ONTARIO CHAMBER of COMMERCE

A FEDERAL AGENDA FOR ONTARIO

EMERGING STRONGER SERIES

A FEDERAL AGENDA FOR ONTARIO

Contents

Message from the President & CEO of the Ontario Chamber of Commerce	i
Executive Summary	ii
Introduction	1
Building a 21st Century Workforce	4
When Our Governments Work Together, All Canadians Benefit	12
Identifying, Championing, and Strategically Investing in our Competitive Advantages in the Global Economy	14
Restoring Fiscal Balance	22
Conclusion	26
Acknowledgements	27
Works Cited	28
About the Ontario Chamber of Commerce	31

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A Federal Agenda for Ontario

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MESSAGE FROM THE PRESIDENT & CEO OF THE ONTARIO CHAMBER OF COMMERCE

The global economic downturn has had a profound impact on Ontario. The province is facing once-in-a-generation economic challenges.

We at the Ontario Chamber of Commerce (OCC) are optimistic that Ontario will not only weather the storm, but emerge from this period of economic uncertainty stronger and more competitive if we work collectively to create the right conditions.

This paper builds on the five core priorities identified in *Emerging Stronger: A Transformative Agenda for Ontario*, drafted in partnership with the Mowat Centre and Leger Marketing. This is the first publication in our subsequent *Emerging Stronger* paper series.

A Federal Agenda for Ontario examines Ontario's relationship with Canada and the federal government's role in achieving these five priorities. It points to the considerable imbalances in the national economy and national public policy that are making it more difficult for Ontario businesses to compete and generate wealth.

A Federal Agenda for Ontario makes 14 recommendations that, if implemented, would allow Ontario to retain and build on its competitiveness in the global economy.

At their core, the recommendations provide direction to the federal government on the role it can play in growing Ontario's economy.

This paper does not ask the federal government to spend more. It does not pit one government against another. Its goal is to provide an evidence-based case for changes to some core federal public policies.

The federal government has done much to help Ontario and Ontario businesses during the recent downturn. The bailout of the auto sector and the harmonized sales tax are two key examples. Our 14 recommendations are a roadmap to further progress.

The OCC and its members are calling for federal public policies that reflect the new reality of the Canadian economy. We are also calling on all Ontarians and Ontario businesses to take up this cause with us; should Ontario decide to speak with one voice, it will be difficult for others not to listen.

Allan P. O'Dette

Allan O'Dette
President & CEO
Ontario Chamber of Commerce

EXECUTIVE SUMMARY

	The Federal Barrier	The Solution
Building a 21st century workforce	The Employment Insurance program is not suited to the 21st century economy.	Reform ***Employment Insurance*** so that there is one national standard for qualification.
	Federal conditions on training dollars weaken training programs.	All federal ***training*** should be funded through a single, general revenue-funded transfer to the provinces/territories.
	Ontario is short-changed by federal training dollars.	Allocate federal ***skills and training funds*** fairly.
	On-reserve Aboriginal education is underfunded.	Close the funding gap for on-reserve ***Aboriginal education.***
	The Provincial Nominee Program underserves Ontario businesses.	Allow Ontario greater use of the ***Provincial Nominee Program.***
	Fewer economic immigrants are coming to Ontario.	Weigh Ontario's interests when reforming ***immigration***.
Identifying, championing, and strategically investing	Federal-provincial strategies for manufacturing are either absent and/or uncoordinated.	Develop a coordinated strategy to fulfill Canada's global ***manufacturing*** promise.
	Federal infrastructure spending in Ontario is low and not strategic.	Invest strategically in ***infrastructure***.
	Federal-provincial business supports are not adequately coordinated.	Coordinate and untangle ***business supports***.
	Ontario receives inadequate federal economic development funding.	Distribute regional ***economic development*** funding on a principled basis.
	FedDev Ontario's mandate expires in 2014.	Make ***FedDev Ontario*** permanent.
Restoring fiscal balance	The gap between what Ontarians pay into and what they get back from Equalization is too large.	Reform ***Equalization*** to redress the net redistribution away from Ontario.
	Ontarians pay $12.3 billion more into the federation than what they get back.	Close the ***$12.3 billion gap***.
	Ontario has not articulated its interests across several federal programs. Other provinces have.	Ontario should promote ***principled federal solutions*** that improve its global competitiveness.

INTRODUCTION

Ontario's finances are faltering under the weight of its accumulated deficits. Our provincial debt is approaching $300 billion. This works out to over $22,000 per man, woman, and child. Meanwhile, nearly 600,000 Ontarians are out of work.

Many sectors that were historically Ontario's strengths are now struggling. More than ever, Ontario businesses face stiff competition for investment, markets, and talent.

Opportunities, however, do exist. Ontario has all the assets to secure its position as the best place in the world to work, invest, do business, and raise a family.

A Federal Agenda for Ontario examines Ontario's relationship with Canada and the impact that federal policy has on Ontario's competitiveness.

It picks up several of the major themes from *Emerging Stronger*, the OCC's transformative agenda that will enable Ontario to emerge stronger from this period of economic uncertainty.

Emerging Stronger identifies five priorities:

- fostering a culture of innovation and smart risk-taking in order to become a productivity leader;
- building a 21st century workforce through workplace training, utilizing newcomers' skills, and apprenticeship reform;
- restoring fiscal balance by improving the way government works;
- taking advantage of new opportunities in the global economy; and
- identifying, championing, and strategically investing in our competitive advantages in the global economy.

This paper makes specific recommendations on how to improve Ontario's global competitiveness through modifications to federal labour, immigration, Aboriginal, economic development, and infrastructure policy. It also recommends changes to how the federal government redistributes wealth across the country. The paper provides the federal government with clear direction on how it can help spur economic growth in Ontario.

Note two important caveats. First, we do not claim that federal policies are the only barriers to Ontario's competitiveness. There is much work to be done by *all* players, including the provincial government and business.

Second, with the exception of reforms to Aboriginal education, *the recommendations in this paper do not require the federal government to spend more money.*

Instead, the call is to re-profile existing spending and to modify programs to reflect Canada's new economic realities and to enable Canada and Ontario to compete globally.

