

Ontario—No Longer a Place to Prosper

by Philip Cross

Ontario, once Canada's economic powerhouse, has experienced an historic reversal of its fortunes within Confederation over the past decade. For decades after the Second World War, Ontario's household income never failed to surpass the national average by 10% to 20%, and its unemployment rate was always below the national average. This superior economic record was achieved despite periodic recessions due to the cyclical nature of its manufacturing industries such as automobile factories. Ontario's enviable economic performance made it a beacon for people from the rest of Canada and around the world. Given its above-average income and large population, Ontario was the lynchpin of the federal equalization scheme redistributing income from so-called "have" to "have not" provinces.

Since 2003, however, economic growth in Ontario has lagged the national average every year. Chronic slow growth sent Ontario's unemployment rate above the national average for the first time on record in 2007. A sputtering economy and rising unemployment culminated in Ontario's real per-capita incomes falling below the Canada average for the first time ever in 2012. Weak revenue growth and rapid government spending resulted in a doubling of Ontario's provincial debt, triggering two ratings downgrades of that debt.

The disturbing trend of these statistics can be seen in the everyday lives of Ontarians. Ontario was once a beacon for migrants from across the Canada and around the world. Ontario in 2002 attracted over half of immigrants arriving in Canada; by 2014 it was no longer their preferred destination, with its share falling to a record low. Since 2004, there has been a net migration of its population to other provinces, as people

"vote with their feet" and leave for better opportunities elsewhere. Youths have borne much of the burden of a faltering economy, with their 16% unemployment rate over 10 points above the adult rate, the largest such gap in the country.

The deteriorating competitiveness of Ontario's economy is reflected in how business investment in manufacturing and finance, its traditional bastions of industry, has been surpassed by utilities and transportation, both driven by government investment in infrastructure. The reluctance of the private sector to invest reflects a range of government policies that hurt business. Ontario has the highest labour costs in Canada, reflected in everything from a 50% hike in the minimum wage to creating new statutory holidays. The cost of electricity is also the highest in Canada, reflecting a decades-long view of energy policy as a tool of industrial planning and environmental change rather than a service

providing reliable power to industry and consumers at the lowest possible cost. Meanwhile, the continued rapid growth of government debt and the introduction of a new Ontario pension plan promise further tax hikes on firms and households in the near future.

This study begins by reviewing the broad trends in real GDP and household incomes and then examines why its labour-market performance has been so abysmal in recent years, especially for youths, leading directly to a discussion of why interprovincial migrants are leaving and overseas immigrants are avoiding Ontario. The final section reviews the role of the Ontario government's policies in the slowdown, notably the attempt to buttress growth through higher government spending and deficits, the failure of more government capital spending to kick-start more business investment, and the use of energy policy to guide industrial development, which succeeded only in raising costs for both households and businesses in Ontario.

It is a matter of deep concern for all Canadians that its leading province has become a laggard. The Ontario government naively looks to a lower exchange rate for salvation but, after two years of a lower dollar, there are few signs that devaluation alone will improve Ontario's economy. This is not surprising since the real problem in Ontario is the wide array of government policies that mistakenly signal that the public sector, not the private sector, is the engine of economic growth.



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