

COMPETITIVENESS AND ECONOMIC GROWTH IN ONTARIO

By

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I am delighted to have the opportunity to address you on the theme of Ontario's competitiveness in today's global economy. Ontario's history is an example of what can be achieved by a population that works hard to create a strong diversified economy. Although it is rich in natural resources, Ontario has also been the manufacturing and services center of Canada since before Confederation. Its companies, whether large ones like General Motors and Nortel or smaller ones like the local computer store in Timmins and the milk farm near London, provide well-paying jobs for many employees. Over the past 50 years, the people of Ontario have enjoyed prosperity that has resulted in relatively good incomes, stable jobs, and a good social infrastructure.

This is a short summary of our past history in Ontario. With these remarks, I have three purposes. The first is to describe the most important challenges facing the Province in the next decade. The second is to come to some conclusions as to what these upcoming challenges mean to governments. The third is to provide a report card on the state of Ontario's current provincial policies. I promise to be hard marker. Some of my evaluation will be positive but other parts will suggest that there is considerable scope for improvement in key public policies.

The Global Competitive Challenge

One of the lessons we have learned in the 133 years since Confederation is that economic conditions can change quickly, and result in a restructuring of the economy. The Great Depression of the 1930s, with its high unemployment and losses in income, forced many

Ontario families into poverty. Two World Wars required Ontario parents to make sacrifices for their country instead of working to support their families. These tremendous shocks greatly affected the province. Ontarians had to adapt to changing economic circumstances — and they served their families and communities well.

The decade of the 1990s was a sobering experience, however, even though Ontarians faced no calamities like wars or depression. Instead of the steady growth of prosperity it had experienced since World War II, the average Ontario family of four saw its pre-tax income fall by over \$3,000 from 1989 to 1998, adjusting for inflation. Unemployment rose to a postwar record 11 percent in 1991, and fell only slowly much later in that decade.

Much of the poor economic performance of the 1990s was a legacy of the fiscal mismanagement of the 1980s, when federal and provincial governments ran up billions of dollars in deficits without introducing significant programs. This mismanagement led to high debt and interest expenses that consumed an increasing share of public budgets. In trying to reverse course, governments raised taxes sharply and cut expenditures on important public services, including some health and education programs.

In the past few years, the Ontario economy has shifted course again. Economic growth has picked up — thanks in part but not solely to the booming US economy and falling interest rates in Canada — and jobs are being created. The province has cut personal income taxes by 30 percent, and the provincial deficit has fallen from its historic high of \$11 billion to about \$1 billion today. Without doubt, the economy is stronger and healthier.

In the years to come, however, Ontario will face new challenges that could limit its ability to take advantage of the exceptional opportunities that lie ahead. Those challenges include a world that is becoming more and more economically integrated, borders that are effectively disappearing, and capital and labor that are becoming ever more mobile thanks to new technologies and evolving international trade agreements. New, highly profitable companies are being created in areas such as biotechnology, while many firms in more traditional areas of business, unwilling or unable to adapt, are in trouble. Successful businesses, faced with trying to operate in a jurisdiction that is inhospitable, will quickly move to wherever they can take advantage of the best opportunities for growth and competitiveness.

These global competitive challenges are the result of the unbelievably rapid adoption of new electronic technologies that are transforming economic relations today. Global competitiveness is being facilitated by the Internet, which has substantially reduced search costs for buying and selling goods and services throughout the world. Business practices are changing in “Internet time” as each new form of information technology takes only a few months to be adopted.

Here are just two examples.

Soon, consumers will no longer have to haggle with their local automobile dealer when buying a car. Instead, after a visit to a showroom to pick their model, they will order their new car over the Internet from a dealer anywhere in North America who can offer the cheapest price. Most retailers — from the small hardware store in Thunder Bay to the big chains that operate in Toronto-area malls — will be able to use the Internet as a new

way of marketing their services to their customers, who could be almost anywhere on the planet.

Industries, too, are changing the way they operate. Now, when Stelco needs steel scrap, it can solicit bids over the Internet from suppliers not just in North America but from as far away as Asia or Europe. The company's ability to buy the lowest-cost scrap will allow it to penetrate world markets even more successfully, which will translate into more jobs and higher wages for its workers.

Although these new technologies promise huge economic benefits, they also present a major challenge. The same advantages these technologies offer to Ontarians are available to Albertans, New Yorkers, and Londoners, who will have similar opportunities to buy goods and services from the world's cheapest sources. It will no longer be sufficient for Ontario firms to be locally or regionally competitive but *globally* competitive. Their managers will have to be ready for this fast-changing world, and their employees will have to have the skills to cope with new technologies and business practices.

Governments, too — whether federal, provincial, or municipal — face the same kinds of competitive challenges as does the Ontario economy, and they need to put in place policies that create the conditions for better growth and higher incomes for Ontarians. If governments fail to meet these challenges, Ontarians will pay a heavy price in lost future income. The slow economic growth of 1990s is evidence of what happens when

governments mismanage the economy. We must not repeat that experience in this decade.

The Need for an Economic Strategy

To meet the challenges ahead, Ontario must develop an overall strategy to ensure its competitiveness. Key to this strategy will be the recognition that the Ontario economy is a relatively small one operating in a global economy in which capital, labor, and other business inputs are increasingly mobile — and increasingly attracted to the United States. For many businesses, there is very little natural advantage to locating in Ontario rather than in, say, Michigan, in order to serve the North American market. The US market is much larger and has far greater pools of the labor and capital that businesses need to be competitive.

So, in the absence of a natural advantage, Ontario needs to implement innovative policies that will create the “Ontario Advantage” — a superior place in which to do business.

Ireland followed this route in the 1990s. Traditionally, Ireland was one of the poorest countries in Europe. In the 1980s, its per capita income was just 58 percent of the Western world’s average, its unemployment rate was close to 17 percent, a substantial share of its population had only elementary education, and a debilitating brain drain to Britain and the United States had been under way for a long time.