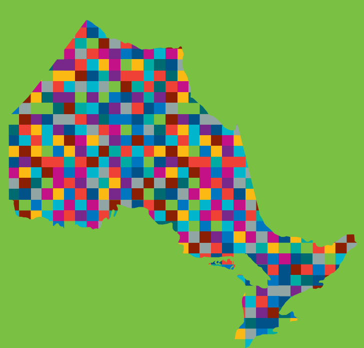
The provincial and federal governments have already shown an ability to cooperate. They partnered to protect hundreds of thousands of jobs in Ontario's auto sector. They worked to harmonize our tax system to help Ontario businesses create jobs. They are long-standing allies in the effort to create a single national securities regulator (see page 11). *A Federal Agenda for Ontario* recognizes that when our governments work together, all Canadians benefit.

Our timing is deliberate. Over the short-term, the federal government is consulting Canadians for its 2013 budget. Over the medium-term, many federal-provincial agreements and federal programs expire in 2014 in areas such as infrastructure, training, economic development, and immigration. As we demonstrate throughout the paper, the current federal approach in these areas is hindering Ontario's ability to meet present challenges.

Our bottom line: all Canadians have a stake in Ontario's continued prosperity. Now, more than ever, it is time for Ontarians to present solutions that work for the entire country.

> The next five years are crucial for Ontario: we must embrace change, prepare for even greater competition from our international peers, deepen collaboration globally, and identify and invest in Ontario's competitive advantages.
>
> *Emerging Stronger, 2012*

BUILDING A 21ST CENTURY WORKFORCE



BUILDING A 21ST CENTURY WORKFORCE

Ontario suffers from a paradoxical challenge—historically high unemployment and underemployment with labour and skills shortages in key sectors. Experts predict Ontario's skills shortage could reach 364,000 by 2025 (Conference Board of Canada, 2007).

As identified in the second pillar of the *Emerging Stronger* platform, the mismatch between supply and demand in skilled labour is a significant barrier to Ontario's economic transformation.

Unfortunately, current federal labour market policies are a barrier to building a 21st century workforce.

> Ontario needs to build the skillsets necessary for the knowledge economy. Provincial education systems are strong, but there are numerous areas where skilled labour is in short supply despite high unemployment. Governments need to help ensure labour supply better matches demand.
>
> *Emerging Stronger, 2012*

Employment Insurance

Employment Insurance (EI) is the single largest and most important workforce and labour market program in Canada. It does not work for Ontario.

According to Human Resources and Skills Development Canada (HRSDC), the federal EI program is intended to "provide temporary income support to those who are between jobs; cannot work for reasons of sickness, childbirth, or parenting; or who are providing care or support to a family member who is gravely ill with a significant risk of death" (2012).

There are several problems with the EI program.[1] Two are of particular interest from an Ontario business perspective.

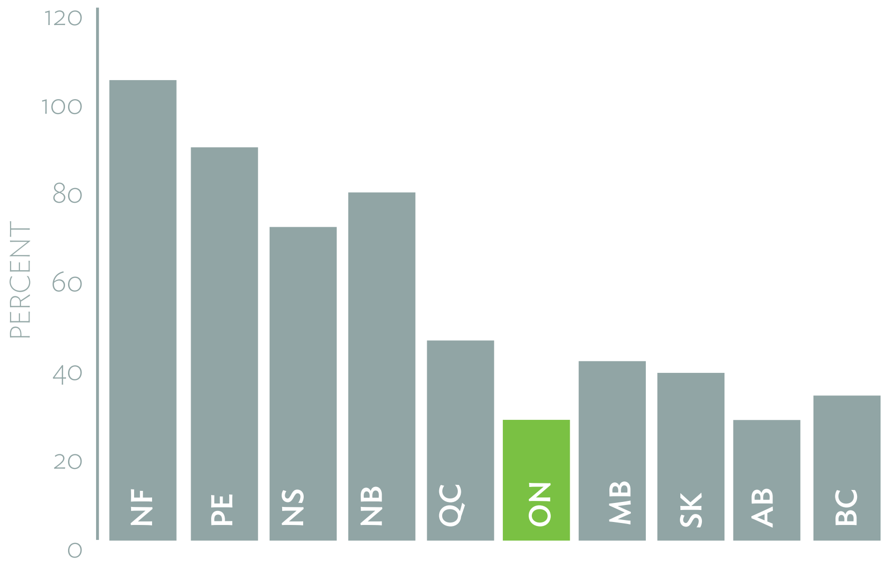
First, the program is a net transfer away from Ontario employers and employees to other parts of the country. Second, the program has not caught up with the realities of Ontario's contemporary labour market.

The program transfers resources away from Ontario because qualification for—and duration and level of—benefits under the program is contingent on where one lives. Ontarians, on the whole, are faced with stricter EI eligibility criteria than workers in many other parts of the country, where it is easier to qualify. As a result, unemployed Ontarians are less likely to access EI than their unemployed counterparts in other provinces (see Graph 1).

1 See *Making it Work: Final Recommendations of the Mowat Centre Employment Insurance Taskforce* for a full discussion.

Canada is the only country in the world where an unemployed worker can be denied access to employment insurance benefits on the basis of the unemployment rate in his or her region (Radmilovic, 2011).

Graph 1: Ontarians have far more limited access to EI than their provincial counterparts (percentage of unemployed receiving EI benefits September 2012)



Source: CANSIM Tables 276-0001 and 282-0087. Note: Some EI beneficiaries are not counted as unemployed (for example, those working while receiving EI). As a result, more than 100 percent of the unemployed can appear to be receiving benefits.

The outcome of the program's current design is that Ontario's employers and employees end up subsidizing industries and workers in other provinces. Ontario's net contribution to the program in 2011-12 was $1.2 billion despite the fact that unemployment rates were above the national average.

The Mowat Centre notes "there is no principled justification" for treating workers differently because of where they live. TD Economics, the Canadian Chamber of Commerce, and the C.D. Howe Institute have reached similar conclusions.[2]

As noted by the Canadian Chamber of Commerce, "where benefits are tougher to access, Canadians who lose their jobs face an unfair disadvantage. Where benefits are easier to get, there's less encouragement for those seeking work to upgrade skills and training or relocate where jobs are more plentiful. The resulting misallocation of labour reduces economic output overall and limits productivity" (2011).

2 See, Bishop and Burleton (2010), Canadian Chamber of Commerce (2011), and Gray and Busby (2011).

FAST FACT

Between 2000 and 2011, Ontarians contributed over $20 billion more to the EI program than they received.

> Canada's EI program doesn't treat all Canadians fairly.
>
> *Canadian Chamber of Commerce, 2011*

The federal government's recent changes to EI may address some of the program's shortfalls. However, they will not address its structural inequities (Mowat Centre, 2012).

