EXECUTIVE SUMMARY

Creating Policy Calling Cards to Attract Business to Ontario

Contributing editor: Ben Eisen

On the campaign trail and since taking office as Premier, Doug Ford has spoken often about the need to make Ontario an attractive business investment destination. Specifically, Mr. Ford has repeatedly talked about the need to declare the province "open for business."

Mr. Ford's focus on restoring competitiveness and attracting business investment is appropriate. A recent Fraser Institute analysis by Phillip Cross found that as of the end of 2016, business investment in the province still had not recovered to pre-recession levels.

Weak business investment has been one cause of Ontario's comparatively weak economic performance over the past decade. A topical Fraser Institute report described Ontario as having experienced a "lost economic decade" from 2008–2017, as the province ranked near the bottom of the Canadian pack on a variety of economic measures.

Reversing these outcomes and getting Ontario back on track towards robust, long-term economic growth will, as Mr. Ford suggests, require the province to attract more business investment. Achieving this objective will likely require substantial policy change across several different areas of provincial public management.

In short, in recent years, Ontario's policy environment has undermined, rather than helped, Ontario's attractiveness as an investment destination. A large and growing public debt, uncompetitive taxes, high electricity prices, and restrictive labour regulations are some of the most important policy factors that have likely interfered with investment and growth.

This series of short essays examines five different areas of provincial policy and discusses how changes in these areas can help create a more attractive environment for business investment and accomplish the Ford government's stated goal of making Ontario's economy more competitive regionally and globally.

In the first essay, Livio Di Matteo and Ben Eisen look at the fiscal situation in Ontario and present both short- and long-term strategies for repairing provincial finances. Specifically, they show the importance of the Ford government acting quickly to eliminate the budget deficit and begin meaningfully shrinking Ontario's debt-to-GDP ratio within its first few years in office rather than taking the same "slow and steady" approach to deficit reduction that led to the big run-up in provincial debt over the past decade.

In the second essay, Charles Lammam, Hugh MacIntyre, and Milagros Palacios discuss corporate taxation in Ontario. They demonstrate that while the province once held a competitive advantage in this area as it had significantly lower corporate taxes than most of its US peers, that advantage has recently evaporated due to federal tax reform south of the border. The authors show that reducing Ontario's corporate income tax rate from 11.5 to 8 percent would represent a strong competitive response to tax policy changes in the US. The tax cut would be fiscally responsible if it were offset by reductions in corporate subsidies, which are currently delivered through over 100 programs and total approximately $5 billion annually.

In the third essay, Ben Eisen, Steve Lafleur, and Joel Emes examine the most uncompetitive dimension of Ontario's tax system—the taxation of personal income. They show that Ontario now has the second highest personal income tax rate in Canada or the United States. They discuss options for policy reform, including the introduction of a single-rate income tax set at 8 percent, with rebate payments used to ensure that no lower- or middle-income individuals experience a tax increase. In concert with the corporate income tax reform proposed in the second essay, this change would leave Ontario with one of the most attractive and pro-growth tax regimes in either Canada or the United States.

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In the fourth essay, Elmira Aliakbari, Ashley Stedman, and Ross McKitrick look at the harmful role high electricity prices have had on Ontario's manufacturing sector and economic performance, and present ideas for policy reform. Among other options, they explain that the Ford government can lower electricity prices by using legislation to cancel or prompt the re-negotiation of existing contracts that require the province to purchase renewable electricity rates at above market prices.

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In the fifth and final essay, Charles Lammam and Hugh MacIntyre assess the extent to which changes to existing labour laws and regulations could help drive growth and make Ontario's economy more attractive for investment. Specifically, they explain that Ontario is increasingly isolated in the region in that it does not have "right to work" rules that forbid union membership as a condition for employment. Further, they examine recent changes to the minimum wage in Ontario and show how these have brought the wage floor in Ontario out of step with competing jurisdictions nearby. They review the evidence showing that a minimum wage set at such a large fraction of the prevailing median wage is likely to reduce youth employment and encourage existing firms in certain industries to exit the market.

Making Ontario a more attractive destination for investment won't be easy, and no single policy solution (either presented here or elsewhere), can be expected on its own to do the job. Instead, the government should focus on identifying several areas where the province now suffers from a competitive disadvantage relative to peer states and provinces and implement policy reform ideas to reverse this situation and create a competitive advantage for Ontario. This collection of essays offers a number of ideas that can help achieve this goal across several different areas of public management.