In the 1990s, however, the Irish economy was completely transformed. Per capita income virtually doubled, and is now equal to the average of industrialized countries. The unemployment rate dropped to less than 8 percent. And for the past three years, even the chronic brain drain has been reversed, with numerous international firms having establishments in Ireland with global product mandates. Indeed, if the Irish economy continues to grow at its current rapid rate, Irish per capita income will surpass Canada's within ten years.

How did this transformation occur? True, like other poorer members of the European Union, Ireland benefited from European subsidies. Yet the reason Ireland grew faster than any other EU country was that it put in place two important strategic policies to make itself attractive to businesses seeking to establish a European presence.

The first policy was to invest heavily in education to improve the skills of its workforce; Ireland now has as many post-secondary education students as most other advanced countries. The second policy was to use its tax system — especially by reducing business taxes — to attract employers for its newly trained workers.

Ontario now needs to follow Ireland's example and think strategically about how to create a specific advantage in the North American market. Among the public policies that need to be adopted are:

- investments in effective, growth-enhancing, and efficient public programs such as education, health, and infrastructure;
- good fiscal management, including a reduction in the burden of public debt in order to keep taxes low; and
- a tax structure that is based more on taxes that are efficient and fair, and less on those that are distortionary and unfair.

A Report Card on Ontario's Fiscal Policy Performance

How does current Ontario fiscal policy stack up against these criteria for enhancing economic growth? Will it create an “Ontario Advantage” or is it an impediment to Ontario’s success in today’s global economy?

I shall start with Ontario’s public expenditures. Ontario spends about \$60 billion on public programs and public debt charges. That enormous sum represents about 16 percent of Ontario’s gross domestic product. More than a third of this spending goes to health care, another 20 percent to education and training, 17 percent to interest on the province’s debt, and the rest goes to social services, the environment, economic development, and other programs. In all, health, education, and the public debt account for almost 70 percent of the province’s public spending.

In the past few years, the Ontario government has undertaken major reforms in health and education to improve their efficiency. Although the consequences of these reforms may

not yet be fully understood, there are good reasons to believe that, in the long run, a certain competitive advantage relative to the United States is established to the extent the reforms improve both the health and education system.

Education

First, let us look at education. In today's global economy, it is important that education and training programs be of the highest quality and accessible for as broad a population as possible. Everyone today must acquire new sets of skills in order to work and live in our electronic age. And better education delivers better pay for Ontario men and women. Education is also the great social equalizer in a society like ours, in which individuals are promoted based on their abilities, not their family's social or economic position. Education also promotes political stability and improves the standard of living even of children who grow up in poverty.

Ontario's improved education system has already created a significant competitive advantage for the province. Canada's provinces, including Ontario, spend more of their GDP on education than do most industrialized countries. And Canada, again including Ontario, graduates more post-secondary education students as a proportion of eligible-aged students than do most countries. Ontario's workforce, in general, is highly educated. And to judge by the much-discussed brain drain, Ontario's graduates are much in demand by businesses in both Ontario and elsewhere.

Despite the clear competitive advantages the province's education system has created, however, Ontario cannot relax. Primary and secondary school curricula must be continually improved to meet the technological demands of the twenty-first century. Pressures will mount to provide distinctive forms of education to address the special needs and aspirations of each part of Ontario's population rather than a standardized form of education that must be the same for all individuals. Post-secondary education programs must provide high-quality undergraduate experiences, top training programs for graduates employed by businesses and institutions, and creative basic and applied research to enhance productivity and economic growth.

Ontario has not yet seriously addressed post-secondary education reform. The post-secondary education system is accessible, but public expenditures and tuition fees per student on teaching programs and research lag those of many countries, including the United States. The growth of virtual distance-learning programs and higher wages for university professors in the United States means that Ontario's post-secondary education institutions will face serious global competition. These issues need to be addressed, and some important questions need to be asked. For example,

- Should all universities be treated the same, or should some be competitively selected to be the world-class flagships of the university system while others offer top-notch liberal arts programs?
- How can we encourage the rationalization and consolidation of university and college programs to improve the quality and effectiveness of education?

- How can we improve post-secondary training for younger and older workers who are switching careers, to improve their future opportunities?

It is not necessarily a matter of spending more money on education, so much as making sure we spend smart through better management of our education resources.

Health

Like its education system, Ontario's health system contributes to economic growth and a greater standard of living by improving workplace productivity. The province covers two-thirds of the cost of this universally available system of health services; Ontario families pay the remaining one-third.

Less recognized is the fact that Ontario's effective and low-cost health care system has created a significant competitive advantage for the province. Using life expectancy and infant mortality rates to measure the performance of the Ontario health system, we find that it performs very well relative to the systems in place in most countries. Of the Group of Seven largest industrial economies, for example, only Italy has more doctors per capita than does Canada. And at about 9 percent of its GDP, Ontario also spends as much on health care as most European countries do (but only two-thirds as much as the United States spends). But money spent on health care does not guarantee a more effective system: even though the United States spends almost \$2,000 more per person on health care than does Canada, the average Canadian can expect to live two years longer than the average American.

Good news aside, health care will be a major issue for the Ontario government over the coming years. Longer waiting times for surgical procedures, shortages of hospital beds, and other indications that demand for health services now exceeds supply are prompting Ontarians to insist on increased availability and choice of health services. Moreover, this demand is almost unlimited in scope: as long as voters see little connection between the supply and cost of providing medical services, they will continue to insist that more and more tax dollars go to medical expenditures. If public and private health expenditure per capita were to match US levels, Ontario would need to spend an additional \$25 billion on health care, an investment it can ill afford. A typical Ontario family of four would need to spend, either in taxes or insurance premiums, an additional \$8,000 per year.

Alternatively, if the Ontario government were to pay the bill by reducing expenditures on other programs without increasing taxes, there would be little money left to cover the costs of education, transportation, and social services.