A single national standard for qualification and benefit duration levels would help restore equity in the system, help close the gap between what Ontarians pay into the system and what they get back, and enhance labour market productivity. It is a sensible starting point for a comprehensive reform of the EI system.[3]

RECOMMENDATION 1

Reform Employment Insurance so that there is one national standard for qualification and one benefit formula for all Canadians.

Training

The federal government has four training programs with different targeted populations, objectives, and conditions. The single largest (by far) and most important pool of funding for worker training in Canada is linked to the EI program. In order to benefit from this funding, one needs to be accessing (or have recently accessed) EI benefits. There are two problems with this.

First, because Ontario has a comparatively low percentage of the population that is able to access EI, it is significantly shortchanged on training dollars through its Labour Market Development Agreement with the federal government. Ontario received approximately $269 million less in 2011-12 than its per unemployed share of the funds, which contributes to the interregional subsidy away from Ontario (see Table 1).

FAST FACT

If Ontario received its per unemployed share of federal training dollars, it would be enough money to double the size of the province's *Second Career* program. Second Career has benefited 55,000 workers to date.

Table 1: Ontario receives less than its fair share of labour market development funds (2012-13 funding levels)

Program	Total allocation	Ontario allocation	Share of unemployed (ON)	Share of total allocation (ON)	Additional funding*
Labour Market Development Agreement	$1,950 M	$550 M	42 %	28 %	$269 M

*if allocated according to share of unemployed
Source: Commission on the Reform of Ontario's Public Services, OCC research.

3 The Canadian Chamber of Commerce recommends that the federal government consider a national EI eligibility requirement of 560 hours and a maximum benefit period of 44 weeks. The Mowat Centre EI Task Force notes that an entry requirement of 560 hours and a benefit duration range of 17 to 44 weeks would be a cost-neutral option for national standardization (Mowat Centre, 2012). We note that the standard for qualification for benefits (the entrance requirement) could be adjusted to suit the overall health of the economy.

Second, the requirement that recipients of these federal training dollars need to be (or have recently been) on EI, means that the underemployed, the part-time employed, and the self-employed do not have access to the largest pool of federal training dollars.

This is important because these groups are: substantially more common in Ontario compared to other parts of the country; more likely to have overrepresentation from immigrants; and likely to generate the largest return on training investment.

The federal-provincial agreements that underpin part of the federal training funding envelope expire in 2013-14. Ontario must seek to improve on the current arrangements and improve their responsiveness to the provincial labour market.

Needless to say, if national labour market policy is not working for 39 percent of the country, it is not, in reality, a 'national' policy.

A fairer, more responsive training system would enhance Ontario's capacity to build a 21st century workforce by helping Ontarians transition to new sectors and industries. Ontarians would be better served by a flexible transfer that enables the Ontario government to tailor their training programs to suit the province's needs.

That is why, like the Canadian Chamber of Commerce, we recommend delinking federal training dollars from EI and funding training instead through general revenue. Federal funds should then be transferred to the provinces to enable them to deliver programs that make sense for local labour market conditions.

Granted, provincial training programs have had mixed results. The return on investment is often unclear. However, the overly restrictive rules and conditions attached to federal funding compound the problem and limit program responsiveness to local labour market conditions.

By removing the training component from EI and funding all training and active employment measures through a general revenue-funded transfer to the provinces/territories, on a per unemployed basis, provinces would have the flexibility to ensure that more workers in need of training are able to access it.

> So long as the bulk of federal funding is restricted to EI recipients, our national efforts to better develop and deploy our human capital will remain fragmented and will underperform.
>
> *Mowat Centre, 2012*

RECOMMENDATION 2

All federal training and active employment measures should be funded through a single, general revenue-funded transfer to the provinces/territories.

RECOMMENDATION 3

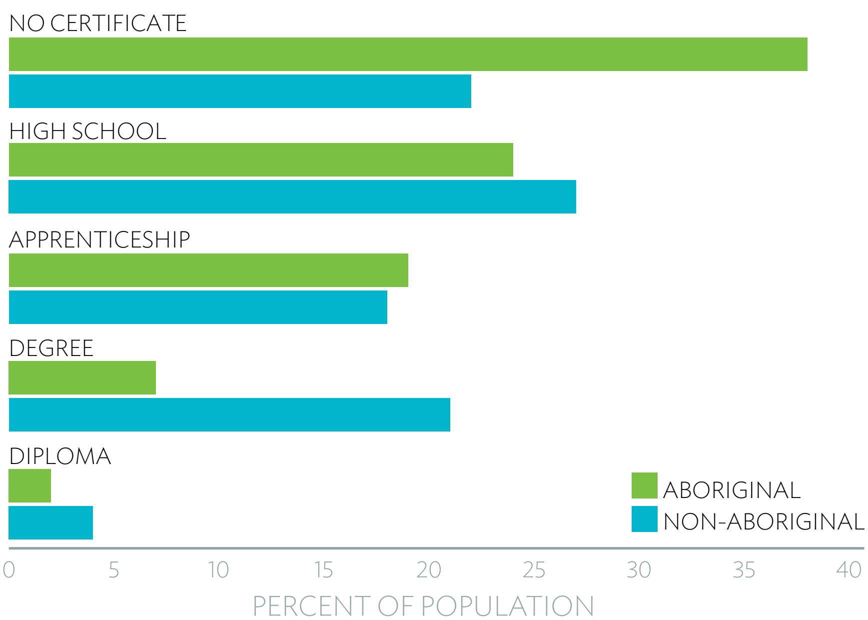
Federal skills and training funds should be allocated on the basis of the number of unemployed.

Aboriginal Education

Approximately 250,000 of Canada's 1,172,000 Aboriginal peoples live in Ontario, making the province home to Canada's largest Aboriginal population (Statistics Canada, 2006).

There is a significant gap in educational achievement between Ontario's Aboriginal and non-Aboriginal populations. According to 2006 census data, 38 percent of Aboriginal peoples have not finished high school. Aboriginal peoples are also three times less likely than non-Aboriginal people to obtain a university degree. Graph 2 shows the extent of the education attainment gap.

Graph 2: Aboriginal peoples are more likely to drop out of high school and far less likely to obtain a university degree



Source: Statistics Canada 2006, via Ontario Ministry of Aboriginal Affairs

The federal and provincial governments share responsibility for Aboriginal education. Responsibility for educating Aboriginal peoples living on-reserve lies with the federal government, while the provincial government is responsible for the population living off reserve.

Although estimates of the shortfall vary, it is generally accepted that federal funding for Aboriginal education falls significantly short of parity with provincial education spending on a per-student basis (Commission on the Reform of Ontario's Public Services, 2012)[4]. According to one estimate, a federal injection of $100 million a year is required to close the gap for Ontario's on-reserve students (Sniderman, 2012).

