driver of research and innovation across the province. Despite its size and strength, the industry continues to be challenged by rising electricity rates and increasing global competition. The federal government has an important role to play in creating the conditions for the sector's growth by facilitating greater connectivity between the sector and other markets. As a start, the federal government should lead an effort to eliminate restrictions on internal trade and labour mobility within Canada. Further, the federal government should adopt a reciprocal market access strategy in trade negotiations by securing substantial commitments to address tariff and non-tariff barriers such as regulations, product standards, and currency manipulation in future Canadian trade agreements.

Show a commitment to Ontario's North. Northern Ontario faces unique challenges, partly as a result the downturn in the natural resource sector. As a result, employment growth projections for Northeastern and Northwestern Ontario lag significantly behind the provincial average (Ontario Chamber of Commerce and Credit Unions of Ontario, 2014). Yet the North has a number of opportunities in the agriculture, mining, forestry, and tourism sectors. To realize the full potential of the North, the federal government needs to explicitly recognize the region's competitive advantages. As a start, the government should commit to funding its share of Ring of Fire transportation infrastructure. The federal government should also work with the Province to provide the forest products sector with consistent access to affordable, sustainable, and renewable wood.

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GUIDING PRINCIPLE

The government should act in a fiscally responsible manner.

While Ontarians are acutely aware of the fiscal challenges facing their provincial government, fewer understand the deteriorating fiscal capacity of the Canadian government. The federal government now spends nearly \$30 billion a year on debt servicing costs. Meanwhile, the federal debt-to-GDP ratio has risen by 4 percentage points since 2007, and now stands at 33.1 percent. While Canada is still in a relatively strong fiscal position, any deterioration in the federal government's finances could drag on investor confidence.

The federal government should—at a minimum—maintain Canada's fiscal position.

THE POLICIES

Begin to pay down the federal debt. Over the last ten years, the federal debt has risen by over \$100 billion to roughly \$660 billion. Once in a position of fiscal balance, the federal government should immediately begin to pay down its debt and reduce its annual debt service charges, which now stand at \$30 billion.



CONCLUSION

Ontario's economy is finally turning the corner, but it is not yet in the clear. Intensifying global competition and a weakening business climate threaten our economic recovery. More than ever, Ontarians need their federal government to be an active player in the province's economic future. It is in the government's interest to do so; after all, Ontario's share of national GDP is almost twice that of Quebec or Alberta.

This report marks the culmination of significant thought by Ontario's business community and it is our hope that it informs the vision of Canada's next government. We look forward to working with the federal government to overcome Ontario's economic challenges while ensuring the province retains our standing as Canada's economic engine.

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