So, since we cannot spend the money, we must make the health system more effective and cost-efficient instead. Many proposals — such as extending home care programs, adopting cost-reducing medical technologies, and expanding low-cost clinics as a replacement for expensive hospital care — have been made to improve the efficiency of the system. Ultimately, however, the best way to allocate resources in the health care sector is to see that patients and health care professionals understand the benefits and costs of their choices for a better system. This will require greater use of insurance

principles, whereby people pay premiums or taxes in some proportion to the benefits they receive from the program.

This does not necessarily mean the implementation of user fees or the full privatization of our already partly-privatized health care system. It is possible, for example, to require individuals and employers to pay a health insurance premium related to the costs of the using the health care system reported to them by the provincial health authority. The premium could operate as part of the income tax system and the revenues could improve the funding of health care or replace highly distortive taxes that are now used to fund health care. One could therefore improve the financing of health care while at the same time creating mechanisms for accountability whereby patients and doctors understand better the connection between health care benefits and costs of funding the system. Overall, the performance of our cherished health care system, universally accessible to the population, can be remarkably improved without compromising our goals for an efficient and effective system.

But simply spending more money on health services without improving efficiency will constrain the amount of money that can be spent on other public programs. Or, it could simply mean that Ontario families will pay much higher taxes. Ontario's competitiveness in the global economy, therefore, will be significantly harmed if we do not properly deal with the health care issue over the next several years.

Public Debt

The virtual elimination of Ontario's budget deficit in fiscal year 2000/01 will be an important event: the Ontario government will no longer have to borrow money to pay for the cost of its public programs. Instead, it will begin to run surpluses that can be used to reduce debt, increase public expenditures, or lower taxes in the future.

Few Ontarians realize, however, that, over the past five years, the cost of servicing Ontario's public debt has been the fastest growing expenditure item, now amounting to more than \$9 billion, or 17 percent of provincial revenues. The average Ontario family of four pays more than \$3,000 per year in taxes for its share of interest expenses on the province's debt. Add to that the cost of federal and municipal debt and it becomes clear that total government debt is still far too high in this province.

Such high public debt levels erode the competitiveness of the Ontario economy. Provincial and municipal governments must borrow at higher interest rates, and every dollar of taxpayers' money they spend on public debt charges is one less dollar they can spend on health, education, and transportation. Or they can increase taxes to pay for the public debt charges. Even a minor recession in the years ahead will cause debt costs to begin to spiral, making it harder for the economy to grow and compete.

As budget surpluses accumulate in the context of an economy that is expected to grow well over the next several years, therefore, Ontario would be prudent to use those

surpluses to reduce debt and interest expenses. Insufficient action on this front will mean higher interest rates for the Ontario government and higher interest costs for Ontario businesses and households, including on mortgages. Retiring billions of dollars of public debt over the next several years will improve the overall long-run competitiveness of the Ontario economy.

Taxation

I now turn to the important topic of taxation.

On the whole, Canadian governments have been ravenous in their appetites for revenue. Taxes are at an all-time high, equivalent to more than 37 percent of GDP. Personal income taxes gobble up the greatest share. Other taxes – such as federal and provincial business taxes, payroll taxes, and municipal property taxes — are also high, so that tax levels in Ontario for many families and businesses are well above those in so-called high-tax areas in the United States and elsewhere.

Since 1995, the Ontario government has acted to reduce personal and payroll taxes, action that has helped to improve the province's competitiveness and put it on a firmer footing in today's increasingly competitive world than it otherwise would have had.

The tax cuts have promoted job creation and economic growth in Ontario. They have also enhanced the economic base of support for public services, including social

expenditures that help society's most disadvantaged, and they encourage families and businesses to stay in Ontario rather than move elsewhere.

Tax competitive pressures will, however, be even greater in the future. High tax burdens encourage businesses and individual Ontarians to migrate to low-tax countries, especially the United States, whose tax burden is far lighter than Canada's even though it provides directly comparable public services. Indeed, more than 20,000 Ontarians left the province for other countries in just the past year. Many were leaders in Ontario businesses and public institutions. Ontario will sorely miss the skills and leadership of these emigrants, whose entrepreneurship will create high-paying jobs for thousands of others where they now live.

Tax policies at both the federal and provincial levels must be reformed soon if Ontario is to have a strong position in this globally competitive world. Let me outline some important changes that Ontario can pursue to achieve that goal.

Personal Taxes

I will begin with personal taxes. Despite the cuts Ontario has made to personal income taxes, Ontario families still pay too much: this year, for example, the top personal rate is 48 percent, although it was over 53 percent over five years ago. Queen's Park has announced further reductions in personal taxes, but they will remain higher than US rates. They will also remain well above Alberta's pending 11 percent flat tax, and above

Saskatchewan's rates if the recommendations of that province's personal income tax review committee are accepted.

Most people do not realize, however, that high tax rates apply not just to the rich but to Ontarians at almost all income levels. Let me give you an example.

Mary is a recently widowed mother of two children. She earns \$30,000 from her secretarial job, and receives a \$1,000 performance bonus from her employer. After federal and provincial income taxes, federal payroll taxes, and reductions in federal and Ontario tax credits and benefits, Mary finds that she takes home barely more than \$300 of the \$1,000 bonus.

Such excessively high tax rates serve only to reduce an individual's monetary incentive to work harder. They also illustrate that personal income taxes need to be significantly reformed, not just reduced: tax rates need to be lowered, basic exemptions and thresholds should be increased, taxback rates for Ontario property and sales tax credits should be reduced, and the number of special rates and preferences in the personal income tax system should be simplified.

Happily, Ontario now has a golden opportunity to make significant changes to its personal income tax system. The recent announcement to move the personal tax to a "tax on income" instead of the current tax on federal taxes paid will permit Ontario to move to

lower rates and a flatter rate structure, thereby removing some of the excessively high rates that discourage work, savings, and investment.

Further, since Ontario will continue to participate in the federal-provincial Tax Collection Agreements for the personal income tax, the province's taxpayers, by having to file just one annual tax return, rather than two as Quebecers must do, will save more than a billion dollars in compliance costs.