4 The First Nations Education Council estimates that the cumulative aboriginal education funding shortfall is $1.54 billion.

The funding gap is problematic: most on-reserve Aboriginal youth attend elementary school on-reserve and high school off-reserve. The underfunding of on-reserve elementary schools often means that students arrive at the secondary level with acute remedial needs (Timmins Chamber of Commerce, 2012, Commission on the Reform of Ontario's Public Services, 2012).

Without government intervention to address the funding inequality between the federal and provincial governments, the gap in educational attainment between Ontario's Aboriginal and non-Aboriginal populations will widen.

Canada cannot afford to ignore the funding gap. The Aboriginal population is the fastest growing component of Ontario's population—growing four times the national average between 2001-2006 (Burleton and Drummond, 2009).

Money alone will not fix the problem. The federal government will need to implement an outcome-focused education strategy designed to raise student test scores and increase graduation rates among Aboriginal students.

Creating a leading-edge workforce requires the full participation of Aboriginal peoples in the labour market. And, the full participation of Aboriginal peoples in the workforce is contingent on providing opportunity through adequately funded, outcomes-focused, and culturally appropriate education.

FAST FACT

Closing the education and labour-market gaps between Aboriginal and non-Aboriginal communities would grow Canada's Gross Domestic Product (GDP) by $401 billion over a 25 year period (Centre for the Study of Living Standards, 2009).

RECOMMENDATION 4

The federal government should close the funding gap for on-reserve Aboriginal education.

Immigration Reform

If Ontario is to succeed economically, it must embrace its diversity and attract more skilled immigrants that are able to meet Ontario's labour force needs. In order to fill the skills gap, Ontario needs to attract and retain the best and brightest from around the world.

Immigration would need to grow by 250 percent from current levels to compensate for the decline in Ontario's labour force growth brought on by an aging population (Ontario's Expert Roundtable on Immigration, 2012). Yet, over the past decade, Ontario's share of immigrants to Canada has declined from 59.3 percent in 2001, to 40 percent in 2011.

Most alarming, the number of economic immigrants to the province, immigrants selected on the basis of their skills or employment prospects, has declined severely over the last decade—from 89,079 in 2001 to 36,939 in 2011 (Ontario's Expert Roundtable on Immigration, 2012). Ontario employers are very concerned.

The competition to attract immigrants is becoming increasingly fierce. Prime Minister Stephen Harper notes that "Canada is going to have to get out there, compete, and make sure we get the immigrants both in terms of volumes and particular attributes: skills, expertise, and investment capacity" (Chase, 2012).

However, recent federal changes to the immigration system have limited the number of skilled immigrants to Ontario and increased the numbers going to other provinces. This comes at a time when Ontario businesses are facing profound skills shortages.

A short-term fix would be to increase Ontario's allocation under the Provincial Nominee Program (PNP). The PNP is a useful tool for provincial governments and employers looking to address specific skill shortages. However, under the program's current rules, which are determined by the federal government, Ontario is allowed to nominate only 1,000 individuals for its PNP compared to 5,000 for Alberta and a total program allocation of 20,665.

Table 2: Ontario is allowed only 5 percent of the 20,000+ immigrants allocated through the Provincial Nominee Program

Province/Territory	2012 PNP target	Percent of total
NL	300	1.5%
PE	400	1.9%
NS	500	2.4%
NB	625	3.0%
ON	**1,000**	**4.8%**
MB	5,000	24.2%
SK	4,000	19.4%
AB	5,000	24.2%
BC	3,500	16.9%
YT	190	0.9%
NWT	150	0.7%
Total:	**20,665**	

Sources: Ontario Ministry of Citizenship and Immigration, 2012, Citizenship and Immigration Canada, 2012.

Federal government policies have restricted the number of skilled immigrants coming to Ontario.

Charles Sousa, Former Ontario Minister of Citizenship and Immigration, Ontario Immigration Strategy, 2012

FAST FACTS

The number of economic immigrants to Ontario declined by nearly 60 percent from 2001 – 2011.

Ontario and its employers can select only 5 percent of the 20,000+ skilled immigrants arriving in Canada through the federal Provincial Nominee Program.

RECOMMENDATION 5

Ontario should be permitted to select a greater number of skilled immigrants through the Provincial Nominee Program.

The federal government is now making sweeping changes to the immigration system, most notably by introducing an "Expression of Interest" model that aims to better connect skilled immigrants to employment opportunities. The model requires those seeking to immigrate to file a simplified "Expression of Interest" application with Canadian immigration authorities. The most promising candidates are then invited to submit a full application (Ontario's Expert Roundtable on Immigration, 2012).

As part of this reform, the federal government is also developing a formula to allocate skilled immigrants across the country. Historically, the federal government sets the overall number of immigrants, while the provinces compete to increase their share of skilled immigrants. This is unlikely to change in the new model.

Ontario needs to take an assertive stance on this new and undefined immigration model. The ultimate design of this system should accommodate the needs of employers in Ontario and reverse the declining trend in the number of skilled immigrants to the province.[5]

RECOMMENDATION 6

The new federal "Expression of Interest" model for selecting skilled immigrants must accommodate the interests of Ontario and its employers.

5 See *Expanding our Routes to Success: The Final Report by Ontario's Expert Roundtable on Immigration.*

WHEN OUR GOVERNMENTS WORK TOGETHER, ALL CANADIANS BENEFIT.

The federal and provincial governments worked together to harmonize the sales tax to help Ontario businesses compete and create jobs.

The 2008 federal budget referred to provincial sales tax harmonization as the "single most important step provinces with Retail Sales Taxes could take to improve the competitiveness of Canadian businesses" (Department of Finance, 2008). On July 1, 2010, Ontario implemented the Harmonized Sales Tax (HST), with $4.3 billion in federal support. The HST and other tax reforms are expected to reduce the tax burden on new business investment in Ontario, and will lead to an additional $47 billion in capital investment, almost 600,000 net new jobs, and higher annual incomes of up to 8.8 percent by 2020 (Mintz, 2009).

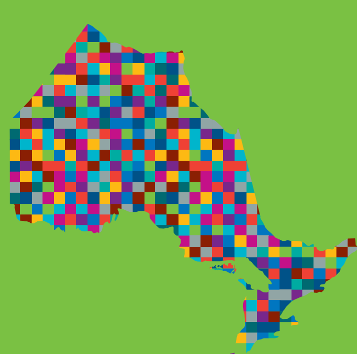
The federal and provincial governments partnered to provide support to the auto industry to protect hundreds of thousands of jobs in Ontario.