Business Taxes

Ontario has made significant progress toward reducing personal taxes, but it has yet to seriously address business tax issues. Instead, in recent years the province has introduced targeted incentives for favored activities without addressing other problems of the tax system that compromise its competitiveness.

The complete list of these incentives is mind-boggling. To name just a few, they include the Ontario co-operative education tax credit, the Ontario graduate transitions tax credit, the Ontario Film and Television Tax Credit, the Computer Animation and Special Effects Tax Credit, the Ontario workplace child care tax credit, and the Ontario workplace accessibility tax credit. No one has any idea if these targeted incentives are effective.

We do know they pollute the tax system with special preferences; most studies on similar incentives in other countries show that they create only a few jobs, at a stiff price in revenue foregone.

A far better strategy, in today's global economy, would be to tax businesses at low rates on a broad tax base. When business activities bear similar tax burdens, entrepreneurs and managers make decisions based on good economic criteria rather than on the wish to avoid tax.

Generally, business taxes in Ontario are out of line with those in the rest of the world.

Here are a few facts:

- The general corporate income tax rate (including the federal rate) in Ontario, at about 45 percent, is one of the highest in the world. Only Japan and a few small Canadian provinces have higher corporate rates. Even Ontario's own general corporate income tax rate is 15.5 per cent will be higher than Ireland's general corporate tax rate in two years. Other things being equal, high corporate income tax rates discourage businesses from locating in the province. They also encourage businesses to shift income to other countries to avoid paying taxes to the Ontario government.
- Ontario's tax on business investments is also one of the highest in the world. With the Ontario corporate income tax, capital taxes, property taxes, and sales taxes on business inputs, Ontario businesses face a tax burden greater than that of businesses in Quebec, Alberta, the United States, other G-7 countries, Ireland, or Sweden.
- Ontario's highest corporate tax burdens are carried by the services industries, including transportation, communications, trade, and business services, who pay almost 25 percent more tax than their US counterparts. Yet these industries are

Ontario's most dynamic, knowledge-based sectors, where the greatest opportunities for job creation and economic growth reside. They also face keen international competition, due in part to new forms of electronic-based business practices.

Ontario should address business tax issues soon. When it comes to taxes that have the most significant impact on economic growth, "it's the business tax system, stupid," to paraphrase a famous line. Many countries, such as the fast-growing Ireland, have already undertaken or plan to undertake substantial business tax reform soon. Meanwhile, Canadian governments sit on their hands. Substantial reform of the Ontario corporate income tax, capital taxes, property taxes, and the retail sales tax will significantly improve economic growth, especially in the dynamic services sectors of the economy. Business tax reform, including sharply lower corporate income and capital tax rates and broader tax bases, will create a significant competitive advantage for Ontario, with little or no loss of revenue.

Other Tax Issues

Personal and business taxes are not the only tax issues facing the provinces.

The Provincial Sales Tax will be under threat. The growth in Internet business will make the Ontario provincial sales tax more difficult to apply as consumers and businesses will be able to order goods and services from other provinces without paying Ontario provincial sale tax. Ontario will have to reform the sales tax to ensure that imported

purchases from other provinces are subject to tax. Otherwise, -- as already predicted in the United States where Internet sales are more important -- it might mean the abandonment of the sales tax field in Ontario within a short period time.

Municipal financing will also need to be reformed. With the current expenditure responsibilities of local governments, the property tax base is inadequate for their growing needs. Property taxes, especially non-residential taxes, are already one of the highest in the world. There are increasing calls by mayors for new tax fields to fund their expenditures. Some ideas – such as taxing NHL hockey salaries – are impractical or unfair. But, there are other ideas such as sharing a provincial tax field or imposing municipal taxes and user fees that can be examined as a new form of financing municipal expenditures. This is not a new idea. Many other governments throughout the world give their municipalities access to a tax field besides property taxation.

Conclusion

Let me conclude by recounting a little history. Many of us are immigrants, or the children or grandchildren of immigrants who came to Canada to improve their economic and social opportunities. In the nineteenth and twentieth centuries, our ancestors were willing to travel vast distances to escape persecution and bad economic times to settle in this rather cold country. Most were not disappointed, as they were able to raise their families in supportive communities.

Today, people are still mobile. They are less tied to community and less reluctant to move to other countries. If better-paying jobs and comparable public services are to be found elsewhere, they may leave Ontario. With borders disappearing, jobs move to countries that offer the best business environment. Smart government policies are those that make sure jobs are created at home rather than in other localities.

The Ontario government's challenge today is to create the "Ontario Advantage" — to attract the growing, competitive businesses that will yield high-paying job opportunities for Ontarians. This will require a strong education system to bring skilled workers to the market and to ensure that all Ontarians can enjoy significant economic gains. But Ontario must also provide efficient public services, including health and infrastructure, so that it can keep taxes as low as possible.

I am confident that Ontario will meet the challenges that lie ahead and successfully carve out its own place in the global economy.



Competitiveness and Economic Growth in Ontario

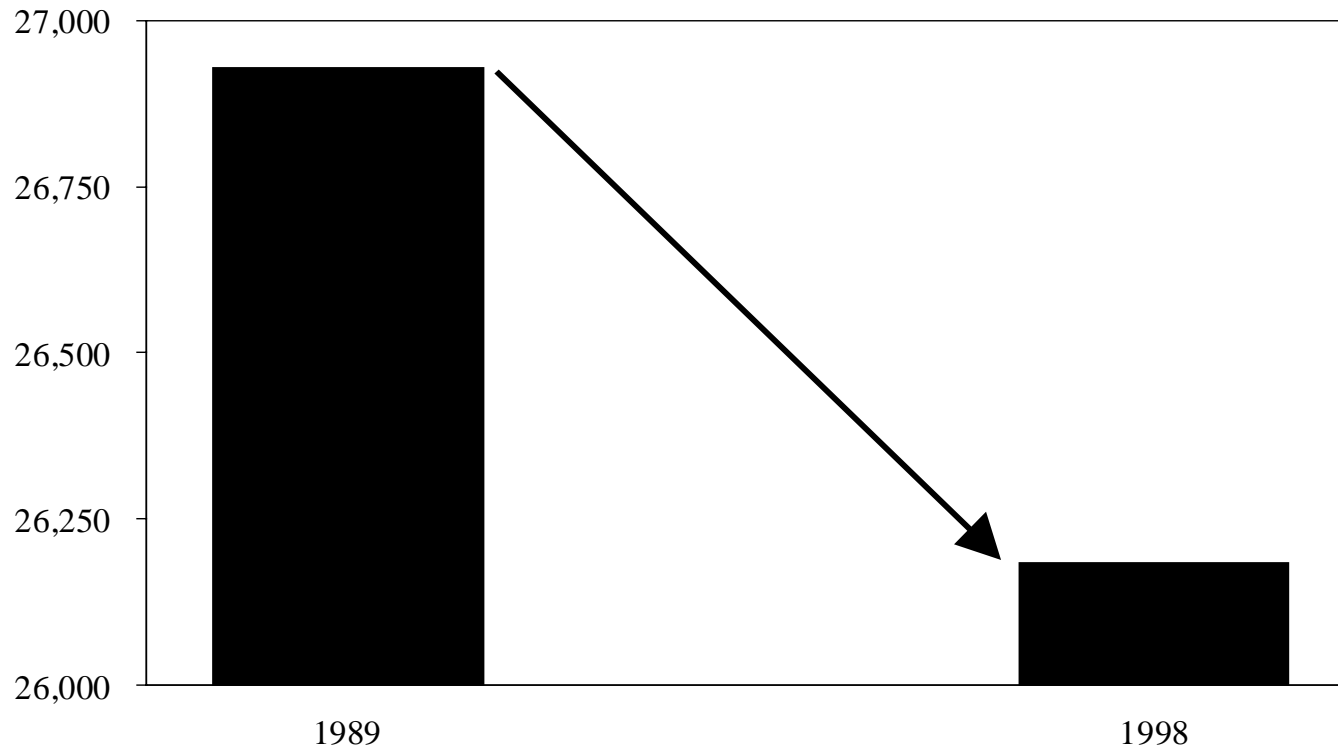
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Personal Income Per Capita, 1998\$

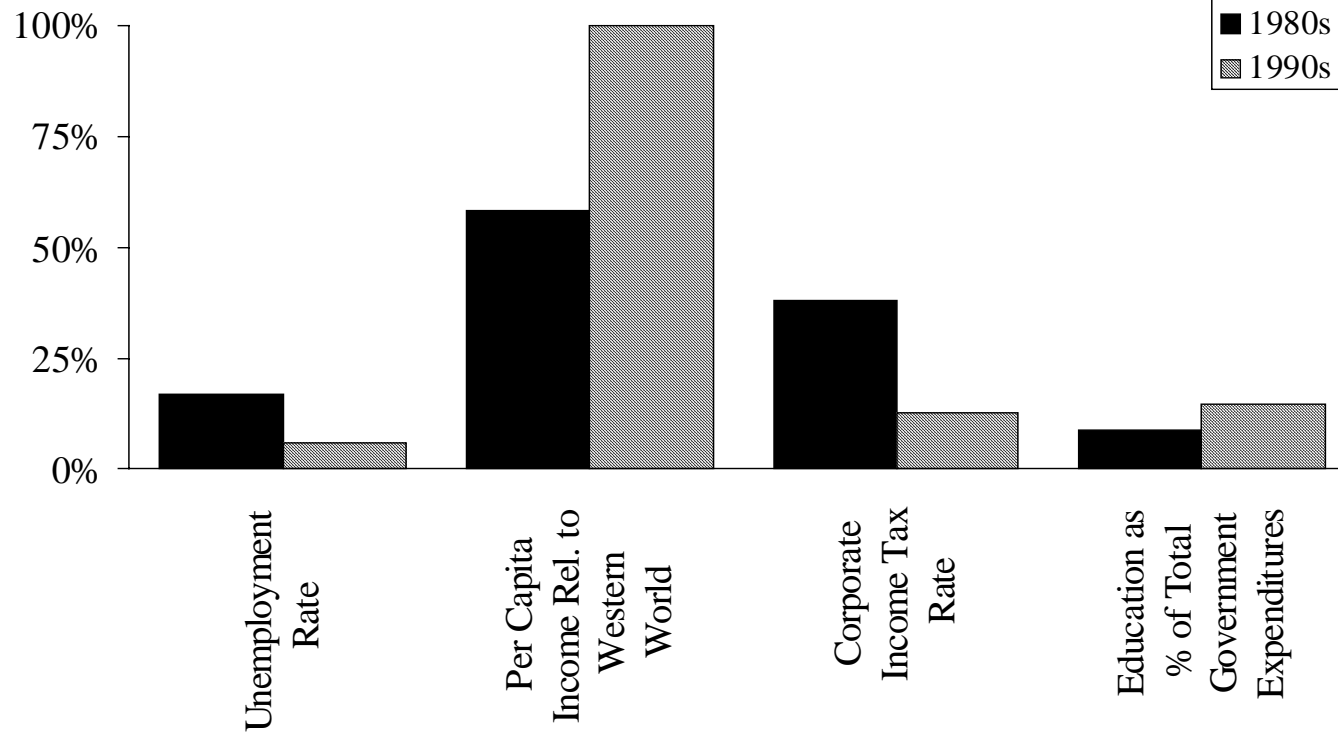


Source: Ontario Ministry of Finance

- Despite the absence of political or economic calamities, such as wars or depressions, personal income (adjusted for inflation) fell during the 1989 to 1998 period.
- Unemployment rose to 11% in 1991, and fell only slowly much later this decade.
- Most of this poor economic performance was a result of fiscal mismanagement of the 1980s.