In 2009, the federal and provincial governments partnered to save Ontario's auto industry. Together, they provided loans to GM Canada and Chrysler Canada worth approximately $14 billion. Premier Dalton McGuinty praised the Canada-Ontario partnership, noting, "this is a huge problem that faces the Ontario economy and the Canadian economy by extension and it is critical that we work together." A recent study found that the auto bailout was cost-effective, given that the cost to the federal and Ontario governments was substantially less than the economic losses that would have occurred without the bailout (Shiell and Sommerville, 2012).

Both the federal and provincial government recognize the value of a single national securities regulator and the potential to grow Toronto's already booming financial services sector.

For years, Ontario has been the federal government's "closest provincial ally" in its efforts to create a national securities regulator (Howlett, 2012). Under the current system, securities regulation in Canada is subject to the rules and regulations of 13 different provincial and territorial securities regulators. Canada remains the world's only major industrialized country without a single securities regulator. Discussions to reform Canada's securities regulation system are ongoing. Experts note that a single securities regulator would grant Canadian financial institutions, many of which are based in Toronto, greater access to foreign markets and allow them to expand their operations abroad (Russell, 2012).

IDENTIFYING, CHAMPIONING, AND STRATEGICALLY INVESTING IN OUR COMPETITIVE ADVANTAGES IN THE GLOBAL ECONOMY



IDENTIFYING, CHAMPIONING, AND STRATEGICALLY INVESTING IN OUR COMPETITIVE ADVANTAGES IN THE GLOBAL ECONOMY

Ontario's prosperity is contingent on the ability of its businesses to thrive in an increasingly competitive global economy. To succeed, Ontario must build a strong foundation for economic growth and invest in its competitive advantages. This requires reorienting public policies to promote strategic sectors and to attract talent and investment.

Many of the policy changes identified throughout this paper will help Ontario build its global competitive advantages in key sectors, including financial and business services, mining, pharmaceuticals, and health.

While Ontario shows great promise in these and a number of other areas, manufacturing deserves special attention given its importance to the provincial and national economy and the fact that it has been particularly hard hit by the global economic downturn.

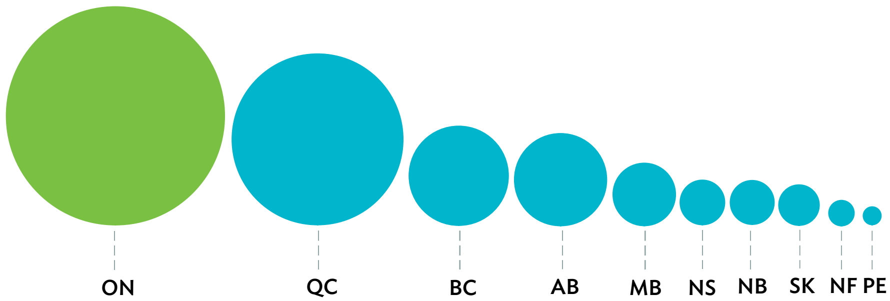
> Ontario's economy is undergoing rapid evolution.... New growth sectors for the Ontario economy will be those where we have comparative advantages in the provision of goods and services to markets around the world. Our business models and public policies must adapt accordingly.
>
> *Emerging Stronger, 2012*

A Coordinated Manufacturing Strategy

Despite numerous setbacks, manufacturing remains vital to Ontario and Canada's competitiveness. It accounts for 14 percent of the national GDP, $1.85 billion in weekly average salaries, 63 percent of Canada's exports, and three-quarters of all private sector research (Canadian Manufacturing Coalition, 2012). The manufacturing industry generates $3.15 in economic spin-off for every $1.00 in manufacturing output. Nearly half of Canada's manufacturing industry is in Ontario (see Graph 3).

However, manufacturing employment is down, which means that many good paying jobs have disappeared or migrated elsewhere (see Table 3). The challenges facing the sector are a pressing national problem.

Graph 3: Ontario's manufacturing sector is the largest in Canada



Source: Statistics Canada, CANSIM Table 282-0008, 2011

These statistics, however, should not overshadow Ontario's considerable potential in manufacturing. The interplay between Ontario's large agri-food sector and the manufacturing sector is a case-in-point. Ontario is home to Canada's largest food processing sector, with over 3,000 businesses employing 94,000 people, generating revenues totaling roughly $35 billion (Ontario Ministry of Agriculture, 2012). The vitality of the agri-food sector is largely tied to that of the manufacturing sector, and vice-versa.

Table 3: Ontario has lost 150,000 manufacturing jobs over the last 5 years

Year	2007	2008	2009	2010	2011
Manufacturing jobs	944,400	896,100	790,500	781,100	794,900

Source: Statistics Canada, CANSIM Table 282-0008, 2011.

While it is difficult for Ontario to compete on wages in a global economy, it has several advantages, including a low marginal effective tax rate (METR) of 16.3 percent on new business investment—nearly half of the average American METR and lower than the Organization for Economic Co-operation and Development (OECD) average. Ontario also has a highly skilled workforce, in which roughly 57 percent of adults have either college- or university-level education—six percent higher than the Canadian average and 26 percent higher than the OECD average (Council of Ministers of Education, 2012).

The Canadian Manufacturing Coalition notes that many of the challenges manufacturers face are beyond government control, including the continued strength of the Canadian dollar. However, government does have a role to play in overcoming other key challenges, including those related to labour shortages, regulatory burdens, and infrastructure (2012).

The federal government has placed considerable focus on the oil and gas sector for good reason. The sustainable development of the oil sands benefits all Canadians (Gibbon and Roach, 2010). An expanding manufacturing sector that attracts investment, creates good paying jobs, and generates innovation is also critical to the Canadian economy (Cambridge, Greater Kitchener Waterloo, and Guelph Chambers of Commerce, 2012).

Table 4: Canadian Manufacturing Coalition's Action Plan

	Provincial action required	Federal action required
Support investment through strategic programs and taxation	✓	✓
Strengthen the labour market by increasing the size and skill of the labour pool	✓	✓
Strengthen economic integration with the United States	✓	✓
Support market diversification by focusing on trade agreements and building export capacity	✓	✓
Reduce the regulatory burden by reducing compliance costs and eliminating duplication	✓	✓

Source: paraphrase of the Canadian Manufacturing Coalition's Manufacturing Our future: A Manufacturing Action Plan for Canada, Driving Investment, Creating Jobs, Growing Exports. For the full report, see http://www.cme-mec.ca/download.php?file=h8q5gph6.pdf.

In a recent survey, Canadian manufacturers identified five priority action items for public policy. None of these priority items recognize jurisdictional divides. Governments of all levels, together with industry, will need to coordinate their efforts to develop an explicit strategy to maintain and promote our global competitiveness in manufacturing.

> We need policies that promote positive provincial convergence and the development of competitive manufacturing and service industries, and that also reflect the practical reality that Canada's economic prosperity and political equilibrium ultimately depends on the economic strength of all provinces, especially populous Ontario.
>
> *Dodge, Burn, and Dion, 2012*

RECOMMENDATION 7

The federal and provincial governments, together with Canada's manufacturing industry, need to develop a coherent and coordinated strategy to fulfill Canada's global manufacturing promise.

Infrastructure

Modern infrastructure is critical to Ontario's competitiveness. According to a 2012 OCC survey, after deficit and red tape reduction, business' number one public policy priority is infrastructure renewal.

This year alone, the Government of Ontario will invest almost $13 billion in infrastructure. That is nearly twice as much as the federal government will spend on infrastructure in all of Canada (Ontario Ministry of Finance, 2012). Despite the fact that the provincial government spends significantly more than the federal government on infrastructure, federal policy can be a barrier to maximizing return on provincial investment. There are two reasons behind this.

First, the federal funding model for some programs is unprincipled. *The Building Canada Plan* is the largest federal infrastructure program and provides the same base funding to every province, irrespective of population size (Ontario Ministry of Finance, 2008). As a result, Ontario received approximately $970 million less than a per capita share of this federal infrastructure fund.

The OCC believes that the federal funding formula for broad-based, general spending programs, such as roads and bridges, should be allocated to the provinces on a per capita basis. Federal funding for targeted programs, such as borders and transit, should be focused on where they generate the biggest return such as transit ridership and border traffic.

Second, federal infrastructure investment distorts provincial and local decision making. The intersection of the current federal practice of "incrementality," whereby federal dollars must support projects that would otherwise not go forward, with requirements for cost-sharing, skews "investment incentives and decision-making away from maximizing economic outcomes" (Ontario Ministry of Infrastructure, 2012). Given the relative size of their investments, federal infrastructure priorities should be aligned with provincial priorities, not vice versa.

The province has identified two major infrastructure priorities for its share of federal investment.

First, Ontario and Canada are in need of a federally-led National Transit Framework. Congestion in the Greater Toronto Hamilton Area (GTHA) costs $6 billion in lost productivity annually (Toronto Board of Trade, 2010). Furthermore, according to the Conference Board of Canada, each dollar of capital investment in the GTHA's transit plan would boost Ontario's GDP by $1.19 (Gill et al., 2011).

FAST FACT

For $970 million, Ontario could expand Highway 427 north and build a new Highway 7 between Kitchener and Guelph, with $170 million left over for additional infrastructure projects.

Expanding Highway 427 north to Major Mackenzie Road would cost $400 million. The construction of a new Highway 7 between Kitchener and Guelph would also cost $400 million.

> The federal, provincial, and municipal governments need to work together to fund the infrastructure that makes Ontario communities prosperous.
>
> *Gary McNamara, Association of Municipalities of Ontario, 2012*

Second, federal support is required to develop the Ring of Fire, Ontario's 100-year mining opportunity in the North. In order to realize the region's potential, massive investment is needed in electricity transmission, broadband, and all-weather roads. Addressing crumbling infrastructure on-reserve is a necessity as well. As a first step, we recommend the federal government designate a Minister responsible for the Ring of Fire.

Current federal infrastructure programs expire in 2014. The federal government is now consulting Canadians on their priorities for federal investment. It is important to note that we are not necessarily calling for more federal infrastructure spending, but better and more strategic spending aligned with provincial and local priorities and designed to maximize the return on investment.

RECOMMENDATION 8

Federal investments in infrastructure should be strategic, coordinated with provincial priorities, and allocated on a principled basis (per capita or targeted).

Innovation and Industrial Supports

The provincial and federal governments are active in the business supports space. Both levels of government fund dedicated agencies that provide supports to target regions and both provide general incentives and granting programs to spur business investment and innovation. However, their efforts across the suite of these programs appear disjointed.

This lack of coordination has "resulted in considerable duplication and overlap in a number of innovation support areas, and which has introduced confusion among the very companies these policies are intended to support. Moreover, such duplication and overlap gives rise to important questions about the cost-effectiveness of Canada's collective effort" (Creutzberg, 2012).

Both levels of government have or are undertaking reviews of their economic development programs and other grants to business in order to streamline and deliver a greater return on investment. However, it does not appear that they are coordinating their efforts.

Experts note that if governments are to maximize the return on investment in industrial supports, they should untangle and rationalize who does what (Mendelsohn, 2010).

> There is a tremendous amount of support programs offered by the government; however, navigating these supports is challenging. It can be difficult to figure out which program applications are the best to dedicate our limited resources to completing.
>
> *Jane Wu, Co-Founder & Chief Happiness Officer at Penyo Pal*

RECOMMENDATION 9

The federal and provincial governments should coordinate their business supports and, where possible, untangle and rationalize who does what.

Economic Development Funding

Generally speaking, the purpose of federal regional economic development agencies and funds is to help businesses become more competitive, innovative, and productive (FedDev Ontario, 2012). This, in turn, drives economic and community development. They also play an important advocacy role within the federal government on behalf of their regions.

There are two main issues with respect to federal regional economic development funding in Ontario. First is the funding model, which underserves Ontario and Ontario businesses.

As shown in Table 5, the allocation of federal development funding appears unprincipled. the Federal Economic Development Agency for Southern Ontario's (FedDev Ontario) budget is $17.61 on a per capita basis. FedNor's, the Federal Economic Development Agency for Northern Ontario, budget is $42.15 per capita. Combined, Ontario receives $19.20 on a per capita basis— much less than Quebec and Atlantic Canada.

Table 5: Ontario businesses receive less federal economic development support than businesses in any other part of the country

Agency	2011-12 funding	Approximate population of region covered by fund	Per capita funding
Atlantic Canada Opportunities Agency	$317,945,000	2,357,325	$134.88
Canada Economic Development for Quebec Regions	$296,549,000	7,979,663	$37.16
FedNor and FedDev Ontario	**$256,774,000**	**13,372,996**	**$19.20**
Western Economic Diversification	$195,530,000	10,661,130	$18.34
Canadian Northern Economic Development Agency	$44,179,000	111,663	$395.64

Source: OCC research.