Ireland's Phenomenal Turnaround

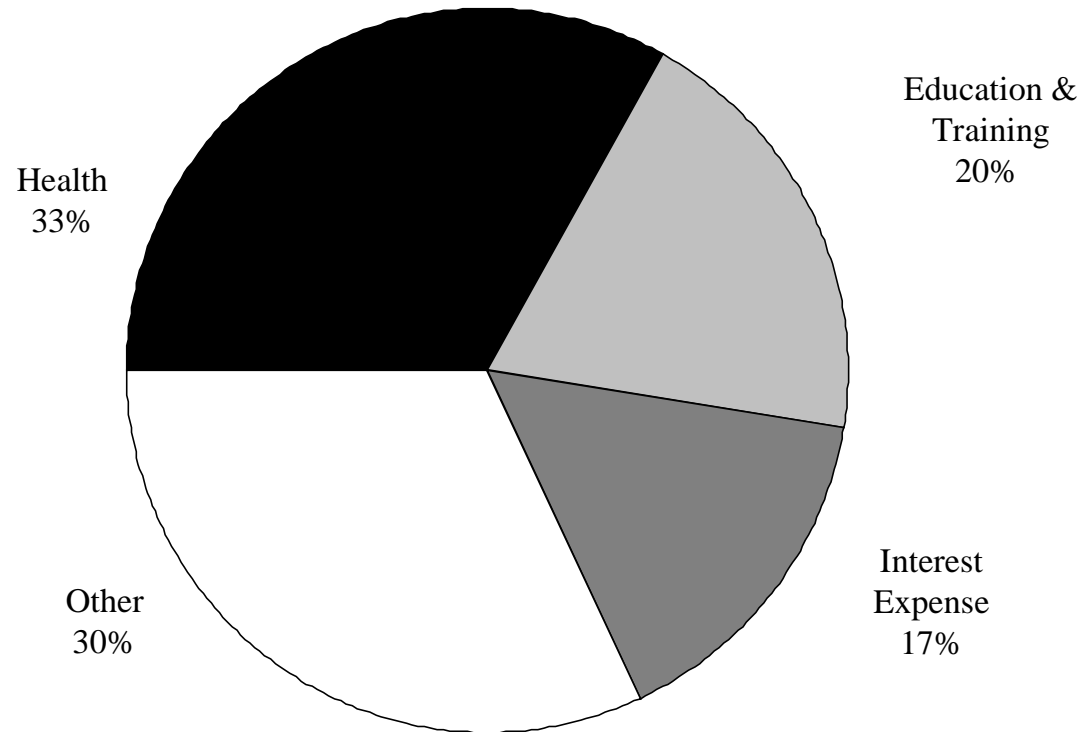


Sources: OECD; Central Statistics Office of Ireland

- Ireland's per capital income has risen from 58% of the Western World's average to 100%
- Unemployment has fallen from 17% to under 6%.
- Ireland has substantially increased its post-secondary education rate and reversed its brain drain.
- These improvements were brought about through strong government investment in education (90% increase in seven years) and reducing business taxes (38% to 12.5%) to attract employers to hire the newly trained workers.



Ontario Government Expenditures 1998-99

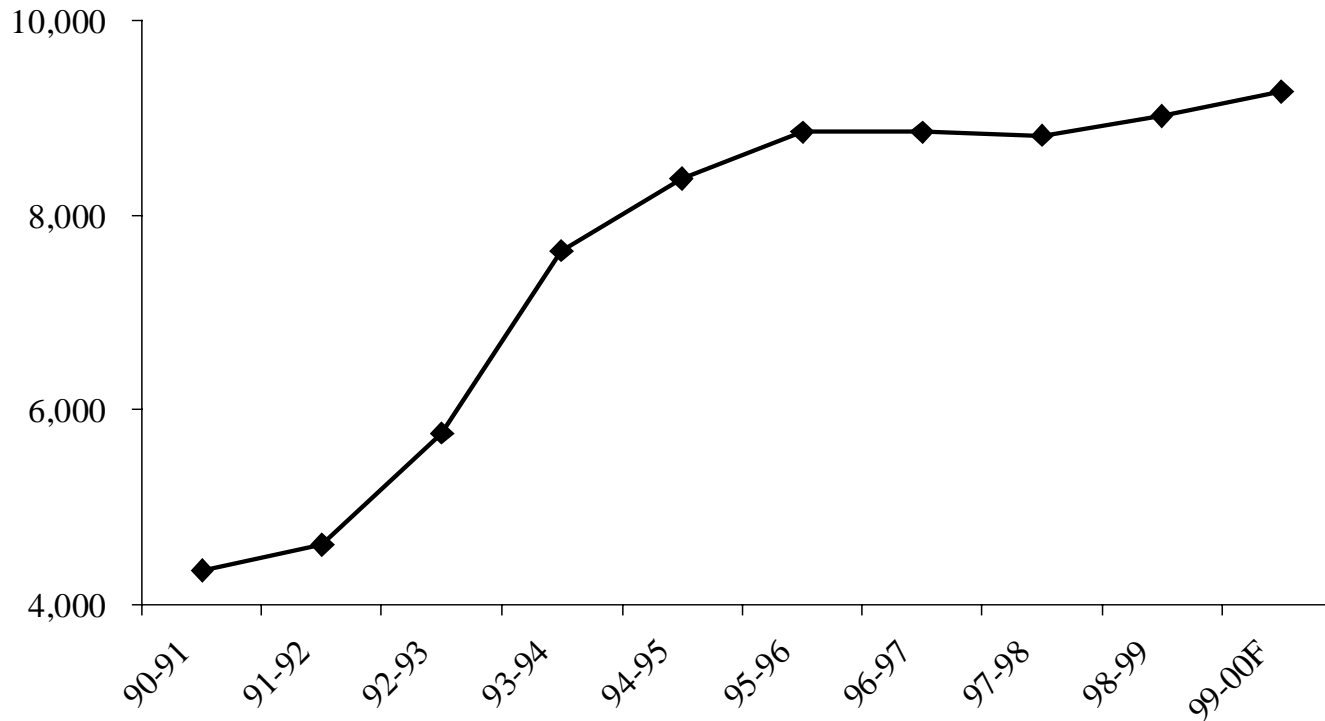


Source: Ontario Ministry of Finance

- Total Government of Ontario spending is about \$60 billion, or 16% of Ontario's economy.
- Smart education spending decisions include selecting some universities as world-class flagships, rationalisation of post-secondary programs to improve quality and effectiveness, and improved training for those changing careers.
- The best allocation of resources in health care will be achieved if patients and doctors are able to understand the benefits and cost of their choices.



Expenditures on Public Debt Interest, 1998\$ millions

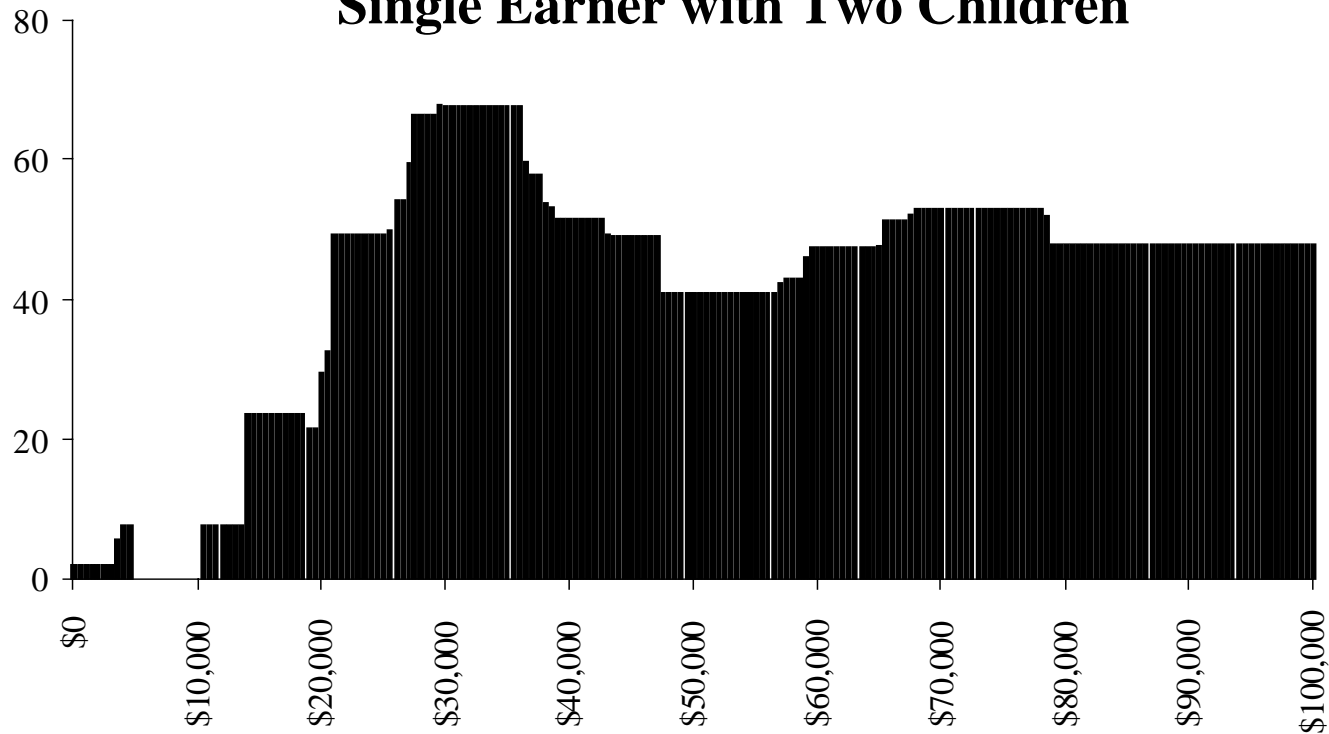


Source: Ontario Ministry of Finance

- The interest expense on Ontario's public debt was the fastest growing expenditure item in the past five years.
- Ontario's interest expense is now over \$9 billion annually, or 17% of provincial revenues, or \$3,000 per family of four.
- It would be prudent for Ontario to reduce the debt and interest expense now, while the economy is growing well, to improve Ontario's long-run competitiveness.



Combined Federal and Ontario Marginal Tax Rate Schedule, 2001 Single Earner with Two Children