RECOMMENDATION 10

Federal economic development funds should be distributed on a principled basis to ensure businesses and communities in every province and region are provided with comparable federal supports.

Second is the uncertain future of FedDev Ontario. The agency was established in 2009 with a five-year mandate to drive economic and community growth in southern Ontario. The impetus for the creation of FedDev Ontario was to ensure that southern Ontario remains a key contributor to the Canadian economy as a whole.

FedDev Ontario has had a significant impact on job creation in southern Ontario. For example: for the last three years, FedDev Ontario has partnered with the Canadian Manufacturers and Exporters through the SMART program. SMART helps manufacturers with an export focus invest in their productivity, commercialize new technologies, and enter new domestic and foreign markets. SMART has helped 800 southern Ontario businesses improve their ability to compete internationally and has leveraged $95 million for small and medium sized enterprises in southern Ontario. According to the Canadian Manufacturers and Exporters, federal government support will contribute to the creation of 5,000 new jobs (Goodyear, 2012).

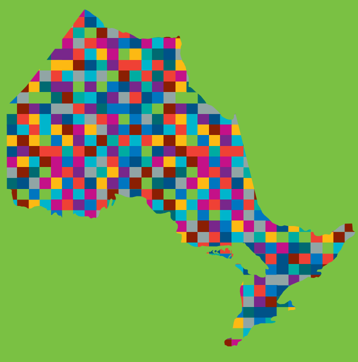
Some question the efficacy of regional economic development funding (Milligan, 2005). However, the success of FedDev Ontario, demonstrated in part by its positive results among southern Ontario businesses, suggests a strong case for making the federal funding for such economic development efforts permanent in Ontario.

> [FedDev Ontario] has given everyone in southern Ontario a louder voice at the table.
>
> *Gary Goodyear, Minister responsible for FedDev Ontario, 2012*

RECOMMENDATION 11

The Federal Economic Development Agency for Southern Ontario (FedDev Ontario) should be made permanent and allocated long-term funding.

RESTORING FISCAL BALANCE



RESTORING FISCAL BALANCE

The method by which the federal government taxes and redistributes wealth across the country is a significant burden on Ontario's competitiveness and ability to compete globally.

The OCC advocates that the provincial government should continue to pursue principled federal transfers and that the federal government should fix those policies that lower Ontario's fiscal capacity—the capacity for Ontario to spend on programs and services for its population.

> Ontarians are not receiving adequate return on their disproportionate investment in the federal transfer system.
>
> *Emerging Stronger, 2012*

Equalization

Equalization is a $15 billion federal government transfer program. Its aim is to address the disparities in revenue raising (fiscal) capacity among provinces (Department of Finance, 2012).

Equalization payments are designed to "enable less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation" (Department of Finance, 2012).

"The program is", according to the Mowat Centre's Matthew Mendelsohn, "the expression of Canadians' commitment to the principle that all of us, wherever we live, should have full access to the benefits of Canadian citizenship and equality of opportunity" (MacKinnon, 2011). For this reason, equalization is embedded in our Constitution.

Since the program's inclusion in the Constitution, Equalization has redistributed more than $300 billion, mostly from the Ontario, Alberta, and British Columbia tax bases to the rest of Canada.

Until 2009, Ontario was the only province to have never received Equalization payments. However, for a variety of reasons, including the economic downturn and its blistering impact on Ontario's manufacturing industry, Ontario has received Equalization payments since 2009.

Though Ontario receives Equalization payments, it remains a net contributor to the program. In 2012–13, Ontario will contribute roughly $6 billion to the Equalization program and will receive $3.3 billion in return. This means that its businesses and residents contribute $2.7 billion more to the Equalization program than they get back.

FAST FACT

Ontarians net contribution to the Equalization program is roughly equivalent to 20 percent of the provincial deficit.

Calculated by dividing Ontario's net contribution to the Equalization Program ($2.7 billion) by Ontario's deficit ($13 billion).

A fairer, more transparent Equalization program would reflect the changing structure of Canada's economy and cease to underserve Ontarians.

A positive step would be to incorporate the cost of delivering services into the Equalization program. At present, the federal government only looks at fiscal capacity when calculating Equalization payments. It does not take into account the actual cost of delivering those services.

Given that civil servant salaries are the single largest government expenditure, a simple way of incorporating cost into the formula could be to take the provincial average wage into account (see Table 6).[6] The federal government has studied this option- it should do so again given current imbalances in the federation.

> A program of equalization that ignores the expenditure side cannot be defended on economic efficiency and equity grounds.
>
> *Anwar Shaw, 1996*

Table 6: Ontario's average wage is among the highest in Canada

Province	Average wage, October 2012
NL	$23.30
PE	$20.22
NS	$20.94
NB	$19.96
QC	$22.38
ON	**$24.38**
MB	$21.68
SK	$24.91
AB	$27.50
BC	$23.80

Source: Statistics Canada 2012. Average hourly wages of employees by selected characteristics and profession, unadjusted data, by province (monthly). http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr69a-eng.htm.

RECOMMENDATION 12

The Equalization program should be reformed to redress the net redistribution away from Ontario. One way to fix the formula could be to include both fiscal capacity and the varying cost of delivering services in provinces.

6 To prevent the provinces from gaming the system by artificially boosting public sector wage, the Equalization formula could focus on average private sector wages.

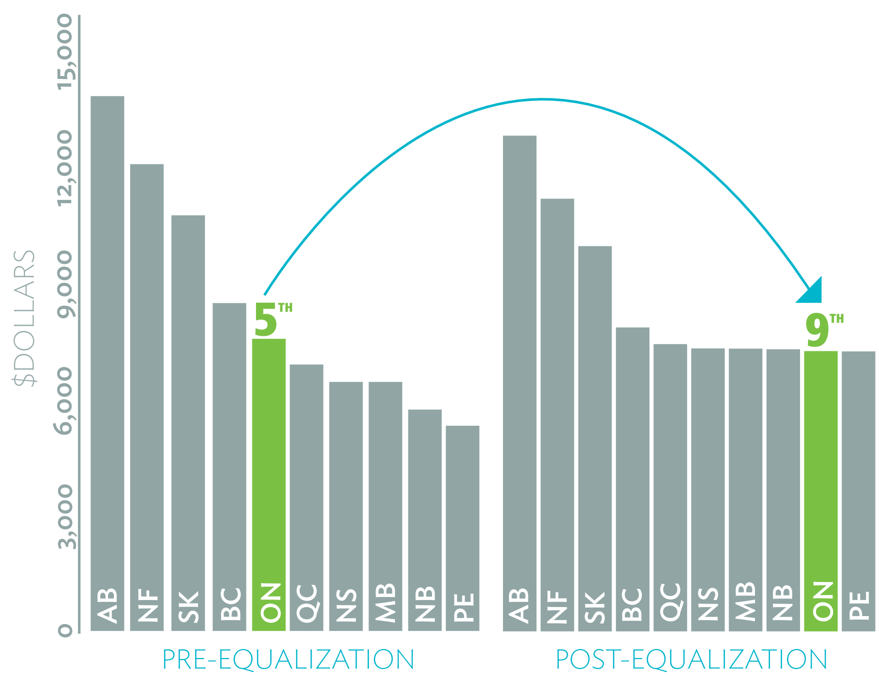
Closing the Gap

Overall, Equalization is a proxy for the general problems with federal transfers to the provinces. Ontario residents and businesses pay significantly more into the federation than what they get back in terms of services. In his report to the provincial government, Don Drummond pegged that gap at $12.3 billion (Commission on the Reform of Ontario's Public Services, 2012).

Why is the gap an issue? As Drummond notes, "these are resources that would have been available to Ontarians" (Commission on the Reform of Ontario's Public Services, 2012). The transfer system, in other words, is a significant drain on the province's capacity to invest and continue building the assets necessary to achieve Ontario's global ambitions.

Note, Ontario's fiscal capacity falls from fifth to ninth among provinces after Equalization is taken into account (see Graph 4).

Graph 4: Ontario's fiscal capacity drops from fifth to ninth after Equalization is taken into account



Source: Quebec Ministry of Finance, 2012, Department of Finance, 2012.

This drain on Ontario's resources could not be happening at a worse time.

Ontario's 8.3 percent unemployment rate is almost a full point above the national average (Statistics Canada, 2012). Its economic growth rate will hover around two percent for the foreseeable future; a far cry from the three-four percent growth it enjoyed in previous decades. And its manufacturing sector has been battered by weakened U.S. demand and a strong Canadian dollar.

Canada's Parliamentary Budget Office predicts that as a result of population aging, provincial government health spending as a share of GDP will rise from 7.6 percent in 2011 to 12.1 percent in 2050 (Bartlett et al., 2012). The rise in health spending is representative of the increasing weight being born by provincial governments as the population ages (Ibid, 2012).

Dramatically reducing the federal government's net transfer away from Ontario is vital to ensuring that Ontario remains competitive.

RECOMMENDATION 13

Closing the $12.3 billion gap between what Ontarians pay into the federation and what they get back should be a pressing federal and provincial priority.

The province has a key role to play as a data aggregator and communicator in the campaign to re-balance national public policies in the federation.

The provincial government should release evidence-based analysis and principled solutions to fix current imbalances in federal public policies. Ontario may need to reallocate public service capacity and engage experts in order to understand and promote its interests on these issues.

The formation of the Expert Roundtable on Immigration and the subsequent release of a provincial immigration strategy is a positive step that should be replicated across the suite of programs identified here.

In short, Ontario needs to be more assertive in pursuing the province's priorities on the national stage. Until Ontario gets its elbows out, the federal government will have limited incentive to make the program changes that will help Ontario transform its economy.

RECOMMENDATION 14

The provincial government should develop and release principled solutions and be more assertive on the national stage in order to rebalance federal public policies that hinder its global competitiveness.

CONCLUSION

Despite the lingering effects of the economic downturn, Ontarians and Ontario businesses are well positioned to emerge stronger from this period of economic transition.

Ontario's tax environment is dramatically improved. Ontario has the highest level of post-secondary credential attainment in the OECD. Its Ring of Fire is touted as the most promising mining opportunity for Canada in a century.

In spite of the positives, Ontario is faced with enormous challenges.

Its debt is approaching $300 billion. Roughly 600,000 Ontarians are out of work. Its economy is projected to grow slowly for the foreseeable future.

While government and business cannot control the global forces that impact our province, we have a collective responsibility to identify challenges, make adjustments, and lay the groundwork for our future prosperity.

We do not claim that our recommendations will remove all or even most of the public policy barriers to Ontario's economic transformation. This paper, however, provides a basis for inter-governmental discussions on some critical policy frameworks. Fundamentally, the recommendations in this paper offer clear direction to the federal government on how it can best spur economic growth in Ontario.

For Ontario to thrive and regain a competitive edge, it needs:

- an EI and training system that treats all workers equally—regardless of their postal code;
- an Aboriginal population that reaches its full potential;
- an immigration system that is aligned with Ontario's economic ambitions;
- a manufacturing sector firing on all cylinders;
- public infrastructure that forms a solid foundation for economic growth;
- supports that help its small businesses innovate and be more productive; and
- the ability to retain more of the wealth that it creates.

These reforms will not be easy. They will require a greater degree of cooperation than has recently been demonstrated by the federal and provincial governments. But as has been the case time and time again, when our governments work together, all Canadians benefit.

Above all, changes to Canada's public policies will require a shift in attitudes. Ontarians cannot afford to be complacent when their province and country's competitiveness is at stake.

ACKNOWLEDGEMENTS

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ABOUT THE ONTARIO CHAMBER OF COMMERCE

The Ontario Chamber of Commerce (OCC) is the most diverse and representational business group in the province. The OCC works closely with governments, labour, academia, and other business associations to create a stronger and more vibrant Ontario economy.

The OCC represents 60,000 businesses across the province through our network of local chambers of commerce and boards of trade. Our members employ about two million people and produce roughly 17 percent of Ontario's Gross Domestic Product.

Ontario Chamber of Commerce Policy Committees

- Finance & Economic Competitiveness Committee
- Productivity, Innovation & Human Capital Committee
- Sustainability Committee

Ontario Chamber of Commerce Taskforces

- Federal Agenda for Ontario Taskforce
- Workplace Safety & Insurance Board Taskforce
- Energy Taskforce
- Alternative Service Delivery Taskforce
- The Big Move Taskforce

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- *Report on the Workplace Safety & Insurance Board (Winter 2013)*
- *Opportunities in Alternative Service Delivery (Winter 2013)*

Get Involved

If you would like to get involved in the OCC's policy committees or taskforces, please contact Josh Hjartarson at joshhjartarson@occ.on.ca

WHEN ONTARIO DECIDES TO SPEAK WITH ONE VOICE, IT WILL BE DIFFICULT FOR OTHERS NOT TO LISTEN.

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