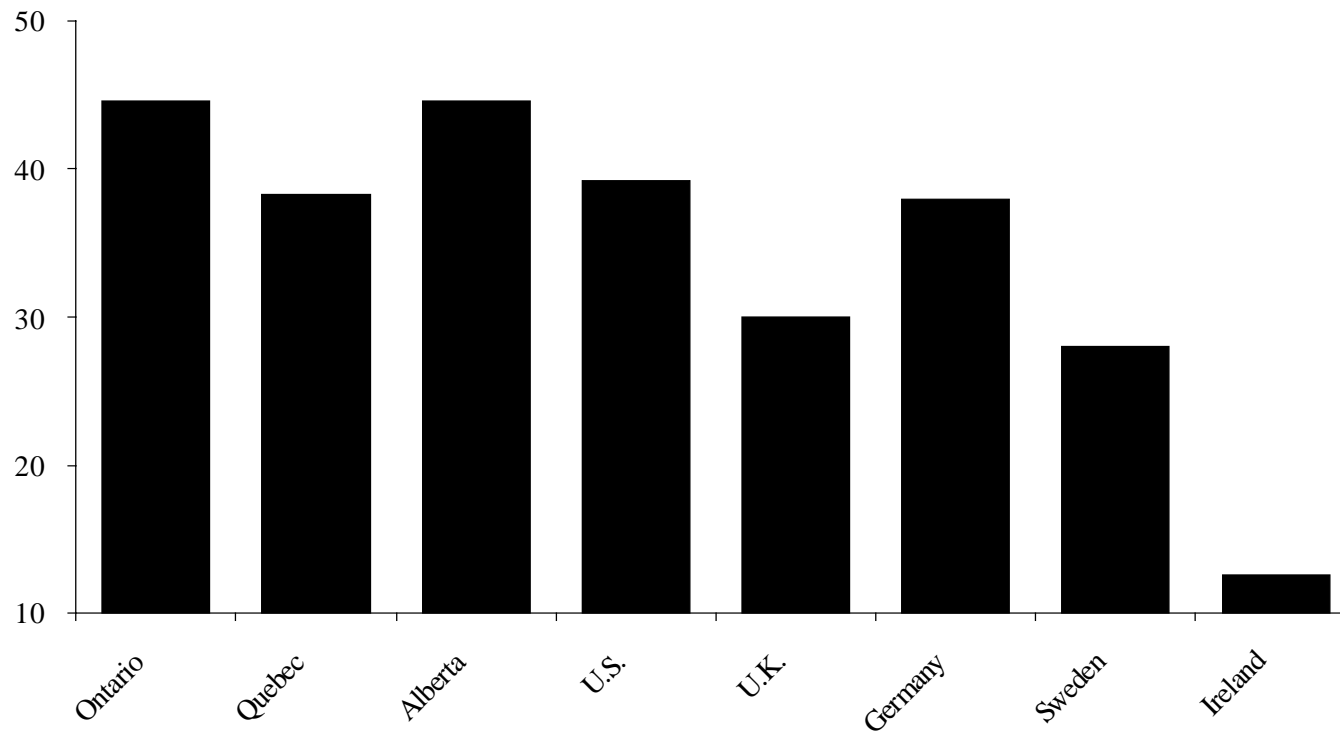


Source: C.D. Howe Institute

- Marginal tax rates include federal and Ontario income taxes, federal payroll taxes, and clawbacks of federal and Ontario tax credits and benefits.
- Personal tax reforms should include lower rates, higher basic exemptions and thresholds, lower taxback rates, simplified number of special rates and preferences, and “tax on income” rather than “tax on tax” approach.



General Corporate Income Tax Rates

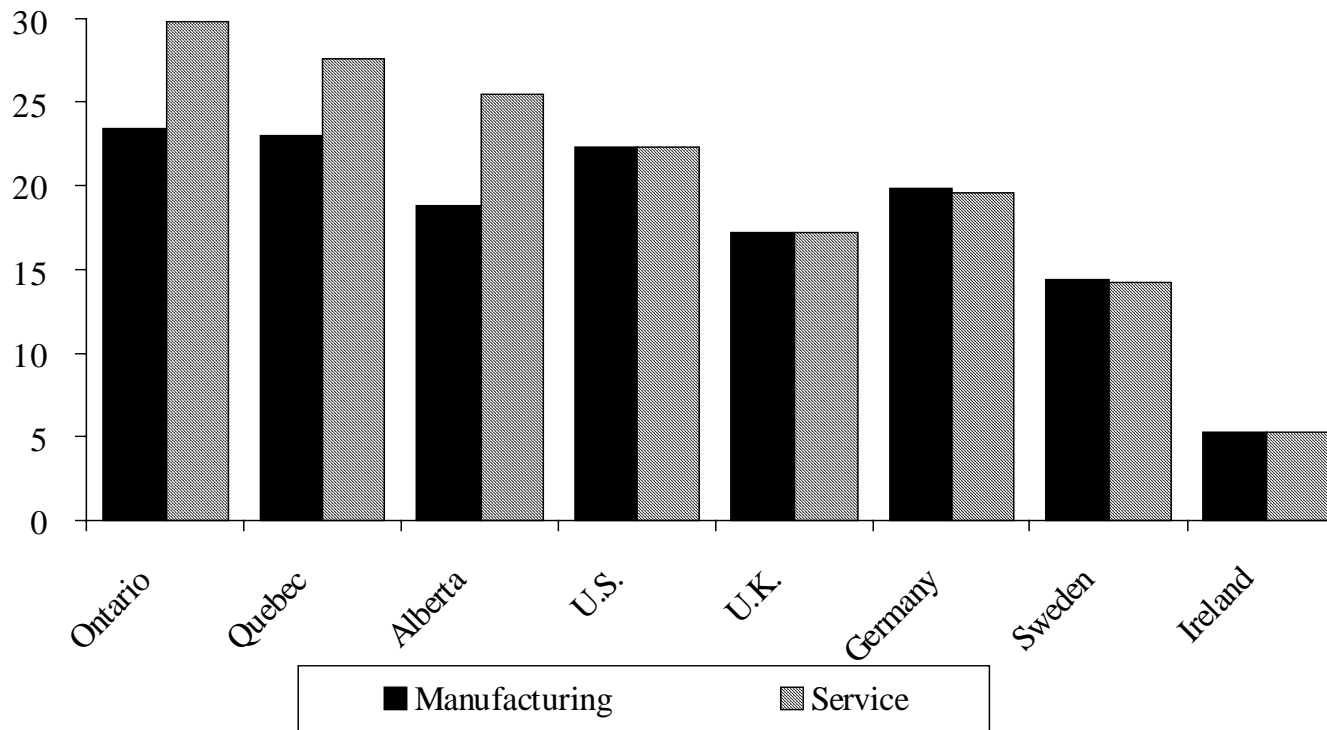


Source: International Tax Program, Institute of International Business, Rotman School of Management, University of Toronto

- Business tax reforms should include reducing targeted incentives and implementing low rates on a broad tax base, so that entrepreneurs and managers will make decisions based on good economic criteria rather than trying to avoid payment of tax.
- Corporate income tax on manufacturing is: Ontario 35.62%; Québec 31.25%; and Alberta 36.62%. Manufacturing is currently taxed (or soon will be) at the same rate as non-manufacturing activities in the other countries shown.



Effective Tax Rate on Capital Investment, 2000



Source: International Tax Program, Institute of International Business, Rotman School of Management, University of Toronto

- The highest tax burdens in Ontario are on the service industries – transportation, communications, trade and business services.
- These industries have the greatest opportunities for job creation and economic growth, but face the keenest international competition.